

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A Component Unit of the City of Albuquerque, New Mexico**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**July 1, 2010 through June 30, 2011**



**Albuquerque Bernalillo County Water Utility Authority**  
**A Component Unit of the City of Albuquerque, New Mexico**  
**Comprehensive Annual Financial Report**  
**Year ended June 30, 2011**

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Comprehensive Annual Financial Report  
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## **INTRODUCTORY SECTION**

March 14, 2012

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, 2011. 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, 2011, 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. REDW LLC, Certified Public Accountants, has issued an unqualified opinion on the Authority's comprehensive annual financial report for the year ended June 30, 2011. As indicated by the opinion of the Authority's independent auditors, the report fairly presents the financial position and results of operations of the Authority. 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 auditor's report and provides a narrative introduction, overview, and analysis of the Authority's 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, 2011 are as follows:

Commissioner Art De La Cruz, Chair  
Councilor Trudy E. Jones, Vice-Chair  
Commissioner Maggie Hart Stebbins  
Mayor Richard J. Berry  
Councilor Rey Garduño  
Commissioner Michelle Lujan Grisham  
Councilor Ken Sanchez

Ex Officio Member at June 30, 2011:

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 555,000 and the MSA as of the 2010 census has a population of 887,000. 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, makes up a smaller part of the Albuquerque economy, and has declined in employment in the past 10 years.

Albuquerque MSA Employment in Thousands				
NAICS CATEGORY	Employment FY/11	Share of FY/11 Employment	Growth FY/10 to FY/11	Compound
				Annual Average FY/06 to FY/11
Total Nonfarm Employment <sup>(1)</sup>	370.67	100%	-0.9%	-0.8%
Natural Resources and Mining and Construction	20.32	5%	-9.6%	-7.8%
Manufacturing	17.33	5%	-1.0%	-5.9%
Trade, Transportation, and Utilities	62.62	17%	-0.2%	-1.4%
Information	8.20	2%	-9.0%	-1.9%
Financial Activities	17.54	5%	-3.4%	-2.0%
Aggregate of Services	160.25	43%	-0.4%	0.2%
Professional and Business Services	55.91	15%	-3.4%	-2.0%
Educational and Health Services	54.47	15%	0.7%	2.9%
Leisure and Hospitality	38.10	10%	2.4%	40.0%
Other Services	11.78	3%	-0.3%	-0.4%
Government	83.64	23%	0.6%	1.6%
Military	6.48	NA	4.4%	1.2%

(1) Does not include military

While the U.S. has shown some gains in employment the Albuquerque MSA continues to lose jobs. Construction, particularly single family construction, has fallen off dramatically. The unemployment rate increased from 3.5% in FY/08 to an average of 8.5% in FY/11, with a maximum of 9.4% in July of 2010. Employment declines continued in FY/11 but at a slower rate than in FY/09 and FY/10. Construction declined nearly 10% in FY/11 and while single family construction activity has reached bottom, growth in commercial and public construction continues to slow. The only sectors that had increases in employment are government, leisure and hospitality, and educational and health services. One of the strengths for the Albuquerque economy is the national labs. 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 again in fiscal year 2014. The Authority has operated since fiscal year 2004 with one rate increase of 1% in fiscal year 2007 which was designated for conservation.



Effective July 1, 2007, the Authority Board approved new policies that will impact financial planning for the future. A Rate Reserve Fund 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 included 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 program rehabilitation 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 2011 budget provided the financial basis of operation for the Authority and the Water Utility Department through June 30, 2011. 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 2011, it is at the general ledger fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2011, were not re-appropriated in fiscal year 2012.

#### **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, 2011 was valued at \$561 million at June 30, 2011. The Authority had an average of \$86 million invested in the City's investment pool in fiscal year 2011. The City portfolio average yield for fiscal year 2011 was 0.757%. Interest earned by the Authority totaled \$647,947 for fiscal year 2011.

