

Accounting & Consulting Group, LLP

Certified Public Accountants



**STATE OF NEW MEXICO
ELDORADO AREA WATER AND SANITATION DISTRICT
FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION
WITH ACCOMPANYING INDEPENDENT AUDITORS' REPORTS
YEAR ENDED JUNE 30, 2011**

(This page intentionally left blank)

INTRODUCTORY SECTION

(This page intentionally left blank)

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Table of Contents
 June 30, 2011

	Exhibit / Schedule	Page
INTRODUCTORY SECTION		
Table of Contents		5
Directory of Officials		6
FINANCIAL SECTION		
Independent Auditors' Report		8-9
Management's Discussion and Analysis		10-15
BASIC FINANCIAL STATEMENTS		
Statement of Net Assets	A	18-19
Statement of Revenues, Expenses and Changes in Net Assets	B	21
Statement of Cash Flows	C	22-23
Notes to the Financial Statements		24-37
SUPPLEMENTARY INFORMATION		
Schedule of Revenues, Expenses and Changes in Net Assets Budget (Non-GAAP Budgetary Basis) and Actual	I	40
SUPPORTING SCHEDULES		
Schedule of Collateral Pledged by Depository for Public Funds	II	42
Schedule of Deposit and Investment Accounts	III	43
COMPLIANCE SECTION		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		46-47
Schedule of Findings and Responses	IV	48-52
OTHER DISCLOSURES		53

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Directory of Officials
June 30, 2011

<u>Name</u>	<u>Board</u>	<u>Title</u>
James Jenkins		President
Jerry Cooper		Vice President
Roberta Armstrong		Secretary
George Haddad		Director
Stephen Wust		Director
<u>Administrative Officials</u>		
Gene Schofield		Treasurer
David Denig-Chakroff		General Manager
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, 2011, 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, 2011, 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012 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 14 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
June 15, 2012

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2011

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, 2011.

Financial Highlights

Key events for the fiscal year 2011 are:

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$13,213,296 (*total net assets*). The components of net assets include restricted net assets of \$2,056,902, unrestricted net assets, \$1,152,223 and assets invested in capital assets, net of related debt of \$10,004,171.
- The District's total reported net assets increased by \$10,428,712 compared to the prior year net assets. The increase results primarily from a restatement of Water Rights in the amount of \$9,317,017, which is required to conform to GASB Statement No. 51 and to an excess of revenues over total expenditures of 1,057,695. The majority of the amount is reflected in the addition of Well 18 as a capital asset.
- As of June 30, 2011, the District had current and noncurrent assets totaling \$958,069 and \$25,156,959, respectively. Capital assets, net of accumulated depreciation totaled \$21,444,610. Current liabilities include \$65,700 in customer deposits, \$153,557 in accounts payable, \$275,625 in interest payable, \$3,169 in accrued payroll expenses \$51,843 in Loans Payable, and \$570,000 in bonds payable. Noncurrent liabilities includes \$3,793 in compensated absences, \$1,323,945 in Loans Payable, and \$10,455,000 in G.O. and revenue bonds payable.
- On July 16, 2010, the District authorized and executed a loan agreement with the New Mexico Mortgage Finance Authority (NMFA) through resolution in the amount of \$1,433,759 for the purpose of financing water system improvements and infrastructure. Loan payments are due to NMFA monthly until June 1, 2030. The blended interest rate over the term of the loan is 3.967%. The full faith and credit of the District are pledged for payment of principal and interest thereon and the loan will be payable from revenues of the water utility system.

Overview of the Financial Statements

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

1. Government-wide enterprise fund financial statements consisting of:
 - a. Statement of net assets;
 - b. Statement of revenues, expenses and changes in net assets;
 - c. Statement of cash flows; and,
 - d. Notes to the financial statements
2. A budgetary comparison 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.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Management's Discussion and Analysis
 June 30, 2011

Overview of the Financial Statements (continued)

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

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

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

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 24-37 of this report.

The Budgetary Comparison compares current period activity on a budgetary basis of accounting to the legally adopted budget. In general, the amounts presented in the budgetary comparison statement will agree with amounts presented in the statement of revenues, expenses and changes in fund net assets. This is because the District prepares its budget on the accrual basis of accounting 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 \$13,213,296 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 restricted for debt service. The District reports \$1,152,223 of net assets as unrestricted.

Overview of the Statement of Net Assets

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
<i>Assets:</i>			
Current assets	\$ 944,046	\$ 918,648	\$ 25,398
Capital assets, net	21,444,610	11,446,135	9,998,475
Other assets	3,714,272	2,425,937	1,288,335
Total Assets	<u>\$ 26,102,928</u>	<u>\$ 14,790,720</u>	<u>\$ 11,312,208</u>
<i>Liabilities:</i>			
Current liabilities	1,123,687	\$ 981,136	\$ 142,551
Noncurrent liabilities	11,778,945	11,025,000	753,945
Total Liabilities	<u>12,902,632</u>	<u>12,006,136</u>	<u>896,496</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	10,004,171	(118,865)	10,123,036
Restricted	2,056,902	1,741,767	315,135
Unrestricted	1,152,223	1,161,682	(9,459)
Total Net Assets	<u>13,213,296</u>	<u>2,784,584</u>	<u>10,428,712</u>
Total Liabilities and Net Assets	<u>\$ 26,115,928</u>	<u>\$ 14,790,720</u>	<u>\$ 11,325,208</u>

