



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

*JULY 1, 2008 THROUGH JUNE 30, 2009*



Albuquerque Bernalillo County  
Water Utility Authority

A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO, USA

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**

**A Component Unit of the City of Albuquerque, New Mexico**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**July 1, 2008 through June 30, 2009**

**Albuquerque Bernalillo County Water Utility Authority  
A Component Unit of the City of Albuquerque, New Mexico  
Comprehensive Annual Financial Report  
Year ended June 30, 2009**

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November 17, 2010

Board of Directors  
Albuquerque Bernalillo County Water Utility Authority

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Albuquerque Bernalillo County Water Utility Authority (Authority) for the fiscal year ended June 30, 2009. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial affairs of the Authority's records be thoroughly examined and audited each year by independent public accountants. The Authority is a component unit of the City of Albuquerque.

The Comprehensive Annual Financial Report consists of four major sections:

1. The Introductory Section includes the Transmittal Letter with the Authority's Organizational Chart, and a listing of the Authority's Officials, as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.
2. The Financial Section which includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2009, explanatory footnotes, and supplementary information.
3. The Statistical Information Section contains tables with general information about the Authority and comparative data for prior years.
4. State Compliance and Operational Findings includes certain schedules required by the New Mexico State Auditor's Office.

This report was prepared by the City of Albuquerque's Department of Finance and Administrative Services. The Water Authority management assumes full responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Moss Adams, Certified Public Accountants, has issued an unqualified opinion on the Authority's comprehensive annual financial report for the year ended June 30, 2009. As indicated by the opinion of the City's independent auditors, the report fairly presents the financial position and results of operations of the Authority as measured by the financial activity of its various funds. The report has been set forth in a manner that will give the reader a broad understanding of the Authority's financial affairs. It includes disclosures necessary for the reader to gain an understanding of the Authority's financial activities. The independent auditor's report is located at the front of the financial statements.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditors report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it

### ***Profile of the Authority***

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations,

money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City become effective July 1, 2007 and runs through June 30, 2012. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Members of the Water Authority Board at June 30, 2009:

Councillor Trudy Jones, Chair  
 Commissioner Alan B. Armijo, Vice-Chair  
 Mayor Martin J. Chavez  
 Commissioner Art De La Cruz  
 Councillor Rey Garduno  
 Commissioner Maggie Hart Stebbins  
 Councillor Ken Sanchez

Ex Officio Member at June 30, 2009:

Pablo Rael, Trustee, Village of Los Ranchos

**Summary of Local Economy**

Albuquerque is the major commercial, trade, service and financial center of the state. It is located in the central part of the state, at the intersection of two major interstate highways, and served by both rail and air. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval, Torrance and Valencia Counties. The City has a population of approximately 528,500 and the MSA approximately 870,000. The largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Labs (SNL), and Kirtland Air Force Base.

The Albuquerque economy has an industry composition not unlike that of the U.S. as a whole. Manufacturing, while a smaller part of the Albuquerque economy, has not declined in importance as much as in the U.S. where manufacturing has declined substantially since the 1960s.

<b>Albuquerque MSA Employment in Thousands</b>				
		<i>Share of</i>	<i>Growth</i>	<i>Compound</i>
<b><u>NAICS CATEGORY</u></b>	<i>Employment</i>	<i>FY/09</i>	<i>FY/08 to</i>	<i>Annual</i>
	<i>FY/09</i>	<i>Employment</i>	<i>FY/09</i>	<i>Average</i>
				<i>FY/04 to</i>
				<i>FY/09</i>
Total Nonfarm Employment (does not include milita	387.22	100%	-2.2%	1.1%
Natural Resources and Mining and Construction	25.93	7%	-12.4%	0.9%
Manufacturing	20.25	5%	-11.5%	-2.3%
Trade, Transportation, and Utilities	65.63	17%	-5.0%	-0.1%
Information	9.15	2%	-0.5%	-1.6%
Financial Activities	18.35	5%	-3.3%	-0.6%
Aggregate of Services	153.43	40%	-0.1%	2.1%
Professional and Business Services	62.81	16%	-2.4%	1.6%
Educational and Health Services	52.68	14%	5.7%	3.8%
Leisure and Hospitality	37.95	10%	-3.7%	0.9%
Other Services	12.27	3%	-0.3%	0.9%
Government	82.20	21%	2.3%	2.1%
MILITARY	5.945	NA	2.9%	-6.8%

In the near term, Albuquerque is in recession as is the nation. Construction, particularly single family construction, has fallen off dramatically. The unemployment rate increased from 3.5% in FY08 to an average of 5.4% in FY09, but by June of 2009 the unemployment rate had increased to 7%.

Employment declined an average of 2.2% with construction and manufacturing declining 12.4% and 11.5% respectively. Both these sectors declined in FY08 and layoffs continue. The only sectors that had increases in employment are government and educational and health services. One of the strengths for the Albuquerque economy is the national labs. Sandia National Laboratories (SNL) has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

Additional historic economic information is presented in the statistical section of this report.

### ***Long-term financial planning***

The Authority uses a ten year financial plan that takes into account resources, expenditures, capital needs and debt service requirements. The financial plan provides the Authority with the ability to compare the impact of future financial activity and issues to determine the most appropriate method of maintaining the Authority's financial stability. The Authority reviews water and sewer rates bi-annually to insure that inter and intra class equity is maintained.

In order to plan for the future and to ensure financial stability, an amendment to the Authority's Rate Ordinance was approved by the Board which will increase rates by 5% in Fiscal Year 2012 and Fiscal Year 2014. The Authority has operated for the past five years with one rate increase of 1% in Fiscal Year 2007 which was designated for conservation. The Authority will continue to hold rates at the current level through Fiscal Year 2011 as has been pledged to the Board and ratepayers.

Effective July 1, 2007, the Authority Board approved new policies that will impact financial planning for the future. A Rate Reserve Fund of one million dollars funded annually for five years was established to help offset fluctuations in revenue in the future and mitigate the need for rate increases. An annual adjustment to the Utility Expansion Charge (UEC) based on the building cost or construction cost indices was implemented. This adjustment will allow the Authority's capital program to maintain constant dollars with inflationary increases in the future. A Water Supply Charge was established to provide the resources for the Authority to begin the planning, acquisition and development of new water sources to meet the demands of new customers outside the established service area without impacting existing customers.

The Authority also develops a Decade Plan that guides the capital implementation program (CIP). The projects embodied in the plan are identified for near-term and future work, and include both rehabilitation needs and growth-related activities. The Authority's financial planning considers basic program needs as part of its revenue requirements, and by policy requires financing fifty percent of basic CIP work from water and sewer rate revenues. The balance of capital funding is obtained through revenue bond or loan financing. Growth-related projects are funded through Utility Expansion Charge (UEC) revenues, either by reimbursing capital investments made under the terms of a Developer Agreement, or by direct appropriations to CIP projects. The development of a Decade Plan allows for long-term planning for both initial construction and rehabilitation costs as well as additional operating costs to operate and maintain new water and wastewater facilities.

The Authority budgets for operations and capital implementation are driven by the Board approved Five Year Goals and one year objectives.

### ***Relevant Financial Policies***

#### **Budgetary Controls**

The fiscal year 2009 budget provided the financial basis of operation for the Authority and the Water Utility Department through June 30, 2009. After Board approval of the budget, a formal appropriation and

encumbrance system to control expenditures is maintained by the City of Albuquerque financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2009, it is at the general ledger fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2009 were not re-appropriated in fiscal year 2010.

#### Cash Management

Pursuant to the Memorandum of Understanding, the Authority participates in the pooled cash investment program as outlined in the Fiscal Agent Ordinance of the City. Cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. The City's policy is to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. The City's common investment pool at June 30, 2009 was valued at \$847 million at June 30, 2009. The Authority had an average of \$147 million invested in the City's investment pool. The City portfolio average yield for fiscal year 2009 was 2.766%. Interest earned by the Authority totaled \$4.1 million for fiscal year 2009.

#### Risk Management

The Authority participates in the City's Risk Management program that is operated as an Internal Service Fund. Managerial control and accountability over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. Transfers to the Risk Management fund from the Authority for fiscal year 2009 were \$2.8 million compared to transfers in the prior year of \$4.5 million. Total claim reserves (current and long-term), including the Authority, were \$67.4 million as of June 30, 2009, a \$7.3 million increase from \$60.1 million in the previous year.

The Authority has maintained a conservative approach to financial matters, which includes a twelve year or less debt term for basic capital financing, a minimum of fifty percent cash financing for basic capital projects and a minimum of 133% annual debt service coverage.

#### ***Major Initiatives***

The Authority's San Juan-Chama Drinking Water Project became operational in December 2008. When fully operational, the Surface Water Treatment Plant will supply up to 70% of the metropolitan area's future water. San Juan-Chama water is diverted from the Rio Grande River and transported to a state-of-the-art treatment plant, from which purified water is being delivered to Albuquerque area homes and businesses. The Surface Water Treatment Plant is an integral component of the Authority's strategy to be in compliance with federal standards for the allowable amount of arsenic in municipal drinking water through the blending of low arsenic surface water with high arsenic well water

The fiscal year 2009 approved operating budget contained two initiatives.

First, it realigned and consolidated certain administrative functions under an administrative supervisor. This is the first step proposed by the Authority to better organize functional operations into work units that make more sense for day to day operations, provide more effective customer service and give the Authority better work related integration for succession planning.

Second, it included nonrecurring funding for a safety/performance incentive program. This program will reward employees for cost savings due to increased efficiencies or a decrease in work related losses. Funding for this program is contingent on the Authority generating the same or a greater amount in savings.

In October 2008, the Authority and the Carnuel Mutual Domestic Water and Waste Water Consumer Association (CMDWWCA) entered into an agreement to extend water infrastructure improvements and provide water service to the Carnuel community. This agreement was amended in December 2008 to identify the Authority would serve as the fiscal agent for the CMDWWCA on all state and federal grant and /or loan agreements. The Authority will own, operate and maintain the water system which supplies and distributes water to the CMDWWCA. Reimbursement for costs associated with operation and

maintenance of the system, including reserves, shall be collected by the Authority through collection of payments from customers based on costs for monthly water usage rates

***Awards and Acknowledgements***

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, however due to the delays in completing this CAFR, we are not submitting it to the GFOA to determine its eligibility for another certificate.

The Authority has received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2008. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

We would like to thank the Board for their support in the planning and implementation of the financial affairs of the Authority. The Authority also wishes to express its appreciation to the City's Department of Finance and Administrative Services who contributed to the preparation of this report and recognize in particular the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report.

Respectfully submitted,



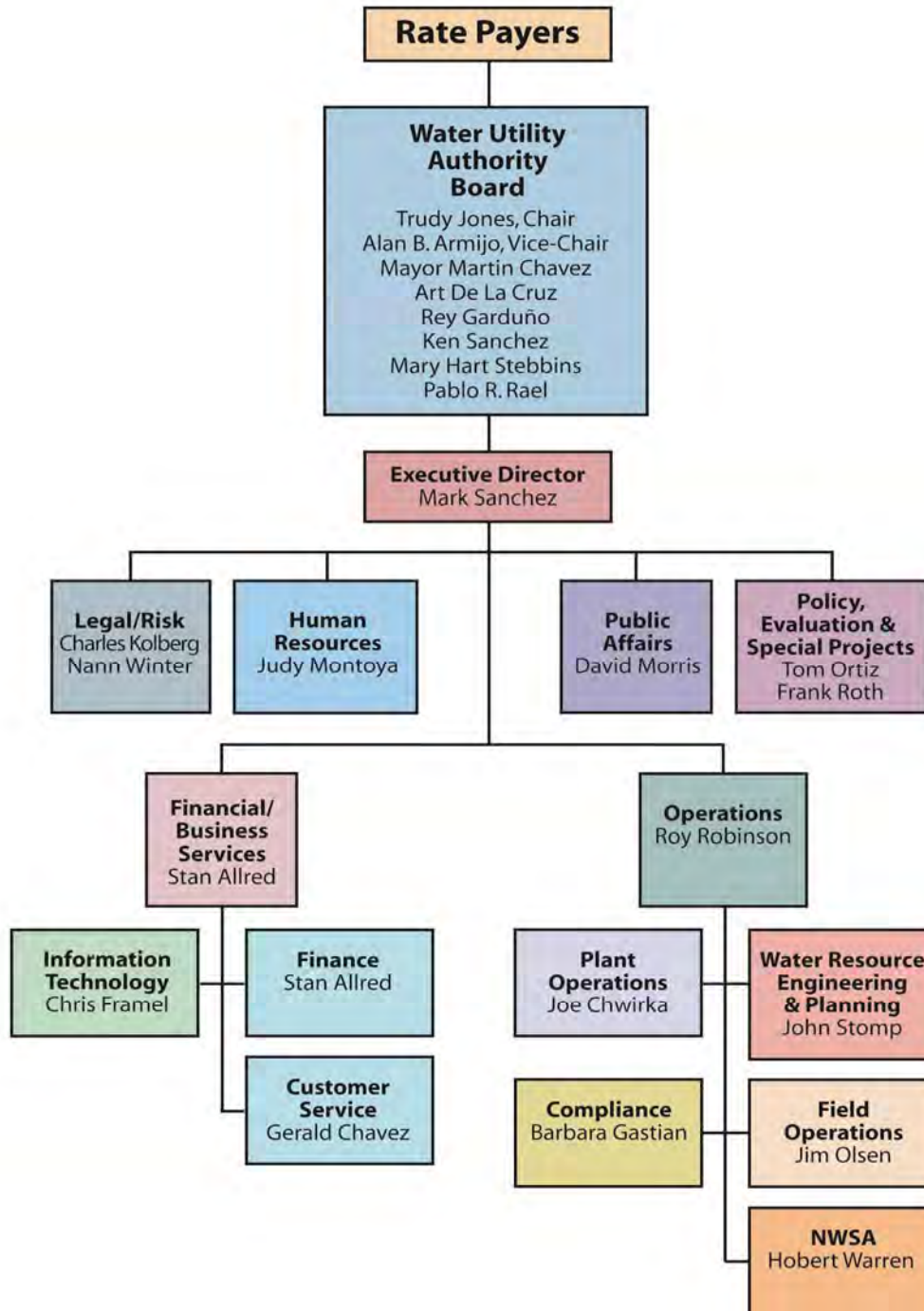
Mark S. Sanchez  
Executive Director



Stanley Allred  
Chief Financial Officer



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
ORGANIZATION CHART**



## Independent Auditors' Report

Albuquerque Bernalillo County  
Water Utility Authority and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2009, as listed in the table of contents. We have also audited the budgetary comparison for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the City'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 City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinions.

As discussed in note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows of the Authority. The financial statements do not purport to, and do not, present fairly the financial position of the City of Albuquerque as of June 30, 2009 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the its financial position of the Authority, as of June 30, 2009, and the 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 the budgetary comparison presented as supplementary information for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Albuquerque Bernalillo County  
Water Utility Authority and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report for the City of Albuquerque (fiscal agent for the Authority) dated November 17, 2010 on our consideration of the City'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 9 through 23 are not a required part of the basic financial statements but are 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 we express no opinion on it.

The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied on the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 17, 2010

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

As management of the Albuquerque Bernalillo County Water Utility Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2009. Readers are encouraged to consider the information presented here in conjunction with our audited financial statements and additional information that we have furnished in our letter of transmittal.

**FINANCIAL HIGHLIGHTS**

**From the Statement of Net Assets**

- At the close of FY 2009, the assets of the Authority exceeded its liabilities by \$756 million (net assets). Of this amount, \$16.5 million (unrestricted net assets) may be used to meet the Authority's ongoing obligations to creditors in subsequent accounting periods.
- Comparing FY 2009 with FY 2008, the Authority's total net assets increased by \$7.3 million or 1.0%. Unrestricted net assets decreased by \$23.6 million or (58.9%).
- Comparing FY 2009 with FY 2008, the Authority's total long-term obligations increased by \$106.3 million or 17.2%. Long-term debt increased by \$105.9 million and additions to accrued vacation, sick leave and deferred revenue increased by \$.4 million.
- Comparing FY 2009 with FY 2008, cash of the Authority increased by \$30.65 million to \$174.83 million or 21.3%. Non-restricted cash decreased by \$14.4 million to \$21.4 million. Restricted cash increased by \$45.0 million to \$153.4 million.

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

- Comparing FY 2009 with FY 2008, operating revenues were \$147.15 million, a decrease of \$5.09 million or (3.34%).
- Comparing FY 2009 with FY 2008, operating expenses, excluding depreciation, amortization and bad debt expense were \$89.73 million, an increase of \$10.19 million or 12.9%.
- Comparing FY 2009 with FY 2008, utility expansion charge revenues were \$6.35 million, a decrease of \$4.72 million or (42.7%).

**From the Statement of Cash Flows**

- Comparing FY 2009 with FY 2008, net cash provided by operating activities decreased by \$.21 million to \$71.21 million. Cash received from customers increased by \$2.75 million. Cash paid to or on behalf of employees increased by \$3.97 million and cash paid for goods and services increased by \$5.52 million. Other operating cash received increased by \$6.52 million.
- Comparing FY 2009 with FY 2008, proceeds from debt borrowings were \$147.59 million (not including the bond refunding) an increase of \$11.64 million. Debt service costs including issuance costs were \$67.47 million (also excluding the bond refunding), an increase of \$.85 million.
- Comparing FY 2009 with FY 2008, payments for the acquisition and construction of capital assets were \$133.19 million, a decrease of \$1.74 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements contain two components: 1) financial statements, and 2) notes to those financial statements. This comprehensive annual financial report also contains other supplementary and statistical information in addition to the basic financial statements.

The Authority for financial statement reporting purposes is considered a business like entity, an enterprise fund, and as such does not include in its financial statements, financial information on any individual funds that may exist for accounting purposes. The conceptual framework for an enterprise fund is that it exists for one purpose, regardless of how it might be structured in the general ledger, and presentation as a single fund in the financial statements enhances the reader's understanding of the entity and facilitates financial analysis. An overarching goal in financial statement presentation is to enhance comparability between entities and a single fund presentation is considered the most useful level at which comparisons can be made.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, continued**  
**June 30, 2009**

The Authority for accounting purposes does have individual funds represented in its general ledger. The individual funds represent a high level aggregation by function. Individual funds are considered either operating or capital. The distinguishing characteristic of an operating fund is that the appropriation authority lapses at the end of each fiscal year. The appropriation authority in a capital fund does not lapse at the end of each fiscal year.

The Authority is engaged in the business of providing water and waste water services to customers, outside third parties, in which the third parties agree to pay for these services. In accounting terminology, these are exchange like transactions. The costs and revenues from exchange transactions are recorded in operating funds. The fund from which debt service payments are made is also considered an operating fund because of the annual debt service requirements. Exchange transactions other than exchange transactions involving capital assets such as lease of water rights do not normally occur in capital funds. Capital funds normally receive no revenues from third parties other than grant funds and are funded by either debt proceeds or transfers from operating funds.

The Authority's basic financial statements present the entity as a whole with inter-fund transactions eliminated and in accordance with generally accepted accounting principles. The one non-basic financial statement, the budget to actual statement, presents information only for the operating funds. The Authority's operating budget is done at a program level within each operating fund. Unlike the entity wide statements, the budget to actual statement does not eliminate inter-fund transactions as those are budgeted at the program level and the statement is presented in accordance with budgetary requirements rather than in accordance with generally accepted accounting principles. These two differences mean that the net of revenues over (under) expenses per the budget to actual statement will not match the change in net assets per the basic financial statements. A reconciliation is presented at the bottom of the budget to actual statement between the two bottom line figures.

The Authority is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of when the related cash flow occurs.

**Basic Financial Statements**

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

The *statement of net assets* presents information on the Authority'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 or not the financial position of the Authority is improving or deteriorating, absent extraordinary events.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed. 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 only result in cash flows in future fiscal periods.

The *statement of cash flows* reports cash receipts, cash payments and net changes in cash resulting from operating activities, capital and related financing activities and investing activities for the fiscal year.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and statistical information including required supplementary information related to the Authority's employee pension funding and Other Post Employment Benefit Obligations (OPEB).

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, continued**  
**June 30, 2009**

**Net Assets**

The equity reported in the statement of net assets should be labeled net assets and displayed in the following three components: (1) invested in capital assets, net of related debt; (2) restricted (distinguishing between major categories of restrictions); and (3) unrestricted.

**Invested in Capital Assets, Net of Related Debt**

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Note that the outstanding debt balance is the debt balance per the financial statements less the portion of the debt determined to be unspent bond proceeds at year end. Unspent bond proceeds are considered a restricted liability for the calculation of net assets restricted for construction.

All uses of bond proceeds do not have to be categorized to determine how much of the debt actually relates to assets that have been capitalized. Unless a significant portion of the debt proceeds is spent for non-capital purposes, the entire amount is considered "capital-related."

If debt is issued to refund existing capital-related debt, the new debt is also considered capital-related. Even though the direct connection between the capital assets and the debt issued to finance the construction or acquisition has been eliminated, the replacement debt assumes the capital characteristics of the original issue.

Unamortized debt issue costs and deferred amounts from refunding "follow the debt" in calculating net asset components for the statement of net assets. That is, if the debt is capital-related, the deferred amounts would be included in the calculation of "invested in capital assets, net of related debt." If the debt is restricted for a specific purpose and the proceeds are unspent, the net proceeds would affect "restricted net assets."

**Restricted Net Assets**

Net assets should be reported as restricted when constraints placed on net asset use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or
- b. Imposed by law through Water Authority Board ordinance.

The basic concept is that restrictions are not unilaterally established by the reporting government itself, and cannot be removed without the consent of those imposing the restrictions. This category of net assets is intended to identify resources that were received or earned by the Authority with an explicit understanding between the Authority and the resource providers that the funds would be used for a specific purpose. For example, grants, contributions, and donations are often given under those kinds of conditions. Bond indentures similarly limit the use of proceeds. Also, a Water Authority Board ordinance specifying the use of revenues is a restriction imposed by an external party (i.e., the Board) and any related net assets are reported by the Authority as restricted.

This category of net assets represents restricted assets reduced by liabilities that relate to those specific assets. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated from the restricted assets.

The two categories of restricted net assets are net assets restricted for construction and restricted for debt service. Net assets restricted for construction are the net assets in the capital funds less any amount determined at year end to represent unspent debt proceeds. Net assets restricted for debt service are the net assets in the debt service fund restricted for debt service less any related debt service obligations. The debt service obligations payable are only those obligations currently payable, within one year of the date of the financial statements and the assets restricted for debt service are similarly current assets.

**Unrestricted Net Assets**

Unrestricted net assets are the "residual" component of net assets. It consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." Unrestricted net assets may be used to meet the Authority's obligations to its customers and its creditors.

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**FINANCIAL ANALYSIS**

**Net Assets and Changes in Net Assets**

The following two schedules – the schedule of changes in net assets and the schedule of revenues, expenses and changes in fund net assets using budgetary functional categories of expenses – are presented together to offer different but complementary views of the Authority's economic performance in FY 2009. The analysis that follows the schedules will discuss both schedules.