#### **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. Payments to the Risk Management fund from the Authority for fiscal year 2011 were \$4.91 million compared to payments in the prior year of \$4.15 million. Total claim reserves (current and long-term), including the Authority, were \$66.9 million as of June 30, 2011, a \$5.9 million increase from \$61.0 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 (SWTP) 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 SWTP 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 expectation in the fiscal year 2011 budget was that by the end of fiscal year 2011 the SWTP would provide 50% of the water supplied to the service area. Actual operations met that goal and the fiscal year 2012 budget increases the goal to 60%. The Authority continues to adjust the funding for the SWTP as a history of operating costs is developed.

The third and final water reclamation and reuse project identified in the Water Resource Management Strategy (WRMS), the Southside Municipal Effluent Polishing and Reuse project began construction in fiscal year 2010. This project will utilize treated wastewater effluent for irrigation and industrial use in the southeast heights and south valley areas of Albuquerque. The project will provide up to 2,500 acre feet of non-potable water to more than forty large turf sites including Isotopes Baseball Park and the University of New Mexico Championship Golf Course. Construction is expected to be complete in early fiscal year 2012 with connections to individual users commencing during the fall/winter of fiscal year 2012 and full operations beginning in the 2012 irrigation season.

In May 2009, the Authority acquired New Mexico Utilities Inc. (NMUI), a for-profit water provider and sewer carrier that served approximately 55,000 residents in a thirty-four square mile service area located in northwest Albuquerque. For fiscal year 2010, the Authority created a Northwest Service Area (NWSA) encompassing the area formerly serviced by NMUI and successfully integrated the NWSA operations into the general operations of the Authority. The NWSA provides services not only to former customers of NMUI but also to other Authority Westside rate payers.

In fiscal year 2011, the Authority began to look at the expansion of the current NWSA Division from what was the New Mexico Utilities area to an area that will be bounded by Sandoval County on the north, the Rio Grande River on the east, I-40 on the south and the Rio Puerco on the west. Any expenses associated with this expansion would have to be budget neutral. Development of area operations such as this will improve operational efficiency as well as services to customers. Efforts are proceeding to implement the "area operations" concept in fiscal year 2013.

As a test of the area operations concept, in fiscal year 2012 the NWSA will be developing a reporting matrix where response time, emergency repairs, work order completion percentage, and preventative maintenance can be measured and benchmarked against industry leaders.

The Bear Canyon Aquifer Storage and Recovery project to infiltrate San Juan-Chama water into the aquifer was successful with approximately 1,100 acre-feet infiltrated into the ground over two years. A full-scale pilot program continued in fiscal year 2011 with permitting, design and construction to attempt to place more than 50,000 acre-feet into the aquifer at the water treatment plant site. The aim of this project is to eventually create a future ground water drought supply accessible to the Authority.

The Authority has established an asset management program with a steering committee to oversee the program. The program is an extensive, well thought out 'Business Model' that helps utility managers make better acquisition, operations and maintenance, renewal, and replacement decisions. The principles of asset

management were developed to address the critical problem of aging public infrastructure and changing utility business environment. The Authority has completed several critical projects including the development of an asset register and hierarchy, an asset management information systems strategy, and a capital project validation process.

The asset register and hierarchy have been incorporated into the Computer Management and Maintenance System in a manner that supports asset management business objectives. The capital project validation process has been incorporated into the capital project decade plan to assess the infrastructure and financial needs. The primary elements of the decade plan are business risk exposure for critical assets and asset groups and utilizing a triple bottom line approach to prioritize each project. The decade plan is aligned with the recently completed asset management plan which provides a 100-year projection that will allow the Authority to budget for renewals and replacements into the future. The asset management plan provides several recommendations for asset management improvement which the Authority will continue to work on in line with industry best practices.

The fiscal year 2011 operating budget continues non-recurring 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.

#### *Awards and Acknowledgements*

The Government Finance Officers Association (GFOA) of the United States and Canada has established a Certificate of Achievement for Excellence in Financial Reporting program. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR) which meets program standards and which satisfies both generally accepted accounting principles and applicable legal requirements.

The Authority received the Certificate of Achievement for each annual CAFR it prepared through the fiscal year ended June 30, 2008. While the Authority believed that the CAFR for the fiscal years ended June 30, 2009 and 2010 met Certificate requirements, the 2009 and 2010 CAFRs were not submitted to the GFOA for certificate determination because of delays in completing the CAFR. For similar reasons the CAFR for the fiscal year ended June 30, 2011 will not be submitted to the GFOA for certificate determination although the Authority believes the 2011 CAFR meets Certificate requirements.