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2011

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

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

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Revenues:			
Water sales (net of uncollectible amounts)	\$ 2,370,707	\$ 2,179,556	\$ 191,151
Ad valorem tax	1,026,284	929,975	96,309
Intergovernmental grants	483,162	82,675	400,487
Interest income	3,459	2,608	851
Miscellaneous income	-	-	-
Total Revenues	<u>3,883,612</u>	<u>3,194,814</u>	<u>688,798</u>
Expenses:			
Water and sanitation	2,057,028	1,740,665	316,363
Bond interest expense	731,192	711,925	19,267
Amortization of bond issue costs	50,697	50,697	-
Total Expenses	<u>2,838,917</u>	<u>2,503,287</u>	<u>335,630</u>
Increase in Net Assets	<u>1,044,695</u>	<u>691,527</u>	<u>353,168</u>
Total net assets, beginning of year	<u>2,784,584</u>	<u>1,703,315</u>	<u>1,081,269</u>
Net Assets, restatement (note 13)	<u>9,371,017</u>	<u>387,742</u>	<u>8,983,275</u>
Total net assets - end of year	<u>\$ 13,200,296</u>	<u>\$ 2,782,584</u>	<u>\$ 10,417,712</u>

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2011

Financial Analysis of the District's Funds and Fiscal Year 2011 Budgetary Highlights

As noted above, net assets increased by \$10,428,712 from fiscal year 2010 (originally reported) to fiscal year 2011. Total revenues increased by \$688,798, primarily due to an increase in water sales revenue for the year of \$191,151 and an increase in intergovernmental grants of \$400,487. It should be noted that in the financial statements, water sales have been presented net of gross receipts taxes. In fiscal year 2011, water sales net of gross receipts was \$2,370,707 (gross receipts taxes were \$113,818). However, total expenses also increased in fiscal year 2011 to \$2,825,917, an increase of \$322,630 from the fiscal year 2010 expenses of \$2,503,287. Major factors for this increase in spending were due to increases in Capital Projects, Contractual Services, and Personnel Services.

Other highlights of FY 2011 financial activities include:

- Approximately \$1,156,355 was spent on capital projects during the fiscal year. \$1,025,756 was spent on Well 18, which was placed in service on an emergency basis June 14, 2011. The operating license for Well 18 was granted May 2, 2012.
- 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.
- During FY2011, the final actions required to conclude the rate case consumed a significant amount 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's actual expenses were below budgeted expenses by \$39,647. On the revenue side, ad valorem tax revenue was more than budgeted by \$152,284 and water sales were less than budgeted by \$136,143. A detailed breakout of budget vs. actual revenue and expenses can be found on page 40 of this report.

The board believes that the District is in good financial shape at the close of the fiscal year 2011. From July 01, 2010 through June 30, 2011, District deposits from water sales averaged \$189,725 per month. The monthly average is expected to increase by approximately 4.2% as a consequence of the implementation of Phase II rates beginning in March and reflected starting with the April 2011 receipts.

Capital Asset Administration

The District's investment in capital assets for business-type activities as of June 30, 2011 totals \$21,444,610 (net of accumulated depreciation). Major capital events during the Fiscal Year included the following:

- The District added \$884,116 in improvements to Water Utility – Well 18, increasing the total balance of the asset from \$141,640 to \$1,025,756.
- The District completed the negotiation of a Partial License for its Water Rights on June 4, 2010. The license established for the first time the exact nature and extent of water rights obtained from Eldorado Utilities, Inc. (EUI) in 2004.

Eldorado at Santa Fe, Inc., the predecessor in interest to EUI, had claimed water rights in the Central Well Field in excess of 3,000 AF/Y. The New Mexico Office of the State Engineer disputed those claims and a partial resolution to that dispute was obtained in 1972 (First Judicial District Court of New Mexico in *State of New Mexico, ex. rel., S.E. Reynolds, State Engineer and Eldorado at Santa Fe, Inc., Santa Fe County Cause No. 45612*).

The explicit purposes for the issuance of the Partial license were:

“in order to minimize future litigation and to conserve the resources of all interested entities, the partial license seeks to reflect the extent of existing water rights and rights to further develop ground water rights of EAWSD consistent with the 1972 Judgment in light of current legal, factual and scientific conditions”

and

“to provide certainty for EAWSD's water resource future as to how it may develop the 1972 Judgment acknowledged ground water rights...and to set forth...conditions on...uses...amounts of water, and conditions on...development” (Partial License, p.10)

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2011

Capital Asset Administration-(continued)

The Partial License replaces, without invalidating, the rights and restrictions stated in the 1972 Judgment. The New Mexico State Engineer has combined all existing, recognized wells in the area known as the "Central Well Field," which corresponds generally to the District's legal boundaries into a single license, No. RG-18529, in the amount of 583.23 Acre-Foot/Year (AF/Y). The New Mexico State Engineer has combined the existing, recognized wells known as the "Galisteo Creek Wells" into a single license, No. RG-18556, in the amount of 200.2 Acre-Foot/Year (AF/Y).

For the first time, "Appropriative water rights" remaining under the 1972 Judgment are fully defined. The Partial License states that there are 254.37 AF/Y in remaining appropriative rights in the District's Central Well Field, which the District may develop and perfect.

The term "Partial" has a specific legal intent: to indicate that the remaining appropriative rights must be applied to additional wells ("points of diversion"), the water produced from the wells put to beneficial use, and the corresponding water rights perfected within 20 years.

Subsequent to issuance of the Partial License, the District commissioned a valuation of its perfected water rights as stated in the Partial License from Glorieta Geoscience, Inc. (GGI). GGI completed the valuation on July 30, 2011. The valuation was stated in fair-market terms and assigned a minimum value to the District's 783.23 AF/Y in perfected water rights of \$15,000 per AF/Y.

Such a valuation was not possible prior to issuance of the Partial License because the status of water rights received from EUI was incompletely defined, at best, and subject to continued dispute and litigation.