	<u>Comment</u>	<u>Schedule of Changes in Net Assets</u>			
		<u>Total</u>	<u>Unrestricted</u>	<u>Restricted for Construction</u>	<u>Invested In Capital Assets</u>
<b>Net assets, July 1</b>		\$ 748,634,830	\$ 40,019,410	\$ 10,552,328	\$ 698,063,092
Current year sources and (uses):					
From water and sewer rate revenues:					
Operating revenues	1	147,145,589	147,145,589	-	-
Utility expansion charge revenues	2	6,346,401	6,346,401	-	-
		153,491,990	153,491,990	-	-
Operating expenses other than depreciation and amortization		(89,820,885)	(89,820,885)	-	-
Net available for transfers to capital and for debt service		63,671,105	63,671,105	-	-
Transfers to assets restricted:					
for capital acquisition	3	-	(20,252,000)	20,252,000	-
for debt service	4	(65,568,994)	(65,568,994)	-	-
Net after transfers		(1,897,889)	(22,149,889)	20,252,000	-
Other sources (uses):					
Investment income	16	2,647,735	1,960,476	687,259	-
Other income (expense)		1,918,745	1,918,745	-	-
Payments on water rights contract:					
principal		-	(893,395)	-	893,395
interest		(485,162)	(485,162)	-	-
Purchase of capital assets		-	(732,250)	-	732,250
Lease of water rights	5	3,498,655	-	3,498,655	-
Litigation award	5	3,250,000	-	3,250,000	-
Miscellaneous		19,379	-	19,379	-
Non-capital expenses paid from a capital project fund		(803,448)	-	(803,448)	-
Principal payments on debt service		36,341,179	-	18,233,155	18,108,024
Increase (decrease) in unspent debt proceeds		-	-	(42,026,266)	42,026,266
Sale of capital assets		(12,971)	2,660	-	(15,631)
Amortization of deferred amount on refunding, premiums and discounts		1,303,114	-	-	1,303,114
Capital contributions	6	27,811,538	-	-	27,811,538
Current year capitalized interest		6,727,989	-	-	6,727,989
Depreciation and amortization	7	(73,052,452)	-	-	(73,052,452)
Adjustments to conform the financial statements to GAAP		-	(3,177,888)	8,929	3,168,959
Increase (decrease) in current fiscal year	8	7,266,412	(23,556,703)	3,119,663	27,703,452
<b>Net assets, June 30</b>		<u>\$ 755,901,242</u>	<u>\$ 16,462,707</u>	<u>\$ 13,671,991</u>	<u>\$ 725,766,544</u>



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**Schedule of Revenues, Expenses and Changes in Fund Net Assets**  
**Using Budgetary Functional Categories of Expenses**

	<u>Comment</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Operating revenues:				
Water charges including reuse		\$ 67,783,039	\$ 69,814,652	\$ (2,031,613)
Sewer charges		46,805,468	47,683,918	(878,450)
Strategy implementation fee		23,560,512	24,334,324	(773,812)
Franchise fees billed		5,390,739	5,481,660	(90,921)
High consumption water surcharges		2,312,596	3,384,223	(1,071,627)
Administrative fees		980,000	949,000	31,000
Other		<u>313,235</u>	<u>584,568</u>	<u>(271,333)</u>
Total operating revenues	1	<u>147,145,589</u>	<u>152,232,345</u>	<u>(5,086,756)</u>
Operating expenses:				
Program expenses:				
Water plant facility production	10	6,696,461	11,482,526	(4,786,065)
Water plant facility distribution		11,841,404	10,719,383	1,122,021
Water distribution facilitation		3,363,172	3,457,521	(94,349)
Wastewater treatment	11	12,816,684	9,815,917	3,000,767
Compliance	11	2,839,650	4,567,895	(1,728,245)
Wastewater collection		7,637,362	7,004,920	632,442
Sustainable water supply	10	10,404,765	1,073,636	9,331,129
North I-25 reuse		507,033	432,314	74,719
Customer services	12	4,513,987	4,089,943	424,044
Finance	13	6,214,304	5,456,792	757,512
Human resources		1,228,950	824,867	404,083
Northwest service area	14	252,106	-	252,106
San Juan-Chama		1,022,401	849,185	173,216
Water resources, engineering and planning		5,901,310	6,034,754	(133,444)
Information systems		3,326,906	2,958,595	368,311
Low income utility credit		228,970	226,839	2,131
Water Authority	15	3,490,708	2,263,014	1,227,694
Administrative expenses:				
Franchise fees paid	1	5,403,694	5,519,240	(115,546)
Administrative fees paid to City		2,038,000	2,095,516	(57,516)
Other operating expenses:				
Depreciation and amortization	7	72,691,786	61,299,369	11,392,417
Non-capital expenses paid in a capital project fund		-	668,386	(668,386)
Bad debt expense		<u>93,018</u>	<u>338,609</u>	<u>(245,591)</u>
Total operating expenses		<u>162,512,671</u>	<u>141,179,221</u>	<u>21,333,450</u>
Operating income (loss)		<u>(15,367,082)</u>	<u>11,053,124</u>	<u>(26,420,206)</u>



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**Schedule of Revenues, Expenses and Changes in Fund Net Assets**  
**Using Budgetary Functional Categories of Expenses, continued**

	<u>Comment</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Operating income (loss)		(15,367,082)	11,053,124	(26,420,206)
Non-operating income (expenses)				
Utility expansion charges	2	6,346,401	11,074,841	(4,728,440)
Investment income	16	2,647,735	6,442,709	(3,794,974)
Interest expense		(29,712,977)	(26,410,835)	(3,302,142)
Current year capitalized interest		6,727,989	3,400,265	3,327,724
Loss on disposition of assets		(12,971)	(2,450)	(10,521)
Bond issue amortization	7	(360,666)	(405,768)	45,102
Other income	5	8,686,779	1,359,602	7,327,177
Amortization of deferred amount on refunding / premium / discount		1,303,114	1,228,840	74,274
Non-capital expenses paid in a capital project fund		<u>(803,448)</u>	<u>-</u>	<u>(803,448)</u>
Income before capital contributions		(20,545,126)	7,740,328	(28,285,454)
Capital contributions	6	<u>27,811,538</u>	<u>11,939,326</u>	<u>15,872,212</u>
Change in net assets		7,266,412	19,679,654	<u>\$ (12,413,242)</u>
<b>Net assets, July 1</b>		<u>748,634,830</u>	<u>728,955,176</u>	
<b>Net assets, June 30</b>		<u>\$ 755,901,242</u>	<u>\$ 748,634,830</u>	

**Comments**

1 – Operating revenues, whether for water or for sewer charges, are tied to water consumption. Water consumption fluctuates with summer temperatures and summer precipitation and to a lesser extent spring precipitation. As there were no rate changes between FY 2008 and FY 2009, the decline in operating revenues is attributable to the combination of cooler temperatures, increased moisture and the Authority's conservation efforts.

2 – Utility expansion charge revenues result primarily from the number of new housing developments, both multi-family and single family. Economic growth and new housing starts in the Authority's service area was dismal in FY 2009.

3 – Transfers to assets restricted for capital acquisition were made for the Basic capital program and for some non Basic capital program projects (see discussion below in the Capital Program section of the MD&A on the Basic capital program). The transfers which were funded by utility expansion charge revenues were cut in half from the start of FY 2009. Transfers funded by other sources were not cut once FY 2009 started.

4 – Transfers to assets restricted for debt service were needed to fund debt service payments in FY 2009 and reflect the increase in long-term debt the Authority has assumed over the past few years primarily for construction of the Drinking Water Treatment Plant and related distribution lines. Debt service is only going to increase in the short term.

5 – There were two unusually large revenue transactions in FY 2009. \$3,344,060 was received from the U.S. Bureau of Reclamation for the right to use San Juan Chama water stored in northern New Mexico for the benefit of the silvery minnow, an endangered species living in the Rio Grande River. \$3,250,000 was received from damages awarded to the Authority from a dispute with the entity that sold the Authority the land on which the Drinking Water Treatment Plant was constructed.

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**Comments, continued**

6 – Capital contributions from developers decreased in FY 2009 compared to FY 2008 and reflect the slowdown in housing starts. Developers put in small diameter water and sewer lines as part of the approval process for the development and then the Authority assumes ownership of the infrastructure. Capital contributions from Bernalillo County increased in FY 2009 compared to FY 2008. The Authority and the County jointly fund water and sewer projects in the unincorporated areas of the County. The goal is to reduce the use of wells and septic tanks. The capital contribution represents the County's share of the cost of projects completed in FY 2009. The Authority assumes ownership of the infrastructure once the project is put in service.

7 – The increase in depreciation expense is attributable to the Drinking Water Treatment Plant being placed in service in FY 2009. With the Authority's commitment to improving its infrastructure, annual increases in depreciation expense will be seen.

8 – The net assets categories of restricted for construction and invested in capital assets can be considered one category for analysis purposes since assets start out in the restricted for construction category and then move to the invested in capital asset category once completed. Generally, the effect of capital debt on net assets will be negligible since the outstanding capital debt will be offset by either capital assets and/or restricted cash related to any unspent proceeds. What does increase capital related net assets is when non-restricted assets are used to acquire capital assets or when capital assets are contributed without any direct cost to the Authority. Of the \$30.85 million increase in the combined net assets from these two categories in FY 2009, \$27.81 million came from capital contributions from developers and Bernalillo County. Capital related net assets are used to provide water and wastewater services to customers and are not available for future spending. Payment of the debt incurred to acquire these assets must come from future revenues.

9 – Program expenses in general increased because of increased salary costs. Salary and benefit costs are overwhelmingly the largest component of cost and there is not a program in which these costs are not significant. The Authority increased the number of employees in FY 2009 in part to the coming-on-line of the Drinking Water Treatment Plant. In addition there was a 2.7% COLA increase effective July 1, 2008. Personnel costs increased in total by \$3.95 million in FY 2009. Other significant costs are for power and chemicals used for both water treatment and for water reclamation treatment. The increase in power costs were in keeping with the national increase in energy costs. Power and chemical costs increased by \$3.37 in FY 2009 compared to FY 2008.

10 – The Water Plant Facility Production program and the Sustainable Water Supply program moved in opposite directions in FY 2009 for the same reason. There was a shift of personnel and of operating costs especially power costs as water production shifted from the water wells to the surface water treatment plant. Overall the personnel needs increased due to the demands of operating and maintaining the \$500 million dollar surface water treatment plant.

11 – The Soil Amendment Facility was moved from the Compliance program to the Wastewater Treatment program in FY 2009. The Soil Amendment Facility is the location where the solids from the water reclamation treatment process are shipped for either composting or spreading on open fields.

12 – The FY 2009 costs of the Customer Service program reflected the costs of installing a major upgrade to their customer billing system which went live on April 1, 2009.

13 – The warehouse staffs at the water and wastewater facilities were reassigned to the Finance program in FY 2009 from the Water Distribution Facilitation and Wastewater Treatment programs.

14 – The Northwest Service Area program was created in April, 2009 when the Authority acquired New Mexico Utilities, a California corporation that provided water services within the Authority's Bernalillo County service area. There is more discussion of this acquisition below in the Capital Asset section of the MD&A. New Mexico Utilities was discharging into the Authority's sewer infrastructure so there was no sewer infrastructure acquired.

15 – The increased costs in the Water Authority program resulted from the legal fees incurred in FY 2009 in connection with the acquisition of New Mexico Utilities. The acquisition resolved all outstanding legal issues between the two entities for which substantial legal costs had been incurred by the Authority.

16 – The decline in investment income mirrored the decline in interest rates accompanying the economic turmoil experienced by the United States in FY 2009.

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**Operating Budget**

The Authority's operating budget as initially approved had a deficit of revenues over expenses of (\$19.2 million) with the budget being balanced by the use of accumulated resources represented in the financial statements as unrestricted net assets. Actual results produced a deficit of (\$20.2 million). The transfers to capital from utility expansion charge revenues were reduced mid year from \$14 million to \$7 million when it became clear the actual revenues were going to come in much lower than initially budgeted.

The actual to budgeted expenditures excluding the transfers for debt service and capital acquisition and the debt service program were \$2.1 million overspent. Our ability to monitor actual versus budgeted expenditures in FY 2009 was hampered by the implementation of a new financial system by the City of Albuquerque that went live on January 1, 2009. The Authority shares the same financial system. Complete and accurate financial data by month for the last six months of the fiscal year was not available on a timely basis and in fact data quality was not sufficient to permit the start of trial balance preparation for the accompanying financial statements until February 2009, eight months after fiscal year end.

**CAPITAL ASSETS**

The Authority's Capital Implementation Program (CIP) consists of a ten-year Decade Plan updated biennially in even numbered fiscal years with two, four, six, eight and ten year planning elements and includes detailed requirements for program development and project scope, schedule, budget, justification and alternatives. The Decade Plan requires approval by the Authority Board with at least one public hearing and due deliberation. In even numbered fiscal years, the Decade Plan must be updated and approved by the Authority Board before that year's Capital program budget can be approved. This policy ensures there is always an approved two year planning element in place for every approved annual Capital program budget. FY 2009 was the second year of the two year planning element included in the FY 2008 – FY 2017 Decade Plan adopted by the Authority Board in the spring of 2007.

The Authority's Budget Policies and Procedures Ordinance, as required by the State Statutes creating the Authority, specifies that the Authority shall annually review and adopt one-year objectives related to the five year goals for the Authority. This requirement is applicable to the Capital program as well as the Operating program.

The CIP is comprised of a Basic program and special projects outside of the Basic program which may or may not have a dedicated revenue source to provide funding. The Basic program is a level of effort for which the rate structure is intended to provide a recurring protected source of revenue. The non-Basic program work without a dedicated revenue stream has the same funding sources as the Basic program work, cash transfers from operating funds and debt proceeds, but has a subordinate standing regarding access to those funds. Basic program funding gets what it needs first. The non-Basic program work with a dedicated revenue stream has an element of the water and sewer rate structure dedicated for a specific purpose approved by the Authority Board and for which the funds cannot be diverted to other uses. The dedicated revenues are used for cash transfers to the identified projects and for debt service on debt sold to finance the identified projects.

The Authority Board through its adoption of the Rate Ordinance and the setting of goals and objectives defines the Basic program on an annual basis. For fiscal year 2009, the Board approved a \$30 million rehabilitation program and a \$14 million growth program which was reduced to \$7 million mid-year when the projected realization for utility expansion charge revenues was reduced to \$7 million.

While the Authority's capital spending is accounted for on an accrual basis in its financial statements, the capital program is tracked internally on a cash basis. The cash basis is used for a couple of reasons. First, cash results are easier to track and year end results are known much sooner than would be the case using the accrual basis. Second, the revenue sources for the capital program, debt proceeds from prior years and current year transfers from operating funds, are directly cash items and not dependent upon the collection of receivables.

**Basic Program**

The FY 2009 Basic rehabilitation program included a large diameter or interceptor sewer line project, continuing small diameter water and sewer line work using the Authority's on-call contractor, in-house work at the Southside Water Reclamation Plant, annual well and booster pump station maintenance program, changing out the gas engines for electric engines at some well sites, and costs of relocating water and sewer lines as required by the franchise agreements with the City of Albuquerque, Bernalillo County and the Village of Los Ranchos.

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There were no major initiatives undertaken in FY 2009 with the exception of the interceptor sewer line project. With the Drinking Water Treatment Plant and related distribution lines (a \$500 million project and the largest capital project ever undertaken by the Authority) coming on line in FY 2009, the Authority's capital focus began shifting to the Southside Water Reclamation Plant (SWRP). The Drinking Water Treatment Plant was financed through several debt borrowings and even though the project has a dedicated revenue stream that will be used to repay the debt, the frequency and the size of the borrowings inhibited selling bonds for other purposes.

Consistent with a risk based approach for making capital decisions, a condition assessment done of the SWRP and its in-line feeder systems determined the need for an accelerated renovation program. \$20 million of proceeds from the revenue bond sale in April 2009 were earmarked for supplementing Basic Program rehabilitation spending at the SWRP. The \$20 million was allocated over FY/10, FY/11 and FY/12 in the FY 2010 – FY 2019 Decade Plan adopted by the Board in the spring of 2009.

In FY 2010 outside consultants were engaged to develop a strategic reclamation rehab and asset management plan and prioritize the spending of these resources. As a result of this effort, three projects: the Dewatering Facilities project; the Final Clarifiers Rehabilitation project; and the Primary Clarifiers Rehabilitation project were accelerated. Two projects: the Plant Odor Control Phase 2 project; and the Digester Rehabilitation project were put on hold. A further refinement of project priorities is expected to be included in the FY 2011- FY 2020 decade plan that will be developed later in FY 2011.

The FY 2009 Basic growth program was highlighted by the implementation of a new customer billing system on April 1, 2009. The prior system had been purchased from PeopleSoft and went live on July 1, 2005. Between the time when the software was purchased and the go live date, PeopleSoft was acquired by Oracle. At some point after go live, the Authority was informed by Oracle that support for the PeopleSoft system would not extend into FY 2010. The Authority chose to implement Oracle's billing system called Customer Care & Billing (CC&B). The CC&B system was sufficiently different from the PeopleSoft system and required a comprehensive implementation effort

Available revenues for the Basic rehabilitation program in FY 2009 were \$35.1 million including a \$5.1 million carryover from FY 2008. Available revenues for the Basic growth program were \$7.7 million including a \$.7 million carryover from FY 2008. Basic rehabilitation spending on a cash basis was \$30.1 million and Basic growth spending on a cash basis was \$7.0 million. The resulting carryovers to FY 2010 were \$5.0 million for rehabilitation and \$.7 million for growth.

**Special Projects with Dedicated Revenue Sources**

**San Juan Chama Drinking Water Project**

This project is the key piece of the Water Resources Management Strategy. The Water Resources Management Strategy, adopted in 1997 and amended in 2007, calls in part for the Authority to more fully utilize renewable water resources in order to reduce reliance on ground water supplies to meet customer demand. The San Juan Chama Drinking Water Project included construction of a diversion dam, raw water pumping facilities and transmission lines, a drinking water treatment plant and treated water transmission lines. The source of the additional surface water that will be treated comes from the diversion of the San Juan River in northern New Mexico into the Chama River which in turn flows into the Rio Grande River which flows through Albuquerque.

The San Juan Chama Drinking Water Project has become a key element in the Authority's arsenic mitigation strategy. Several segments of the treated water transmission pipelines in combination with the high service pump station at the drinking water treatment plant will move lower arsenic surface water and ground water from the east side of Albuquerque to the west side where arsenic concentrations in ground water supplies are high. The blending of the two water streams will allow the arsenic standards to be met.

The facility was in a start-up mode throughout FY 2009 once start-up operations commenced in December 2008. Full scale operations began in late FY 2010.

The final cost of the project will be approximately \$500 million. More than \$18 million was spent in FY 2009.

**Special Projects Without Dedicated Revenue Sources**

**Valley Utilities Projects**

The Valley Utilities Projects are a series of water and sewer construction projects (managed by the Bernalillo County Public Works Department) in the unincorporated areas of Bernalillo County. They are designed to provide residents the ability to connect to the Authority's infrastructure and eliminate the use of wells and septic tanks. The Authority is providing the majority of funding for each project. Funding for the Valley Utilities Projects is provided by specific debt borrowings and/or Utility Expansion Charge (UEC)

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revenue as determined by the Board. Through fiscal year 2009, the Board committed \$32 million to Valley Utilities Projects. Payments to date as of the end of fiscal year 2009 were \$27.2 million with \$9 million of that total paid in FY 2009.

**Santa Barbara Reservoir, Pump Station and Transmission Line Project**

This project will replace the oldest infrastructure the Authority currently operates. The project includes construction of a pump station and a second reservoir with a capacity of 6.75 million gallons at the existing Santa Barbara reservoir site. Construction of new water lines and the rehabilitation of existing water lines will also occur. The enhanced water lines will improve significantly the water infrastructure in the East Downtown area. A \$12 million loan from the New Mexico Environment Department will provide the major funding for the work.

The project was finished in early FY 2011 at a cost less than \$12 million. As of the end of FY 2009, \$7.3 million had been spent.

**Infrastructure**

The following schedules presents the Authority's infrastructure and capital assets at June 30, 2009 and 2008 and significant capital projects or combinations of smaller individual projects with a common purpose placed in service in FY 2009. The project values include capitalized interest.

**Schedule of Capital Assets and Changes in Capital Assets**

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Land	\$ 23,548,127	\$ 23,232,063	\$ 316,064
Buildings and Improvements	2,210,836	2,210,836	-
Improvements other than Buildings	2,182,523,178	1,751,212,485	431,310,693
Machinery and Equipment	59,869,486	54,016,504	5,852,982
Purchased Water Rights	<u>39,943,365</u>	<u>39,647,635</u>	<u>295,730</u>
Total capitalized assets	2,308,094,992	1,870,319,523	437,775,469
Less accumulated depreciation and amortization	<u>989,575,711</u>	<u>917,064,552</u>	<u>72,511,159</u>
Net capitalized assets	1,318,519,281	953,254,971	365,264,310
Construction work in progress	<u>34,077,876</u>	<u>306,751,483</u>	<u>(272,673,607)</u>
Total capital assets	<u>\$ 1,352,597,157</u>	<u>\$ 1,260,006,454</u>	<u>\$ 92,590,703</u>

The year's major additions are:

	<u>In Millions</u>
Drinking Water Treatment Plant	\$ 294.9
Acquisition of New Mexico Utilities Inc.	60.0
Capital Contribution from Bernalillo County for the Valley Utility Projects	14.3
Private Developer Infrastructure	13.5
Southside Water Reclamation Plant improvements	10.8
Small Diameter Water Line Rehabilitation	6.3
Coronado Webster Pump Station	5.2
Valley Utility Projects	3.7
Large Diameter Sewer Line Rehabilitation	3.7
Franchise Fee Compliance	2.8
Water Facility Rehabilitation	2.5
Small Diameter Sewer Line Rehabilitation	2.3

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The acquisition of New Mexico Utilities Inc. (NMUI) closed on May 8, 2009. The value of the acquisition was determined by the settlement between the Authority and NMUI that resolved all outstanding legal claims between them. The settlement was the result of several months of court ordered mediation. NMUI was a for-profit water and sewer carrier serving residents in northwest Albuquerque. The acquisition price was \$60 million for the NMUI infrastructure with \$7 million being retained by the Authority for payment of sewer treatment charges that were at the crux of the dispute between the two parties. This was the first purchase of a water utility by the Authority. The \$60 million purchase price was funded entirely by a portion of the proceeds from the April 2009 bond sale and another \$1 million of proceeds were allocated for improvements to the former NMUI infrastructure. Water line connections had to be made between the two systems in addition to improvements at well sites and for improved arsenic treatment technology. The acquisition of NMUI encompassed fifteen employees and eight well sites used to provide water and wastewater service to approximately 17,000 accounts (about 55,000 people) on Albuquerque's West Side. The 34-square-mile service area includes Paradise Hills and the Ventana Ranch subdivision.

**DEBT ADMINISTRATION**

The Authority's debt obligations at June 30, 2009 are presented below. Net revenues of the System secure debt issued by the Authority. The \$3,275,000 of outstanding Series 2001 bonds that was not defeased by the Refunding Revenue Bonds Series 2009A-2 was paid in full on July 1, 2009 and is included in the \$26,135,000 of revenue bonds payable in one year shown below.

	<u>Outstanding</u>				<u>Payable in one year</u>
	<u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>	
Parity Obligations:					
Revenue Bonds	\$ 407,925,000	\$ 150,365,000	\$ 42,945,000	\$ 515,345,000	\$ 26,135,000
Loan Agreements - NMFA	202,895,765	-	7,957,395	194,938,370	11,097,637
Subordinate Obligations:					
Loan Agreements - NMED	16,884,238		2,238,542	14,645,696	403,279
Line of Credit - NMFA	-	3,524,340	-	3,524,340	-
Water rights contract	16,672,316	-	893,395	15,778,921	920,608
Less deferred amounts:					
Unamortized bond premiums	10,665,180	8,945,348	1,505,463	18,105,065	-
Bond refunding costs	(476,264)	(461,476)	(229,340)	(708,400)	-
	<u>\$ 654,566,235</u>	<u>\$ 162,373,212</u>	<u>\$ 55,310,455</u>	<u>\$ 761,628,992</u>	<u>\$ 38,556,524</u>

In the ordinances pursuant to which the System obligations have been issued, the Authority agreed to charge all purchasers of services reasonable rates sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all System obligations (excluding reserves). The calculation of "net revenues" is done in a prescribed manner using data from these financial statements. "Net revenues" are then divided by debt service requirements. The resulting ratio, called the debt service coverage ratio, is then compared to the 1.33 ratio required by Ordinance. The debt service coverage ratio for fiscal year 2009 was 1.19.

Debt issued for basic capital needs is scheduled for 12 year retirement while debt issued for San Juan Chama Drinking Water Project is scheduled for 20 year retirement.

On April 8, 2009, the Authority issued \$135,990,000 of Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1. The bonds have an interest rate between 3.0% and 5.50%, and require annual principal and interest payments until final maturity on July 1, 2034. The proceeds of these bonds were used for the acquisition of privately owned New Mexico Utilities, Inc., regular System improvements, and water reclamation. The balance due at June 30, 2009 was \$135,990,000.

Also on April 8, 2009, the Authority issued \$14,375,000 of Joint Water and Sewer System Refunding Revenue Bonds, Series 2009A-2. The bonds have an average interest rate of 4.20%. The net proceeds of \$15,132,064 (which includes an original issue premium of \$870,860 and after payment of \$113,796 of underwriters' fees and other issuance costs) were used to purchase state and local government securities. These securities were deposited into an irrevocable trust with an escrow agent to provide for the current partial refunding of certain Series 2001 Bonds maturing on July 1, 2010 through July 1, 2025. The total amount of Series 2001 Bonds partially

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refunded with the series 2009A-2 Bonds is \$14,815,000, leaving \$3,275,000 of outstanding bonds. As a result, that portion of the Series 2001 Bonds described above is considered to be defeased and the liability for those bonds has been removed from the Authority's long term debt. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$461,475. This difference, reported in the accompanying financial statements as a deduction from bonds payable, has been deferred and will be amortized over the life of the new bonds using the effective interest method. The current refunding was undertaken to reduce total debt service payments over the next four years by \$845,456 and to obtain an economic gain (difference between the present values of the debt service payments on the old debt and new debt) of \$685,060.

The Authority's bond ratings for the sale of the Series 2009A-1 and 2009A-2 bonds was Standard & Poor's AAA, Moody's Aa2 and Fitch AA. Bond proceeds for the two Series including a premium of \$8,945,348 were \$159,310,348. The proceeds were allocated as follows:

- \$15,132,064 for the defeasance of the Series 2001 Bonds
- \$55,000,000 for the Basic capital program and special projects as may be designated by the Board
- \$60,000,000 for the acquisition of New Mexico Utilities Inc
- \$1,000,000 for capital improvements to the New Mexico Utilities Inc. infrastructure
- \$20,000,000 in supplement non Basic program funding for rehabilitation at the Southside Water Reclamation Plant and up-stream facilities
- \$7,013,689 for the construction of the San Juan Chama Drinking Water Treatment Plant
- \$1,164,595 for costs of issuance

The Authority entered into a Line of Credit Agreement with the New Mexico Finance Authority (NMFA) on November 17, 2008. This agreement provides that the Authority may draw a total of \$12,000,000; \$11,881,188 for construction, and \$118,812 for costs of issuance incurred by NMFA to close the loan. This credit line can last up to three years. Interest is a fixed rate of 2.0% on funds drawn. At June 30, 2009, the Authority had drawn \$3,524,340. The Santa Barbara Reservoir and Pump Station Project is being funded entirely by this line of credit. This project is discussed above in the Capital Assets section.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

### **ECONOMIC FACTORS**

It should be noted that the following is based on the November 2009 forecast, and events have transpired that may or may not support this forecast. This was the forecast submitted with the FY 2011 budget.

#### **National Economy and Key Points from the Global Insight Outlook**

On December 1, 2008 the National Bureau of Economic Research (NBER) declared that the economy has officially been in a recession since December 2007. The national economy has fallen faster and deeper than had been anticipated by Global Insight (GI) and other economists. The third quarter of 2009 was stronger than the second quarter and GI and other economists believe that the recession may now be over. Even so unemployment continues to grow and the national unemployment rate exceeded 10% in October 2009.

Additionally, the economy is expected to come back slowly due to the severity of the financial problems and the impacts they have on the remainder of the economy. In the November 2009 forecast, GI expected moderate growth with year over year growth exceeding zero for the first time in the first quarter of 2010. The whole of FY/10 is expected to be 0.4% above FY/09 which declined by 2.2%. Employment growth is not expected to be positive until FY/11 when it may grow only 0.6%. Total employment is not expected to reach its previous peak, which occurred in the last quarter of 2007, until the first quarter of 2013. Unemployment by FY/14 is projected at 7.7% after its high of 10% for FY/10. Inflation is one of the few bright spots in the GI forecast. GI expects growth in the Consumer Price Index (CPI) to remain muted; below 2% for most of the forecast. Some of this is due to an expectation of only moderate increases in the price of oil; staying around \$70 per barrel through FY/11 and only gradually increasing to \$89 in FY/14. The primary reason for the expectation of low inflation is the weakness in demand due to the weak labor market.

