

STATE OF NEW MEXICO  
ELDORADO AREA WATER AND SANITATION DISTRICT  
FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING INDEPENDENT AUDITORS' REPORTS  
FOR THE YEAR ENDED JUNE 30, 2013





**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, 2013**

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## **INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
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June 30, 2013

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Directory of Officials  
June 30, 2013

<u>Name</u>	<u>Board</u>	<u>Title</u>
James Jenkins		President
Jerry Cooper		Vice President
Stephen Wust		Secretary
George Haddad		Director
Thomas Willmott		Director
<u>Administrative Officials</u>		
Gene Schofield		Treasurer
David Chakroff		General Manager
Paul Butt		Financial Coordinator

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**FINANCIAL SECTION**



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

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Eldorado Area Water and Sanitation District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements 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, as defined by the Government Accounting Standards Board for the year ended June 30, 2013, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

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, 2013, and the respective change in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the year ended June 30, 2013 in conformity with a budgetary basis more fully described in Note 3 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 12 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the District's financial statements and the budgetary comparison. Supporting Schedule II as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

Schedule II is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Schedule II is fairly stated, in all material respects, in relation to the basic financial statements 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.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013 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* in considering the District's internal control over financial reporting and compliance.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, NM  
November 25, 2013

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2013

## **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, 2013.

## **Financial Highlights**

Key events for the fiscal year 2013 are:

- The assets of the District exceeded liabilities at the close of the most recent fiscal year by \$13,549,722 (*total net position*). The components of net position include restricted net position of \$2,236,869, unrestricted net position of \$348,446, and net investment in capital assets of \$10,964,457.
- The District's total reported net position decreased by \$440,735 compared to the prior year net position, with an excess of expenditures over total revenues of \$440,735.
- As of June 30, 2013, the District had current and noncurrent assets totaling \$672,512 and \$24,492,271, respectively. Capital assets, net of accumulated depreciation, totaled \$21,498,826. Current liabilities include, \$53,850 in customer deposits, \$290,010 in accounts payable, \$21,265 in interest payable, \$5,416 in accrued payroll expenses, \$7,015 in compensated absences, and \$673,489 in loans payable. Noncurrent liabilities include \$9,085,457 in loans payable, and \$1,478,149 in bond premium received during fiscal year 2013.

## **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 position;
  - b. Statement of revenues, expenses and changes in net position;
  - c. Statement of cash flows; and,
  - d. Notes to the financial statements
2. A budgetary comparison presented as supplementary information

These financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

**The Statement of Net Position** presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position** presents information showing how the District's net position changed during the most recent Fiscal Year. All changes in net position 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 explain the numbers provided in the financial statements.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2013

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

*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 position. 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 state budget law.

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, a positive net position balance (assets exceeding liabilities) of \$13,549,772 is reported at the close of the most recent Fiscal Year.

The District reports \$348,446 of net position as unrestricted.

**Overview of the Statement of Net Position**

	<b>2013</b>	<b>2012</b>	<b>Variance</b>
Assets:			
Current assets	\$ 672,512	\$ 1,103,291	\$ (430,779)
Capital assets, net	21,498,826	21,243,682	255,144
Other assets	2,993,445	3,790,391	(796,946)
Total assets	\$ 25,164,783	\$ 26,137,364	\$ (972,581)
Liabilities:			
Current liabilities	\$ 1,051,321	\$ 1,036,661	\$ 14,660
Noncurrent liabilities	10,563,690	11,110,196	(546,506)
Total liabilities	11,615,011	12,146,857	(531,846)
Net Position:			
Net investment in capital assets	10,964,457	10,400,534	563,923
Restricted	2,236,869	2,224,485	12,384
Unrestricted	348,446	1,365,488	(1,017,042)
Total net position	13,549,772	13,990,507	(440,735)
Total liabilities and net position	\$ 25,164,783	\$ 26,137,364	\$ (972,581)

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2013

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

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

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Revenues:			
Water sales	\$ 2,404,782	\$ 2,409,508	\$ (4,726)
Ad valorem tax	978,472	1,036,492	(58,020)
Intergovernmental grants	-	74,992	(74,992)
Interest income	4,562	5,116	(554)
Miscellaneous income	25,050	-	25,050
Total Revenues	<u>3,412,866</u>	<u>3,526,108</u>	<u>(113,242)</u>
Expenses:			
Operating expenses	2,360,185	1,989,144	371,041
Bond interest expense	641,539	699,706	(58,167)
Bond call premium	196,900	-	196,900
Bond issue costs paid	76,275	-	76,275
Amortization of bond issue costs	578,702	50,697	528,005
Total Expenses	<u>3,853,601</u>	<u>2,739,547</u>	<u>1,114,054</u>
Increase in net position	(440,735)	786,561	(1,227,296)
Total net position, beginning of year	13,990,507	13,213,296	777,211
Restatement	-	(9,350)	9,350
Total net position - end of year	<u>\$ 13,549,772</u>	<u>\$ 13,990,507</u>	<u>\$ (440,735)</u>