The Government Accounting Standards Board (GASB) requires that intangible assets be included in an entity's financial reporting (Statement of Net Assets), effective for periods beginning after June 15, 2009 (i.e., the District's FY2010 and subsequent audits) [GASB Statement 51:20].

GASB Statement 51 requires that "intangible assets received in a nonexchange transaction should be recorded at their estimated fair value at the time of acquisition..." [GASB 51:72].

The New Mexico State Engineer's grants of the Partial License and the Well 18 permit meet the definition of nonexchange transactions.

In part because the valuation of the District's water rights was not completed and approved by the Board in FY2010, in FY2011 the District recorded a prior period adjustment to record water rights in the amount of \$9,371,017.

This amount represents the difference between the provisional valuation of the District's Water Rights **at the time of acquisition from EUI**, as presented in the FY2010 audit, and the valuation of perfected Water Rights enumerated in the Partial License.

The adjustment was necessary to conform to GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*.

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, \$200,000 of which was paid in fiscal year 2011. During FY 2004, the District sold \$7,895,000 in general obligation bonds, of which \$340,000 was paid during fiscal year 2011. On July 16, 2010, the District authorized and executed a loan agreement with the New Mexico Mortgage Finance Authority (NMFA) through resolution in the amount of \$1,433,759 for the purpose of financing water system improvements and infrastructure. Loan payments are due to NMFA monthly until June 1, 2030. The blended interest rate over the term of the loan is 3.967%. More information about the District's debt is presented in Note 10, pages 32-35 of this report.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Management's Discussion and Analysis
June 30, 2011

Financial Outlook for Next Year

The Phase II rates that went into effect in March 2011 will create a modest increase in water sales revenue in FY2012 and ensuing years.

The District's approved budget for fiscal year 2012 includes revenues of \$2,784,245 (operating) plus \$900,000 (property tax revenue) and cash balances of \$2,502,442. Proposed expenses include \$2,682,441 (operating and capital projects funded from water sales revenue), \$1,035,000 (capital projects funded from the 2010 PPRF Loan 2469), \$395,441 (capital projects funded from property taxes), plus \$738,475 (GO bond debt service plus administrative expense).

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.

(This page intentionally left blank)

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Statement of Net Assets
June 30, 2011

	Business-Type Activities
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents	\$ 125,450
Investments	272,598
Ad valorem taxes receivable	35,096
Accounts receivable, net of allowance for doubtful accounts	504,598
Prepaid expenses	21,227
<i>Total current assets</i>	958,969
<i>Noncurrent assets</i>	
Restricted cash:	
Unspent loan proceeds	960,349
Meter deposits	65,700
Debt service	630,628
Restricted investments:	
Debt service	750,486
Cost of utility acquisition and improvements	600,316
Water rights acquisition	72,375
LGIP-reserve contingency funds	3,097
Capital assets, net of accumulated depreciation	21,444,610
Other assets:	
Deferred bond issue costs, net	629,398
<i>Total noncurrent assets</i>	25,156,959
<i>Total assets</i>	\$ 26,115,928

The accompanying notes are an integral part of these financial statements

	<u>Business-Type Activities</u>
<i>Liabilities and net assets</i>	
<i>Current liabilities</i>	
Accounts payable	\$ 153,557
Interest payable	275,625
Accrued payroll expenses	3,169
Compensated absences	3,793
Customer deposits	65,700
Loans payable-NMFA-current	51,843
General obligation bonds payable - current	360,000
Revenue bonds payable - current	210,000
<i>Total current liabilities</i>	<u>1,123,687</u>
<i>Noncurrent liabilities</i>	
Loans payable-NMFA-noncurrent	1,323,945
General obligation bonds payable	5,755,000
Revenue bonds payable	4,700,000
<i>Total noncurrent liabilities</i>	<u>11,778,945</u>
<i>Total liabilities</i>	<u>12,902,632</u>
<i>Net assets</i>	
Invested in capital assets, net of related debt	10,004,171
Restricted for:	
Cost of utility acquisition and improvements	600,316
Water rights acquisition	72,375
Debt service	1,381,114
LGIP-reserve contingency funds	3,097
Unrestricted	1,152,223
<i>Total net assets</i>	<u>13,213,296</u>
<i>Total liabilities and net assets</i>	<u>\$ 26,115,928</u>

The accompanying notes are an integral part of these financial statements

(This page intentionally left blank)

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, 2011

Exhibit B

	Business-Type Activities
<i>Operating revenues</i>	
Water sales	\$ 2,370,707
<i>Total operating revenues</i>	2,370,707
<i>Operating expenses</i>	
Contractual services	1,169,774
Depreciation	387,258
Other operating costs	287,334
Personnel services	169,092
Supplies	10,130
Water conservation fee	5,396
Travel	15,044
<i>Total operating expenses</i>	2,044,028
<i>Operating income</i>	326,679
<i>Non-operating revenues (expenses)</i>	
Ad valorem tax	1,026,284
Interest income	3,459
Bond interest expense	(731,192)
Amortization of bond issue costs	(50,697)
<i>Total non-operating revenues (expenses)</i>	247,854
Income before contributions and transfers	574,533
Capital grants	483,162
<i>Total capital grants</i>	483,162
<i>Change in net assets</i>	1,057,695
<i>Total net assets, beginning of year, as originally reported</i>	2,784,584
<i>Net assets, restatement (note 13)</i>	9,371,017
<i>Total net assets, beginning of year, as restated</i>	12,155,601
<i>Total net assets, end of year</i>	\$ 13,213,296