The Authority has received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2010. 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,

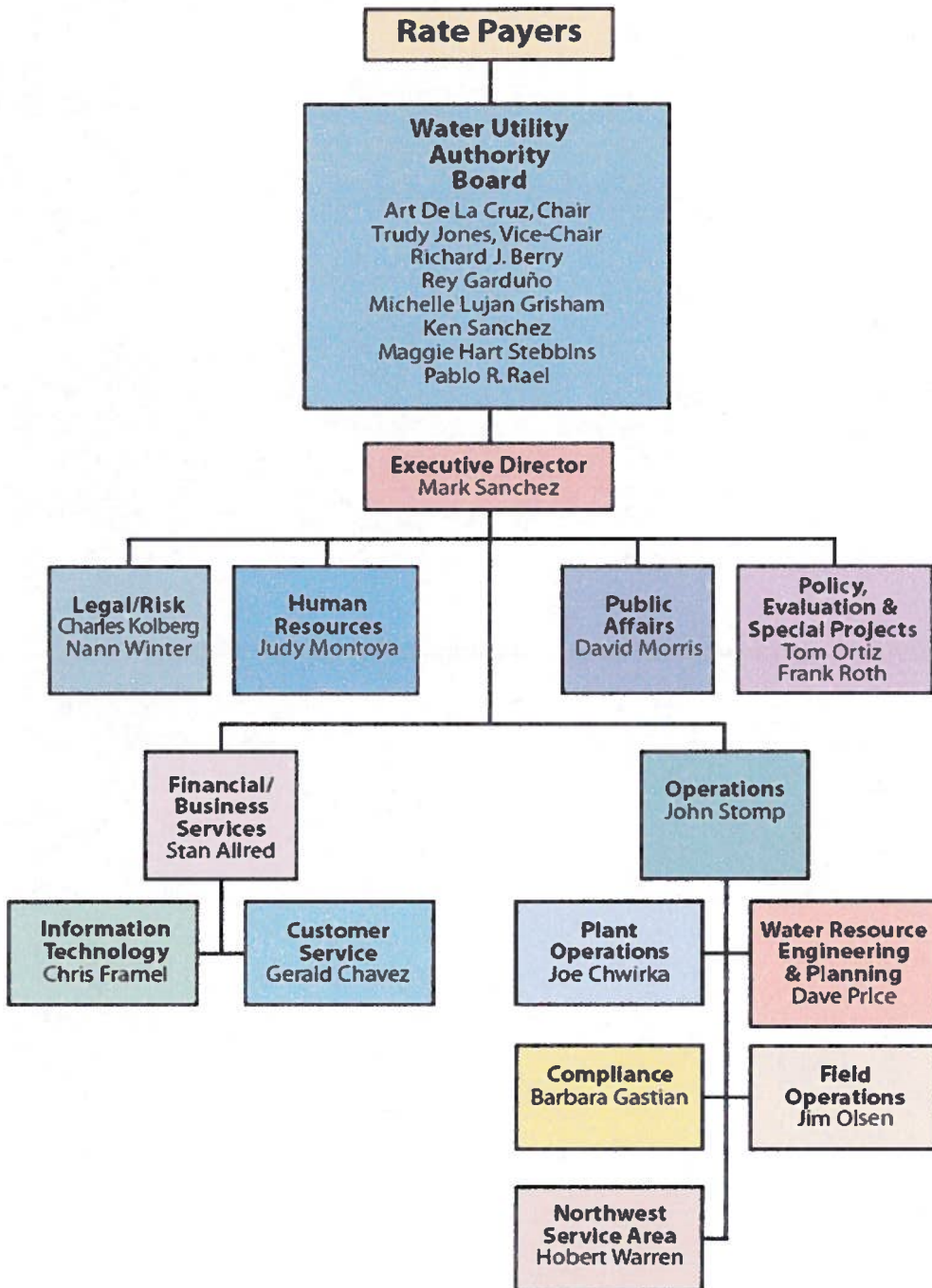


Mark S. Sanchez  
Executive Director



Stanley Allred  
Chief Financial Officer

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



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## **FINANCIAL SECTION**



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## Independent Auditors' Report