**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2013

## **Financial Analysis of the District's Funds and Fiscal Year 2013 Budgetary Highlights**

As noted above, net position decreased by \$440,735 from fiscal year 2012 to fiscal year 2013. Total revenues decreased by \$113,242, primarily due to a decrease in both intergovernmental grant revenue for the year of \$74,992 and Ad valorem tax of \$58,020, which was partially offset by an increase in miscellaneous income of \$25,050. In fiscal year 2013, water sales were \$2,404,782. However, operating expenses also increased in fiscal year 2013 to \$2,360,185, an increase of \$371,041 from the fiscal year 2012 operating expenses of \$1,989,144. Fiscal year 2013 expenses included significant one time charges consisting of call premiums on the refunding bonds totaling \$196,900, issuance expense for the refunding loans of \$76,275, and unamortized issuance expense for the 2004 and 2005 bonds of \$578,702.

Other highlights of FY 2013 financial activities include:

- Long-Term debt activity for fiscal year 2013 included the District's execution of two loan refunding agreements with the New Mexico Finance Authority which increased long-term debt by \$8,493,750. The refunding agreements retired the Series 2004 General obligation bonds and the 2005 Water Utility System Revenue Bonds, in the amounts of \$5,755,000 and \$4,700,000 respectively. Debt outstanding after the refunding totaled \$9,758,946 at June 30, 2013.
- Capital asset expenditures increased substantially, from \$221,396 in fiscal year 2012 to \$691,241 in fiscal year 2013.
- Two construction contracts were issued. One contract is for water line replacements and replacement of the booster station in the Old Ranch area. The second contract is for system-wide upgrades to the District's SCADA (remote telemetry & control) system.

A review of budget vs. actual performance shows that the District's actual operating expenses were less than budgeted expenses by \$2,041,408 due to lower than anticipated expenditures for capital outlay. Actual operating revenues were less than budgeted operating revenues by \$57,818, a variance of approximately 2%. A detailed breakout of budget versus actual revenue and expenses can be found in the supplementary section of this report.

The Board believes that the District is in good financial shape at the close of the fiscal year 2013. From July 01, 2012 through June 30, 2013, deposits from water sales averaged \$200,399 per month.

## **Capital Asset Administration**

The District's investment in capital assets for business-type activities as of June 30, 2013 totaled \$21,498,826 (net of accumulated depreciation). Major capital events during the fiscal year included the following:

- The District added \$136,250 in improvements to Water Utility – Well 18, increasing the total balance of the asset from \$1,065,013 to 1,201,263. Other Water Utility Improvements totaled \$553,343 for fiscal year 2013.
- In FY2013 the District began construction on two projects to improve water delivery services in the Old Road Ranch area. The water line replacement project was completed in May 2013 (project cost \$176,555). The booster station project is essentially complete, with the exception of its connection to the PNM electrical grid, which is pending. Booster construction in progress expense as of June 30, 2013 is \$36,762. The projects will be completed by the end of fiscal year 2014.
- The District met its goal of replacing a minimum of 200 customer meters per fiscal year, which is necessary in order not to exceed a service life of 15 years for each meter.
- Engineering design was completed for improvements to the Well 9 electrical system. Construction is pending.
- Engineering design was started for replacement of the booster station on Avendia Torreon and for re-drilling (replacement) of Well 2. Both projects are scheduled for construction to start in FY2014.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Management's Discussion and Analysis  
June 30, 2013

**Long-Term Debt Administration**

In the interest of reducing annual debt service expense, the District undertook a refunding of the bonds which had been issued to acquire the system at interest rates higher than those that prevailed in FY2013. The refunding transaction is fully described in Note 8 to the Financial Statements.

**Financial Outlook for Next Year**

The District's approved budget for fiscal year 2014 includes revenues of \$2,558,000 (operating) plus \$992,440 (property tax revenue) and cash balances of \$3,323,258. Proposed expenses include \$2,259,690 (operating and capital projects funded from water sales revenue), \$2,367,262 (capital projects funded from the District's Capital Reserve and 2010 PPRF Loan 2469), and \$197,363 (capital projects funded from property taxes). Debt service includes \$590,563 for GO bond refunding loan debt service plus administrative expense, \$392,693 for Revenue bond refunding loan debt service, and \$104,571 for loan PPRF-2469 debt service. The budget also includes a total of \$270,829 in projected contributions to reserves.