The low inflation expectation also plays into moderate increases in interest rates. GI believes that the Federal Reserve Bank will not raise rates until 2011; reaching 3.5% in 2012. The alternative forecast gives a 20% probability to a pessimistic scenario and 20% probability to an optimistic scenario. The pessimistic scenario has the economy falling back into recession. The recession in total would last 11 quarters. This is driven by tighter credit both domestically and across the world. The unemployment rate peaks at 11% in 2011 and only declines to 9%. Added to this, increases in the price of commodities push up the CPI to above baseline levels. The optimistic scenario has a quicker recovery. This is driven by the credit markets working better and increases in productivity.

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Albuquerque Economy

The Albuquerque economy is affected by the U.S. and world economies. Housing construction in Albuquerque has slowed dramatically, with single family housing permits falling to a fraction of their peak. As with the national economy, new single family permits seem to have reached bottom and have been increasing. With the slowdown and inability to get loans firms have closed and construction projects have lingered. Albuquerque still has economic development prospects that are being completed such as Schott Solar and Fidelity at Mesa Del Sol, but the business environment will limit the opportunities for expansion. There are many other projects that have stalled, or just not started due to the economy. The Albuquerque economy is somewhat sheltered from the impact of a national recession by the larger portion of government jobs in Albuquerque.

Employment growth in the Albuquerque economy began slowing in FY 2008 and has continued. Benchmarking of the employment numbers also showed that the economy was contracting more rapidly than was thought. Following very strong growth in non-agricultural employment of 3.1% in FY 06, growth slowed to 2.6% in FY 2007 followed by only 0.4% in FY 2008. In FY 2009 growth was down 2.2%, with the forecast for FY 2010 being down by 2.6%. It appears that the third quarter of 2009 will show the largest year over year decrease at -5.5%. The slowdown is due in part to housing and also layoffs at several major firms. Intel announced a cut of 1,000 jobs. Public Service Company of New Mexico (PNM) approximately 500 jobs and Eclipse Aviation about 1,500 jobs. Further declines are expected as General Electric is closing their plant in 2010. The unemployment rate is expected to increase from 3.5% in FY 2008 to 8.2% in FY 2010. It remains at this level in FY 2011 and declines to 6.7% in FY 2014. The pre-recession peak in employment (390,000 in 4th quarter 2007) isn't reached again until the 3rd quarter of 2012.

Wholesale and Retail Trade. This sector accounts for about 15% of employment in the Metropolitan Statistical Area (MSA) and has posted slow employment growth. From FY 2005 to FY 2008 the sector was relatively flat and posted annual growth of 1.3%. In FY 2009 employment declined by 4.5% and is expected to decline by 6% in FY 2010. In FY 2011 employment growth is expected at 1.4% and remains near this for the out years.

Transportation, Warehousing and Utilities. Employment in this sector grew by 0.5% in the period FY 2005 to FY 2008. This was largely due to the 3% growth posted in FY 2007 and 2% in FY 2008. The forecast is for reductions in employment of 6.6%, 6.5% and 0.1% in FY 2009, FY 2010 and FY 2011, respectively. This bounces back with growth of 3.9% in FY 2012, followed by growth of 3.3% and 2.3% in FY 2013 and FY 2014.

Manufacturing. This sector accounted for about 6% of employment in the MSA in FY 2007 but falls to about 5% in the forecast. The sector lost 5,500 jobs between FY 1998 and FY 2005, but had strong growth in FY 2006 and FY 2007 adding nearly 1,400 jobs. Manufacturing, after several years of weakness, had robust growth of 3% in FY 2006 and 2.9% in FY 2007, but with layoffs it posted negatives of 5.2% for FY 2008 and 11.5% for FY 2009. In FY 2010 growth is expected to decline by 10.9% in part due to the expected closing of the GE plant in Albuquerque. Employment is expected to increase by 3.8% in FY 2011, an additional 5.4% in FY 2012 and continued expansion of 4% and 2.9% in FY 2013 and FY 2014. In FY 2014 manufacturing employment is still 3,000 jobs below the FY 2007 level.

Educational and Health Services. Albuquerque is a major regional medical center. Presbyterian Hospital and its HMO are one of the largest employers in the area. This is also one of the fastest growing categories in the MSA economy. In the period FY 2005 to FY 2008, the sector increased at an average rate of 3%. In FY 2009 the sector grew at 5.5%; making it the only sector outside of government to grow in FY 2009. Growth is expected to slow to 3.6% in FY 2009 and FY 2010. The sector slows ultimately to 2.5% annual growth.

Leisure and Hospitality. This category includes eating and drinking establishments as well as hotels and other travel related facilities. Growth has been volatile in this sector. In FY 2005 to FY 2008 growth averaged 3.0% driven by expansion in restaurants and hotels. In FY 2008 the growth had slowed to 0.6% and then declined 3.8% in FY 2009. In FY 2010 growth is expected to decline 1.7%. This is a major component of GRT and Lodgers' Tax and the growth in tax revenues trends with employment in the sector. The forecast shows subdued growth in the sector with a maximum of 2.5% in FY 2013.

Financial Activities. This sector includes finance, insurance and real estate including credit intermediation. The employment in this sector had a slight decline between FY 2005 and FY 2008. Growth in FY 2005 and FY 2006 was offset by declines in FY 2007 and FY 2008. In FY 2009 employment decreased by 3.3% and is expected to decline another 2.3% in FY 2010. Both the financial crisis and the construction decline impact this sector. Not until FY 2012 does the sector show growth.

Professional and Business Services. This category includes temporary employment agencies and some of Albuquerque's back-office operations. It also includes Sandia National Labs (SNL). Growth in FY 2005 to FY 2008 averaged 2.3%. Employment declined by 2.3% in FY 2009 and is expected to decline 3% in FY 2010. In FY 2010, the sector is expected to rebound strongly by 5.1%. Growth slows, but is still relatively strong for the remainder of the forecast.



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Information. This sector includes businesses in publishing, broadcasting, telecommunications, and internet service establishments. This sector was very strong in the 1990s but lost over 2,300 jobs from FY 2002 to FY 2005 including the loss of jobs when the MCI call center closed. In FY 2006 the sector grew by only 0.2%, but rebounded in FY 2007 with growth of 4.1% then declined 1.9% in FY 2008. FY 2009 only had a decline of 0.7%, but FY 2010 is expected to decline by 3.7%.

Construction. Construction is typically cyclical, with significant swings in building and employment. The fall in single family housing from 2005 to 2009 apparently reached bottom in the period of August 2008 to February 2009. Construction employment is also decreasing. Commercial construction in real terms has remained relatively flat through 2008 and showed some increase in part due to growth in public construction. Commercial construction in real or nominal terms has slowed substantially in the last year. Single family construction fell dramatically in 2008. The City issued an average of 27 permits a month in the period August 2008 through February 2009. The average from March to November 2009 is 54 with November at 87 units permitted. In FY 2009 only 436 single family permits were issued. This compares to 1,214 in FY 2008 and 2,490 in FY 2007. The peak occurred in FY 2004 and FY 2005 with approximately 5,000 permits issued each year.

While there was some strengthening of commercial permitting value in FY 2008 and early FY 2009 much of this was due to Albuquerque Public Schools construction program. In the first 11 months of 2009 the total value of building permits is 44% below the same period in 2008. Commercial construction was the largest source of this decline with value declining 77%. This was somewhat offset by single family and additions and alterations.

FY 2010 BUDGET AND RATES

The FY 2010 approved budget did not include a rate increase. Based on the latest ten-year financial plan, the Authority continued to conservatively forecast that a rate increase was not needed through FY 2011. Maintaining the current operations without increasing rates presents many challenges for the Authority. Since FY 2005 when the Authority prepared its first operating budget, total operating costs have increased 17% or \$25 million. These increases do not include the addition of New Mexico Utilities, Inc. (NMUI) to the Authority operations. The major contributor to these increases has been the financing and bringing online of the San Juan-Chama Project. The annual debt service expense for this Project averages \$34.2 million per year through FY 2015. The operating costs of this Project for FY 2010 are \$10 million. This is in addition to the costs of operating the well-based system. These costs are offset by dedicated revenues of \$24.8 million resulting in a deficit of approximately \$19+ million per year.

In order to plan for the future and to insure financial stability, an amendment to the Authority's Rate Ordinance was approved by the Board which will increase rates by 5% in Fiscal Year 2012 and Fiscal Year 2014. The Authority has operated for the past five years with one rate increase of 1% in Fiscal Year 2007 which was designated for conservation. The Authority will continue to hold rates at the current level through Fiscal Year 2011 as has been pledged to the Board and ratepayers.

As mentioned, the FY 2010 approved budget included operational funding for the former NMUI. As approved by the Board, the Authority assumed ownership of this utility in May 2009. The FY 2010 approved operating budget for this program is \$3.2 million. The former NMUI customers were integrated into the Authority's billing system effective September 1, 2009. As part of the settlement agreement, the Authority agreed to continue to employ, as at will employees, all of the NMUI employees who wished to transfer to the Authority. NMUI employees became Authority employees effective with fiscal year 2011 on July 1, 2010.

The San Juan-Chama Surface Water Treatment Plant will ramp up operation in FY 2010 and will provide approximately 50% of the drinking water supplied to customers by the end of FY 2010. The plan is to increase the amount of surface water in the system by approximately 25% per year until 100% of the drinking water is from treated surface water.

For FY 2010, the Authority is again implementing a nonrecurring employee safety/performance incentive to be offset by savings generated through reduced costs associated with safety and/or performance. This incentive program was effective in reducing by one-half the injury time hours in FY 2008.

The Authority continues to make adjustments to the organizational structure to better organize functional operations into work units that make more sense for day to day operations, provide more effective customer service and give the Authority better work-related integration for succession planning. Begun in FY 2009, the Authority water and wastewater operations were separated into two areas, Plant and Field. The Plant Division is responsible for operations and maintenance for the Drinking Water Project, ground water arsenic treatment, ground water wells, pump stations and reservoirs, wastewater treatment facilities, disposal of solids including composting as well as operating and maintaining the separate water and wastewater systems for the Metropolitan Detention Center and Cordero Mesa. In addition, the Plant Division is responsible for operation and maintenance of the reuse diversion, pump stations and reservoirs. The Field Division is responsible for the operation, maintenance and repair of the existing water distribution system and the wastewater collections system along with the reuse water distribution system. These changes to the organization are budget neutral.

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These organizational changes have been guided by the span of control analysis that was conducted by an independent consultant as recommended in the American Water Works Association's (AWWA) Peer Review. The Authority used the report's recommendations to change the organizational structure in order to improve quality, productivity and customer satisfaction and optimize the number of layers in the organization.

For FY 2010, General Operating Fund revenue is projected to be \$164 million with approved expenditures of \$177 million. The \$13 million deficit will be offset by Working Capital Balance. The beginning FY 2010 Working Capital Balance is estimated to be \$22 million. In the development of the Authority's ten-year financial plan, the accumulation and use of Working Capital Balance has been taken into consideration and is integral to the authority maintaining current rates through FY 2011. The projected Working Capital Balance at the end of FY 2010 is \$7 million. In addition, the Rate Reserve Fund will contain \$5 million.

Revenue for FY 2010 is estimated to be \$17 million above the FY 2009 approved budget. \$13 million of this increase is from the New Mexico Utilities Program. Approved operating expenditures contained a net increase of \$10.4 for FY 2010. This included an increase of \$2.8 million in salaries, \$5 million in general operating expenditures, a \$.9 million reduction in transfers and vehicle maintenance and an increase of \$3.5 million in transfers to debt service. \$3.2 million of the \$10.4 million increase is attributable to the New Mexico Utilities program. Personnel expenditures include a 4% cost of living adjustment and the addition of 20 net new positions. Included in these positions are 15 employees from the NMUI acquisition.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Albuquerque Bernalillo County Water Utility Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, Room 5012, One Civic Plaza N.W., Albuquerque, New Mexico 87102.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF NET ASSETS**  
**June 30, 2009**

**ASSETS**

**Current assets:**

Cash, investments, and accrued interest	\$ 21,395,430
Cash with fiscal agents held for debt service	35,362,977
Accounts receivable, net of allowance for uncollectible accounts	13,231,933
Notes receivable, current portion	936,638
Due from other governments	463,096
Prepaid expenses	<u>65,144</u>
<b>Total current assets</b>	<b><u>71,455,218</u></b>

**Noncurrent assets:**

Long-term accounts and notes receivable	<u>5,559,542</u>
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**Restricted assets:**

Cash, investments, and accrued interest	117,916,818
Investment with fiscal agents	6,686
Escrow deposits	<u>148,025</u>
<b>Total restricted assets</b>	<b><u>118,071,529</u></b>

**Capital assets:**

Land	23,548,127
Buildings and improvements	2,210,836
Improvements other than buildings	2,182,523,178
Machinery and equipment	59,869,486
Purchased water rights	<u>39,943,365</u>
	2,308,094,992
Less accumulated depreciation and amortization	<u>989,575,711</u>
Net capital assets	1,318,519,281
Construction work in progress	<u>34,077,876</u>
<b>Total capital assets</b>	<b><u>1,352,597,157</u></b>

**Other:**

Capitalized bond issuance costs	<u>4,516,670</u>
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<b>Total noncurrent assets</b>	<b><u>1,480,744,898</u></b>
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<b>Total assets</b>	<b><u>1,552,200,116</u></b>
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The accompanying notes are an integral part of these financial statements.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF NET ASSETS, continued**  
**June 30, 2009**

**LIABILITIES**

**Current liabilities:**

Accounts payable	3,492,619
Accrued employee compensation	4,250,292
Deposits	857,209
Accrued interest payable	400,522
Water rights contract	920,608
Deferred revenue	554,551
<b>Payable from restricted assets:</b>	
Contracts and other payables	12,511,107
<b>Current portion:</b>	
Bonds	26,135,000
Loan agreements	11,500,916
Accrued interest	<u>12,568,032</u>
<b>Total current liabilities</b>	<u><u>73,190,856</u></u>

**Noncurrent liabilities:**

<b>Long-term payable:</b>	
Bonds, net of current portion, discounts and premiums	506,606,665
Loan agreements, net of current portion	198,083,150
Water rights contract, net of current portion	14,858,313
Line of credit	<u>3,524,340</u>
<b>Total long-term payable</b>	<u><u>723,072,468</u></u>
<b>Other:</b>	
Accrued vacation and sick leave pay	<u>35,550</u>
<b>Total noncurrent liabilities</b>	<u><u>723,108,018</u></u>
<b>Total liabilities</b>	<u><u>796,298,874</u></u>

**NET ASSETS**

Invested in capital assets, net of related debt	725,766,544
<b>Restricted for:</b>	
Construction	13,671,991
Unrestricted	<u>16,462,707</u>
<b>Total net assets</b>	<u><u>\$ 755,901,242</u></u>

The accompanying notes are an integral part of these financial statements.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**Year ended June 30, 2009**

<b>Operating revenues:</b>	
Charges for services	<u>\$ 147,145,589</u>
<b>Operating expenses:</b>	
Salaries and fringe benefits	37,382,418
Professional services	859,079
Utilities	12,202,402
Supplies	6,092,171
Travel	27,915
Fuels, repairs, and maintenance	10,873,331
Contractual services	8,889,954
Other operating expenses	13,400,597
Depreciation	72,295,419
Amortization	396,367
Bad debt expense	<u>93,018</u>
<b>Total operating expenses</b>	<u>162,512,671</u>
<b>Operating loss</b>	<u>(15,367,082)</u>
<b>Nonoperating revenues (expenses):</b>	
Interest on investments	2,647,735
Interest expense	(21,681,874)
City water service expansion charges	6,346,401
Bond issue amortization	(360,666)
Other	<u>7,870,360</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(5,178,044)</u>
<b>Loss before capital contributions and transfer of assets</b>	(20,545,126)
<b>Capital contributions</b>	<u>27,811,538</u>
<b>Change in fund net assets</b>	7,266,412
<b>Net assets, July 1</b>	<u>748,634,830</u>
<b>Net assets, June 30</b>	<u>\$ 755,901,242</u>

The accompanying notes are an integral part of these financial statements.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF CASH FLOWS**  
**Year ended June 30, 2009**

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 151,809,971
Cash payments to employees for services	(36,964,289)
Cash payments to suppliers for goods and services	(51,519,293)
Miscellaneous cash received	<u>7,885,992</u>
<b>Net cash provided by operating activities</b>	<u><b>71,212,381</b></u>
<b>Cash flows from capital and related financing activities:</b>	
Proceeds from revenue bonds	144,064,488
Proceeds from refunding bonds	15,245,860
Proceeds from line of credit	3,524,340
Capitalized bond issuance costs	(978,370)
Principal paid on revenue bond maturities	(28,130,000)
Payment to escrow agent for refunding bonds	(15,132,064)
Interest and other expenses paid on revenue bond maturities	(17,803,471)
Principal paid on notes payable	(10,195,937)
Interest paid on notes payable	(8,951,740)
Principal paid on water rights contract	(893,395)
Interest paid on water rights contract	(507,839)
Purchased water rights	(295,730)
Acquisition and construction of capital assets	(133,185,131)
Capital grants received	2,327,305
City water service expansion charges	<u>6,346,401</u>
<b>Net cash used for capital and related financing activities</b>	<u><b>(44,565,283)</b></u>
<b>Cash flows from investing activities:</b>	
Interest received on investments	<u>4,005,108</u>
<b>Net increase in cash and cash equivalents</b>	<b>30,652,206</b>
<b>Cash and cash equivalents, July 1</b>	<u><b>144,177,730</b></u>
<b>Cash and cash equivalents, June 30</b>	<u><b>\$ 174,829,936</b></u>

The accompanying notes are an integral part of these financial statements.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF CASH FLOWS, continued**  
**Year ended June 30, 2009**

**Reconciliation of operating income to net cash provided by operating activities:**

<b>Operating loss</b>	<b>\$ (15,367,082)</b>
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>	
<b>Depreciation</b>	72,295,419
<b>Amortization</b>	396,367
<b>Bad debt expense</b>	93,018
<b>Miscellaneous cash received</b>	7,885,992
<b>Decrease (increase) in assets:</b>	
<b>Receivables</b>	4,780,598
<b>Prepays</b>	(65,144)
<b>Increase (decrease) in liabilities:</b>	
<b>Accounts payable</b>	775,084
<b>Accrued employee compensation and benefits</b>	<u>418,129</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 71,212,381</u></u>

**Cash and cash equivalents at June 30 consist of:**

<b>Current assets:</b>	
<b>Non-restricted - Cash, investments, and accrued interest</b>	\$ 21,395,430
<b>Restricted - Cash with fiscal agents held for debt service</b>	35,362,977
<b>Non-Current Assets:</b>	
<b>Restricted assets:</b>	
<b>Cash, investments, and accrued interest</b>	117,916,818
<b>Investment with fiscal agents</b>	6,686
<b>Escrow deposits</b>	<u>148,025</u>
<b>Total cash and cash equivalents, June 30</b>	<u><u>\$ 174,829,936</u></u>

**Noncash transactions:**

<b>Capital contributions by developers</b>	12,180,035
<b>Capital contributions by other governments</b>	14,250,000
<b>Unrealized loss on investments</b>	(74,781)

The accompanying notes are an integral part of these financial statements.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**

**I. Summary of Significant Accounting Policies**

The financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the City of Albuquerque, New Mexico (City) have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The significant governmental accounting policies are described below.

**A. Reporting entity**

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Albuquerque Bernalillo County Water Utility Authority (Authority) and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. All policy-making for the System resides with the Authority. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City became effective July 1, 2007 and runs through June 30, 2012. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City.

The accompanying financial statements present only the financial position of the Authority at June 30, 2009, and the results of its operations for the year ended June 30, 2009. The Authority is a component unit of the City, and these financial statements are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Authority on a separate Authority basis. Where applicable, the Authority's share of the expense is included (See Notes III A., G., and H.).

The Authority for financial reporting purposes consists of funds, departments, and programs for which the Authority is financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

1. (a) appointment by the Authority of a majority of voting members of the governing body of an organization, and (b) ability of the Authority to impose its will on the daily operations of an organization such as the power to remove appointed members at will; to modify or approve budgets, rates or fees, or to make other substantive decisions; or
2. provision by the organization of specific financial benefits or burdens to the Authority; or
3. fiscal dependency by the organization on the Authority such as from the lack of authority to determine its budget or issue its own bonded debt without Authority approval.

Based on the foregoing criteria, the Authority does not have relationships with other organizations not included herein, of such nature and significance that exclusion would not render the Authority's financial statements incomplete or misleading.

The accounting policies of the Authority as reflected in the accompanying financial statements conform to generally accepted accounting principles for local governmental units. The more significant of these accounting policies are summarized below.



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**B. Measurement focus, basis of accounting, and financial statement presentation**

The Authority accounts for all activities to provide water and sewer services for the residents of the City of Albuquerque and outlying areas. These activities include, but are not limited to, administration, operation, maintenance, financing and related debt service, billing and collection. This proprietary type fund provides services, which are intended to be financed primarily through user charges, or activities where periodic determination of net income is appropriate.

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues or expenses. These include investment earnings, interest expense, and transactions that result from nonexchange transactions or ancillary activities.

The Authority is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of when the related cash flow occurs.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Authority applies all applicable Financial Accounting Standards Board pronouncements, which were issued as of November 30, 1989, in accounting and reporting for its operations except for those that conflict with or contradict GASB pronouncements. The Authority does not observe those issued after November 30, 1989.

**C. Assets, liabilities, and net assets or equity**

**1. Cash, investments, and accrued interest**

In accordance with City policies, the Authority participates in the City's cash management program that is administered by the City's Treasury Division. A significant portion of cash and investments held by the City is pooled. The pooled cash investment program of the City is operated under the provisions of City ordinance and a specific City investment policy. The policy states that the City shall invest cash balances over the anticipated amount needed to meet operating requirements. Investments are stated at fair market value. The balance reported as "Cash, Investments, and Accrued Interest" represents the equity of the Authority in the pooled cash, investments, and accrued interest. The Authority's share of the interest earnings on pooled investments is determined by allocating interest to each of the participating funds of the City and the Authority based on average daily balances.

The investment policy states that the City will not commit any funds invested in the pool to maturities longer than three years from the date of purchase, except investments held to meet legal reserve requirements on bonded indebtedness. The maturity date of these investments will not exceed the final maturity date of the bond issue to which they are pledged. Funds are invested based on a minimum of three bids and/or offers. Certificates of deposit are based on competitive rates for specific maturities.

All investments are valued at quoted market prices. The investment in the State of New Mexico local government investment pool (LGIP) is valued at fair value based on quoted market prices as of the valuation date. The State Treasurer LGIP is not SEC registered. The 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 6-10-10.1A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest 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. This pool is subject to the standards set forth in the State Treasurer's Local Government Investment Policy document incorporated in and made a part of the State Treasurer's Investment Policy document. The Independent Auditors' Report, together with the Financial Statements, the accompanying Notes to the Financial Statements and the Independent Auditors' Report on Compliance and Internal Controls are available from the State Investment Council, 2055 South Pacheco Street, Suite 100, Santa Fe, New Mexico 87505, upon written request.

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**1. Cash, investments, and accrued interest, continued**

The following categories of investments are specifically authorized by the policy:

1. Repurchase Agreements - secured by collateral, which is delivered to a third-party safekeeping institution, with a market value equal to or greater than the value of the agreement.
2. U.S. Treasury Obligations - bills, notes, and bonds.
3. Obligations of Federal Agencies or Instrumentalities - interest bearing or discount form.
4. Municipal Bonds - rated in any of the three highest major rating categories by one or more nationally recognized rating agencies.

The following categories of deposits are specifically authorized by the policy:

1. Checking Accounts - at insured financial institutions.
2. Certificates of Deposit - subject to restrictions set forth in the City's Fiscal Agent Ordinance (City policy requires a minimum of 50% security consisting of insurance and/or collateral).

**2. Account receivables and unbilled amounts**

Account receivables balances do not include an allowance for uncollectible accounts. Water and sewer services are billed on a cycle basis; therefore, amounts for service provided but unbilled as of June 30, 2009, have not been included in accounts receivable or revenue. Such unbilled amounts are not material to the financial position and results of operations of the Authority.

**3. Restricted assets**

At June 30, 2009, a portion of the Authority's net assets was restricted for revenue bond retirement and debt service and for acquisition and construction of capital assets.

**4. Capital assets**

State of New Mexico Administrative Code requires state and local governmental agencies to capitalize fixed assets costing in excess of \$5,000. Currently, the Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of one year. The Authority implemented the new \$5,000 capitalization threshold in fiscal year 2007 for items purchased during the fiscal year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

Construction costs of water and sewer lines that are reimbursed by users or that are financed directly or indirectly by developers and property owners are capitalized and recorded as capital contributions.

Depreciation on capital assets is provided using the straight-line method over the estimated useful lives of the assets as follows:

<i>Buildings and improvements</i>	<i>15 - 50 years</i>
<i>Improvements other than buildings</i>	<i>15 - 33 years</i>
<i>Machinery and equipment</i>	<i>3 - 13 years</i>

Purchased water rights are recorded at cost and are being amortized using the straight-line method over one hundred years. Interest expense is capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted. The amount of capitalized interest is determined using the interest cost of the borrowings less any interest earned on investments acquired with the proceeds of the related tax-exempt borrowings from the date of the borrowings until the assets are ready for their intended use.

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**5. Other assets**

Costs incurred in connection with the issuance of bonds are capitalized and are reported as deferred bond issuance costs. These costs are amortized over the remaining maturity period of the related bond issues under a method that approximates the level interest rate method.

**6. Accrued vacation and sick leave pay**

The employees of the Authority may accumulate limited amounts of vacation pay that is payable to the employee upon termination or retirement. Vacation costs are recognized as a liability when earned by the employee. The amount reported in the current liability section is approximately equal to the amount of vacation leave paid in the current fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

The employees of the Authority may accumulate limited amounts of sick leave that is payable to the employee upon termination or retirement. Sick leave costs are recognized when vested or taken, whichever occurs first. The amount reported in the current liability section is the amount recognized for those employees who are currently eligible to retire as of the end of the fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

**7. Accounts payable and construction contracts payable**

Accounts payable are recorded as the liability is incurred and represent payables from daily operations. Payment is made from unrestricted assets. Construction contracts payable are liabilities incurred for the acquisition of new capital projects or for rehabilitation of existing water and sewer lines and facilities. These contracts are funded by operational revenues, UEC revenues, and long term obligations. Construction contracts are payable from restricted assets.