The Board of Directors of the Albuquerque  
Bernalillo County Water Utility Authority,  
The Honorable Mayor and City Council Members  
of the City of Albuquerque,  
and  
Mr. Hector Balderas  
New Mexico State Auditor

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (the "Authority"), a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the City of Albuquerque, New Mexico, as of June 30, 2011, 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 above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 14, 2012, on our consideration of the Authority's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for Life Insurance Benefit Plan on pages 11 through 25 and 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. Additional schedules, which include the Schedule of Revenues, Expenses, and Changes in Net Assets -- Budget and Actual, Schedule of Deposits and Investments By Financial Institutions, Schedule of Pledged Collateral By Financial Institutions, and Joint Power Agreements, Memorandums of Understanding, and Other Agreements are presented for purposes of additional analysis and to meet the requirements of the State of New Mexico and are not a required part of the financial statements. These additional schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

REDW LLC

Albuquerque, New Mexico  
March 14, 2012



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

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, 2011. 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 SNAPSHOT**

**From the Statement of Net Assets**

- At the close of fiscal year 2011, the assets of the Authority exceeded its liabilities by \$701.4 million (net assets).
- Comparing fiscal year 2011 with fiscal year 2010, the Authority's net assets decreased by \$33.5 million or (4.6)%.
- Comparing fiscal year 2011 with fiscal year 2010, the Authority's total long-term obligations decreased by \$42.8 million or (6.2)%. Long-term debt decreased by \$42.8 million and non-current accrued vacation, sick leave and deferred revenue remained unchanged.
- Comparing fiscal year 2011 with fiscal year 2010, cash of the Authority decreased by \$60.51 million or (51.3)%.

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

- Comparing fiscal year 2011 with fiscal year 2010, operating revenues were \$158.51 million, an increase of \$5.37 million or 3.5%.
- Comparing fiscal year 2011 with fiscal year 2010, operating expenses, net of depreciation, amortization and provision for bad debts were \$100.76 million, an increase of \$5.76 million or 6.1%.
- Comparing fiscal year 2011 with fiscal year 2010, utility expansion charge revenues were \$6.24 million, a decrease of \$.59 million or (8.7)%.

**From the Statement of Cash Flows**

- Comparing fiscal year 2011 with fiscal year 2010, net cash provided by operating activities decreased by \$.87 million to \$60.93 million. Cash received from customers increased by \$3.95 million while cash paid to or on behalf of employees increased by \$3.00 million.
- Comparing fiscal year 2011 with fiscal year 2010, debt service costs including issuance costs were \$69.28 million, a decrease of \$2.79 million.
- Comparing fiscal year 2011 with fiscal year 2010, payments for the acquisition and construction of capital assets were \$66.72 million, a decrease of \$5.39 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 and accounted for similar to an enterprise fund. As such, it does not include in its financial statements financial information for individual general ledger funds that are used for internal accounting purposes.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, continued**  
**June 30, 2011**

The Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations which are the provision of water and sewer services to customers within the Authority's service area. The principal operating revenues result from exchange transactions in which each party receives and gives up essentially equal values.

**Measurement Focus / Basis of Accounting:**

The Authority's financial statements included herein present financial information using a recognition concept comprised of two elements, measurement focus and basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. In general, a specific measurement focus is matched with the corresponding basis of accounting that supports the measurement focus.

For governments to achieve the objective of accountability, financial information must be both relevant and reliable for reasonably informed users. Financial reports must satisfy numerous and diverse needs or objectives, including short-term financial position and liquidity, budgetary and legal compliance, and issues having a long-term focus such as capital budgeting and maintenance. Additionally, differences exist in the amount of detail that various users need. Presentations using different measurement focus/basis of accounting formats are required to meet these complex objectives.

The flow of economic resources measurement focus combined with the accrual basis of accounting is the most expansive perspective and recognizes any transaction which adds or subtracts economic resources from the entity. This measurement focus is used with the accrual basis of accounting so that revenues are recognized in the accounting period in which they are earned and become measurable without regard to availability and expenses are recognized in the period incurred, if measurable.