**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.

**BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Net Position  
June 30, 2013

	Business-Type Activities
<i>Assets</i>	
<i>Current assets</i>	
Cash and cash equivalents	\$ 298,610
Ad valorem taxes receivable	31,342
Accounts receivable, net of allowance for doubtful accounts	307,025
Prepaid expenses	35,535
<i>Total current assets</i>	672,512
<i>Noncurrent assets</i>	
Restricted cash:	
Unspent loan proceeds	702,726
Meter deposits	53,850
Debt service	122,959
Restricted investments:	
Debt service	88,350
Cost of utility acquisition and improvements	1,946,416
Water rights acquisition	78,625
LGIP-reserve contingency funds	519
Capital assets, net of accumulated depreciation	21,498,826
<i>Total noncurrent assets</i>	24,492,271
<i>Total assets</i>	\$ 25,164,783

The accompanying notes are an integral part of these financial statements

	<u>Business-Type Activities</u>
<b><i>Liabilities and net position</i></b>	
<i>Current liabilities</i>	
Accounts payable	\$ 290,010
Interest payable	21,625
Accrued payroll expenses	5,416
Compensated absences	7,015
Customer deposits	53,850
Loans payable	673,405
<i>Total current liabilities</i>	<u>1,051,321</u>
<i>Noncurrent liabilities</i>	
Loans payable	9,085,541
Bond premium	1,478,149
<i>Total noncurrent liabilities</i>	<u>10,563,690</u>
<i>Total liabilities</i>	<u>11,615,011</u>
<i>Net position</i>	
Net investment in capital assets	10,964,457
Restricted for:	
Cost of utility acquisition and improvements	1,946,416
Water rights acquisition	78,625
Debt service	211,309
LGIP-reserve contingency funds	519
Unrestricted	348,446
<i>Total net position</i>	<u>13,549,772</u>
<i>Total liabilities and net position</i>	<u>\$ 25,164,783</u>

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2013

Exhibit B

	<u>Business-Type Activities</u>
<i>Operating revenues</i>	
Water sales	\$ 2,404,782
<i>Total operating revenues</i>	<u>2,404,782</u>
<i>Operating expenses</i>	
Contractual services	1,365,869
Depreciation	436,096
General and administrative	364,664
Personnel services	185,541
Supplies	1,686
Water conservation fee	5,071
Travel	1,258
<i>Total operating expenses</i>	<u>2,360,185</u>
<i>Operating income</i>	<u>44,597</u>
<i>Non-operating revenues (expenses)</i>	
Ad valorem tax	978,472
Interest income	4,562
Miscellaneous income	25,050
Bond interest expense	(641,539)
Redemption premium paid on refunding loan agreements	(196,900)
Bond issue costs paid	(76,275)
Amortization of bond issue costs	(578,702)
<i>Total non-operating revenues (expenses)</i>	<u>(485,332)</u>
<i>Change in net position</i>	(440,735)
<i>Total net position - beginning of year</i>	<u>13,990,507</u>
<i>Total net position, end of year</i>	<u><u>\$ 13,549,772</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Statement of Cash Flows  
For the Year Ended June 30, 2013

	Business-Type Activities
<i>Cash flows from operating activities</i>	
Cash received from customers	\$ 2,485,803
Cash paid to suppliers and contractors	(1,503,740)
Cash paid to employees for services	(181,332)
	800,731
<i>Cash flows from noncapital financing activities</i>	
Ad valorem taxes received	984,515
Miscellaneous revenue	25,050
	1,009,565
<i>Cash flows from capital and financing activities</i>	
Bond issue costs paid	(76,275)
Redemption premium paid on refunding loan agreements	(196,900)
Purchase of capital assets	(691,241)
Proceeds from issuance of loans	8,493,750
Proceeds from premium on issuance of loans	1,478,149
Bond and loan principal payments	(10,511,707)
Bond interest payments	(885,278)
	(2,389,502)
<i>Cash flows from investing activities</i>	
Sale of investments	25,865
Interest income	4,562
	30,427
<i>Net decrease in cash and cash equivalents</i>	(548,779)
<i>Cash and cash equivalents - beginning of year</i>	1,726,924
<i>Cash and cash equivalents - end of year</i>	\$ 1,178,145
<i>Cash per Exhibit A</i>	
Cash and cash equivalents	\$ 298,610
Unspent loan proceeds	702,726
Meter deposits	53,850
Debt service	122,959
	\$ 1,178,145

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	\$ 44,597
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	436,096
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	80,621
(Increase) decrease in prepaid expenses	(12,284)
Increase (decrease) in accounts payable	247,092
Increase (decrease) in accrued payroll expenses	1,602
Increase (decrease) in compensated absences	2,607
Increase (decrease) in customer deposits	400
Net cash provided by operating activities	<u>\$ 800,731</u>

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2013

**NOTE 1. HISTORY AND ORGANIZATION**

The Eldorado Area Water and Sanitation District (the 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.