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, 2011

	Business-Type Activities
<i>Cash flows from operating activities</i>	
Cash received from customers	\$ 2,283,530
Cash paid to suppliers and contractors	(1,434,296)
Cash paid to employees for services	(167,858)
<i>Net cash provided by operating activities</i>	681,376
<i>Cash flows from noncapital financing activities</i>	
Ad valorem taxes received	1,042,730
<i>Net cash provided by noncapital financing activities</i>	1,042,730
<i>Cash flows from capital and financing activities</i>	
Intergovernmental capital grants received	483,162
Purchase of capital assets	(1,014,715)
Proceeds from issuance of loans	1,441,259
Bond and loan principal payments	(605,471)
Bond interest payments	(744,692)
<i>Net cash used by capital and financing activities</i>	(440,457)
<i>Cash flows from investing activities</i>	
Purchase of investments	(154,476)
Interest income	3,459
<i>Net cash used by investing activities</i>	(151,017)
<i>Net increase in cash and cash equivalents</i>	1,132,632
<i>Cash and cash equivalents - beginning of year</i>	649,495
<i>Cash and cash equivalents - end of year</i>	\$ 1,782,127

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	\$ 326,679
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	387,258
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(104,977)
(Increase) decrease in prepaid expenses	(1,792)
Increase (decrease) in accounts payable	55,174
Increase (decrease) in accrued payroll expenses	(125)
Increase (decrease) in compensated absences	1,359
Increase (decrease) in customer deposits	<u>17,800</u>
Net cash provided by operating activities	<u>\$ 681,376</u>
<i>Non-cash investing, capital and financing activities</i>	
Amortization of bond issue costs	<u>\$ 50,697</u>
Prior period adjustment to intangible water rights (see note 13)	<u>\$ 9,371,017</u>
<i>Reconciliation of total cash and cash equivalents</i>	
Current assets - cash and cash equivalents	\$ 125,450
Restricted assets - cash and cash equivalents	<u>1,656,677</u>
Total cash and cash equivalents	<u>\$ 1,782,127</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2011

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. (EUI), 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 ratepayers.

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, 2011

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, 2011

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, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

<u>Assets</u>	<u>Years</u>
Water utility – original	30
Water utility – improvements	7-30
Water utility – Well 17	30
Vehicles	5
Furniture and fixtures	15
Office equipment (including software)	3

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

Operating Revenues and 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

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 March and April the Treasurer, assisted by the District Financial Coordinator, develop a proposed initial operating budget for the upcoming fiscal year commencing July 1. The proposed initial operating budget is presented to the Board for review and update in April. Changes to the proposed budget are made accordingly.
2. In the first Board meeting in May, the Board holds a public meeting to present the proposed initial operating budget to the communities served and to hear public comment regarding the proposed budget.
3. Any changes directed by the Board are made to the proposed initial budget, which the treasurer then submits to the Board for approval at a second Board meeting in May. The operating budget includes proposed expenditures and the means of financing them.
4. 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.
5. DFA-LGD returns the approved initial budget on the first Monday in July. Fiscal year end cash balances and any final budget adjustments are then posted to the initial budget to produce the District's final budget, which must be submitted to DFA-LGD by July 30.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2011

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

6. Upon certification by the DFA-LGD, the budget becomes a legally binding document which does not allow total expenditures in any fund to exceed the amount budgeted.
7. The Board is authorized to make budget revisions with the DFA-LGD's approval.
8. 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	\$ 396,028	\$ 350,745

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, 2011.

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. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state were insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage on non-interest bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2011 accounts held by an official custodian for a government unit are insured up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and unlimited coverage for non-interest-bearing transaction (demand deposit) accounts

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2011

NOTE 4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). New Mexico State Statues require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution.

As of June 30, 2011, \$43,160 of the District’s bank balance of \$293,160 was exposed to custodial credit risk. \$43,160 was collateralized by securities held by pledging institutions or by its trust department or agent in other than the District’s name, and none was uninsured and uncollateralized at June 30, 2011. Bank accounts were collateralized as follows:

	First National Bank of Santa Fe
Amount of deposits	\$ 293,160
FDIC Coverage	(250,000)
Total uninsured public funds	43,160
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	
Uninsured and uncollateralized	\$ 43,160
Collateral requirement (50% of uninsured funds)	
Pledged Collateral	\$ 21,580
Over (Under) collateralized	508,031
	\$ 486,451

Investments

Credit Risk

As of June 30, 2011, 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. The investment in the mutual funds was backed by the full faith and credit of the United States Government.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2011

NOTE 4. DEPOSITS AND INVESTMENTS (continued)

As of June 30, 2011, 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	\$ 750,486	50 Days
Utility Acquisition and Improvement	AAAm	600,316	50 Days
Operating Reserve	AAAm	344,973	50 Days
Reserve contingency funds	AAAm	3,097	50 Days
U.S. Treasury MM Mutual Fund**	AAA	<u>1,592,886</u>	<90 days
Total investments		<u>\$ 3,291,758</u>	

**These U.S. Treasury MM Mutual Fund amounts are classified as cash equivalents on the statement of net assets due to their weighted average maturity of less than 90 days, but for disclosure purposes the amounts are considered investments

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	\$ 125,450
Restricted cash-Unspent loan proceeds-Exhibit A	960,349
Restricted cash-Meter deposits-Exhibit A	65,700
Restricted cash-Debt service-Exhibit A	630,628
Investments - Exhibit A	272,598
Investments-debt service-Exhibit A	750,486
Investments-cost of utility acquisition and improvements-Exhibit A	600,316
Investments-water rights acquisition-Exhibit A	72,375
Investments-LGIP-reserve contingency funds-Exhibit A	<u>3,097</u>
Total cash, cash equivalents and investments	3,480,999
Add: outstanding checks	103,919
Less: investments in NM State Treasurer's LGIP	(1,698,872)
Less: investments in U.S. Treasury MM Mutual Fund	<u>(1,592,886)</u>
Bank Balance of Deposits	<u>\$ 293,160</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>\$ 35,096</u>
-----------------------------	------------------

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2011

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	\$ 536,598
Less: Allowance for doubtful accounts	<u>(32,000)</u>
Net accounts receivable	<u><u>\$ 504,598</u></u>

NOTE 7. PREPAID EXPENSES

The District prepaid directors' and officers' liability and property insurance, prepaid rent, and other prepaid items totaling \$21,227 as of June 30, 2011.