**8. Long-term obligations**

Long-term obligations used to finance capital acquisitions, payable from the Authority's revenues, are recorded in the Authority's Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**9. Net assets, restrictions, and designations**

The net assets of the Authority are reported in the following three categories:

**Investment in capital assets, net of related debt** – This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

**Restricted net assets** – Restricted net assets result from constraints placed on the use of net assets when externally imposed by creditors, grantors, laws and regulations of other governments and imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Unrestricted net assets** – This category reflects net assets of the Water Authority, not restricted for any project or other purpose.

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**10. *Statement of cash flows***

For the purposes of the statement of cash flows, all pooled cash and investments (including restricted assets) are considered to be cash equivalents, although there are investments with a maturity in excess of three months when purchased, because they have characteristics of demand deposits for each individual fund. Non-pooled investments with original maturities of three months or more are deducted from cash, investments, and accrued interest. Purchases and sales of these investments are reported as cash flows from investing activities.

**11. *Estimated amounts reported in financial statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

**12. *New accounting pronouncements***

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2009.

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.
- GASB Statement No. 59, *Financial Instruments Omnibus*.

The Authority will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The Authority believes that the above listed new GASB pronouncements will not have a significant financial impact to the Authority or in issuing its financial statements.

**II. Stewardship, Compliance and Accountability**

The budgetary data is prepared consistent with the basis of accounting described in Note I. B. The annual budget is formulated by the Authority's Management and submitted to the Water Authority Board by April 1 for the fiscal year commencing July 1. Public hearings are conducted to obtain citizen comments on the proposed budget. By June 1, the budget is legally adopted through passage of an appropriation resolution by the Water Authority Board. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City's financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2009, expenditures may not exceed appropriations at the fund level.

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**III. Detailed Notes**

**A. Cash and investments**

As discussed in Note I.C.1., the Authority participates in the City's pooled investment program. Cash and investments are held by the City and balances are allocated between the City and Authority. The total cash, investments, accrued interest and cash with fiscal agents, net of cash overdrafts of the City at June 30, 2009, consist of the following:

	(In thousands of dollars)				
	Govern- mental Activities	Business- type Activities	Fiduciary Funds	Total	Component Unit
Cash, investments, accrued interest and cash with fiscal agents, net of unamortized discounts and premiums:					
Repurchase agreements	\$ 241,023	\$ 92,981	\$ 1,694	\$ 335,698	\$ 76,722
Obligations of federal agencies or instrumentalities	175,671	58,717	1,234	235,622	55,919
State of New Mexico investment council	30,513	-	-	30,513	-
State of New Mexico local government investment pool	3,956	9,327	28	13,311	1,260
Held in trust by NMFA in State of New Mexico local government investment pool	-	-	-	-	7
Held in trust by Wells Fargo Bank in U.S. Treasury Fund	113	1,772	-	1,885	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	980	-	-	980	-
Total investments	<u>452,256</u>	<u>162,797</u>	<u>2,956</u>	<u>618,009</u>	<u>133,908</u>
Certificates of deposit	90,294	30,180	634	121,108	28,742
Bank accounts at book balance	<u>(4,265)</u>	<u>5,014</u>	<u>1,314</u>	<u>2,063</u>	<u>11,610</u>
Total bank balances	<u>86,029</u>	<u>35,194</u>	<u>1,948</u>	<u>123,171</u>	<u>40,352</u>
Accrued interest receivable	1,326	444	9	1,779	422
Imprest cash funds	84	16	-	100	-
Escrow deposits	-	372	-	372	148
Total other	<u>1,410</u>	<u>832</u>	<u>9</u>	<u>2,251</u>	<u>570</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 539,695</u>	<u>\$ 198,823</u>	<u>\$ 4,913</u>	<u>\$ 743,431</u>	<u>\$ 174,830</u>
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 381,672	\$ 43,815	\$ 3,065	428,552	\$ 21,395
Cash and investments with fiscal agents	78,163	29,976	-	108,139	35,363
Cash held by others	-	1,529	-	1,529	-
Total current cash, investments and accrued interest	<u>459,835</u>	<u>75,320</u>	<u>3,065</u>	<u>538,220</u>	<u>56,758</u>
Restricted noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	79,860	123,131	1,848	204,839	117,917
Cash and investments with fiscal agents	-	-	-	-	7
Escrow deposits	-	372	-	372	148
Total noncurrent cash, investments and accrued interest	<u>79,860</u>	<u>123,503</u>	<u>1,848</u>	<u>205,211</u>	<u>118,072</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 539,695</u>	<u>\$ 198,823</u>	<u>\$ 4,913</u>	<u>\$ 743,431</u>	<u>\$ 174,830</u>

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**A. Cash and investments, continued**

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's funds may not be returned to it. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2009, none of the City's bank balances of \$174,654,000 was exposed to custodial credit risk.

Custodial credit risk – Investments. Custodial credit risk with respect to investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment basis. The investment policy further requires that all collateral securities held by a third party custodian, designated by the City Treasurer, shall be held in the City's name and evidenced by a safekeeping receipt or Federal Reserve book-entry reporting.

Credit risk. Credit risk is the risk that in the event an issuer or other counterparty to an investment does not fulfill its obligations, the City will not be able to recover the value of its principal. As a home rule city, the City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The City's Investment Committee annually reviews its asset allocation strategies and guidelines for the percentage of its total portfolio that may be invested in securities other than repurchase agreements, U.S. Treasury bills and notes or insured/collateralized certificates of deposit. As part of the City's allocation evaluation, these guidelines are reviewed periodically, considering the probability of market and default risk in various investment sectors. The City's investment policy describes permitted investments as those permitted for municipalities with a population in excess of 65,000 per Section 10-10-10 of the Statutes of the State of New Mexico. Among permitted investments, the investment policy requires that 1) repurchase agreements have a collateralized value of 102% of the par value of the agreement, and 2) certificates of deposit with local banks be fully insured by the FDIC. Investments in direct obligations of the U.S. Treasury are permitted as are securities of the U.S. Government agencies denoted in Section 6-10-10 F (2) of the State Statutes. At June 30, 2009, the City's internal investment pool held investments in fully-collateralized overnight repurchase agreements (repos), fully-insured certificates of deposit and money market accounts, U.S. Treasury Securities, and U.S. Government agency notes.

In May 2009 the City's internal investment pool liquidated its position in the New Mexico State Treasurers Office (STO) Local Government Investment Pool (LGIP). However, at June 30, 2009 \$6,566,094 of the City's LGIP position was not returned, but held on the STO's ledger in a "Reserve Contingency Fund." This amount represents the City's portion of the LGIP's un-returned investment in the Reserve Primary Money Market Fund (Reserve). The Reserve Contingency Fund balance represents to LGIP investors a loss of principal if no further recoveries are received by the STO from Reserve. At June 30, 2009 the City expects its loss upon full liquidation of Reserve to be approximately \$1.0 million, and as such has accrued this amount as a loss. The City's Housing Authority continued to hold a non-pooled position in the STO LGIP Fund of \$7,813,531 and a balance in the Reserve Contingency Fund of \$189,672.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy states the City will develop diversification strategies to avoid incurring concentration risk. The following general policies and constraints shall apply: (with the exception of collateralized repos, U.S. Treasury securities, and authorized pools (comprising the "liquidity segment" of the portfolio)), no more than 50% of the residual investment portfolio (the "core segment") will be invested in a single issue or at a single maturity. At June 30, 2009, the City's core segment is invested in debt securities issued by four Government Sponsored Entities (GSEs): the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Federal Home Loan Mortgage Corporation. These investments comprise 37%, 29%, 25%, and 9% respectively, of the core segment (excluding core segment Treasury securities). Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. At June 30, 2009, core segment maturities are allocated as follows: 0-12 months – 19%; 1-2 years – 52%; 3-5 years – 29%.

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**A. Cash and investments, continued**

Summarized information concerning the GSE investments is as follows:

U.S. Agency Investments (summarized by GSE)	Wtd. Avg. Days to Maturity	Weighted Average Days to Call	Standard & Poor's Rating	Moody's Rating
Federal Home Loan Banks	404	185	AAA	Aaa
Federal National Mortgage Association	736	127	AAA	Aaa
Federal Home Loan Mortgage Corporation	-	-	-	-
Federal Farm Credit Bank	608	105	AAA	Aaa

Repo holdings (collateral) consisted of U.S. Treasury and Agency securities permitted under Section 6-10-10 N.M.S.A. 1978, and by the City's investment policy.

The City's investments held outside of its internal investment pool in the State of New Mexico Investment Council Core Bond Pool were not rated.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City's investment policy limits the City's exposure to interest rate risk by requiring that at least 80% of the funds invested in the core segment of the internal investment pool or in other discretionary funds be in maturities of no more than three years from date of purchase. No more than 20% of the funds may be invested in maturities between three and five years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten years from the date of purchase. The weighted average maturity of the investments in the internal investment pool's core segment at June 30, 2009 was 551 days. The weighted average days to call of the core segment was 186 days.

Pledged Collateral by Bank. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). The U.S. Congress has increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor. In addition, under the Temporary Liquidity Guarantee Program, the FDIC is currently insuring all Negotiable Order of Withdrawal (NOW) accounts in full, if the interest rate does not exceed 0.5 percent. The pledged collateral by bank (in thousands) at June 30, 2009 consists of the following:

	First Community	Bank of the West	Bank of America	Wells Fargo Bank	Compass Bank	NM Bank & Trust
Total amount on deposit	\$ 2,005	\$ 65	\$ 169,476	\$ 2,168	\$ 5	\$ 935
Less FDIC coverage	<u>2,005</u>	<u>-</u>	<u>19,589</u>	<u>2,168</u>	<u>5</u>	<u>250</u>
Total uninsured public funds	-	-	149,887	-	-	685
50% collateral requirement	<u>-</u>	<u>-</u>	<u>74,944</u>	<u>-</u>	<u>-</u>	<u>343</u>
Pledged securities, fair value	<u>-</u>	<u>-</u>	<u>149,995</u>	<u>-</u>	<u>-</u>	<u>412</u>
Pledged in excess of requirement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,051</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69</u>

**B. Accounts and notes receivable**

Accounts receivable include water and sewer billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Consequently, the Authority does not have an allowance for doubtful accounts. Due from other governments are primarily Federal and State grants receivable of \$402,024 for capital improvements. Also included are miscellaneous receivables.

Notes receivable are for utility expansion charges. The borrower is allowed to pay the Authority for the extension of water and sewer lines over a ten year period at 7% interest.

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**C. Capital assets**

Capital asset activity of the Authority for the year ended June 30, 2009, is as follows:

	Balance July 1	Increases	Decreases	Balance June 30
Assets not being depreciated:				
Land	\$ 23,232,063	\$ 316,064	\$ -	\$ 23,548,127
Construction work in progress	306,751,483	36,473,177	309,146,784	34,077,876
Total assets, not being depreciated	<u>329,983,546</u>	<u>36,789,241</u>	<u>309,146,784</u>	<u>57,626,003</u>
Assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improvements other than buildings	1,751,212,485	431,310,693	-	2,182,523,178
Equipment	54,016,504	6,049,241	196,259	59,869,486
Total assets, being depreciated	<u>1,807,439,825</u>	<u>437,359,934</u>	<u>196,259</u>	<u>2,244,603,500</u>
Less accumulated depreciation:				
Buildings	1,561,786	59,984	-	1,621,770
Improvements other than buildings	876,429,308	67,226,965	-	943,656,273
Equipment	28,766,493	5,008,470	180,627	33,594,336
Total accumulated depreciation	<u>906,757,587</u>	<u>72,295,419</u>	<u>180,627</u>	<u>978,872,379</u>
Capital assets being depreciated, net	<u>900,682,238</u>	<u>365,064,515</u>	<u>15,632</u>	<u>1,265,731,121</u>
Assets being amortized:				
Purchased water rights	39,647,635	295,730	-	39,943,365
Less amortization	10,306,965	396,367	-	10,703,332
Capital assets being amortized, net	<u>29,340,670</u>	<u>(100,637)</u>	<u>-</u>	<u>29,240,033</u>
Total capital assets, net	<u>\$ 1,260,006,454</u>	<u>\$ 401,753,119</u>	<u>\$ 309,162,416</u>	<u>\$ 1,352,597,157</u>

Changes to capital assets of the Authority for the fiscal year ended June 30, 2009, include the following amounts of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	\$ 28,409,863	\$ 6,727,989	\$ 21,681,874
Interest income	4,005,108	1,357,373	2,647,735
Capitalized interest		<u>\$ 5,370,616</u>	



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**D. Short-term and long-term obligations**

Short-term - Line of Credit Agreement – Subordinate Obligation: The Authority entered into a line of credit agreement with the New Mexico Finance Authority on November 17, 2008. This agreement provides that the Authority may draw a total of \$12,000,000; \$11,881,188 for construction, and \$118,812 for costs of issuance incurred by NMFA to close the loan. This credit line can last up to three years. Interest is a fixed rate of 2.0% on funds drawn. At June 30, 2009, the Authority had drawn \$3,524,340.

Long-Term - The change in the long-term obligations of the Authority for the year ended June 30, 2009, are as follows:

	Outstanding			June 30, 2009	Payable in one year
	June 30, 2008	Increases	Decreases		
Parity Obligations:					
Revenue Bonds	\$ 407,925,000	\$ 150,365,000	\$ 42,945,000	\$ 515,345,000	\$ 26,135,000
Loan Agreements - NMFA	202,895,765	-	7,957,395	194,938,370	11,097,637
Subordinate Obligations:					
Loan Agreements - NMED	16,884,238		2,238,542	14,645,696	403,279
Line of Credit - NMFA	-	3,524,340	-	3,524,340	-
Water rights contract	16,672,316	-	893,395	15,778,921	920,608
Accrued vacation and sick leave pay	2,890,134	3,512,211	3,133,555	3,268,790	3,233,241
Less deferred amounts:					
Unamortized bond premiums	10,665,180	8,945,348	1,505,463	18,105,065	-
Bond refunding costs	(476,264)	(461,476)	(229,340)	(708,400)	-
	657,456,369	165,885,423	58,444,010	764,897,782	41,789,765
Current portion of long-term obligations	(40,136,821)	-	1,652,944	(41,789,765)	-
<b>Total</b>	<b>\$ 617,319,548</b>	<b>\$ 165,885,423</b>	<b>\$ 60,096,954</b>	<b>\$ 723,108,017</b>	<b>\$ 41,789,765</b>

Parity Obligations

Authority parity obligations are secured by a pledge of net revenues derived from the operations of the Authority's water and sewer system. In ordinances pursuant to the issuance of these bonds, the Authority has agreed to charge all users of the system such reasonable rates as are sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all outstanding system obligations. The Authority did not meet those requirements at the end of the fiscal year.

On April 8, 2009, the Authority issued \$135,990,000 of Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1. The bonds have an interest rate between 3.0% and 5.50%, and require annual principal and interest payments until final maturity on July 1, 2034. The proceeds of these bonds will be used for the acquisition of privately owned New Mexico Utilities, Inc., regular System improvements, and water reclamation. The balance due at June 30, 2009 was \$135,990,000.

Also on April 8, 2009, the Authority issued \$14,375,000 of Joint Water and Sewer System Refunding Revenue Bonds, Series 2009A-2. The bonds have an average interest rate of 4.20%. The net proceeds of \$15,132,064 (which includes an original issue premium of \$870,860 and after payment of \$113,796 of underwriters' fees and other issuance costs) were used to purchase state and local government securities. These securities were deposited into an irrevocable trust with an escrow agent to provide for the current partial refunding of certain Series 2001 Bonds maturing on July 1, 2010 through July 1, 2025. The total amount of Series 2001 Bonds partially refunded with the series 2009A-2 Bonds is \$14,815,000, leaving \$3,275,000 of outstanding bonds. As a result, that portion of the Series 2001 Bonds described above is considered to be defeased and the liability for those bonds has been removed from the Authority's long term debt. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$461,475. This difference, reported in the accompanying financial statements as a deduction from bonds payable, has been deferred and will be amortized

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**D. Short-term and long-term obligations, continued**

over the life of the new bonds using the effective interest method. The current refunding was undertaken to reduce total debt service payments over the next four years by \$845,456 and to obtain an economic gain (difference between the present values of the debt service payments on the old debt and new debt) of \$685,060.

Authority parity obligations outstanding at June 30, 2009, are as follows:

Revenue Bonds Issued	Amount	Interest Rate	Final Maturity	Call Provisions
June 15, 1997	\$ 5,720,000	4.75%	July 1, 2009	100% beginning July 1, 2006
January 1, 1999A	33,980,000	3.80% to 5.25%	July 1, 2011	Not callable
December 1, 2001	3,275,000	3.00% to 5.00%	July 1, 2013	100% beginning July 1, 2010
October 25, 2005	132,985,000	3.50% to 5.00%	July 1, 2025	100% beginning July 1, 2015
July 12, 2006	133,390,000	4.25% to 5.165%	July 1, 2026	100% beginning July 1, 2016
April 9, 2008	55,630,000	5.00%	July 1, 2033	100% beginning July 1, 2018
April 8, 2009	135,990,000	3.00% to 5.50%	July 1, 2029	100% beginning July 1, 2019
April 8, 2009, Refunding	<u>14,375,000</u>	3.00% to 5.00%	July 1, 2013	Not callable
Total outstanding	515,345,000			
Unamortized:				
Premiums	18,105,065			
Deferred refunding costs	<u>(708,400)</u>			
Net outstanding	<u>\$ 532,741,665</u>			

Loan Agreements Issued	Current Loan Balance	Original Loan Amount	Interest Rate	Final Maturity
May 10, 2002	\$ 589,955	\$ 2,450,000	2.75%	July 1, 2012
April 11, 2003	2,203,415	3,600,000	2.00%	January 1, 2016
October 13, 2004	101,020,000	118,415,000	1.32% to 4.16%	May 1, 2024
October 28, 2005	19,250,000	20,000,000	2.93% to 4.01%	May 1, 2025
September 26, 2007	<u>71,875,000</u>	77,005,000	4.00% to 5.0%	May 1, 2025
Total outstanding	<u>\$ 194,938,370</u>			

Loan Agreements – Subordinate Obligations

On October 1, 1994, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$7,907,582 to a long-term notes payable with an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Annual payments are \$567,926, with a final payment due on July 1, 2013. The balance due at June 30, 2009, is \$2,111,037.

On June 14, 2000, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$15,000,000 to a long-term note payable with an interest rate of 4% with annual payments of \$1,587,627. Final payment is due on July 1, 2012. The balance due at June 30, 2009, is \$4,405,810.

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On May 20, 2005, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$12,000,000 line of credit agreement. The note payable of \$9,627,877 (total draws on the line of credit plus accrued interest of \$242,655) has an interest rate of 3%. The note requires annual payments of \$647,145, due on May 20<sup>th</sup> each year. Final payment is due May 20, 2025. The balance due at June 30, 2009, is \$8,128,849.

Water Rights Contract

A Water Rights Contract with the United States Government was entered into by the Authority during the fiscal year ended June 30, 1963, to pay a portion of the construction, operation, and maintenance costs of the San Juan Chama diversion project in return for a portion of the water rights resulting from the project. The contract provides for payment in fifty annual installments with final maturity in 2022, and has an interest rate of 3.046%. The amount of the contract outstanding at June 30, 2009, is \$15,778,921.

The annual debt service requirements on the revenue bonds, loan agreements and the water rights contract payable outstanding at June 30, 2009, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 38,556,524	\$ 31,533,834	\$ 70,090,358
2011	37,123,145	31,755,895	68,879,040
2012	40,721,845	30,140,553	70,862,398
2013	40,241,693	28,436,750	68,678,443
2014	40,074,115	26,659,307	66,733,422
2015 - 2019	199,637,162	107,017,548	306,654,710
2020 - 2024	180,710,207	62,887,213	243,597,420
2025 - 2029	94,438,296	27,328,643	121,766,939
2030 - 2034	63,180,000	9,968,755	73,148,755
2035	<u>6,025,000</u>	<u>158,160</u>	<u>6,183,160</u>
	<u>\$ 740,707,987</u>	<u>\$ 355,886,657</u>	<u>\$ 1,096,594,644</u>

**E. Pension Plan – Public Employees Retirement Association**

*Plan Description.* Substantially all of the Authority’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 Employees 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 and disability benefits, survivor benefits and cost of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123. The report is also available on PERA’s website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

*Funding Policy.* Plan members are required to contribute 13.15% of their gross salary. The Authority is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. In fiscal year 2007 Authority contributions were included in the City’s contribution data and therefore cannot be determined. The Authority’s employer contribution to PERA for the fiscal years ending June 30, 2009 and 2008, were \$2,168,754 and \$1,880,834 respectively, which equal the amount of the required contributions for each fiscal year.

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**F. Defined contribution retirement plan**

On March 31, 2004, the Authority Board approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Authority employees. Under this defined contribution plan, an employee's eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory. Under the plan the employer contributes 19.01% of earnings for full time employees and 7% for part time employees. A mandatory employee participation contribution is required with employees to make a one-time election to contribute one of 3.29%, 5%, 7%, 10% for full time employees and 7% for part time employees. Total contributions to the plan were \$94,894 in fiscal year 2009 of which \$71,507 were from employer contributions and \$23,387 was from employee contributions.

**G. Post employment benefits**

In addition to providing pension benefits described in Notes E. and F, the City and the Authority provide certain health care and life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the City.

Postemployment Life Insurance Benefits

*Plan Description.* The City's Life Insurance Benefit Plan (Plan) is a single employer defined benefit plan administered by the City; the plan also includes coverage for the employees of the Albuquerque Bernalillo County Water Authority (a separate legal entity, although a component unit of the City). Insurance benefits are authorized by the City's Merit System Ordinance and Personnel Rules and Regulations. Upon retirement an employee will continue to be covered by the City's plan at no cost to the employee. Coverage will be one-half of the coverage reflected on the most recent annual life insurance adjustment report immediately prior to retirement up to a maximum of \$25,000. Effective July 1, 2008 the minimum amount of coverage per retiree will be \$12,500. The number of retired employees covered under the life insurance benefit was 3,737 at June 30, 2009, and the amount of life insurance coverage for these retired employees was \$77,046,000.

*Funding Policy.* The City recognizes the cost of providing the life insurance benefits by charging the insurance premiums to expenditures. Life insurance benefits are paid through premiums to an insurance company under an indemnity plan. The insurance company has the right to adjust the premiums based on claims paid. Historically, the claims paid in any one year have not exceeded the premiums. The required contribution is based on projected pay-as-you-go financing requirements. The current rate is .28 per \$1,000 face value of life insurance for actives and retirees. The life insurance premium costs for the City's retirees for the years ending June 30, 2009, 2008, and 2007 were \$247,265, \$242,940, and \$215,577, respectively. The life insurance and accidental death and dismemberment costs for the City's active employees for the years ending June 30, 2009, 2008, and 2007, were \$1,170,789, \$1,074,508 and \$1,186,427, respectively.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Authority's Life Insurance Benefit plan.

Annual required contribution:	
Normal cost	\$ 95,845
Amortization of unfunded actuarial accrued liability	71,560
Interest on net OPEB obligation	-
Annual OPEB cost	167,405
Contributions made by Authority	(60,266)
Contributions made by City of Albuquerque	(107,139)
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

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**G. Post employment benefits, continued**

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/07	N/A	N/A	N/A
6/30/08	\$ 146,592	100%	\$ 0
6/30/09	\$ 167,405	100%	\$ 0

*Funding Status and Funding Progress.* As of June 30, 2008, the most recent actuarial valuation date, the plan was 0% percent funded using the criteria established by GASBS 45. The actuarial accrued liability (AAL) for benefits was \$4,479,055 (\$1,328,431 for active employees and \$3,150,624 for retired employees). A significant portion of the AAL for retirees was incurred when the Authority was a City Department, therefore, this portion of the AAL is applicable to the City. There are no plan assets; however, the City has earmarked \$7,397,129 in the City's Internal Service Employee Insurance Fund for future plan costs. The Authority's covered payroll (annual payroll of active employees covered by the plan) was \$33,434,911 and the ratio of the UAAL to the covered payroll was 3.97%. The ARC as a percent of payroll for the City as a whole is 1.2% of which .4% is the normal cost as a percent of payroll. The ARC per active employee is \$478. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events of events far into the future. Examples include assumptions about future employment, mortality, and changes in life expectancies. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information for fiscal year 2008 only; however, in future years, the schedule will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the Life Insurance Benefit plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the City's historical pattern of paying for the plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2008, actuarial valuation, the Entry Age Normal (EAN) funding method was used where, for each plan member, the actuarial present value of benefits is levelly spread over the plan member's earnings or service from entry age to assumed exit age. The EAN cost method is generally regarded by actuaries as the most stable of the funding methods. The goal of GASBS 45 is to match recognition of retiree life expense with the periods during which the benefit is earned and the City's actuary believe that EAN funding method effectively meets that goal in most circumstances. Another important issue in these calculations is the treatment of implicit subsidies where retiree coverage is subsidized by active employee costs. The City pays the same insurance premium rates for both active and retired employees, because the retired employees are on average older than active employees, there is an implicit subsidy of retiree coverage by active employee costs, which GASBS 45 generally requires be attributed to the retiree liability. The actuarial assumptions included a 4.0 percent investment rate of return on expected long-term returns on the City's own investments calculated on the funded level of the plan at the valuation date. As of June 30, 2009, the plan has not been funded and no interest was earned on the plan assets during the year. The City intends to amortize the UAAL over a thirty-year period under the level percentage of pay method, beginning in the next fiscal year. The remaining amortization period at June 30, 2009, was 28 years. The ARC was based on a 4.0 percent discount rate, funding will be based on an 8.0 percent discount rate.

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Retiree Health Care Act Contributions

*Plan Description.* The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, New Mexico 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. Through the fiscal year ending June 30, 2010, the statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	1.666%	.833%
FY12	1.834%	.917%
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]) the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY11	2.084%	1.042%
FY12	2.292%	1.146%
FY13	2.500%	1.250%

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**G. Post employment benefits, continued**

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Authority's contributions (employer and employee) to the RHCA for the years ended June 30, 2009, 2008, and 2007 were \$464,425, \$417,796 and \$378,542, respectively, which equal the required contributions for each year.