During the year ended June 30, 2013, the District adopted GASB Statements No. 60 through 63. GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The District does not have any Service Concession Arrangements. GASB Statement No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2013

**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 Statement 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 Statement 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 position, the statement of revenues, expenses and changes in net position 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 position (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 position. When an expense is incurred for purposes for which both restricted and unrestricted 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, net position, revenues and expenses. Government resources are allocated to and accounted for in the fund based upon the purpose for which spending activities are controlled. In this report, the fund is presented in the financial statements as a proprietary fund.

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

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

*D. Basis of Accounting*

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

*E. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates for the District include management's estimate of the allowance for uncollectible accounts for water sales and depreciation on assets over their estimated useful lives.

*F. Assets, Liabilities, Net Position, 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. Prepaid items consist of director's and officers' liability, property insurance and prepaid rent totaling \$35,535 as of June 30, 2013.

**Bond Issuance Costs:** The District amortizes bond issuance costs using the straight-line method over the life of the bonds.

**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.

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

*F. Assets, Liabilities, Net Position, Revenues and Expenses (continued)*

**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 and 18	30
Vehicles	5
Furniture and fixtures	15
Office equipment (including software)	3

The District's water system is depreciated on a straight-line basis over its useful life. Revenue and General Obligation bonds for the acquisition of the water utility system were refunded in fiscal year 2013 with loans from the New Mexico Finance Authority (PP-2900 and PP-2901).

**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. They include all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. Non-operating revenues include ad valorem taxes (property), miscellaneous income and interest income.

**Net Position Classifications:** Net investment in capital assets represents 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 position is reported as restricted when there are legal limitations imposed on their use by the District or external restrictions by other governments, creditors or grantors or other amounts restricted by enabling legislation. Unrestricted net position is all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**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, develops a proposed initial operating budget for the upcoming fiscal year. 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.

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**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 no changes to the excess (deficiency) of revenues over expenditures for the current year.

**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, 2013.

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.

By operation of federal law, beginning January 1, 2013, funds deposited in noninterest bearing accounts will no longer receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, all of the District's accounts at an insured depository institution, including noninterest bearing accounts, are insured by the FDIC up to the Standard Maximum Deposit Insurance Amount of \$250,000.

*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.

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

As of June 30, 2013, none of the District's bank balance of \$118,712 was exposed to custodial credit risk, and none was uninsured and uncollateralized at June 30, 2013. Bank accounts were collateralized as follows:

	First National Bank of Santa Fe
Amount of deposits	\$ 118,712
FDIC Coverage	(118,712)
Total uninsured public funds	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	
Uninsured and uncollateralized	-
Collateral requirement (50% of uninsured funds)	
Pledged Collateral	-
Over (Under) collateralized	\$ -

**Investments**

Credit Risk

As of June 30, 2013, the District's investment in the State Treasurer Local Government Investment Pool was rated as AAAM by Standard & Poor's.

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

*Concentration of Credit Risk – Investments.* For an investment, concentration of credit risk is when any one issuer is 5% or more of the investment portfolio of the District. The investments in U.S Treasury Money Market Mutual Funds represent 25% of the investment portfolio. The investments in LGIP represent 75% of the investment portfolio.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2013

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

As of June 30, 2013 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	\$ 88,350	59 Days
Utility Acquisition and Improvement	AAAm	1,946,416	59 Days
Operating Reserve	AAAm	299,375	59 Days
Reserve contingency funds	AAAm	519	Not rated
Restricted LGIP Water Rights	AAAm	78,625	59 Days
U.S. Treasury MM Mutual Fund**	AA+	<u>825,685</u>	<90 days
Total investments		<u>\$ 3,238,970</u>	

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

The LGIP operating reserve amount of \$299,375 is included in the Statement of Net Position as both restricted cash and an unrestricted cash and cash equivalents in the amount of \$53,850 and \$245,525 respectively, 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 Position

Cash and cash equivalents-Exhibit A	\$ 298,610
Restricted cash-unspent loan proceeds-Exhibit A	702,726
Restricted cash-meter deposits-Exhibit A	53,850
Restricted cash-debt service-Exhibit A	122,959
Restricted investments-debt service-Exhibit A	88,350
Investments-cost of utility acquisition and improvements-Exhibit A	1,946,416
Investments-water rights acquisition-Exhibit A	78,625
Investments-LGIP-Reserve Contingency Fund-Exhibit A	<u>519</u>
Total cash, cash equivalents and investments	3,292,055
Add: outstanding checks	65,627
Less: investments in NM State Treasurer's LGIP	(2,413,285)
Less: investments in U.S. Treasury MM Mutual Fund	<u>(825,685)</u>
Bank balance of deposits	<u>\$ 118,712</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>\$ 31,342</u>
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**STATE OF NEW MEXICO**  
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**NOTE 6. ACCOUNTS RECEIVABLE**