The budgetary basis of accounting can be any comprehensive basis of accounting chosen by the entity including hybrids of the accrual, modified accrual or the cash basis of accounting. The Authority's budgetary basis is consistent with the accrual basis of accounting with the exception of the accounting for debt service, which includes debt service principal payments, certain cash transfers, capital contributions, capital outlay, and capitalized interest costs.

**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 detailing the changes in the Authority's net assets for the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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, noncapital financing activities, and investing activities for the fiscal year.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
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**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).

**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.

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 are 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 constitutional provisions or enabling legislation.

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.

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.

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**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.

**FINANCIAL ANALYSIS**

**Net Assets and Cash**

**Table 1 - Condensed Statement of Net Assets**

	<u>FY 2011</u>	<u>FY 2010<sup>(1)</sup></u>	<u>Change</u>
<b>Assets</b>			
Current assets	\$ 71,989,115	\$ 53,910,335	\$ 18,078,780
Non-current assets other than capital assets	8,621,187	90,082,268	(81,461,081)
Capital assets, net	<u>1,339,667,749</u>	<u>1,348,939,455</u>	<u>(9,271,706)</u>
Total assets	<u>1,420,278,051</u>	<u>1,492,932,058</u>	<u>(72,654,007)</u>
<b>Liabilities</b>			
Current liabilities	70,704,419	67,090,400	3,614,019
Long term bonds and notes payable	648,105,525	690,879,700	(42,774,175)
Other non-current liabilities	<u>108,563</u>	<u>93,260</u>	<u>15,303</u>
Total liabilities	<u>718,918,507</u>	<u>758,063,360</u>	<u>(39,144,853)</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	656,043,802	692,921,420	(36,877,618)
Restricted for construction	-	11,071,808	(11,071,808)
Unrestricted	<u>45,315,742</u>	<u>30,875,470</u>	<u>14,440,272</u>
Total net assets	<u>\$ 701,359,544</u>	<u>\$ 734,868,698</u>	<u>\$ (33,509,154)</u>

<sup>(1)</sup> The FY2010 data has been restated to show the current portion of long-term debt as a reduction of the net assets category called 'Invested in capital assets, net of related debt'. The FY2010 financial statements, as issued, reflected the current portion of long-term debt as a reduction of the net assets category called 'Unrestricted'. The amount of the restatement was \$35,443,373.

Table 1 presents a summarized comparative statement of net assets for the current and prior fiscal year.

As noted in reference (1) below Table 1, the fiscal year 2010 data was restated to correct the error of including the current portion of long-term debt as a reduction of unrestricted net assets rather than as a reduction of net assets invested in capital assets net of related debt. The fiscal year 2011 presentation similarly reflects the current portion of long-term debt as a reduction of net assets invested in capital assets net of related debt.

\$24.6 million of the \$38.2 million of the current portion of long-term debt shown in the statement of net assets was paid on July 1, 2011.

The comparison of current year and prior year figures for non-current assets other than capital assets and for net assets restricted for construction have been affected by a reevaluation done of the Authority's cash balances in the general ledger funds in which capital projects are recorded. In prior years, all cash balances maintained in these general ledger funds were presented as restricted non-current assets.

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However, the reevaluation resulted in the conclusion that the cash balances in these general ledger funds as of June 30, 2011 are unrestricted, since the cash balances represent capital projects funding provided by the Authority's unrestricted operating revenues. Therefore, there were no restricted assets or restricted net assets as of June 30, 2011.