**H. Risk management**

The City and the Authority are exposed to various risks of loss related to torts and civil rights claims (including law enforcement and employment related exposures); theft, damage and destruction of its real and personal assets; workers compensation losses; errors and omissions of City officers and officials; and natural disasters. The City uses the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$1,000,000 for each workers' compensation incident, \$1,050,000 for each tort liability claim, and \$50,000 for each City real and contents damage claim. Losses in other categories and catastrophic losses in the mentioned categories are the subject of insurance and/or actuarially reviewed retentions. Whenever a risk exposure is insured, the City continues to benefit from case coverage on claims that were incurred during the insured claim year.

The Risk Management Fund tracks claims on a fund by fund basis and assesses charges to each fund based on historical claims experience and the need to establish a reserve for unanticipated catastrophic losses. That reserve was \$1,000,000 at June 30, 2009, and is included in the unrestricted net assets (deficit) of the Risk Management Fund. The claims liabilities reported in the Risk Management Fund are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic factors. The estimate of the claims liability also includes amounts for incremental claim adjustments expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Based on historical data, the City believes the Risk Management Fund is adequately funded. During Fiscal Year 2007, a comprehensive actuarial review was done to gauge the adequacy of the reserves for both the Workers' Compensation and Tort Liability programs. The actuarial review validated that the current reserves are adequate for reserves in anticipation of adverse developments in reported cases and for claims which may have occurred but have not yet been reported. The cash balance grew by \$16,970,882 during Fiscal Year 2009. Moreover, pursuant to Section 41-4-25(B) NMSA 1978, in the event of a judgment against the City in excess of \$1,000,000 the City, with Council approval, may levy a tax on real property to provide for the payment of catastrophic losses. In addition, the City started Fiscal Year 2009 with \$9,904,007 available in the General Fund balance. Finally, the City has reserve amounts created by the City's policy to reserve one-twelfth of the General Fund budgeted amount.

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**H. Risk management, continued**

The amounts and change in the Fund's claims liability in fiscal year 2009 and 2008 were:

	2009	2008
Claims liability at July 1	\$ 60,096,704	\$ 57,006,436
Current year claims and change in estimates	29,676,042	24,687,241
Claims liquidated	(22,399,866)	(21,596,973)
Claims liability at June 30	\$ 67,372,880	\$ 60,096,704
The components of the claims liability at June 30 are:		
Current portion	\$ 40,654,800	\$ 26,579,300
Noncurrent portion	26,718,080	33,517,404
Total claims liability	\$ 67,372,880	\$ 60,096,704

The Authority paid \$4,824,872 for its share of the risk management charges for the year.

**I. Transactions with other government agencies**

As discussed in Note I-A, the Authority has entered into a Memorandum of Understanding with the City for operations of the utility. In addition to the risk management charges reported in Note III-H, the Authority engaged in the following transactions with the City. The Authority paid the City for the following services:

Franchise fees	\$ 4,911,941
Administrative indirect overhead, including accounting and other central services	2,223,900
Warehouse supplies	2,564,310
Fleet management services	1,783,445
Barricading and street sweeping	806,672
Telephone	347,805
Total	\$ 12,638,073

The City paid the Authority for water and sewer services in the amount of: \$ 6,046,162

**J. Commitments and contingencies**

Construction Commitments. At June 30, 2009, the uncompleted construction and other commitments in the Authority was \$30,086,217. This amount will be paid from assets restricted for construction, improvements and replacements, or from operating revenues.

In October 2008, the Authority and the Carnuel Mutual Domestic Water and Waste Water Consumer Association (CMDWWCA) entered into an agreement to extend water infrastructure improvements and provide water service to the Carnuel community. This agreement was amended in December 2008 to identify the Authority would serve as the fiscal agent for the CMDWWCA on all state and federal grant and /or loan agreements. The Authority will own, operate and maintain the water system which supplies and distributes water to the CMDWWCA. Reimbursement for costs associated with operation and maintenance of the system, including reserves, shall be collected by the Authority through collection of payments from customers based on costs for monthly water usage rates. See Note K. for more information.

Federal and State Grant Commitments. The Authority has received a number of Federal and State grants for specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience, Authority management believes that such disallowances, if any, will not be material. Single audit information for the Authority is included in the Comprehensive Annual Financial Report for the City of Albuquerque.



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**J. Commitments and contingencies, continued**

Contingencies. In the normal course of business, the Authority is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimability of the claims. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued. It is the opinion of Authority management that the ultimate resolution of other litigation will not have a material effect on the financial position of the Authority.

The Authority received a permit from the Office of the State Engineer for diverting and consuming San Juan-Chama water in the amount of 96,200 acre-feet per year on July 8, 2004. A group of environmentalists and farmers filed an appeal of the surface diversion permit in State District Court. The State District Court ruled in favor of the Authority on all counts. The decision of the State District Court granting the surface diversion permit was appealed by the same protestants to the New Mexico Court of Appeals. The case before the Court of Appeals has been fully briefed and argued, and a decision could be issued at any time. In a related environmental permitting process, the Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004 and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion concludes that the effects of the San Juan-Chama Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat. Hence, although there is some continued environmental dispute, the current operation of the San Juan Chama Drinking Water Project is fully permitted by the State Engineer and involved federal agencies.

**K. Significant effects of subsequent events**

The Authority entered into a loan and grant agreement with the New Mexico Finance Authority (NMFA) and the Water Trust Board on November 13, 2009. The grant is for \$450,000 and not repayable. The loan is for \$50,000 at zero percent interest and a .25% administrative fee. Loan terms will be finalized upon completion of the project. The purpose of the financing is to fund planning, design, engineering and construction of a regional water conveyance to the community of Carnuel in Bernalillo County.

The Authority entered into a loan and grant agreement with the New Mexico Finance Authority (NMFA) and the Water Trust Board on November 13, 2009. The grant is for \$400,000 and not repayable. The loan is for \$100,000 at zero percent interest and a .25% administrative fee. Loan terms will be finalized upon completion of the project. The purpose of the financing is to fund planning, design, engineering and construction of a regional water conveyance to the community of Carnuel in Bernalillo County.

The Authority entered into a loan and subsidy agreement with the New Mexico Finance Authority (NMFA) on January 8, 2010. The maximum principal amount is \$2,020,000 of which the maximum subsidy is \$1,010,000. As long as certain conditions are met, the subsidy is not repayable to NMFA. The principal amount payable is \$1,010,000, at 1% interest (which includes administrative fees). The term of the loan is for twenty two years and matures on July 1, 2031. The purpose of the financing is to fund upgrades to the water utility system, including a line extension to serve the community of Carnuel in Bernalillo County.

The Authority entered into a loan and subsidy agreement with the New Mexico Finance Authority (NMFA) on January 22, 2010. The maximum principal amount is \$158,393 of which the maximum subsidy is \$110,875. As long as certain conditions are met, the subsidy is not repayable to NMFA. The principal amount payable is \$47,518, at 1% interest (which includes administrative fees). The term of the loan is for twenty two years and matures on July 1, 2031. The purpose of the financing is to fund upgrades to the water utility system, including but not limited to the replacement of approximately 1,086 high-flow urinals with high efficiency fixtures in City of Albuquerque facilities.

The Authority entered into a loan and subsidy agreement with the New Mexico Finance Authority (NMFA) on January 22, 2010. The maximum principal amount is \$418,175 of which the maximum subsidy is \$292,722. As long as certain conditions are met, the subsidy is not repayable to NMFA. The principal amount payable is \$125,453, at 1% interest (which includes administrative fees). The term of the loan is for twenty two years and matures on July 1, 2031. The purpose of the financing is to fund upgrades to the water utility system, including but not limited to a water use efficiency baseline study and a high efficiency retrofit analysis.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009**

**K. Significant effects of subsequent events, continued**

The Authority entered into a loan and subsidy agreement with the New Mexico Finance Authority (NMFA) on January 22, 2010. The maximum principal amount is \$202,000 of which the maximum subsidy is \$141,000. As long as certain conditions are met, the subsidy is not repayable to NMFA. The principal amount payable is \$60,600, at 1% interest (which includes administrative fees). The term of the loan is for twenty two years and matures on July 1, 2031. The purpose of the financing is to fund upgrades to the water utility system, including but not limited to the expansion of the leak detection system to cover an additional five percent of the distribution system.

The Authority entered into a loan and grant agreement with the New Mexico Finance Authority (NMFA) and the Water Trust Board on May 28, 2010. The grant is for \$800,000 and not repayable. The loan is for \$200,000 at zero percent interest and a .25% administrative fee. Loan terms will be finalized upon completion of the project. The purpose of the financing is to fund planning, design, engineering and construction of a regional water conveyance to the community of Carnuel in Bernalillo County.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR LIFE INSURANCE BENEFIT PLAN**  
**Year ended June 30, 2009**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age Normal</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL Percentage of Covered Payroll</u>
6/30/2007	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2008	0	1,328,431	1,328,431	0.00%	33,434,911	3.97%
6/30/2009	0	1,328,431	1,328,431	0.00%	33,434,911	3.97%

**Note:** This schedule represents the funding progress for the Albuquerque Bernalillo County Water Utility Authority portion of the City of Albuquerque's total unfunded actuarial accrued liability of \$51,179,469.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL**  
**Year ended June 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues:</b>				
Charges for services	\$ 117,476,000	\$ 117,476,000	\$ 122,391,179	\$ 4,915,179
City water service expansion charges	14,000,000	14,000,000	6,346,401	(7,653,599)
Sustainable water supply	26,310,000	26,310,000	24,754,410	(1,555,590)
Interest on investments	1,800,000	1,800,000	2,014,753	214,753
Valley system connection charges	75,000	75,000	111,488	36,488
City system connection charges	200,000	200,000	243,909	43,909
Other miscellaneous	1,895,000	1,895,000	2,113,671	218,671
Transfer from non-restricted cash to cash restricted for debt service	<u>64,301,000</u>	<u>64,301,000</u>	<u>64,301,000</u>	<u>-</u>
<b>Total revenues</b>	<u><b>226,057,000</b></u>	<u><b>226,057,000</b></u>	<u><b>222,276,811</b></u>	<u><b>(3,780,189)</b></u>
<b>Expenses:</b>				
Water plant facility production	8,017,000	8,017,000	6,885,379	1,131,621
Water plant facility distribution	10,874,000	10,874,000	12,291,682	(1,417,682)
Water distribution facilitation	3,283,000	3,283,000	3,363,172	(80,172)
Wastewater treatment	11,957,000	11,957,000	13,352,877	(1,395,877)
Compliance	3,412,000	3,412,000	2,839,650	572,350
Wastewater collection	7,032,000	7,032,000	7,637,371	(605,371)
Sustainable water supply	10,272,000	10,272,000	10,404,765	(132,765)
North I-25 reuse	420,000	420,000	507,033	(87,033)
Customer services	4,584,000	4,584,000	4,559,248	24,752
Finance	6,879,000	6,879,000	6,635,573	243,427
Human resources	1,363,000	1,363,000	1,228,950	134,050
NW service area	-	811,000	252,106	558,894
San Juan-Chama	2,246,000	2,246,000	2,400,958	(154,958)
Water resources, engineering and planning	5,413,000	5,413,000	5,928,244	(515,244)
Information systems	3,224,000	3,224,000	3,352,027	(128,027)
Low income utility credit	250,000	250,000	228,970	21,030
SI franchise fee	154,000	154,000	80,342	73,658
Water Authority	2,649,000	2,649,000	3,490,708	(841,708)
Debt service	64,301,000	64,301,000	65,568,994	(1,267,994)
Transfer to cash restricted for debt service	38,065,000	38,065,000	38,065,000	-
Transfer from cash restricted for debt service to cash restricted for capital acquisition	14,000,000	14,000,000	7,000,000	7,000,000
Transfer to cash restricted for capital acquisition	13,252,000	13,252,000	13,252,000	-
Sustainable water supply - transfer to cash restricted for debt service	26,236,000	26,236,000	26,236,000	-
Administrative services	<u>7,418,000</u>	<u>7,418,000</u>	<u>6,949,941</u>	<u>468,059</u>
<b>Total expenses</b>	<u><b>245,301,000</b></u>	<u><b>246,112,000</b></u>	<u><b>242,510,990</b></u>	<u><b>3,601,010</b></u>
<b>Excess of revenues over (under) expenses</b>	<u><b>\$ (19,244,000)</b></u>	<u><b>\$ (20,055,000)</b></u>	<u><b>(20,234,179)</b></u>	<u><b>\$ (179,179)</b></u>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET TO ACTUAL, continued**  
**Year ended June 30, 2009**

	<u>Actual</u>
<b>Revenues (expenses) not budgeted:</b>	
Interest on investments of restricted assets	2,065,135
Gain (loss) on disposition of property and equipment	(12,972)
Depreciation	(72,295,419)
Amortization of deferred bond costs	(360,666)
Amortization on water rights contract	(396,367)
Amortization on premium and discounts	1,532,453
Amortization of deferred amounts on refundings	(229,339)
Unrealized gain (loss) on investments	(74,781)
Miscellaneous expenses	2,465,930
Bad debt expense	(93,018)
Lease of water rights	3,498,655
<b>Net expenses over revenues not budgeted</b>	<b>(63,900,389)</b>
<b>Changes to conform to generally accepted accounting principles:</b>	
Principal payments on bonds and loan agreements	37,234,574
Proceeds of refunding bonds	(15,132,064)
Payment to refunded bond escrow agent	15,132,064
Transfer to cash restricted for capital acquisition	20,252,001
Capital contributions	27,811,538
Capital outlay	732,250
Capitalized interest on long-term debt	5,370,617
<b>Net changes to conform to generally accepted accounting principles</b>	<b>91,400,980</b>
<b>Change in net assets</b>	<b>\$ 7,266,412</b>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
LAST TEN FISCAL YEARS <sup>(1)</sup>  
(In thousands of dollars)

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Operating revenues:</b>			
Charges for services	\$ <u>103,606</u>	\$ <u>107,771</u>	\$ <u>113,781</u>
<b>Operating expenses:</b>			
Salaries and fringe benefits	23,946	25,062	25,433
Professional services	987	1,065	754
Utilities	7,419	8,244	7,581
Supplies	1,541	1,957	1,307
Travel	35	25	13
Fuels, repairs, and maintenance	7,287	7,875	7,169
Contractual services	2,866	3,313	3,145
Other operating expenses	9,327	10,152	10,743
Depreciation	41,670	37,070	39,355
Amortization - water rights	303	332	348
Bad debt expense	-	-	-
<b>Total operating expenses</b>	<u>95,381</u>	<u>95,095</u>	<u>95,848</u>
<b>Operating income (loss)</b>	<u>8,225</u>	<u>12,676</u>	<u>17,933</u>
<b>Nonoperating revenues (expenses):</b>			
Interest on investments	3,863	2,502	2,032
Gain (loss) on disposition of capital assets	(194)	102	66
Interest expense	(13,026)	(14,046)	(12,206)
City water service expansion charges	10,780	10,909	11,909
Bond issue costs incurred <sup>(2)</sup>	-	-	-
Bond issue amortization <sup>(2)</sup>	(13)	(93)	(35)
Equipment purchased for outside agency or fund	-	-	-
Expenses incurred for outside agency or fund	-	-	-
Other	457	3,649	544
<b>Total nonoperating revenues (expenses)</b>	<u>1,867</u>	<u>3,023</u>	<u>2,310</u>
<b>Income (loss) before capital contributions and transfers</b>	10,092	15,699	20,243
Capital contributions	15,062	12,182	14,995
<b>Change in net assets</b>	25,154	27,881	35,238
<b>Net assets, July 1</b>	<u>399,460</u>	<u>424,614</u>	<u>452,495</u>
<b>Net assets, June 30</b>	<u>\$ 424,614</u>	<u>\$ 452,495</u>	<u>\$ 487,733</u>

(1) 2000 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund. Some reclassification of prior year numbers have been made to conform to the Authority's presentation beginning with FY 2004.

(2) In 2000, the City adopted the policy of capitalizing bond issue costs and amortizing the costs over the life of the bond issue.

TABLE I  
Page 1 of 1

2003	2004	2005	2006	2007	2008	2009
<u>\$ 117,681</u>	<u>\$ 130,420</u>	<u>\$ 126,622</u>	<u>\$ 138,202</u>	<u>\$ 141,034</u>	<u>\$ 152,232</u>	<u>\$ 147,146</u>
24,760	25,479	26,796	27,200	30,151	33,435	37,383
236	388	1,139	522	572	706	859
7,924	8,306	7,935	8,575	7,844	9,218	12,202
1,529	2,425	2,939	3,567	4,493	5,249	6,092
5	26	24	19	36	47	28
7,524	7,387	7,252	7,322	9,494	10,441	10,873
2,637	3,886	4,422	2,907	3,937	6,334	8,890
10,786	12,498	12,909	14,058	14,058	14,111	13,401
40,843	42,877	46,410	51,934	55,926	60,906	72,295
359	370	374	383	392	393	396
-	-	-	-	-	339	93
<u>96,603</u>	<u>103,642</u>	<u>110,200</u>	<u>116,487</u>	<u>126,903</u>	<u>141,179</u>	<u>162,512</u>
<u>21,078</u>	<u>26,778</u>	<u>16,422</u>	<u>21,715</u>	<u>14,131</u>	<u>11,053</u>	<u>(15,366)</u>
1,073	419	1,549	5,019	8,936	6,443	2,648
19	10	(356)	7	(51)	(2)	-
(12,278)	(10,428)	(8,406)	(8,619)	(15,889)	(21,782)	(21,682)
14,433	15,112	12,404	17,255	12,516	11,075	6,346
-	-	-	-	-	-	-
(97)	(130)	(143)	(313)	(305)	(405)	(360)
(332)	(242)	-	-	-	-	-
-	(296)	(161)	(278)	(118)	-	-
<u>4,938</u>	<u>203</u>	<u>1,390</u>	<u>570</u>	<u>70</u>	<u>1,359</u>	<u>7,870</u>
<u>7,756</u>	<u>4,648</u>	<u>6,277</u>	<u>13,641</u>	<u>5,159</u>	<u>(3,312)</u>	<u>(5,178)</u>
28,834	31,426	22,699	35,356	19,290	7,741	(20,545)
<u>22,178</u>	<u>28,288</u>	<u>20,849</u>	<u>16,854</u>	<u>15,448</u>	<u>11,939</u>	<u>27,811</u>
51,012	59,714	43,548	52,210	34,738	19,680	7,266
<u>487,733</u>	<u>538,745</u>	<u>598,459</u>	<u>642,007</u>	<u>694,217</u>	<u>728,955</u>	<u>748,635</u>
<u>\$ 538,745</u>	<u>\$ 598,459</u>	<u>\$ 642,007</u>	<u>\$ 694,217</u>	<u>\$ 728,955</u>	<u>\$ 748,635</u>	<u>\$ 755,901</u>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SELECTED WATER/SEWER SYSTEM STATISTICS**  
**LAST TEN CALENDAR YEARS**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Estimated Population</b> (Service Area)	497,916	482,577	489,248	499,684
<b>Number of Meters</b> (Billed)	149,883	153,245	156,502	160,135
<b>Estimated Persons Per Meter</b>	3.32	3.15	3.13	3.12
<b>Annual Pumpage</b> (1,000 Gallons)	37,101,000	35,750,000	34,760,000	34,734,000
<b>Annual Water Billed</b> (1,000 Gallons)	33,074,427	31,670,527	30,836,908	30,886,343
<b>Average Daily Pumpage</b> (Gallons)	101,646,575	97,945,205	95,232,877	95,161,644
<b>Peak Day Pumpage</b> (Gallons)	169,500,000	163,600,000	160,140,000	182,638,000
<b>Peak Day Consumption</b> (Gallons)	-	-	-	163,500,000
<b>Average Daily Production Per Meter</b> (Gallons)	678	639	609	594
<b>Well Pumping Capacity</b> (per 24 Hour Period)	294,000,000	294,000,000	294,000,000	294,000,000
<b>Storage Capacity</b> (Gallons)	211,000,000	211,000,000	211,000,000	211,000,000
<b>Surface Water Pumping Capacity</b>	-	-	-	-
<b>Surface Water Storage Capacity</b>	-	-	-	-
<b>Fire Hydrants</b>	11,905	12,175	12,413	12,771
<b>Water Reclamation Treatment Capacity</b>	76,000,000	76,000,000	76,000,000	76,000,000
<b>Number of Miles of Lines</b> <sup>(1)</sup>				
- Water	2,520	2,520	2,520	2,520
- Sewer	1,730	1,780	1,780	1,820
- San Juan Chama	-	-	-	-

<sup>(1)</sup> Estimated

Source: City of Albuquerque, Water Utility Department.



2004	2005	2006	2007	2008	2009
512,288	525,347	530,600	533,253	538,586	543,971
162,536	167,737	171,130	172,394	174,005	194,087
3.15	3.13	3.10	3.09	3.10	2.80
32,600,000	32,469,000	31,384,000	32,598,000	31,940,000	33,098,373
29,235,684	29,551,899	27,942,376	28,573,691	27,816,110	28,844,216
89,315,068	89,860,274	85,983,561	89,284,930	87,506,849	90,680,474
180,759,600	179,876,700	165,478,800	174,986,400	155,329,700	186,819,804
151,000,000	150,459,000	149,879,000	147,670,000	149,870,000	144,030,800
549	536	502	518	503	467
294,000,000	294,000,000	294,000,000	294,000,000	294,000,000	314,250,000
211,000,000	211,000,000	211,000,000	211,000,000	211,000,000	228,700,000
-	-	-	-	-	140,000,000
-	-	-	-	-	20,000,000
13,062	13,435	14,093	14,093	14,577	14,778
76,000,000	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
2,520	2,520	2,520	2,520	2,599	2,626
1,820	1,820	1,820	1,820	1,846	1,858
-	-	-	-	-	37

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
DEMOGRAPHIC STATISTICS

Population

US Census		Bernalillo County	% Inc/Dec from Prev. Yr.	City of Albuquerque	% Inc/Dec from Prev. Yr.	State of New Mexico	% Inc/Dec from Prev. Yr.
2008	**	651,612	1.18%	528,497	0.34%	2,080,047	1.27%
2007	**	644,023	2.52%	526,694	3.35%	2,053,923	2.11%
2006	**	628,188	2.23%	509,621	2.19%	2,011,406	2.14%
2005	**	614,508	4.13%	498,716	4.89%	1,969,291	3.66%
2004	**	600,439	1.74%	486,676	2.36%	1,929,713	1.57%
2003	**	590,153	1.35%	475,447	1.72%	1,899,846	1.05%
2002	**	581,118	1.94%	466,419	2.15%	1,876,287	1.32%
2001	**	571,440	0.92%	455,848	1.03%	1,852,740	0.50%
2000	*	553,002	0.84%	450,372	6.87%	1,821,656	0.76%
1999	**	551,298	0.31%	420,578	-0.19%	1,808,082	0.81%
1990	*	100,244	-76.15%	386,988	16.24%	1,515,069	16.26%
1980	*	420,262	33.09%	332,920	36.16%	1,303,143	28.13%
1970	*	315,774	20.43%	244,501	21.53%	1,017,055	6.94%

\* Source: Bureau of the Census

\*\* Source: Bureau of Business and Economic Research-estimates

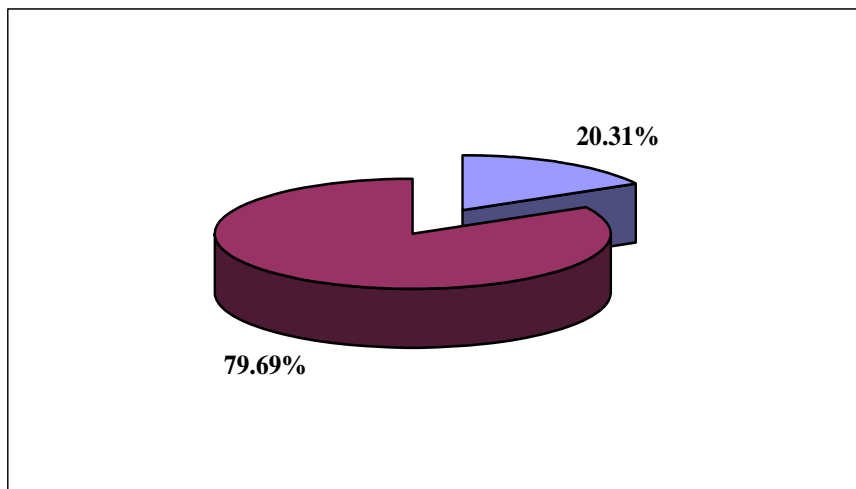
Unemployment

Calendar Year	-----Bernalillo County-----			-----Unemployment Rates-----		
	Civilian Labor Force	Number Employed	Number Unemployed	Bernalillo County	New Mexico	United States
2009	315,392	292,867	22,525	7.10%	7.20%	9.30%
2008	318,065	304,023	14,042	4.40%	4.50%	5.80%
2007	314,180	303,692	10,488	3.30%	3.20%	4.80%
2006	313,406	301,179	12,227	3.90%	4.20%	4.60%
2005	316,477	304,008	12,469	3.90%	4.40%	4.90%
2004	312,140	279,810	14,330	4.60%	5.60%	5.40%
2003	315,152	299,843	15,309	4.90%	5.70%	6.10%
2002	308,907	294,946	13,961	4.52%	5.40%	5.80%
2001	305,169	293,339	10,947	3.59%	4.80%	4.80%
2000	303,158	275,575	9,819	3.24%	5.00%	4.00%
1999	286,588	280,785	11,013	3.84%	5.60%	4.20%
1998	293,804	277,035	13,019	4.43%	6.20%	4.50%

Source: New Mexico Department of Labor

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
TOP TEN MAJOR EMPLOYERS

<b>2009</b>				
	<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>	<u>% of County Employment</u>
1.	Kirtland AFB (Civilian) includes Sandia National Labs, DOE, and contractors on or off of base.	Defense	16,200	3.91%
2.	University of New Mexico	Education	15,890	3.83%
3.	Albuquerque Public Schools	Education	14,000	3.38%
4.	Presbyterian	Hospital/ Medical Services	7,369	1.78%
5.	Lovelace	Hospital/ Medical Services	7,000	1.69%
6.	UNM Hospital	Hospital/ Medical Services	5,950	1.44%
7.	City of Albuquerque	Government	5,940	1.43%
8.	State of New Mexico	Government	5,910	1.43%
9.	Intel Corporation	Semiconductor Manufacturer	3,300	0.80%
10.	Bernalillo County	Government	<u>2,618</u>	<u>0.63%</u>
	<b>Total</b>		<u>84,177</u>	<u>20.31%</u>
	<b>Total Non-Ag Civil and Military Employees</b>		<u>414,400</u>	<u>100.00%</u>