Accounts receivable is water utility revenue billed and unbilled but uncollected. The District has estimated that \$159,608 of the current account receivable balance will be uncollectible. Accounts receivable and the allowance for doubtful accounts are as follows:

Accounts receivable	\$ 466,633
Less: Allowance for doubtful accounts	<u>(159,608)</u>
Net accounts receivable	<u><u>\$ 307,025</u></u>

**NOTE 7. CHANGES IN CAPITAL ASSETS**

The following is a summary of capital assets and changes occurring during the year ended June 30, 2013. Land, easements, water rights, and construction in progress are not subject to depreciation.

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Capital assets not depreciated:				
Land	\$ 463,000	\$ -	\$ -	\$ 463,000
Easements	459,548	5,887	-	465,435
Water rights	11,751,450	-	-	11,751,450
Construction in progress	100,694	36,762	100,694	36,762
Total capital assets not depreciated:	<u>12,774,692</u>	<u>42,649</u>	<u>100,694</u>	<u>12,716,647</u>
Capital assets depreciated:				
Water utility - original	7,914,015	-	-	7,914,015
Water utility - improvements	821,937	553,343	-	1,375,280
Water utility well 17	856,880	-	-	856,880
Water utility well 18	1,065,013	136,250	-	1,201,263
Vehicles	116,518	59,693	-	176,211
Furniture and fixtures	16,436	-	-	16,436
Office equipment (including software)	113,221	-	-	113,221
Total depreciable assets	<u>10,904,020</u>	<u>749,286</u>	<u>-</u>	<u>11,653,306</u>
Total assets	23,678,712	791,935	100,694	24,369,953
Accumulated depreciation:				
Water utility - original	1,871,900	263,800	-	2,135,700
Water utility - improvements	260,406	78,849	-	339,255
Water utility well 17	118,410	28,564	-	146,974
Water Utility well 18	36,817	35,657	-	72,474
Vehicles	103,401	13,536	-	116,937
Furniture and Fixtures	5,761	1,096	-	6,857
Office equipment (including software)	38,336	14,594	-	52,930
Total accumulated depreciation	<u>2,435,031</u>	<u>436,096</u>	<u>-</u>	<u>2,871,127</u>
Net book value	<u>\$ 21,243,681</u>	<u>\$ 355,839</u>	<u>\$ 100,694</u>	<u>\$ 21,498,826</u>

Depreciation expense for the year totaled \$436,096.

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**NOTE 8. LONG-TERM DEBT**

During the year ended June 30, 2013, the following changes occurred in the liabilities reported in the Statement of Net Position:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Business-type activities					
Bonds:					
General Obligation Bonds- Series 2004	\$ 5,755,000	\$ -	\$ 5,755,000	\$ -	\$ -
Water Utility System Revenue Bonds- Series 2005	4,700,000	-	4,700,000	-	-
Subtotal bonds	<u>10,455,000</u>	<u>-</u>	<u>10,455,000</u>	<u>-</u>	<u>-</u>
New Mexico Finance Authority Loans	1,321,903	8,493,750	56,707	9,758,946	673,405
Accrued compensated absences	4,408	11,447	8,840	7,015	7,015
Total	<u>\$ 11,781,311</u>	<u>\$ 8,505,197</u>	<u>\$ 10,520,547</u>	<u>\$ 9,765,961</u>	<u>\$ 680,420</u>

**NMFA Debt Outstanding**

On June 13, 2013 the District executed two loan refunding agreements with the New Mexico Finance Authority (NMFA) (NMFA PP-2900 and PP-2901) through resolution, in the amount of \$3,775,000 and \$4,700,000 respectively. The loans were issued at a total premium of \$1,478,149. The District used these new debt issuances to refund the 2005 Series Revenue Bonds and the 2004 Series General Obligation Bonds. The District's cost of the refunding the bonds included a 2% redemption premium in the amount of \$196,900. The present value of the gain the District will realize over the life of the refunding is approximately \$2,160,000. The maturity dates of NMFA loans PP-2900 and PP-2901 are June 1, 2025 and June 1, 2023 respectively. The blended interest rate for NMFA loans PP-2900 and PP-2901 are approximately 4.89% and 4.70% respectively. Loan PP-2900 will be payable from the net revenues of the water utility system. Loan PP-2901 will be payable from general ad valorem taxes.