NOTE 8. CHANGES IN CAPITAL ASSETS

The following is a summary of capital assets and changes occurring during the year ended June 30, 2011. Land, easements, and water rights are not subject to depreciation. See note 13 in regard to the restatement of water rights.

	Balance June 30, 2010	Restatement	Additions	Deletions	Balance June 30, 2011
Capital Assets Not Depreciated:					
Land	\$ 463,000	\$ -	\$ -	\$ -	\$ 463,000
Easements	459,548	-	-	-	459,548
Water Rights	2,380,433	9,371,017	-	-	11,751,450
Capital Assets Depreciated:					
Water utility - original	7,914,015	-	-	-	7,914,015
Water utility - improvements	647,070	-	99,318	-	746,388
Water utility- Well 17	856,880	-	-	-	856,880
Water utility- Well 18	141,640	-	884,116	-	1,025,756
Vehicles	96,896	-	19,622	-	116,518
Furniture and fixtures	16,436	-	-	-	16,436
Office equipment	95,668	-	11,659	-	107,327
Total Capital Assets	<u>13,071,586</u>	<u>9,371,017</u>	<u>1,014,715</u>	<u>-</u>	<u>23,457,318</u>
Accumulated Depreciation:					
Water utility - original	1,344,299	-	263,800	-	1,608,099
Water utility - improvements	126,216	-	65,317	-	191,533
Water utility- Well 17	61,286	-	28,562	-	89,848
Water utility- Well 18	-	-	1,499	-	1,499
Vehicles	79,146	-	14,124	-	93,270
Furniture and fixtures	3,569	-	1,096	-	4,665
Office equipment	10,935	-	12,859	-	23,794
Total Accumulated Depreciation	<u>1,625,451</u>	<u>-</u>	<u>387,257</u>	<u>-</u>	<u>2,012,708</u>
Total Capital Assets, net	<u><u>\$ 11,446,135</u></u>	<u><u>\$ 9,371,017</u></u>	<u><u>\$ 627,458</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 21,444,610</u></u>

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2011

NOTE 8. CHANGES IN CAPITAL ASSETS-(continued)

Depreciation expense for the year totaled \$387,257. G.O. and Revenue Bonds were sold to finance the acquisition of the water utility in fiscal years 2004 and 2005, respectively.

A restatement of \$9,371,017 was recorded in fiscal year 2011 to record water rights that were previously unrecorded. The restatement is required to conform to GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* which was implemented during the year ended June 30, 2010. See capital asset administration section in management's discussion and analysis for additional details.

NOTE 9. ACCOUNTS PAYABLE

Accounts payable consists of \$153,557 due for contractual services, various operating costs and gross receipts tax on water sales.

NOTE 10. LONG-TERM DEBT

During the year ended June 30, 2011, the following changes occurred in the liabilities reported in the statement of net assets:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Business-type activities					
Bonds:					
General obligation bonds- Series 2004	\$ 6,455,000	\$ -	\$ 340,000	\$ 6,115,000	\$ 360,000
Water Utility System Revenue Bonds- Series 2005	5,110,000	-	200,000	4,910,000	210,000
Subtotal bonds	<u>11,565,000</u>	<u>-</u>	<u>540,000</u>	<u>11,025,000</u>	<u>570,000</u>
New Mexico Finance Authority Loans	-	1,441,259	65,471	1,375,788	51,843
Accrued compensated absences	2,434	7,884	6,525	3,793	3,793
Total	<u>\$ 11,567,434</u>	<u>\$ 1,449,143</u>	<u>\$ 611,996</u>	<u>\$ 12,404,581</u>	<u>\$ 625,636</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).

As a condition for purchase of the 2005 series Revenue bonds (See Water Utility System Revenue Bonds – Series 2005, below) the bond purchaser, who is the sole owner of the 2004 bonds, required that the 2004 series replacement bond significantly extend 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.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2011

NOTE 10. LONG-TERM DEBT-(continued)

Redemption of Bonds

- a. Optional redemption - the Bonds are subject to redemption in whole or in part on any date on or after February 1, 2013 at a redemption price (expressed as a percentage of the principal amount) plus accrued interest to the redemption date as set forth below:

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

- b. Extraordinary optional redemption - the Bonds are subject to extraordinary optional redemption in whole or in part, by lot selected by the Paying Agent at its discretion, at a redemption price of one hundred percent (100%) of the par value of the bonds so redeemed, plus accrued interest to the redemption date, if and only if a court of competent jurisdiction enters a final, non-appealable order precluding the District from acquiring or otherwise proceeding with the project.
- c. The annual requirements to amortize the General Obligation Bonds as of June 30, 2011, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	460,000	272,100	732,100
2017-2021	2,735,000	913,200	3,648,200
2022-2023	1,340,000	121,800	1,461,800
	<u>\$ 6,115,000</u>	<u>\$ 2,639,400</u>	<u>\$ 8,754,400</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.