Source: Albuquerque Economic Development, Inc.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**WATER AND WASTEWATER USERS BY CLASS AND METER SIZE**  
**LAST TEN FISCAL YEARS**

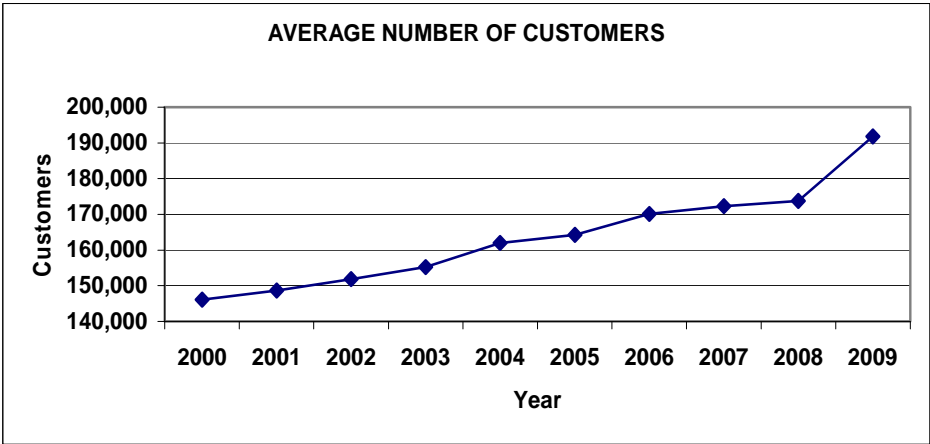
**History of Water Users by Class**

<u>Class</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Residential	131,618	134,014	137,081	140,347	146,656	148,974	151,089	152,563	153,959	171,983
Multi-Family <sup>(1)</sup>	-	-	-	-	-	-	6,812	7,565	7,644	6,231
Commercial	12,767	12,871	12,952	13,033	13,388	13,304	10,065	10,049	9,998	11,367
Institutional	1,638	1,660	1,683	1,712	1,836	1,853	1,981	1,983	2,013	2,119
Industrial	<u>127</u>	<u>125</u>	<u>124</u>	<u>121</u>	<u>122</u>	<u>114</u>	<u>113</u>	<u>110</u>	<u>110</u>	<u>113</u>
<b>Total</b>	<b><u>146,150</u></b>	<b><u>148,670</u></b>	<b><u>151,840</u></b>	<b><u>155,213</u></b>	<b><u>162,002</u></b>	<b><u>164,245</u></b>	<b><u>170,060</u></b>	<b><u>172,270</u></b>	<b><u>173,724</u></b>	<b><u>191,813</u></b>

**History of Water Users by Meter Sizes**

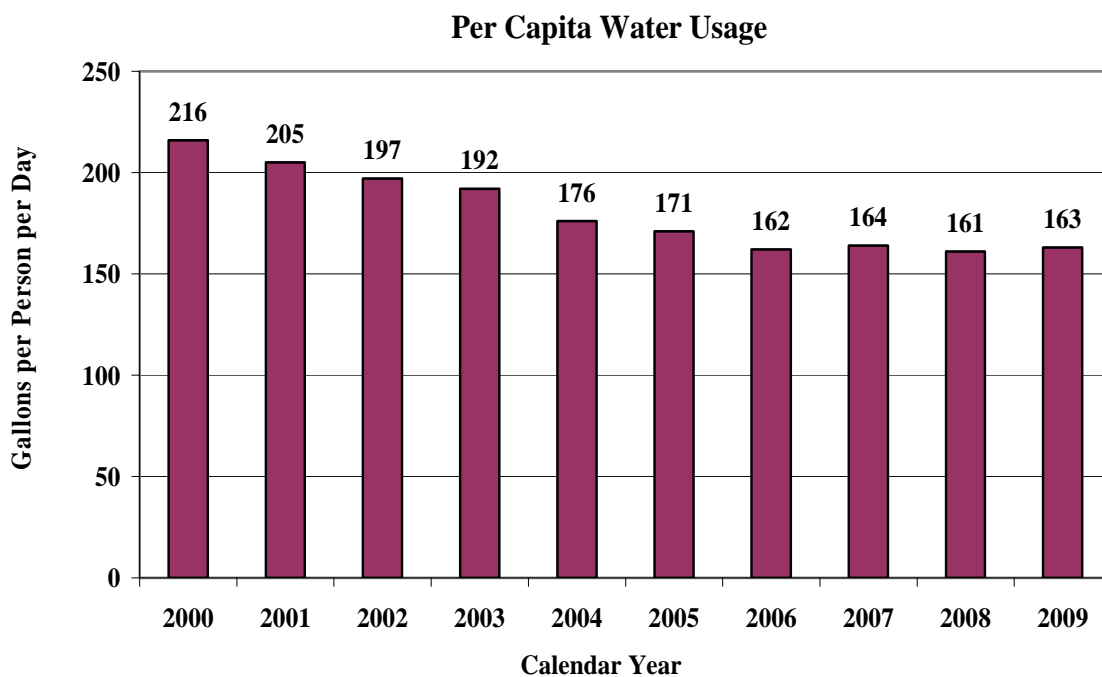
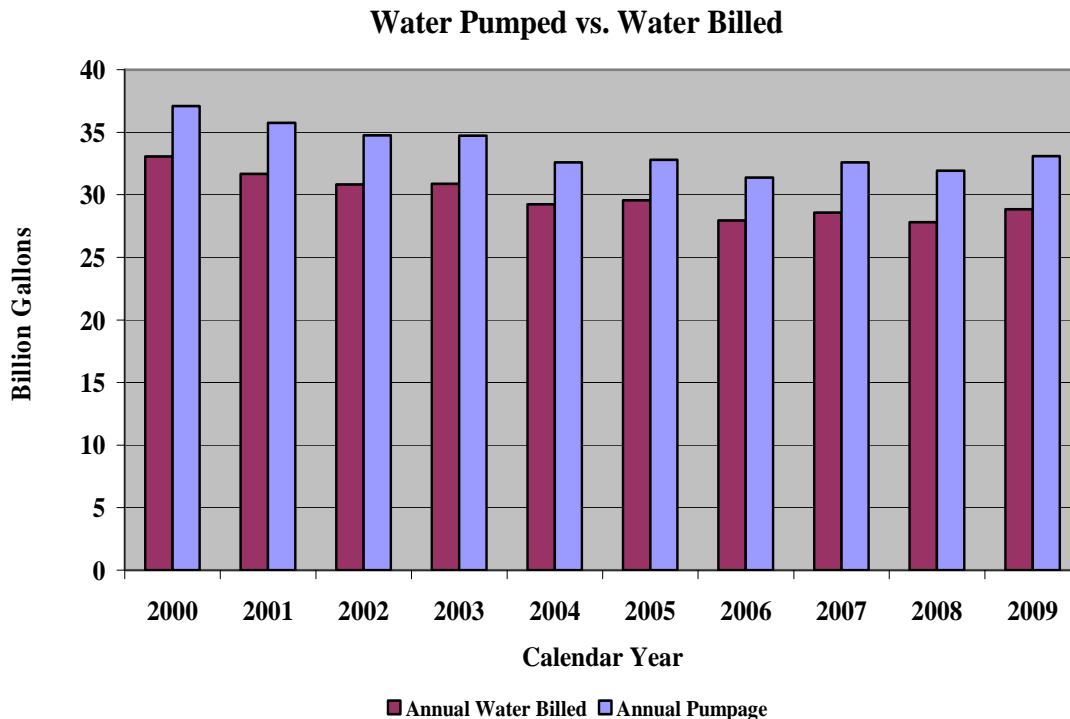
<u>Meter Size</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
¾"	121,854	124,523	128,192	132,387	139,351	142,018	146,842	149,846	151,172	168,632
1" and 1 ¼ "	19,899	19,692	19,153	18,321	17,863	17,588	17,773	17,581	17,621	17,611
1 ½ "	1,838	1,846	1,854	1,847	1,854	1,879	1,945	1,955	1,968	2,169
2"	1,822	1,868	1,892	1,905	1,958	1,997	2,509	1,816	1,839	2,179
3"	404	406	410	412	524	419	654	733	766	834
4"	238	242	246	247	311	251	244	246	264	275
6"	55	55	55	55	73	52	52	53	53	67
8" and over	<u>40</u>	<u>38</u>	<u>38</u>	<u>39</u>	<u>68</u>	<u>41</u>	<u>41</u>	<u>40</u>	<u>41</u>	<u>46</u>
<b>Total</b>	<b><u>146,150</u></b>	<b><u>148,670</u></b>	<b><u>151,840</u></b>	<b><u>155,213</u></b>	<b><u>162,002</u></b>	<b><u>164,245</u></b>	<b><u>170,060</u></b>	<b><u>172,270</u></b>	<b><u>173,724</u></b>	<b><u>191,813</u></b>

<sup>(1)</sup> The Authority started using this class of user in 2006.



Source: Albuquerque Bernalillo County Water Utility Authority

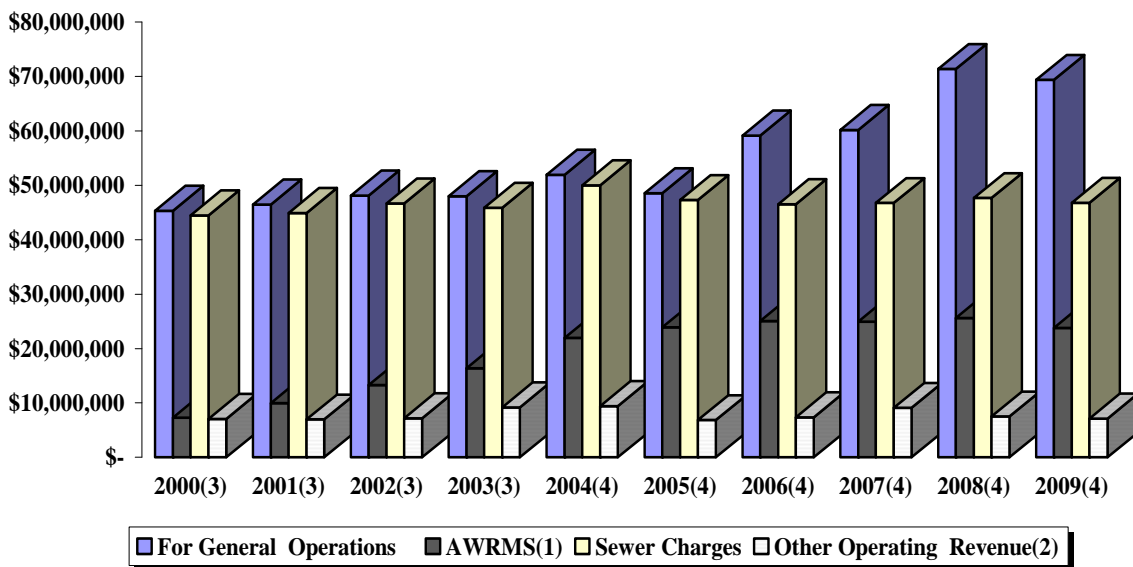
**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**WATER CONSUMPTION**  
**LAST TEN CALENDAR YEARS**



Source: Albuquerque Bernalillo County Water Utility Authority

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**REVENUE FROM WATER AND SEWER CHARGES AND OTHER OPERATING REVENUE**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Revenue from Water Charges		Revenue From Sewer Charges	Other Operating Revenue <sup>(2)</sup>	Total Operating Revenue
	For General Operations	For AWRMS <sup>(1)</sup>			
2000 <sup>(3)</sup>	\$ 45,346,424	\$ 7,310,019	\$ 44,487,321	\$ 7,051,933	\$ 104,195,697
2001 <sup>(3)</sup>	46,504,223	9,954,245	44,898,231	6,966,656	108,323,355
2002 <sup>(3)</sup>	48,115,849	13,276,044	46,691,595	7,188,885	115,272,373
2003 <sup>(3)</sup>	48,027,213	16,410,278	45,893,219	9,185,099	119,515,809
2004 <sup>(4)</sup>	51,968,803	21,950,195	50,012,413	9,437,552	133,368,963
2005 <sup>(4)</sup>	48,560,930	23,904,227	47,310,366	6,846,660	126,622,183
2006 <sup>(4)</sup>	59,172,344	25,095,852	46,563,188	7,371,006	138,202,390
2007 <sup>(4)</sup>	60,186,959	24,975,068	46,771,690	9,100,112	141,033,829
2008 <sup>(4)</sup>	71,398,950	25,630,246	47,683,918	7,519,231	152,232,345
2009 <sup>(4)</sup>	69,395,141	23,803,266	46,805,468	7,141,714	147,145,589



(1) These revenues are attributable to rate increases adopted by City Council to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy (AWRMS).

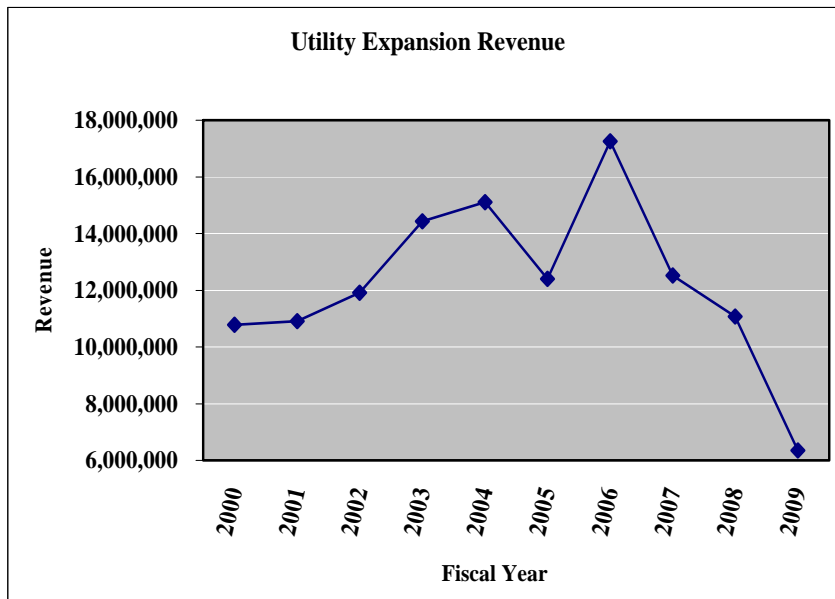
(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

(3) Source: City of Albuquerque Comprehensive Annual Financial Report.

(4) Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**REVENUE FROM UTILITY EXPANSION CHARGES**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total Utility Expansion Charge Revenues</u>
2000 <sup>(1)</sup>	\$ 10,780,053
2001 <sup>(1)</sup>	10,908,556
2002 <sup>(1)</sup>	11,908,616
2003 <sup>(1)</sup>	14,432,966
2004 <sup>(2)</sup>	15,111,935
2005 <sup>(2)</sup>	12,404,189
2006 <sup>(2)</sup>	17,254,474
2007 <sup>(2)</sup>	12,516,234
2008 <sup>(2)</sup>	11,074,840
2009 <sup>(2)</sup>	6,346,401



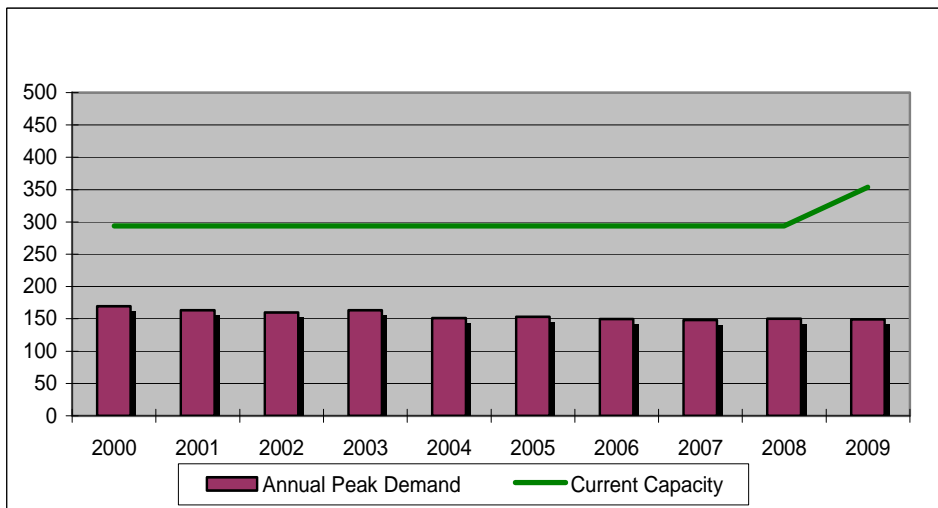
Source: (1) City of Albuquerque Comprehensive Annual Financial Report.

(2) Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
**WATER SYSTEM ANNUAL PEAK DEMAND AND TOP TEN CUSTOMERS**

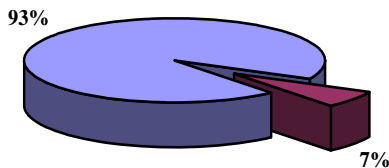
**WATER SYSTEM ANNUAL PEAK DEMAND**  
(calendar year)

- ◆ *Current system peak demand of 149 MGD*
- ◆ *Current system peak capacity of 354 MGD*
- ◆ *System's current peak demand is 42% of capacity*



**WATER SYSTEM TOP 10 CUSTOMERS**  
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2008 Revenue</u>	<u>% of Total Revenue</u>
1. City of Albuquerque	1,920,863	\$ 3,958,332	4.25%
2. Albuquerque Public Schools	442,461	1,351,427	1.45%
3. Tanoan Country Club	156,841	248,890	0.27%
4. University of New Mexico Physical Plant	135,588	379,206	0.41%
5. Lovelace Health	105,240	196,776	0.21%
6. Albuquerque Biopark Zoo <sup>(1)</sup>	102,662	172,338	0.18%
7. University of New Mexico Hospital	67,239	134,075	0.14%
8. General Electric	55,190	98,957	0.11%
9. Towne Park Home Owners Association	50,200	92,494	0.10%
10. New Mexico State Fair Complex	44,908	114,814	0.12%
<b>Total</b>		<b>\$ 6,747,309</b>	<b>7.24%</b>
<b>Total Revenue for System</b>		<b>\$ 93,198,407</b>	



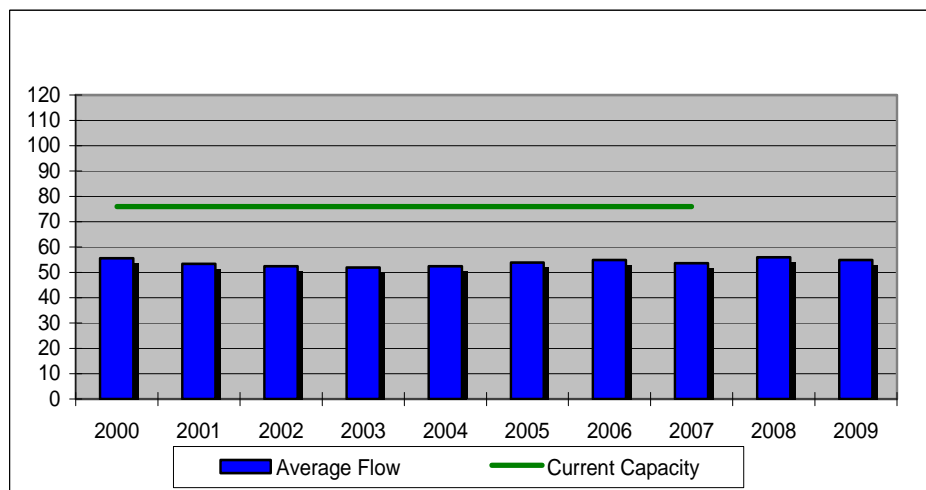
<sup>(1)</sup> This is a City of Albuquerque department. However, due to volume of usage, separately stated.  
Source: Albuquerque Bernalillo County Water Utility Authority



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO  
**WASTEWATER SYSTEM ANNUAL AVERAGE FLOW AND TOP TEN CUSTOMERS**

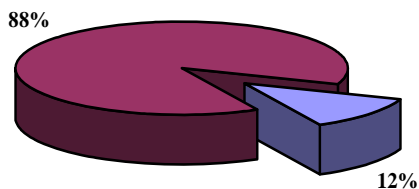
**WASTEWATER SYSTEM ANNUAL AVERAGE FLOW**  
(calendar year)

- ◆ *Current system average flow of 55 MGD*
- ◆ *Current system peak capacity of 76 MGD*
- ◆ *System's current average flow is 72% of capacity*



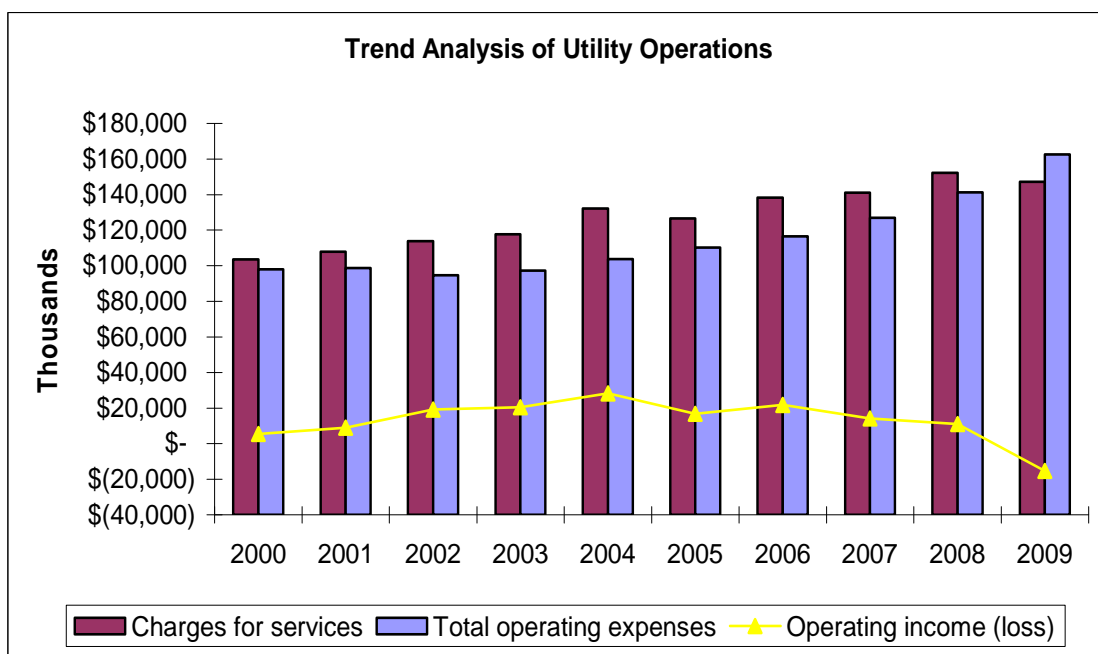
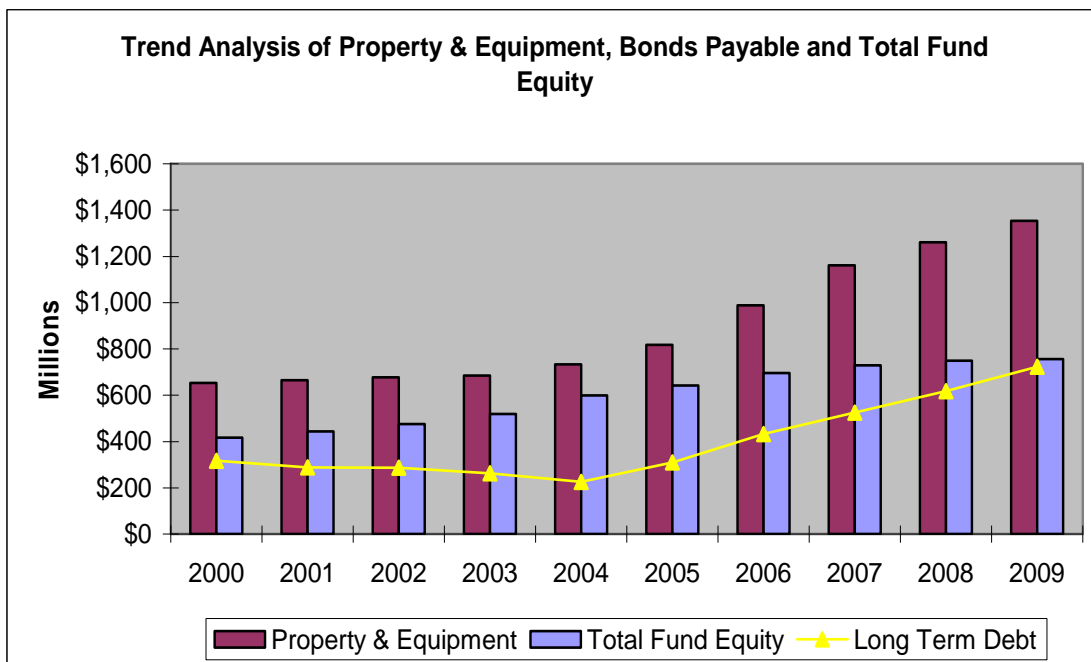
**WASTEWATER SYSTEM TOP 10 CUSTOMERS**  
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2009 Revenue</u>	<u>% of Total Revenue</u>
1. New Mexico Utilities	2,281,994	\$ 2,718,901	5.81%
2. Kirtland Air Force Base	589,723	893,237	1.91%
3. UNM Physical Plant	339,171	427,102	0.91%
4. City of Albuquerque	147,587	411,163	0.88%
5. Albuquerque Public Schools	123,781	531,982	1.14%
6. Lovelace Health	83,351	126,879	0.27%
7. Albuquerque Biopark Zoo <sup>(1)</sup>	71,893	95,801	0.20%
8. Sandia Peak Services	68,259	71,914	0.15%
9. University of New Mexico Hospital	52,846	144,208	0.31%
10. Presbyterian Health	52,740	128,057	0.27%
<b>Total</b>		<b>\$ 5,549,244</b>	<b>11.86%</b>
<b>Total Revenue for System</b>		<b>\$ 46,805,468</b>	



<sup>(1)</sup> This is a City of Albuquerque department. However, due to volume of usage, separately stated.  
Source: Albuquerque Bernalillo County Water Utility Authority

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**MISCELLANEOUS TREND ANALYSIS**  
**LAST TEN FISCAL YEARS**



Source: Albuquerque Bernalillo County Water Utility Authority

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**REVENUE BOND DEBT SERVICE COVERAGE**  
**LAST TEN FISCAL YEARS**  
(In thousands of dollars)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Water Utility Authority Revenue Bonds <sup>(1)</sup></b>				
Revenues	\$ 118,818	\$ 125,002	\$ 129,425	\$ 139,937
Expenses <sup>(2)</sup>	53,114	57,815	55,356	57,315
Available for debt service	65,704	67,187	74,069	82,622
Debt service	43,511	44,703	45,919	47,516
Debt service coverage ratio	1.5	1.5	1.6	1.7

<sup>(1)</sup> 2000 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund.