On March 1, 2013, the District authorized and executed a Loan/Grant agreement with the Water Trust Board of the New Mexico Finance Authority (NMFA) through resolution in the amount of \$187,500 to finance the costs of updating the current outdated SCADA systems (software and hardware). \$168,750 of the amount is a grant and \$18,750 is a loan. Principal payments on the loan portion are due annually starting on June 1, 2014. The loan is interest free, but the District pays administrative fees over the life of the loan of approximately \$ 963 annually. The loan will be payable from revenues of the water utility system.

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 is pledged for payment of principal and interest thereon and the loan will be payable from revenues of the water utility system.

The annual requirements to amortize the loans with NMFA as of June 30, 2013, including interest are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 673,405	\$ 413,810	\$ 1,087,215
2015	684,425	412,519	1,096,944
2016	710,657	391,911	1,102,568
2017	737,176	363,743	1,100,919
2018	773,924	327,570	1,101,494
2019-2023	4,397,451	1,075,221	5,472,672
2024-2028	1,581,494	202,618	1,784,112
2029-2030	200,414	13,538	213,952
	<u>\$ 9,758,946</u>	<u>\$ 3,200,929</u>	<u>\$ 12,959,875</u>

**STATE OF NEW MEXICO**  
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**NOTE 9. LEASES**

The District rents administrative office space for the water utility operations office for approximately \$4,460. Either party may cancel the lease at any time.

The District rents storage space from both La Tienda at Eldorado (four units at \$240 per month) and from Eldorado Self Storage (one unit at \$75 per month). Both rental agreements are month-to-month.

There are no future minimum lease payments. Rent expense for the year ended June 30, 2013 was \$55,740.

**NOTE 10. NET POSITION**

At June 30, 2013, a portion of the net position totaling \$1,946,416 was restricted for costs of utility acquisition and improvements (new wells, pipes, pumps reservoirs, structures, etc.) and not available for general operating expenses and restricted by enabling legislation.

Also at June 30, 2013, District had \$211,309 in restricted net position for debt reserve and debt service requirements.

In addition, net position of \$78,625 is restricted by enabling legislation for water rights acquisition, \$519 is restricted in contingency funds held in the Local Government Investment Pool. The remaining net position of \$348,446 is unrestricted at June 30, 2013.

**NOTE 11. 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 \$41,956.

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, it does 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 12. 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. Subsequent years' base fees are adjusted annually based on the consumer price index and other factors, including allowances for annual repairs and fuel costs. The agreement was renewed June 3, 2013, effective July 1, 2013. The Contractor's base compensation for services performed under this agreement is \$992,258, plus NM gross receipts tax, for the third year of this agreement.

A major part of the District's FY2014 budget consists of expenditures for capital projects. \$110,000 from operating revenue, \$197,400 from property tax receipts in FY2014 and \$1,772,700 from accumulated property tax receipts from prior fiscal years are committed to capital improvement projects. In addition, \$173,700 in accumulated property tax receipts are being held as a management reserve for these projects. Major projects scheduled for FY2014 include completion of the Old Road Ranch booster station replacement, system-wide SCADA upgrades, Torreon booster station replacement, Pressure Zone optimization, re-drilling of Well 2 and construction of the District's combined operations, maintenance and administrative facility.

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**NOTE 13. SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2013, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is November 25, 2013, which is the date on which the financial statements were available to be issued. The following events were noted for disclosure.

During the 2013 legislative session, the District was awarded a legislative grant for \$200,000 for the re-drilling (replacement) of Well 2. Confirmation of the grant was received in October 2013. An additional \$205,000 for the project was received as a grant from the New Mexico Water Trust Board in FY2013. Project design is in progress and the project is scheduled for completion in early FY2015.

In September 2013, the District received notification that its application for a New Mexico Drinking Water Revolving Loan Fund loan of approximately \$1 million had been approved, for construction of the District's Combined Facility. The loan includes a 25% grant component. Preliminary design for combined facilities for administrative, maintenance and operations work spaces was completed in May 2013. Final design is scheduled to begin in November or December 2013. Construction of the Combined Facility is planned to begin late in FY2014 or early FY2015. Funding for the projects will be provided by revenue accumulated from prior periods, current period revenue, grants and loans.

In May 2013, the District proposed a conservation surcharge on water use greater than 10,000 gallons/month during the months of May - September. A public hearing was held on the matter on August 22, 2013. The hearing officer's Decision was presented to the District on September 20, 2013.

The Decision stated that the District's proposed conservation surcharge of 50% on water use greater than 10,000 gallons/month was compliant with the governing statute, NMSA 1978, § 73-21-55(C) (2009). Two amendments to the proposed surcharge were recommended. The first was to limit the residential water conservation surcharge to the months of May through August, rather than May through September. The second was to permit residential customers to petition for a variance from the surcharge on a case-by-case basis where there is evidence of a leak or line break, that a meter reading was estimated or inaccurate, or in cases of exceptional circumstances. The recommended amendments were incorporated into a resolution for adoption of the surcharge, which was passed by the Board at a public meeting on October 3, 2013.