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
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2011

NOTE 10. LONG-TERM DEBT (continued)

- 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.
- c. The annual requirements to amortize the Water Utility System Revenue Bonds as of June 30, 2011, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	265,000	239,400	504,400
2017-2021	1,595,000	936,600	2,531,600
2022-2025	2,130,000	369,900	2,499,900
	<u>\$ 4,910,000</u>	<u>\$ 2,645,400</u>	<u>\$ 7,555,400</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.

New Mexico Finance Authority Loans

On July 16, 2010, the District authorized and executed a loan agreement with the New Mexico Finance Authority (NMFA) through resolution in the amount of \$1,433,759 for the purpose of financing water system improvements and infrastructure. Loan payments are due to NMFA monthly until June 1, 2030. The blended interest rate over the term of the loan is 3.967%. The full faith and credit of the District are pledged for payment of principal and interest thereon and the loan will be payable from revenues of the water utility system.

On August 27, 2010, the District authorized and executed a Loan/Grant agreement with the New Mexico Finance Authority (NMFA) through resolution in the amount of \$75,000 to finance the costs of the planning, design and engineering of the District's water storage. \$67,500 of the amount is a grant and \$7,500 is a loan. Principal payments on the loan portion are due annually starting on June 1st 2011 until June 1, 2030. The loan bears no interest and will be payable from revenues of the water utility system.

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Notes to the Financial Statements
 June 30, 2011

NOTE 10. LONG-TERM DEBT (continued)

The annual requirements to amortize the loans with NMFA as of June 30, 2011, including interest are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 51,843	\$ 44,380	\$ 96,223
2013	57,141	47,797	104,938
2014	57,954	46,986	104,940
2015	58,979	45,961	104,940
2016	60,233	44,708	104,941
2017-2021	328,337	196,385	524,722
2022-2025	393,647	132,626	526,273
2026-2030	367,654	41,911	409,565
	<u>\$ 1,375,788</u>	<u>\$ 600,754</u>	<u>\$ 1,976,542</u>

NOTE 11. LEASES

The District leases administrative office space for the water utility operations office 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.

The District leases storage space from both Crossingham Trust (two units at \$60 per month) and 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, 2011 was \$62,670.

NOTE 12. NET ASSETS

At June 30, 2011, net assets totaling \$600,316 are restricted for costs of utility acquisition and improvements (new wells, pipes, pumps reservoirs, structures, etc.) and may not be used for general operating expenses.

Net assets of \$508,500 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 \$750,486 are restricted for general obligation bond debt service and \$122,128 is restricted for New Mexico Finance Authority loan debt service.

Also, net assets of \$72,375 are restricted for water rights acquisition and \$3,097 is restricted for contingency funds held in the Local Government Investment Pool. The remaining net assets of \$1,152,223 are unrestricted at June 30, 2011.

NOTE 13. NET ASSETS RESTATEMENT

The District has recorded a prior period adjustment in the amount of \$9,371,017 to record consumptive water rights that were previously unrecorded. The water rights were acquired through partial licenses granted to the District from the Office of the State Engineer on June 4th 2010. The licenses authorized the District to use 783.43 acre- feet per year from the Central Well Field located in the Eldorado area and the Galisteo Alluvium Field located in the Galisteo Basin. Water rights are intangible assets that are required to be reported under GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The District's water rights are tied to the District's service area and the EAWSD integrated delivery system by the partial license.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2011

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 \$39,643.

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 July 1, 2011, the District renewed its contract with a contractor to provide day-to-day operations and management of the District's water system. The term of the agreement was for four years commencing on the 1st day of July 2011, with an option to extend for an additional period of up to four years through formal amendment. The Contractor's base compensation for services performed under this agreement is \$898,397 for the first year of this agreement. Subsequent years' base fees are adjusted annually based on the consumer price index and other factors, including allowances for annual repairs and fuel costs.

NOTE 16. SUBSEQUENT EVENTS

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 June 15, 2012 which is the date on which the financial statements were available to be issued. The following event was noted for disclosure.

On May 3, 2012 the District was notified of a grant/loan award in the amount of \$187,000 from the New Mexico Water Trust Board for water storage improvement projects.

NOTE 17. SUBSEQUENT PRONOUNCEMENTS

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 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.

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.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Notes to the Financial Statements
June 30, 2011

NOTE 17. SUBSEQUENT PRONOUNCEMENTS-(continued)

In April 2012, GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* Effective Date: The provisions of Statement 65 are effective for periods beginning after December 15, 2012 with earlier application encouraged. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District implemented this standard during the current fiscal year ended June 30, 2011.

In April 2012, GASB Statement No. 66 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issue* Effective Date: The provisions of Statement 65 are effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The standard is expected to have no effect on the District in upcoming years.

NOTE 18. PERA PENSION PLAN

Plan Description: 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

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, 2011 and June 30, 2010 were \$12,466 and \$6,694 respectively, which equal the amount of the required contributions for each fiscal year.