<sup>(2)</sup> Not including depreciation, amortization, payments in lieu of taxes, and bad debt expense.

<sup>(3)</sup> As calculated by RBC Capital Markets, Albuquerque, New Mexico; cash basis.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007<sup>(3)</sup></u>	<u>2008<sup>(3)</sup></u>	<u>2009</u>	<b>Ratio Required <u>2009</u></b>
\$	150,224	\$ 144,074	163,278	162,390	166,580	160,800	
	55,892	59,005	61,932	65,336	72,541	83,177	
	94,332	85,069	101,346	97,054	94,039	77,623	
	49,179	52,279	55,641	62,027	61,785	65,144	
	1.9	1.6	1.8	1.6	1.5	1.2	1.3

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NET ASSETS BY COMPONENT**  
**LAST SIX FISCAL YEARS**  
(In thousands of dollars)

Components of Net Assets:	Fiscal Years		
	2007	2008	2009
Invested in capital assets, net of related debt	\$ 666,487	\$ 698,063	\$ 725,767
Restricted for debt service	6,003	-	0
Restricted for construction	-	10,553	13,672
Unrestricted	56,465	40,019	16,462
<b>Total Net Assets</b>	<b>\$ 728,955</b>	<b>\$ 748,635</b>	<b>\$ 755,901</b>

Components of Net Assets:	Fiscal Years		
	2004	2005	2006
Invested in capital assets, net of related debt	\$ 517,181	\$ 566,451	\$ 609,955
Restricted for debt service	10,393	11,491	12,919
Restricted for construction	17,576	26,621	5,539
Unrestricted	54,949	37,444	65,804
<b>Total Net Assets</b>	<b>\$ 600,099</b>	<b>\$ 642,007</b>	<b>\$ 694,217</b>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**OUTSTANDING DEBT RATIO**  
**LAST SIX FISCAL YEARS**

<b>Outstanding Obligations</b> (in thousands of dollars)	<b>Fiscal Years</b>					
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Revenue bonds, net</b>	\$ 213,188	\$ 182,194	\$ 289,213	\$ 389,871	\$ 418,114	\$ 532,742
<b>Loan agreements</b>	26,029	147,928	159,712	152,529	219,780	209,584
<b>Water rights contract</b>	19,990	19,197	18,381	17,539	16,672	15,779
<b>Lines of credit</b>	-	-	-	-	-	3,524
<b>Total outstanding obligations</b>	<u>\$ 259,207</u>	<u>\$ 349,319</u>	<u>\$ 467,306</u>	<u>\$ 559,939</u>	<u>\$ 654,566</u>	<u>\$ 761,629</u>
<b>Number of Customers<sup>(2)</sup></b>	162,536	167,737	171,130	172,394	175,202	191,813
<b>Average debt per customer</b>	\$ 1,595	\$ 2,083	\$ 2,731	\$ 3,248	\$ 3,736	\$ 3,971
<b>Estimated population<sup>(2)</sup></b>	512,288	525,347	530,600	533,253	535,919	538,599
<b>Per Capita debt</b>	\$ 506	\$ 665	\$ 881	\$ 1,050	\$ 1,221	\$ 1,414
<b>Per capita income<sup>(1)</sup></b>	\$ 28,793	\$ 29,988	\$ 31,434	\$ 33,161	\$ 34,032	\$ 32,992

<sup>(1)</sup> Based on information provided by Bureau of Business and Economic Research (BBER),  
University of New Mexico

<sup>(2)</sup> Based on calendar years

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**REVENUE RATE COMPARISONS**

		Monthly Wastewater Charges								
		-----5/8-Inch Meter-----					2-Inch Meter	4-Inch Meter	8-Inch Meter	
City	Effective Date	Residential	Residential	Residential	Residential	Residential	Non-manuf./ Commercial	Commercial/ Light Industrial	Industrial	Industrial
		0 cf ( 0 gal)	500 cf (3,740 gal)	1,000 cf (7,480 gal)	1,500 cf (11,220 gal)	3,000 cf (22,440 gal)	3,000 cf (22,440 gal)	50,000 cf (374,000 gal)	1,000,000 cf (7,480,000 gal)	1,500,000 cf (11,220,000 gal)
Albuquerque, NM	9/1/2008	\$7.49	\$11.60	\$15.71	\$19.82	\$32.15	\$31.69	\$197.80	\$3,032.67	\$6,473.40
El Paso, TX	3/1/2008	10.11	11.38	17.73	21.54	43.13	48.21	697.24	12,911.95	19,622.04
Englewood, CO	1/1/2008	14.47	14.47	16.99	25.48	50.96	50.96	849.28	16,985.58	25,478.38
Boise, ID	10/1/2006	4.07	15.63	27.19	38.75	73.43	73.43	1,160.07	13,584.07	20,374.07
North Las Vegas, NV	1/1/2008	3.02	16.96	31.92	34.00	34.00	92.62	1,499.02	29,923.02	44,883.02
Lubbock, TX	3/1/2008	4.99	11.83	18.68	25.52	46.06	46.06	696.47	13,718.94	20,622.93
Oklahoma City, OK	10/1/2007	0.00	11.00	21.99	32.99	65.97	65.97	1,099.56	21,991.20	32,986.80
Salt Lake City, UT	7/1/2005	5.28	6.60	13.20	19.80	39.60	39.60	785.00	21,300.00	31,950.00
Scottsdale, AZ	7/1/2008	13.87	13.87	18.56	27.21	53.15	52.19	866.11	21,302.32	31,952.84
Wichita, KS	1/1/2008	4.11	4.11	5.85	13.26	35.48	35.48	739.32	14,854.63	22,321.25

		Monthly Water Charges								
Albuquerque, NM	7/1/2007	\$11.41	\$18.46	\$25.50	\$32.55	\$59.23	\$54.21	\$851.06	\$19,365.64	\$33,194.79
Austin, TX	11/1/2007	5.35	11.34	20.33	33.42	105.76	90.02	1,428.43	26,078.95	39,184.15
Denver, CO	1/1/2008	3.82	10.59	17.36	24.53	71.14	50.05	774.26	15,412.62	23,117.02
El Paso, TX	3/1/2008	10.70	12.15	19.40	28.60	89.89	77.60	2,418.43	16,494.48	32,318.26
North Las Vegas, NV	1/1/2008	7.80	13.11	19.06	25.98	50.83	68.03	968.22	18,357.10	27,834.60
Oklahoma City, OK	10/1/2007	5.11	12.78	20.44	28.11	51.11	51.11	791.59	15,421.39	23,250.06
Phoenix, AZ	3/2/2007	4.64	5.89	13.74	23.24	51.74	51.74	949.10	19,027.19	28,534.48
San Antonio, TX	1/1/2006	6.56	16.06	25.57	36.53	82.74	70.83	1,073.14	20,610.02	31,185.02
Tulsa, OK	3/2/2007	4.00	10.51	19.19	27.87	51.74	45.14	708.18	10,283.40	15,449.10
Tucson, AZ	11/1/2007	13.76	21.95	30.14	39.84	73.67	73.67	1,635.10	41,461.71	N/R

Source: Reprinted from 2008 Water and Wastewater Rate Survey, by permission. Copyright © 2009, AWWA & Raftelis Financial Consultants, Inc.

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

Albuquerque Bernalillo County  
Water Utility Authority and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the Authority of Albuquerque, New Mexico, as of and for the year ended June 30, 2009, as listed in the table of contents and have issued our report thereon dated November 17, 2010. We have also audited the budgetary comparison for the year ended June 30, 2009, as listed in the table of contents. 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 agency'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 entity'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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in



Albuquerque Bernalillo County  
Water Utility Authority and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

internal control over financial reporting as items 02-21, 08-05, 08-09, 08-13, 08-16, 09-02, 09-03, 09-04, 09-05, 09-06, 09-08, 09-09, 09-10, 09-11, 09-13, 09-14, and 09-15. 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 07-08.

We noted certain matters that are required to be reported under *Government Auditing Standards July 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 05-13, 07-10, 08-02, 09-18 and 09-22.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, the Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 17, 2010

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2009**

**02-21 CAPITAL ASSET DELETIONS (MODIFIED and REPEATED)**

*Condition.* During our testwork of deleted capital assets and during observations of assets, on the capital asset listing prior to July 1, 2009, we noted the following:

Out of the 50 disposals tested:

- One asset with a total historical cost of \$7,422 was disposed of without proper documentation of approval. It is noted that this was part of a large inventory of cages and other miscellaneous items that were donated to other jurisdictions and agencies. We were unable to determine if there were other capitalized assets disposed of at the same time. No paper trail was left by the department or the department head who is now retired.
- Two assets with a total historical cost of \$163,452 were not disposed of properly and timely. The items were sold through Public Surplus in 2007. The department did not submit the proper documentation to the Finance Office for proper accounting of capital assets in the correct year prior to the disposition of the assets. We were able to receive the documentation from an alternative source. These items remained on the listing until FY2009.
- One asset, with a total historical cost of \$40,600, did not have proper documentation to the Finance Office for proper accounting in the correct year prior to the disposition of the assets. We were able to receive the documentation from an alternative source.
- One asset, with a total historical cost of \$65,011 did not have proper documentation to the Finance Office. Due to the fact, the disposition information was included on a department memo to the Finance Office, the asset was incorrectly removed from the capital assets listing and the books for the department for FY09. Follow up of the item to determine the exact mode of disposition resulted in the information of the asset being an active inventory item and had been erroneously removed.
- 28 out of the 50 items were the result of the department memos (with attached spreadsheets) informing the Finance Office of the department's disposals. This is not an acceptable documentation form since it is not an approved policy or an approved method of disposing of assets as set forth by the Administrative Instructions 6-2.
- Per a departmental memo to Finance Office – there were items from the 1960s through the 1980s that were suddenly added to their annual inventory. The department did not have the items or the documentation for the disposal of the items. The department memo served as the official request to remove these from their department's capital assets listing.
- One out of the 50 items was from the previous fiscal year. The disposition information was received after the date required by the Finance Office. The documentation was accepted by the Finance Office and was included in the current year's capital assets disposals.
- One out of 50 items was erroneously included in the salvage form prepared by the City's department. The item was included in the deleted items. Upon further inquiry, we noted that the item is still in service at the department.

*Criteria.* Per Administrative Instructions 6-2, the Property Accounting Liaison in each department, is responsible to see that property control procedures are followed. They are to follow the policies set forth in the Instructions and are required to process, the disposition of tangible personal property for surplus and salvage property for the City.

The City's policies and procedures require the departments (Property Accounting Liaison) to submit a properly approved salvage form to the accounting department prior to removing the asset from the general ledger. The department (Property Accounting Liaison) is also required to keep track of capital asset disposals and report back to the accounting department on a yearly basis.

The City's policies require the use of the Surplus/Salvage Property forms to be used when disposing of assets. Per this policy, the Surplus/Salvage Property form is the only recognized document that is to be submitted to Finance and Fleet/Purchasing Departments.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**02-21 CAPITAL ASSET DELETIONS (MODIFIED and REPEATED), continued**

*Effect.* Without proper authorization and recording of fixed asset deletions, the City's risk of asset misappropriation increases. There is also potential for the overstatement of assets that no longer exist and remain on the listing.

*Cause.* The retention of documents is maintained in a number of departments and locations. Employee turnover and the lack of knowledge of employees responsible for such document retention have also contributed to improper record retention and processing.

*Recommendation.* We recommend that the approved policies for proper accounting of capital assets be conveyed to all city employees with the responsibility of accounting for capital asset deletions. Additional training may be necessary to ensure proper procedures are understood and followed. When feasible, City accounting should perform physical observations of assets throughout the year in departments that do not consistently review their capital asset listing.

*Management Response.* The City concurs with this finding. During FY08, the City began disposing of some assets on a governmental auction website which provides additional controls to ensure that disposal information is properly provided to the City Accounting Division. The City will continue to develop and provide additional training to the City department property disposal officers at Financial User Group and Purchasing Liaison Group Meetings, to ensure that Departments retain supporting documentation related to the disposal of capital inventory and other adjustments, and that this information is forwarded to the Accounting Division.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**05-13 AUDIT REPORT DUE DATE**

*Condition.* The report was not submitted by the due date. It was received by the New Mexico Office of the State Auditor in November, 2010.

*Criteria.* Per section 2.2.2.9A (1) (d) NMAC Audit Rule 2009, Requirements for Contracting and Conducting Audits of Agencies, annual audit reports are to be received in the Office of the State Auditor on or before December 1<sup>st</sup>.

*Effect.* The City and the Authority are not in compliance with the New Mexico State Auditor Rule. Also, late audit reports may affect the bond ratings, thereby making it more expensive for the City or the Authority to issue debt.

*Cause.* The implementation of the new general ledger and accounting system was the cause of the delay. The City was unable to close the books in a timely manner and have the records ready for the audit due to numerous problems after the conversion, which occurred January 1, 2009.

*Recommendation.* The City should work to resolve these issues quickly so they do not cause any more delays.

*Management Response.* The City concurs with this finding and is taking actions to prevent this situation in the future.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**08-05 FINANCIAL REPORTING – DOCUMENTATION OF DUTIES**

*Condition.* The financial closing and reporting process is well established but is not well documented in policies and procedures, including the identification and updating of internal and external financial reporting requirements and deadlines; the methodology, format, and frequency of required analyses; and the content of reporting packages from departments and component units. Also, roles and responsibilities in the financial closing and reporting process, including a required understanding of the entity's operations and appropriate accounting knowledge, are clearly defined, updated, and communicated to appropriate departments and individuals on a timely basis in meetings, but not in written policies and procedures. There are no written responsibility descriptions by employee. Furthermore, there are close procedures that are in use but have not been updated.

*Criteria.* Good internal controls include the segregation of system administrator from personnel that have access to assets.

*Effect.* Turnover of a few key people could be very detrimental to accounting with no documented procedures and tasks by position. This could also contribute to higher risk of management override.

*Cause.* Turn over of accounting personnel in recent years has created a backlog of work. Accounting has made great progress in catching up, but updating of written procedures over the reporting process has not yet been done.

*Recommendation.* Financial close and reporting processes should be documented and written job descriptions for accountants' responsibilities in this process should be created.

*Management Response.* The City concurs with the finding. The Accounting Division has assigned staff to document the financial closing and reporting process for the new ERP system and the accountants' responsibilities in this process will be documented in written job descriptions.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**08-09 ENVIRONMENTAL LIABILITIES**

*Condition.* As of June 30, 2009, there are no policies in place to ensure that environmental obligations or contingent obligations are reported in the City's financial statements. The City implemented Administrative Instruction No. 2-24 in fiscal year 2010 which provided written policy on pollution remediation.

*Criteria.* According to NCGAS 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences, claims and assessments should be recorded in the financials of the City if the contingent liability is probable and estimable. Otherwise, contingent liabilities should be disclosed in the footnotes to the City's financials.

*Effect.* There is a risk that the City may incur obligations or contingent obligations related to environmental remediation that will not be properly recorded and/or reported in the City's financial statements.

*Cause.* Various departments and divisions manage environmental issues that may result in contingent liabilities to the City, and there is no process in place to communicate these potential liabilities to the Accounting Division.

*Recommendation.* The City should continue to monitor its internal controls and its policies and procedures related thereto to ensure that all processes and critical financial statement operations have written policies that are current and relevant.

*Management Response.* The City concurs with the finding. Effective December, 2009 Administrative Instruction No. 2-24 Pollution Remediation Obligations, requires departments to provide the Accounting Division with information regarding actual and potential obligations related to environmental remediation.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**Year Ended June 30, 2009**

**08-13 CAPITAL ASSETS ADDITIONS (MODIFIED and REPEATED)**

*Condition.* During our testwork of capital asset additions we noted the following:

Out of the 25 additions tested, one capitalized asset, with a historical cost of \$22,602, was found not to be tagged with a City issued tag or some identifying traceable characteristics.

*Criteria.* The City's policies and procedures require the department to mark capitalized equipment with an asset number or other identifying characteristic that will allow it to be traced from the capital asset records to the physical asset. Good accounting practice requires agreement between the capital asset listing and actual physical existence and for the retention of appropriate supporting records.

*Effect.* Without proper recording of capital asset additions, the City's risk of asset misappropriation increases. In addition, if the asset can not be identified in the system upon disposal due to errors such as an inaccurate capital asset tag number, capital assets may be overstated.

*Cause.* Departments are not always diligent about tagging assets with the asset number assigned.

*Recommendation.* Property asset liaisons are responsible for all capital assets within their department. They must understand the importance of proper accounting for those assets from acquisition to ultimate disposition. Additional training may be necessary to ensure proper procedures are understood and followed, for example, tagging of assets.

*Management Response.* The City concurs with this finding. The City will review its fixed asset tagging procedures with the Department that was missing the property tag on its equipment. The Accounting Division will continue to provide training to all departments at Financial User Group meetings on the proper accounting of fixed assets.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**08-16 BANK RECONCILIATION PROCESS (REPEATED AND MODIFIED)**

*Condition.* The City's bank reconciliations, while very complex, fail to produce reconciled balance amounts which tie in readily to the general ledger. Also, the bank reconciliations are cluttered with reconciling items that should have been resolved in previous years. The Accounts Payables reconciliation involves eleven large spreadsheets to perform the reconciliation, Payroll account reconciliation involves twenty-four spreadsheets and the Common Fund reconciliations involve 26 spreadsheets. For example: the reconciliation for the accounts payable bank account as of June 30, 2009 still has a reconciling item transaction in the amount of \$4,884,238 that dates back to November 2003. In total, seventy-seven reconciling items amounting to \$5,060,297, for the accounts payables bank reconciliation at June 30, 2007 were still present on the bank reconciliation at June 30, 2009. The bank at the request of the City made corrections totaling \$5,004,066 as of July 31, 2009. However, there still was \$56,231 in old items that were not cleared as of October 1, 2010.

*Criteria.* The New Mexico Local Government statutes, Section 6-6-3 A NMSA 1978 require the City to "...keep all the books, records and accounts in their respective offices in the form prescribed by the local government division." The Local Government Division of the Department of Finance and Administration has, pursuant to this statute, published the Budgeting and Accounting Manual and other guidance for New Mexico municipalities to follow. Concise, easy-to-understand bank reconciliations are part of the records that the City should be maintaining.

*Effect.* The City has a bank reconciliation process that is unnecessarily complex and which takes more time than it should to reconcile the bank accounts each month. Further, the current process requires City staff to develop a supplemental document at fiscal year end to "reconcile" the bank reconciliation to the general ledger. This supplemental document helps to bridge the gap between the bank reconciliation and the general ledger.

*Cause.* The present bank reconciliation template was developed on a computerized spreadsheet by a former employee of the City's Accounting Division. It was developed a number of years ago and was designed to be compatible with the general ledger software used at the time.

*Recommendation.* The City needs to simplify the bank reconciliation process and redesign the bank reconciliations so that it will not be necessary to create a supplemental document to "reconcile" the bank reconciliations to the general ledger produced by the City's new accounting software. The redesigned bank reconciliations should derive as much information as possible from the new accounting software. Before redesigning the bank reconciliation template, all of the old reconciling items in the bank reconciliation should be resolved.

*Management Response.* The City concurs that additional steps must be taken to research and clear out the old reconciling items. The reconciliation template was modified for compatibility with the Peoplesoft general ledger system at the point of conversion. The complexities of the process are a result of the volume and type of cash transactions processed by the City, as well as the issues related to the integration of data from various source systems (both Peoplesoft and non-Peoplesoft). The City will review the current bank reconciliation process and make changes where possible to improve efficiency.



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**09-02 PREMATURE PURCHASE OF AIRLINE TICKETS**

*Condition.* There were two instances where the travel cardholder booked an airline ticket to be used by a member of their staff prior to receiving a signed and approved Travel Authorization T-01 form, two instances of airline tickets booked without the use of a Travel Authorization form T-01 form, and one instance of airline ticket being booked without prior authorization which was then cancelled. The cost for the five tickets totaled \$1,813.50. These transactions are in violation of the City's travel regulations and are a misuse of the T-Card and funds within the Departments.

- One instance an airline ticket was purchased prior to the T-01 form being authorized was in the amount of \$437.50.
- One instance an airline ticket was purchased prior to the T-01 form being authorized was in the amount of \$283.50.
- One instance resulted in a flight being booked prematurely and then cancelled. The airline the City purchased the ticket from allowed the City a refund in the form of a credit for the cost of the flight. The cost of the flight was \$314.70 from which the City expended \$223.70 at a later date. The City then had \$91.00 remaining to use by February 10, 2010 before expiration. The \$91.00 portion of the credit was never expended and therefore forfeited.
- One instance, an airline ticket was purchased without the use of a T-01 form and the ticket was cancelled and a credit of \$388.90 was issued. While reviewing the T-card sample item we noticed another violation on the same travel log where an employee was to take the identical flight in the amount of \$388.90 did not have a T-01 form and was also cancelled. The expiration date for both of the credits is April 15, 2010. As of March 23, 2010 the credit has not been utilized.

*Criteria.* The City's Travel Regulations, Chapter 12, Section II.A states "all individuals scheduled to travel on official City business must complete a Travel Authorization form T-01 and obtain approval by the Department/Agency Director or designee PRIOR to actual travel." The Travel Regulations in Chapter 12, Section II.K state further that a completed Travel Authorization Form T-01 must be approved prior to "booking the tickets." In other words, the tickets must not be purchased until travel is virtually a certainty and a detailed travel itinerary has been developed.

*Cause.* The City's travel policies and procedures were not followed by the Travel Liaison.

*Effect.* There is a risk of unauthorized purchases being made and an increased risk of fraud.

*Recommendation.* We recommend that the Department review all T-Card policies and procedures with all staff. The Travel Liaison for each department must understand the policies and procedures that are in place to conform to the Travel Regulations and the need to adhere to them.

*Management Response.* The City concurs with this finding. DFAS will re-communicate the City's Travel Regulations to department Directors and fiscal staff through Financial User Group Meetings, Purchasing Liaison User Group meetings, and email communications.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-03 INCORRECT ACCOUNT CLASSIFICATION**

*Condition.*

TRAVEL CARDS-We reviewed a sample of 25 Travel Card transactions totaling \$9,801 and the following was noted: Two transaction amounts totaling \$740 were improperly posted into the General Ledger.

TRAVEL CARDS-We reviewed a sample of 25 Travel Card transactions totaling \$9,801 and the following was noted: Seven account classifications were improperly posted into the General Ledger. Four transaction classifications were 522500 general ledger travel account in the general ledger as opposed to 522520 Out-of-State Travel account on the T-01 travel authorization form. This could result in \$1,735 worth of transactions to be misclassified. Three transaction classifications were 522510 In-State Travel account in the general ledger as opposed to the 522520 Out-of-State Travel account stated on the T-01 Travel Authorization form. This could result in \$569 worth of transactions to be misclassified.

CASH RECEIPTS (TRANSIT)-We reviewed a sample of 25 Transit Cash receipts transactions totaling \$94,907 and the following was noted: Two deposit account classifications were improperly posted into the General Ledger. This could result in \$260 worth of transactions to be misclassified. The cash receipts documentation states the transactions being classified as 255200 Student Single Tokens as opposed to the 477199 other Primary Ride Fares state in the General Ledger.

CASH RECEIPTS (TREASURY)-We reviewed a sample of 25 Treasury cash receipts transactions totaling \$13,039,513 and noted that one deposit had an incorrect description in the general ledger. The documentation states the transaction is being classified as 6902500 PD Westside as opposed to 6902500 PD Eastside.

*Criteria.* Good internal controls and sound business practices, requires that the City exercise due diligence and ensure that all transactions are properly posted to the correct account.

*Effect.* This could result in incorrect balances being reflected that could adversely affect decision making.

*Cause.* The City has failed to adhere to established policies and procedures over the internal control structure for cash receipts and disbursements.

*Recommendation.* The City should review all transactions entered in the system to ensure they are properly posted in the general ledger.

*Management Response.* The City concurs with this finding. The Accounting Division will review existing internal control procedures for cash receipts and disbursements with City department Directors and fiscal staff through Financial User Group meetings and email communications.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-04 PAYROLL- LACK OF APPROVAL**

*Condition.* We reviewed a sample of 25 payroll transactions totaling \$41,848 and noted one employee did not have an approved P-30 form for vacation leave and one timesheet reviewed was not signed by the employee or supervisor.

*Criteria.* Sections 401.2.A and 301.17 of the City's Personnel Rules and Regulations require prior approval for vacation leave and overtime. Timesheets must be signed by the employee and their supervisor indicating their review and approval.

*Effect.* Employees may be taking leave they have not accrued and/or be accounting for time they have not worked.

*Cause.* The employee's supervisor approved the vacation leave by signing the employee's timesheet. Attempts are made to obtain signatures from the employees/supervisors but as a last resort the timesheets are stamped indicating the signatures are not available to avoid holding up payroll for the department.

*Recommendation.* We recommend the City enforce their internal policies to ensure compliance by sending electronic memorandums to employees of the City's policies.

*Management Response.* The City concurs with this finding. The Personnel Rules and Regulations regarding approval of vacation will be reviewed with City department Directors and timekeepers through Payroll User Group meetings and email communications.