The financial impact of the surcharge on FY2014 revenue has not been determined. The surcharge is a conservation measure and is not intended to increase water sales revenue. Preliminary analysis of water consumption in prior years indicates that a reduction of consumption by approximately one-third in the targeted months in the affected consumption tiers will result in essentially no change in summer water sales revenue. Reduction by significantly more than one-third will reduce water sales revenue. Summer sales in 2014 will be closely monitored so that their impact on the District's budget can be evaluated and any changes necessary can be made promptly.

**NOTE 14. SUBSEQUENT PRONOUNCEMENTS**

In March 2012, GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In March 2012, GASB Statement No. 66 *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2014.

In June 2012, GASB Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The District is evaluating the impact and applicability of this standard at June 30, 2013.

In June 2012, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The District will implement this standard during the fiscal year June 30, 2016.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Notes to the Financial Statements  
June 30, 2013

**NOTE 15. PENSION PLAN-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**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 <http://www.pera.state.nm.us>

**Funding Policy:** Plan members are required to contribute the following percentages of their gross salary: 9.15% for District employees. The District is required to contribute the following percentages of the gross covered salary: 9.15% for District plan members. The contribution requirements of plan members and the District are established in State Statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The District's contributions to PERA for the fiscal year ended June 30, 2013, 2012, and 2011 were \$14,081, \$13,120, and \$12,466 respectively, which equal the amount of the required contributions for each fiscal year.

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**SUPPLEMENTARY INFORMATION**

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**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Schedule of Revenues, Expenses and Changes in Net Position  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2013

Schedule I

	Budgeted Amounts		Non-GAAP Budgetary Basis	Variances Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
<i>Operating revenues</i>				
Water sales	\$ 2,500,000	\$ 2,462,600	\$ 2,404,782	\$ (57,818)
<i>Total operating revenues</i>	<u>2,500,000</u>	<u>2,462,600</u>	<u>2,404,782</u>	<u>(57,818)</u>
<i>Operating expenses</i>				
Contractual services	1,330,389	1,377,739	1,365,869	11,870
Other operating costs	326,920	306,826	364,664	(57,838)
Personnel services	180,170	185,670	185,541	129
Supplies	5,150	1,950	1,686	264
Water conservation fee	5,200	5,200	5,071	129
Travel	3,175	1,494	1,258	236
Capital outlay	2,662,841	2,690,034	691,241	1,998,793
Debt service				
Principal	666,773	666,773	666,707	66
Interest	675,098	729,298	641,539	87,759
<i>Total operating expenses</i>	<u>5,855,716</u>	<u>5,964,984</u>	<u>3,923,576</u>	<u>2,041,408</u>
<i>Non-operating revenues (expenses)</i>				
Ad valorem taxes	1,021,181	1,021,181	978,472	(42,709)
Other revenue	5,000	30,000	25,050	(4,950)
Interest income	4,050	4,050	4,562	512
Bond call premiums	-	(196,900)	(196,900)	-
Bond issuance cost	-	-	(76,275)	(76,275)
<i>Total non-operating revenues (expenses)</i>	<u>1,030,231</u>	<u>858,331</u>	<u>734,909</u>	<u>(123,422)</u>
<i>Capital Contributions</i>				
Capital grant	237,500	237,500	-	(237,500)
<i>Total contributions</i>	<u>237,500</u>	<u>237,500</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues and sources over expenses and uses</i>				
	<u>(2,087,985)</u>	<u>(2,406,553)</u>	<u>(783,885)</u>	<u>1,622,668</u>
Designated cash	<u>2,087,985</u>	<u>2,406,553</u>		<u>(2,406,553)</u>
Change in net position (Non-GAAP budgetary basis)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (783,885)</u>	<u>\$ (783,885)</u>
Adjustments for GAAP basis				
Depreciation			(436,096)	
Capital outlay			691,241	
Principal payments on debt			666,707	
Amortized issuance costs			(578,702)	
<i>Change in net position, Exhibit B</i>			<u>(440,735)</u>	
<i>Net position - beginning of year</i>			<u>13,990,507</u>	
<i>Net position- end of year</i>			<u>\$ 13,549,772</u>	

The accompanying notes are an integral part of these financial statements

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**SUPPORTING SCHEDULES**

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**STATE OF NEW MEXICO**  
 Eldorado Area Water and Sanitation District  
 Schedule of Deposit and Investment Accounts  
 June 30, 2013