(This page intentionally left blank)

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, 2011

Schedule I

	Budgeted Amounts		Non-GAAP Budgetary Basis	Variances
	Original	Final	Actual	Favorable (Unfavorable) Final to Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final to Actual</u>
<i>Operating revenues</i>				
Water sales	\$ 2,456,400	\$ 2,506,850	\$ 2,370,707	\$ (136,143)
<i>Total operating revenues</i>	<u>2,456,400</u>	<u>2,506,850</u>	<u>2,370,707</u>	<u>(136,143)</u>
<i>Operating expenses</i>				
Contractual services	1,186,776	1,201,393	1,169,774	31,619
Other operating costs	281,075	289,565	287,334	2,231
Personnel services	262,922	172,422	169,092	3,330
Supplies	11,678	11,678	10,130	1,548
Water conservation fee	-	6,000	5,396	604
Travel	10,941	10,940	15,044	(4,104)
Debt service				
Principal	540,000	600,430	605,471	(5,041)
Interest	693,900	740,652	731,192	9,460
<i>Total operating expenses</i>	<u>2,987,292</u>	<u>3,033,080</u>	<u>2,993,433</u>	<u>39,647</u>
<i>Non-operating revenues (expenses)</i>				
Ad valorem taxes	925,345	874,000	1,026,284	152,284
Interest income	1,575	2,975	3,459	484
<i>Total non-operating revenues (expenses)</i>	<u>926,920</u>	<u>876,975</u>	<u>1,029,743</u>	<u>152,768</u>
Income (loss) before contributions and transfers				
Capital grant	-	-	483,162	483,162
<i>Total grants and transfers</i>	<u>-</u>	<u>-</u>	<u>483,162</u>	<u>483,162</u>
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>	<u>\$ 396,028</u>	<u>\$ 350,745</u>	890,179	<u>\$ 539,434</u>
Depreciation			(387,258)	
Principal payments on bonds			605,471	
Amortized issuance costs			(50,697)	
<i>Change in net assets, Exhibit B</i>			<u>1,057,695</u>	
<i>Net assets - beginning of year, as originally reported</i>			2,784,584	
<i>Net assets - restatement</i>			9,371,017	
<i>Net assets - beginning of year, as restated</i>			<u>12,155,601</u>	
<i>Net assets - end of year</i>			<u>\$ 13,213,296</u>	

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, 2011

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value / Par Value June 30, 2011</u>	<u>Name and Location of Safekeeper</u>
First National Bank of Santa Fe	Gilmer, Tx Waterworks and Sewer	7/1/2012	375895GG8	\$ 258,031	Fifth Third Bank of Cincinnati
First National Bank of Santa Fe	Lovington, NM Municipal	10/1/2013	547473BE7	<u>250,000</u>	Fifth Third Bank of Cincinnati *
	Total Pledged Collateral			<u>\$ 508,031</u>	

* Pursuant to section 6-10-16 (C) NMSA 1978 securities which are of obligations of the State of New Mexico, its agencies, institutions, counties, municipalities, or other subdivisions shall be accepted as securities at par value.

See accompanying independent auditor's report

STATE OF NEW MEXICO
 Eldorado Area Water and Sanitation District
 Schedule of Deposit and Investment Accounts
 June 30, 2011

<u>Account Name/Type</u>	<u>Deposits</u>		<u>Investments</u>		<u>Totals</u>
	<u>First National Bank of Santa Fe</u>	<u>U.S. Treasury MM Mutual Fund</u>	<u>NewMexigrow LGIP</u>		
Deposits:					
First National Bank of Santa Fe					
Checking	\$ 249,789	\$ -	\$ -	\$ -	\$ 249,789
Savings	43,357	-	-	-	43,357
New Mexico Mortgage Finance Authority:					
Program funds	-	960,349	-	-	960,349
Reserve Account	-	104,586	-	-	104,586
Debt Service Account	-	17,542	-	-	17,542
Investments:					
Revenue Bond					
Trust Depart.	-	510,409	-	-	510,409
G.O. Bond					
Trust Depart.	14	-	-	-	14
LGIP-Property					
Tax Revenue	-	-	750,486	-	750,486
LGIP-Utility					
Acquisition	-	-	600,316	-	600,316
LGIP-Operating					
Reserve	-	-	344,973	-	344,973
LGIP-Contingency Funds					
	-	-	3,097	-	3,097
Total deposits and investments	293,160	1,592,886	1,698,872	-	3,584,918
Reconciling items	(103,919)	-	-	-	(103,919)
Reconciled balance	<u>\$ 189,241</u>	<u>\$ 1,592,886</u>	<u>\$ 1,698,872</u>	<u>\$ -</u>	<u>\$ 3,480,999</u>
Total unrestricted cash and cash equivalents per Exhibit A				\$	125,450
Total unrestricted investments per Exhibit A					272,598
Total restricted cash and cash equivalents per Exhibit A					1,656,677
Total restricted investments per Exhibit A					<u>1,426,274</u>
Total cash and cash equivalents and investments				<u>\$</u>	<u>3,480,999</u>

See accompanying independent auditor's report

(This page intentionally left blank)

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon June 15, 2012. We have also audited the budgetary comparison for the year ended June 30, 2011, 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.

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency (FS 2011-01).

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 matter 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.

We also noted a certain other matter that is required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and section 12-6-5 NMSA 1978, which is described in the accompanying schedule of findings and responses as item FS 2011-02.

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
June 15, 2012

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Schedule of Findings and Responses
June 30, 2011

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

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

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, 2011 was not submitted to the State Auditor by the required due date of December 1, 2011. The audit report was submitted to the State Auditor on June 22, 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 prior year audit was not completed and delivered to the State Auditor until January 9, 2012. The contract for the fiscal year 2011 audit was not approved by the State Auditor's office until April 11, 2012, which is after the due date of the report.

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 prior year audits, FY2007- FY2009, are presented in the management responses to FS 2007-01 in the prior year audit reports.

Details of the District's experience with the FY2010 audit are presented in the management response to FS 2007-01 in the FY2010 audit. Delays in prior year audits were due in large part to the difficulty experienced by the District in finding qualified firms willing to perform the District's audit, and a lack of resources within the Office of the State Auditor for providing assistance in developing procedures and reporting for its mandated compliance with GASB 51 in FY2010. In addition, the tardiness of the completion of the FY2011 audit was exacerbated by the delay in excess of three months between the time the FY2010 audit was submitted to the State Auditor and the time it was approved; approval of the FY2010 audit was pre-requisite to the State Auditor's approval of the District's contract for the FY2011 audit.