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**Year Ended June 30, 2009**

**09-05 PURCHASE & TRAVEL CARD REQUEST/CARDHOLDER AGREEMENTS- NO AUTHORIZATION**

*Condition.* The City recorded 13,081 purchase card (P-Card) and 482 travel card (T-Card) transactions during this fiscal year. We reviewed a sample of 26 P-Card transactions totaling \$5,940.64 and 25 T-Card transactions totaling \$9,805.69. There were 14 Travel Cardholders and 25 Purchase Cardholders.

The following was noted for Travel Cards: 1 out of the 14 T-Cardholders did not have an existing Training form in their file, 3 out of 14 T-Cardholders did not have an existing Card Distribution form in their file, 10 out of 14 T-Cardholders did not have an original cardholder agreement form with their training form in their file, and 2 out of 14 T-Cardholders did not have a Purchasing Department representative's signature authorizing the issuance of the card to the Cardholder.

The following was noted for Travel Cards: 1 of 25 Card Request/Employee Agreement form for Travel Cards did not have a Department Director's signature for authorization. The resulting purchases that the cardholder procured in our sample totaled \$535; 8 of 25 Card Request/Employee Agreement form for Travel Cards did not have a Card/Program Administrator's signature for authorization. The resulting purchases that the cardholders procured in our sample totaled \$3,705.50.

The following was noted for Purchase Cards: 3 out of 24 P-Cardholders did not have a file in existence, 1 out of the 24 P-Cardholders did not have an existing Training form in their file, 12 out of 24 P-Cardholders did not have an existing Card Distribution form in their file, and 9 out of 24 P-Cardholders did not have the original Card Distribution form.

The following was noted for Purchase Cards: 19 of 26 Card Request/Employee Agreement forms did not have a Card/Program Administrator's signature for authorization. The resulting purchases that the cardholders procured in our sample totaled \$4,872.90.

*Criteria.* The City's Purchasing Card Policies and Procedures require in Section 6, "Any City employee authorized and approved to use a Card shall be required to read, sign and date the Card Request/Employee Agreement form and must attend mandatory training prior to being issued the Card." In Section 12, Department Director's are responsible for the following: "Authorize issuance of cards to employees, and ensure the employee is personally informed of all terms and conditions imposed with the privilege of using a Card, including the dollar limitations and restrictions placed on the Card." Section 15: Program Administrators are responsible for: "Approve issuance and replacements of all Cards requested by a department director."

*Effect.* There is a potential risk that employees will not properly understand the rules and regulations prior to incurring expenses on a Purchase Card. As well as the risk that employees will obtain unauthorized Purchase Cards and not properly understand the rules and regulations prior to incurring expenses.

*Management Response.* The City concurs with this finding. DFAS will continue to communicate the City's Purchasing Card Policies and Procedures to department Directors and fiscal staff through Financial User Group Meetings, Purchasing Liaison User Group meetings, and email communications. There are internal procedures currently in place that prevent the P-Card Administrators from processing new travel or purchasing cardholder agreements without the proper authorization from the respective department Director, and distributing cards to new or existing cardholders without proper evidence of training/re-training. Procurement Card Training is required for new cardholders before issuance of the card. Existing cardholders must re-attend the training every two years before issuance of cards that are renewed for normal expiration.

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**09-06 PURCHASE CARD- TECHNICAL REVIEW COMMITTEE**

*Condition.* 1 of 26 transactions did not agree with CABQ's Purchasing Policies. A Xerox Copier was purchased for a price of \$803.00 without using the Technical Review Committee's approval process via purchase requisition. The Technical Review Committee reviews and approves all projects and purchases over \$500.

*Criteria.* Per the Photocopiers section of the CABQ website, all photocopier procurements (purchased or leased) require the following: a completed requisition, a quote from the vendor, a complete lease order form, a completed copier needs assessment form, and TRC approval if the equipment will be networked.

*Effect.* Information systems related purchases would not have the expertise required to examine all details of a purchase. This could lead to unexpected costs incurred or the purchase of incorrect equipment.

*Cause.* The City employee who made this purchase probably was unaware of the City's Purchase Card Technical Review Committee process.

*Recommendation.* We recommend that management review all information systems purchase card purchases to make sure they adhere to the Technical Review Committee purchasing policies.

*Management Response.* The City concurs with this finding. The purchase of the Xerox Copier was made to quickly address the failure of fax and printer equipment for Aviation Communication Center in order to prevent disruption of services related to public safety and sensitive police department inquiries. At the time of the purchase, Aviation understood that purchases under \$1,000 did not require TRC approval. Since then, Aviation personnel have attended refresher P-Card training classes as well as reviewed TRC policies to ensure violations of P-Card and TRC policies do not re-occur.

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**09-08 LACK OF WRITTEN POLICIES & PROCEDURES IN PLACE FOR THE CASH DISBURSEMENT PROCESS**

*Condition.* The City does not have any policies and procedures in place over Cash Disbursements. During Cash Disbursements internal control testwork we were unable to obtain a formalized copy of policies and procedures. The City appears to be knowledgeable in the areas of the Cash Disbursements process which is evidenced by a walkthrough performed by our office; however, since no formalized policies and procedures exist testwork over the area can not be verified.

*Criteria.* Good accounting practices necessitate that entities have policies and procedures in place to properly train employees of the process in which they are involved. Without any written procedures an entity is unable to determine if proper procedures are being followed.

*Effect.* The lack of complete written procedures increases the risk of loss of funds and disruption of the operation.

*Cause.* The City has not had the time to sit down and formalize procedures due to the uncertainty of how the ERP system would work. The guidance to departments was constantly changing so it made it hard to create procedures.

*Recommendation.* We recommend the City have written policies and procedures in place to provide departments with a consistent process to help them operate effectively. Written procedures are also beneficial for the training of current and new employees and are a valuable resource in the event that an employee leaves the department.

*Management Response.* The City concurs with this finding. DFAS will formally document the Cash Disbursement process and it will be communicated to department fiscal staff through Financial User Group meetings and email communications.

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**09-09 INTERNAL CONTROL OVER TRAVEL AND PER DIEM**

*Condition.* As part of our audit, we tested internal controls for twenty-five travel and per diem disbursements. For one of the items tested, the City overpaid the employee for one day of meals and incidentals. The amount of overpayment was \$39.

*Criteria.* Per NMAC 2.42.2.9 and the Travel Regulations for the City of Albuquerque an employee shall only be paid for the actual cost of expenses incurred.

*Effect.* Expenses may be understated if the City overpays employees for travel and per diem.

*Cause.* There was a calculation error that was not caught by the department during the review of the travel voucher.

*Recommendation.* The City should review travel authorization forms thoroughly to ensure that errors are caught and corrected before final checks are processed.

*Management Response.* The City concurs with this finding. Travel forms will be reviewed and recalculated more thoroughly to ensure the disbursement amounts are correct.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-10 CASH DISBURSEMENTS**

*Condition.* During the fiscal year, the accounts payable department processed 11,975 transactions where the City paid out money. The auditors selected 25 of these transactions to test totaling \$19,384.51. We noted the following:

- 5 transactions in the amount of \$1,241.08 did not have a signature evidencing the goods were received by department
- One transaction in the amount of \$3,156.93 did not have a Contract Release Order in existence and one transaction in the amount of \$42.75 did not have an approved signature on the Contract Release Order
- 2 transactions that totaled \$214.16 did not have a signature evidencing the accounting vendor clerk reviewed the requisition
- One of the items had an underpayment in the amount of \$3

*Criteria.* Payments should only be made for goods and services actually received and the required forms and proper authorization must be obtained prior to goods being purchased. Payments should only be made for goods and services approved by the City and all expenses incurred are paid.

*Effect.* The City could potentially pay for assets that were never received and goods could be purchases without receiving the proper paperwork or approvals. The City could incur a loss if goods and services are paid for but are not received.

*Cause.* The department failed to obtain the required approvals to confirm the goods were in fact received. The City personnel were unaware that an adding error occurred and was not caught by the department during their review.

*Recommendation.* The City should receive the proper approvals before goods are received and all corresponding documents are included. All requisitions should be thoroughly reviewed to ensure all required approvals are obtained and ensure disbursements are reviewed and checked for mathematical accuracy.

*Management Response.* The City concurs with this finding. Upon conversion to the Peoplesoft system in January 2009, both the Contract Release Order and Receipt processes for Cash Disbursements are electronic and do not require signature on the source documents. The DFAS will formally document the Cash Disbursement process and it will be communicated to department fiscal staff through Financial User Group meetings and email communications.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-11 INABILITY TO PRODUCE UNMATCHED INVOICE REPORT FOR PROPER ACCOUNTS PAYABLE  
REVIEW**

*Condition.* During the testwork of accounts payable, we were informed the City does not have the ability to produce an unmatched invoice report. The AP process has changed due to loss of this functionality in the newly installed Peoplesoft system.

*Criteria.* Pursuant to Section 6-6-3 NMSA 1978, the City is to keep all the books, records and accounts in their respective offices in the form prescribed by the local government division of the Department of Finance and Administration. The City must be able to determine an accurate amount owed from outstanding invoices in Accounts Payable.

*Cause.* The conversion of accounting software to Peoplesoft has created the situation due to the fact that it does not have the ability to produce an unmatched invoices report.

*Effect.* The City is in violation of Section 6-6-3 NMSA 1978. The City did not ensure this functionality was in place during the conversion of the new accounting software. This has a direct effect on cash management for the City. The ability to monitor the invoices received against approved purchase documents is imperative for proper maintenance of amounts due in Accounts Payable. Unnecessary late charges or fees could be incurred unnecessarily. There could be an understatement of the Accounts Payable for a particular period with a potential for improper accounting of expenditures in a different period.

*Recommendation.* We recommend that the City implement regular monitoring of its outstanding invoices against open and approved purchase orders to ensure that all monies are paid timely.

*Management's Response.* The City concurs with this finding. Upon conversion to the Peoplesoft system in January 2009, the City lost its ability to produce an Unmatched Invoice Report which was used by departments to track the aging of unpaid vendor invoices. This report was not a delivered or configured function of the Peoplesoft system. Since that time, the City has been working with its ERP consultants and ERP staff to develop and implement a replacement for the unmatched invoice report.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-13 VACATION AND SICK LEAVE ACCRUAL RATES**

*Condition.* During our testwork of Accrued Compensated Absences, we noted there are discrepancies in the employee's accrual rates for classified employees per City Policy 306.1.

Out of the 25 disposals tested:

- One employee's per pay period accrual rates in the payroll system were noted as: Vacation Leave - 4.67 hours and Sick Leave 3.74 – hours, and per City Employee rules and Regulations the accrual rates should be: Vacation Leave - 4.62 hours and Sick Leave - 3.70 hours. The difference is .05 and (.04) hours respectively per pay period. Based on 26 bi-weekly pay periods during the year, the employee may have accrued an additional 1.3 hours in vacation leave and 1.04 hours less in sick leave per year than what is allowed.
- One employee's per pay period accrual rates in the payroll system were noted as: Vacation Leave - 4.47 hours and Sick Leave 3.57 – hours, and per City Employee rules and Regulations the accrual rates should be: Vacation Leave - 4.62 hours and Sick Leave - 3.70 hours. The difference is .15 and .13 hours respectively per pay period. Based on 26 bi-weekly pay periods during the year, the employee may have accrued an additional 3.9 hours in vacation leave and 3.38 hours less in sick leave per year than what is allowed.
- One employee's per pay period accrual rates in the payroll system were noted as: Vacation Leave – 5.39 hours, and per City Employee rules and Regulations the accrual rates should be: Vacation Leave – 5.54 hours. The difference is .15 hours respectively per pay period. Based on 26 bi-weekly pay periods during the year, the employee may have accrued an additional 3.9 hours in vacation leave per year than what is allowed.
- One employee's per pay period accrual rates in the payroll system were noted as: Vacation Leave – 5.54 hours, and per City Employee rules and Regulations the accrual rates should be: Vacation Leave – 5.45 hours. The difference is (.09) hours respectively per pay period. Based on 26 bi-weekly pay periods during the year, the employee may have accrued an additional 2.34 hours in vacation leave per year than what is allowed.
- One employee's per pay period accrual rates in the payroll system were noted as: Vacation Leave – 3.51 hours and Sick Leave 3.37 – hours, and per City Employee rules and Regulations the accrual rates should be: Vacation Leave – 3.85 hours and Sick Leave - 3.70 hours. The difference is .34 and .33 hours respectively per pay period. Based on 26 bi-weekly pay periods during the year, the employee may have accrued an additional 8.84 hours in vacation leave and 8.58 hours less in sick leave per year than what is allowed.

*Criteria.* Per City Policy 306.1, which establishes the accrual rates for City employees.

*Effect.* Without proper accrual of the vacation and sick leave, employees may be under or over accruing during the year and not able to utilize the proper amount of vacation and sick leave which is due to them.

*Cause.* The amount is not being updated properly in the software to accrue the proper hourly rates of Vacation and Sick Leave for the City employees.

*Recommendation.* We recommend that the City's finance and payroll personnel review the accrual rates for the employees with a quarterly or semi-annual monitoring procedure to review the accrual rates for the employees are accurate.

*Management Response.* The City concurs with this finding. The noted issues relating to incorrect vacation and sick accrual rates was resolved upon conversion to the Peoplesoft system in January 2009.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-14 ACCURATE AND TIMELY BUDGET TO ACTUAL INFORMATION**

*Condition.* The expenditure data for the budget to actual reports for the City and the Albuquerque Bernalillo Water Utility Authority (WUA) was not available in a timely manner throughout FY2009 to ensure that expenditures did not exceed amounts budgeted.

*Criteria.* Per ordinances Section 2-11-12 ROA 1994, the City cannot overspend their budget.

*Effect.* There is an increased risk of overspending budgets.

*Cause.* The City converted to their general ledger system to PeopleSoft in January 2009. Certain aspects of the new software did not function as needed, which created a backlog of information in the system. Therefore, information in PeopleSoft was not up to date and City department and WUA managers could not get timely reports out of the system.

*Recommendation.* The City should continue to work diligently to catch up the information in the new general ledger system so that timely budget to actual reports can be obtained by department and WUA management.

*Management Response.* The City concurs with this finding. The Accounting Division has resolved a majority of the general ledger issues that resulted from the Peoplesoft conversion and is currently working to get the general ledger expenditure information up to date. Then, going forward, the general ledger will be closed on monthly basis to ensure that City department and WUA managers have accurate and timely data for budget to actual analysis. Also, although budget to actual reports were not available, the City did continue to monitor budgets through the use of detail transaction reports to help insure City department expenditures remained within available appropriations.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-15 TIMELY CLOSING OF GENERAL LEDGER AND RECONCILIATION OF SUBSIDIARY LEDGERS**

*Condition.* The general ledger for fiscal year ending June 30, 2009, was not closed until July 2010. We also noted that various subsidiary ledgers were not timely reconciled to the general ledger.

*Criteria.* Good internal controls require timely reconciling of subsidiary ledgers and closing of the general ledger.

*Effect.* Reporting of the City's Comprehensive Annual Financial Report (CAFR) is late, which may affect the City's bond ratings and federal funding. Other important deadlines are missed, which places the City out of compliance with various regulations, such as the 2009 New Mexico State Auditor Rule and the Single Audit Act. When subsidiary ledgers are not timely reconciled to general ledger, there is an increased risk of errors in the general ledger not being detected and corrected in a timely manner.

*Cause.* The City converted to their general ledger system to PeopleSoft in January 2009. Certain aspects of the new software did not function as needed, which created a backlog of information in the system. Information in the system was not accurate, therefore creating the need of in depth review of information by accounting and many adjusting journal entries to correct the information in the system. Additionally, there are a number of standalone subsidiary ledgers in the various departments that are not interfaced with the general ledger system.

*Recommendation.* The City should continue to work diligently to catch up the information in the new general ledger system. The City should devote appropriate resources in gaining better functionality of the new system.

All stand alone subsidiary ledgers should be interfaced with the general ledger system and reconciled timely to the general ledger.

*Management Response.* The City concurs with this finding. The Accounting Division has resolved a majority of the general ledger issues that resulted from the Peoplesoft conversion and is currently developing and documenting the monthly closing process. The Accounting Division has also assigned staff resources to complete monthly reconciliation of the subsidiary ledgers on a timely basis.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-22 ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY CAPITAL ASSETS**

*Condition* . In our testing of capital assets, we noted that the Authority capitalizes into infrastructure estimates on fire hydrant installations. The amount capitalized is based on engineers' estimates. In our sample of the Authority's capital assets, we included twelve fire hydrant projects. Of those twelve, two had supporting documentation, but the amount recorded did not agree to the amount per the documentation, and three had no supporting documentation. The total amount of known and projected misstatement totaled approximately \$85,000.

*Criteria*. Good accounting practice requires the retention of appropriate supporting records.

*Effect*. There is a risk of misstatement if the Authority does not maintain proper supporting documentation.

*Cause*. These items do not fall in the accounts payable cycle, in which there are established policies and procedures that help ensure supporting documentation is maintained. Therefore current policies do not address these particular transactions.

*Recommendation*. The Authority should implement policies and procedures to help ensure that transactions of this nature are properly recorded, and that documentation is obtained and maintained in accordance with the Authorities policy on all accounting transactions.

*Management Response*. We will work with our engineering group to implement proper policies and procedures within this program. Finance will also review all documentation before any accounting transactions are made.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**07-08 UNCOLLATERALIZED BANK DEPOSITS (MODIFIED AND REPEATED)**

*Condition.* The City's cash balance on deposit at Bank of America exceeded the FDIC insurance of \$250,000 for interest bearing deposits from July 1, 2008 through December 22, 2008 when the City then received collateralization on the time deposits from Bank of America. The amount that was uncollateralized varied directly to the amount on deposit on a day to day basis. This is the result of the bank not collateralizing "uncollected funds" in the City's accounts. Further, the City had failed to remove its funds from Bank of America as required by the Public Money Statutes. All of the other banks in which the City has deposited funds that require collateralization have collateralized both "collected" and "uncollected funds", during all of FY 2009.

*Criteria.* The Public Money statutes, 6-10-16 and 6-10-17 NMSA 1978 require the bank to collateralize the City's bank accounts in an amount equal to one half of the public monies in excess of the FDIC insured amount. The Public Money statutes do not differentiate between "collected" and "uncollected" funds. In addition, the Public Money statutes, 6-10-17.1 NMSA 1978 require the City to withdraw its funds from the Bank of America within ten calendar days after the bank failed to post the required collateral.

*Effect.* The City has cash on deposit at the bank that is at risk of loss in the case of bank failure. The City is also not in compliance with the New Mexico Public Money statutes.

*Cause.* The Bank of America has relied upon an advisory opinion from the Federal Deposit Insurance Corporation (FDIC) that is not germane to the issue of whether the City's bank balances at Bank of America are adequately collateralized pursuant to the New Mexico Public Money statutes cited in the criteria. The advisory opinion from FDIC is just that: an opinion. It does not carry the same authority as a law and it is subject to being overturned by a higher authority.

*Recommendation.* Demand the bank post collateral for the City's accounts pursuant to the Public Money Statutes. If the bank continues to refuse to comply with the Public Money Statutes within the ten days provided by 6-10-17.1 NMSA 1978, the City must withdraw its funds from the bank within the next ten days.

*Management Response.* Beginning December 22, 2008 the City of Albuquerque instructed its fiscal agent, Bank of America, to collateralize all deposits in excess of \$250,000, measured at the account level, at a valuation of 100% of ledger balance. Previously, deposits in excess of the FDIC insurance threshold were collateralized at 100% of collected balance.

Although the City of Albuquerque has complied with the finding's recommendation by ordering its fiscal agent to post collateral based on ledger balance, the City disagrees with the premises of the finding. The audit conclusions that "the City has cash on deposit with the bank that is at risk of loss in the case of bank failure," and that "the City is also not in compliance with the New Mexico Public Money statutes," are not grounded in fact. Public Money Statutes 6-10-16, 6-10-17, and 6-10-17.1 as referenced by the audit, as well as all other NM Public Money statutes, are silent as to the collected vs. ledger basis for collateralization. Therefore, it is prudent to refer to the statutory definition of a deposit for guidance. NM Section 6-10-1.1 defines a deposit as a "share, share certificate, and share draft." This antiquated but relevant terminology provides no insight into the proper collateralization basis. Further, the FDIC provides clear guidance that it will stand behind "deposits in transit" in the event of a transmitting bank's failure.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**07-10 PURCHASE CARDS AND TRAVEL CARDS – PURCHASE LOG/RECONCILIATION (MODIFIED AND REPEATED)**

*Condition.* The City processed 13,081 purchase card (P-Card) and 482 travel card (T-Card) transactions during this fiscal year. We reviewed a sample of 26 P-Card transactions totaling \$5,941 and the following was noted: 10 transactions totaling \$1,650 did not have a log purchase log/reconciliation that were reviewed and signed off by the department director or designee. We reviewed a sample of 25 T-Card transactions totaling \$9,806 and the following was noted: 16 transactions totaling \$5,776 did not have a purchase log/reconciliation that was reviewed and signed off by the department director or designee.

*Criteria.* The CABQ Procurement Procedures require the Cardholder to complete the Purchasing Card Log, forward the reconciled transaction report and attach the supporting documents. The information is required to be submitted to the department director for review and approval within 5 days of the weekly transaction report distribution.

The department director or designee must (a) review the reconciled weekly activity statement for overall legitimacy and accuracy of the charges; (b) sign the purchasing card log certifying the legitimacy and accuracy of the listed transactions and (c) return to the department's Coordinator to retain the records within the department in a secure and orderly manner.

*Effect.* There is a risk of unauthorized purchases being made and an increased risk of fraud.

*Cause.* It appears there is a lack of adequate formal training dealing with P-Card use and the policies and procedures governing P-Cards are not being enforced at all levels.

*Recommendation.* We recommend that management emphasize that P-Card policies and procedures are to be adhered to in all cases. Management should review P-Card transactions on a periodic basis to identify patterns of reoccurring transactions that could be potentially set up as a city-wide contract.

*Management Response.* The City concurs with this finding. The Accounting and Purchasing P-Card Administrators will continue to communicate the reconciliation requirements of the P-Card Policy to Card Coordinators and Department Directors at Financial User Group and Purchasing Liaison Group meetings, as well as email communications.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**08-02 MANUAL PAYROLL CHECKS HANDLING (MODIFIED AND REPEATED)**

*Condition.* During our design and implementation of internal control test work, we noted that the payroll staff initiate, print and distribute manual payroll checks. This may create a lack of segregation of duties in that a payroll staff member that processes a manual check may also be the one who prints and distributes it.

*Criteria.* Good internal controls require segregation of duties between those who process transactions from those who handle the related assets.

*Effect.* There is an increased risk of theft.

*Cause.* The current configuration of the Peoplesoft Payroll module requires the manual checks to be printed as processed and does not allow for batch printing by the another City department.

*Recommendation.* Policies and procedures should be changed to provide a segregation of duties, so that payroll techs are no longer authorized to handle the checks that they process. Only personnel who do not process payroll should be authorized to distribute checks to employees.

*Management Response.* The City concurs with the finding. There are internal controls in place within that require the manual check amounts to be dual verified by a payroll employee other than the initiator. The checks are picked up by the respective City department person authorized to handle checks, who must review and sign a copy of the check which is retained for the Payroll Section's files.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2009**

**09-18 ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY BOND COVENANTS**

*Condition.* The Albuquerque Bernalillo County Water Utility Authority (Authority) was not in compliance with the rate covenant ratio as of June 30, 2009.

*Criteria.* According to the Bond Ordinance of the Series 2009A Bonds, the Authority is to ensure that rates are sufficient to produce net revenues annually to pay 133% of the annual debt service requirements.

*Effect.* The Authority is not maintaining the debt covenant requirements, which could cause the Authority to have to repay the bond or bond ratings to be affected.

*Cause.* Net revenues in 2009 were less than 133% of annual debt service requirements.

*Recommendation.* The Authority should implement a plan to increase net revenues.

*Management Response.* Due to the drastic decline in the economy, the Authority's revenue declined. Part of the revenue that declined were the Utility Expansion Charge Revenues. Growth in the service area declined to a level to where there was no growth at all. The Authority then reduced CIP spending dramatically and has continued to do so until such time this revenue sees an upturn. Also the Authority has kept expenses down with very minimal increases in FY10 and FY11. The Authority also has approved rate increases of 5% each that are effective July 1, 2011 and July 1, 2013. During the first quarter of FY11 the Authority's revenue has shown significant increases over the 1<sup>st</sup> quarter of FY10. The Authority will continue to monitor our Net Revenues and make appropriate adjustments if needed.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATUS OF PRIOR YEAR AUDIT RECOMMENDATIONS**  
**Year Ended June 30, 2009**

**FINDINGS FROM YEAR ENDED JUNE 30, 2008:**

**CURRENT STATUS:**

02-21 Capital Asset Deletions	Repeated
05-13 Audit Report Due Date	Repeated
06-12 Gross Receipts Tax Accrual in Refuse and Water Utility Authority	Resolved
07-08 Uncollateralized Bank Deposits	Repeated
07-10 Purchase Cards	Repeated
08-02 Manual Payroll Checks Handling	Repeated
08-05 Financial Reporting – Documentation of Duties	Repeated
08-06 Bonding Employees Who Handle Investments	Resolved
08-07 Risk Management – Claims Paid Segregation of Duties	Resolved
08-09 Environmental Liabilities	Repeated
08-10 Risk Management- Claims	Resolved
08-12 Noncompliance with the New Mexico State Public Money Law Requirement	Resolved
08-13 Capital Asset Additions	Repeated
08-16 Bank Reconciliation Process	Repeated

**ALBUQUERQUE BERNALILLO COUNT WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**EXIT CONFERENCE**  
**June 30, 2009**

An exit conference was held on October 14, 2010, and attended by the following:

**AUTHORITY PERSONNEL:**

Trudy Jones  
Chair, Water Authority Board

Mark Sanchez  
Executive Director

Tom Ortiz  
Senior Financial Officer

Stanley Allred  
Chief Financial Officer

Cliff Wintrode  
Budget Analyst II

**MOSS ADAMS PERSONNEL:**

Amy Myer  
Audit Senior Manager

**OFFICE OF THE STATE AUDITOR:**

Carla Martinez  
Deputy State Auditor

Blanca Sena  
Audit Supervisor

**CITY PERSONNEL:**

Lou Hoffman  
Director, DFAS

Stephanie Yara  
Acting Accounting Officer