Account Name/Type	Deposits		Investments		Totals
	First National Bank of Santa Fe	U.S. Treasury MM Mutual Fund	NewMexigrow LGIP		
Deposits:					
First National Bank of Santa Fe					
Checking	\$ 60,698	\$ -	\$ -		\$ 60,698
Savings	58,014	-	-		58,014
New Mexico					
Finance Authority:					
Program funds	-	318,205	-		318,205
Reserve Account	-	482,406	-		482,406
Debt Service Account	-	25,074	-		25,074
Investments					
LGIP-Property					
Tax Revenue	-	-	88,350		88,350
LGIP-Utility					
Acquisition	-	-	1,946,416		1,946,416
LGIP-Operating					
Reserve	-	-	378,000		378,000
LGIP-Contingency					
Funds	-	-	519		519
Total deposits and investments	118,712	825,685	2,413,285		3,357,682
Reconciling items	(65,627)	-	-		(65,627)
Reconciled balance	\$ 53,085	\$ 825,685	\$ 2,413,285		\$ 3,292,055
Unrestricted cash:					
Cash and cash equivalents					
					\$ 298,610
Restricted cash:					
Unspent loan proceeds per Exhibit A					
					702,726
Meter deposits per Exhibit A					
					53,850
Debt service per Exhibit A					
					122,959
Total restricted cash					879,535
Restricted investments:					
Debt service per Exhibit A					
					88,350
Cost of utility acquisition and improvements per Exhibit A					
					1,946,416
Water rights acquisition per Exhibit A					
					78,625
LGIP-reserve contingency funds-per Exhibit A					
					519
Total restricted investments					2,113,910
Total cash and investments					\$ 3,292,055

See independent auditors' report

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**COMPLIANCE SECTION**



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

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

**INDEPENDENT AUDITORS' REPORT**

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

We have audited, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and related budgetary comparison of the District presented as supplementary information, and have issued our report thereon dated November 25, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 did not disclose any instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Albuquerque, NM  
November 25, 2013

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Schedule of Findings and Responses  
June 30, 2013

Schedule III

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditors’ report issued   | Unmodified |
| 2. Internal Control over financial Reporting                                     |            |
| a. Material weaknesses identified?   | No         |
| b. Significant deficiencies identified not considered to be material weaknesses? | No         |
| c. Noncompliance material to the financial statements?                           | No         |

**SECTION II-STATUS OF PRIOR YEAR FINDINGS**

- |  |          |
|--|----------|
| FS 2012-01 — Accounts Receivable Cutoff (Significant Deficiency) | Resolved |
| FS 2012-02 — Budget Reconciliation (Other Matter)                | Resolved |

**SECTION III-CURRENT YEAR FINDINGS**

There were no current year audit findings.

**STATE OF NEW MEXICO**  
Eldorado Area Water and Sanitation District  
Other Disclosures  
June 30, 2013

**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**

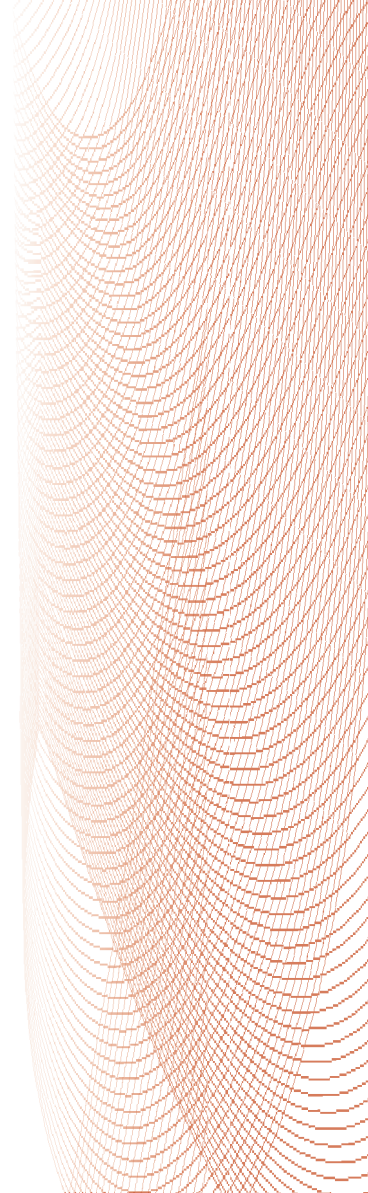
The contents of this report were discussed on November 25, 2013. The following members of the District's Finance committee, acting as the Audit committee, were in attendance.

Eldorado Area Water and Sanitation District

Jim Jenkins, President  
Thomas Willmott, Director  
Paul Butt, Financial Coordinator  
Gene Schofield, Treasurer  
Elizabeth Roghair, Finance committee member

Accounting & Consulting Group, LLP

Robert Cordova, CPA, Partner



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