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 FY2012 audit. The District plans to complete the FY2012 audit and subsequent annual audits in a timely manner.

FS 2011-01 — Cash held at NMFA not recorded (Significant Deficiency)

Condition: During our audit of cash, we noted that the District had not correctly recorded restricted assets in the amount of \$1,082,477 held in the District's name with the New Mexico Finance Authority (NMFA) as of June 30, 2011. The cash accounts relate to unspent loan proceeds received from NMFA on July 16, 2010 which includes program funds, a debt service account and a loan agreement reserve account which were established by NMFA in the name of the District.

Criteria: GASB 34 paragraph 99 requires the restricted assets to be reported as a restricted asset. It states as follows:

“Restricted assets should be reported when restrictions (as defined in paragraph 34) on asset use change the nature or normal understanding of the availability of the asset. For example, cash and investments normally are classified as current assets, and a normal understanding of these assets presumes that restrictions do not limit the government's ability to use the resources to pay current liabilities. But cash and investments held in a separate account that can be used to pay debt principal and interest only (as required by the debt covenant) and that cannot be used to pay other current liabilities should be reported as restricted assets. Because restricted assets may include temporarily invested debt proceeds or other resources that are not generated through operations (such as customer deposits), the amount reported as restricted assets will not necessarily equal restricted net assets.

Effect: Material audit adjustments were required to properly reflect the District rights to cash in the financial statements.

Cause: This was a nonroutine transaction for the District and the District had recorded the amount as negative revenue in a loan proceeds revenue account. Statements received from NMFA were not timely received regarding the status of their accounts.

Auditor's Recommendation: For future loans received from NMFA, we recommend the District account for the loan as an increase in cash and long-term liabilities. We recommend the District setup cash accounts in the general ledger to account for loan proceeds, debt service account, reserve account, disbursements if loan proceeds and interest earnings. We recommend the District coordinate with NMFA to ensure statements are received timely and we recommend the District reconcile its general ledger to statements received from NMFA on a periodic basis.

Agency's Response: The District's books have been updated to implement the Auditor's recommended changes in the general ledger to account for the subaccounts of NM PPRF-2469. These changes will be reflected in the District's FY2012 audit.

Future loans from NMFA will be recorded on the District's books in accordance with Auditor's recommendations.

FS 2011-02 — Stale Dated Checks (Other matter)

Condition: During our testwork of cash we noted the District may be in violation of state statues regarding stale-dated checks. The District maintained ten checks totaling \$2,324 that was dated over one year old at June 30, 2011.

Criteria: Chapter 7 article 8a, NMSA 1978, and related regulations required the District to provide information about the payees and the related funds to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

Cause: The District has no internal control policy concerning stale dated checks or requirements for when stale dated checks should be voided.

Effect: Carrying numerous bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds.

Auditor's Recommendation: We recommend the District research the above items referenced to determine if the stale-dated checks are in fact unclaimed property. We recommend the District implement a procedure to review the outstanding check listings and track stale-dated checks. If checks on the outstanding check listing are greater than one year old we recommend these checks be voided. Also we recommend the District provide information to the Property Division of New Mexico Taxation and Revenue Department as necessary.

Agency's Response: Draft policy for managing stale dated checks and transferring corresponding funds to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department will be developed.

Existing stale dated checks will be reviewed and appropriate action taken.

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Schedule of Findings and Responses
June 30, 2011

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

STATE OF NEW MEXICO
Eldorado Area Water and Sanitation District
Other Disclosures
June 30, 2011

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of the District from the original books and records provided to them by the management of the District. The responsibility for the financial statements remains with the District.

B. EXIT CONFERENCE

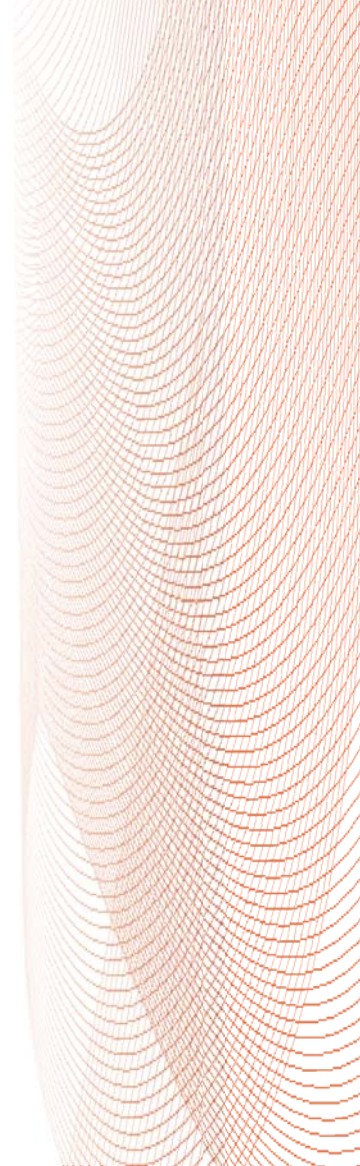
The contents of this report were discussed on June 15, 2012. The following individuals were in attendance.

Eldorado Area Water and Sanitation District

Jim Jenkins, President of Board of Directors
Roberta Armstrong, Director, Finance Committee Chair
Paul Butt, Financial Coordinator
Elizabeth Roghair, Finance Committee Member (Non-Director)
David Chakroff, General Manager

Accounting & Consulting Group, LLP

Robert Cordova, CPA
Morgan Browning, CPA, CGFM



www.acgnm.com