**Financial Statement Revenues and Expenses Classified by Budgetary Program**

**Table 2 - Schedule of Revenues, Expenses, and Changes in Net Assets**  
**Using Budgetary Functional Categories of Expenses**

	<u>Comment</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
<b>Operating revenues:</b>				
Water charges including reuse		\$ 73,980,290	\$ 71,224,394	\$ 2,755,896
Sewer charges		48,504,637	49,852,577	(1,347,940)
Strategy implementation fee		25,922,012	23,245,176	2,676,836
Franchise fees billed		5,850,237	5,628,627	221,610
High consumption water surcharges		3,225,650	2,197,078	1,028,572
Administrative fees		<u>1,032,000</u>	<u>997,000</u>	<u>35,000</u>
Total operating revenues	1	<u>158,514,826</u>	<u>153,144,852</u>	<u>5,369,974</u>
<b>Operating expenses:</b>				
Program expenses:				
Water plant facility production		10,789,435	10,401,379	388,056
Water plant facility distribution		12,311,451	12,420,957	(109,506)
Water distribution facilitation		5,139,057	3,468,153	1,670,904
Wastewater treatment		13,819,922	13,916,853	(96,931)
Compliance		3,507,729	2,833,507	674,222
Wastewater collection		8,147,070	7,858,467	288,603
Sustainable water supply		9,422,059	7,985,026	1,437,033
North I-25 reuse		317,202	472,530	(155,328)
Customer services		5,010,350	4,647,582	362,768
Finance		6,506,612	6,163,571	343,041
Human resources		1,387,193	1,354,292	32,901
Northwest service area		1,437,495	2,277,291	(839,796)
San Juan-Chama		909,519	627,657	281,862
Water resources management		5,871,027	5,974,990	(103,963)
Information systems		4,194,453	3,640,489	553,964
Low income utility credit		243,976	229,612	14,364
Water Authority		3,967,766	3,181,924	785,842
Administrative expenses:				
Franchise fees paid		5,840,178	5,737,125	103,053
Administrative fees paid to City		1,932,535	1,805,000	127,535
Other operating expenses:				
Depreciation and amortization	3	83,848,436	81,839,587	2,008,849
Provision for bad debts		<u>358,090</u>	<u>-</u>	<u>358,090</u>
Total operating expenses	2	<u>184,961,555</u>	<u>176,835,992</u>	<u>8,125,563</u>
Operating loss		<u>(26,446,729)</u>	<u>(23,691,140)</u>	<u>(2,755,589)</u>

(continued on next page)

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**Table 2 - Schedule of Revenues, Expenses, and Changes in Net Assets**  
**Using Budgetary Functional Categories of Expenses, continued**

	<u>Comment</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Operating loss - from previous page		(26,446,729)	(23,691,140)	(2,755,589)
Non-operating income (expenses)				
Utility expansion charges	4	6,240,073	6,834,261	(594,188)
Investment income		208,699	865,763	(657,064)
Interest expense		(25,324,138)	(24,977,661)	(346,477)
Gain (loss) on disposition of assets		(267,394)	7,450	(274,844)
Bond issue amortization		(413,779)	(516,023)	102,244
Other income		1,658,254	1,240,013	418,241
Lease of water rights		1,105,535	1,192,826	(87,291)
Non-capital expenses paid from a general ledger fund for capital project activity		<u>(807,702)</u>	<u>(905,244)</u>	<u>97,542</u>
Loss before capital contributions		(44,047,181)	(39,949,755)	(4,097,426)
Capital contributions	5	<u>10,538,027</u>	<u>18,917,211</u>	<u>(8,379,184)</u>
Change in net assets		(33,509,154)	(21,032,544)	<u>\$ (12,476,610)</u>
Net assets, July 1		<u>734,868,698</u>	<u>755,901,242</u>	
Net assets, June 30		<u>\$ 701,359,544</u>	<u>\$ 734,868,698</u>	

Table 2 tracks the change in net assets using a format similar to the Statement of Revenues, Expenses and Changes in Net Assets (financial statement income) but reports operating revenues and expenses using budgetary programs. Seeing functional categories of expenses, the budgetary programs, rather than the object based expenditure reporting in the basic financial statements, is intended to allow the reader to make a stronger connection between financial statement income and the Statement of Revenue, Expenses and Changes in Net Assets – Budget and Actual (budgetary income). Table 2 also enhances the schedule's effectiveness by presenting comparative data with the prior fiscal year.

Comments:

1 - Operating revenues, whether for water or for sewer charges, are tied to water consumption. Water consumption fluctuates with summer temperatures, summer precipitation, and to a lesser extent, spring precipitation. There were no rate changes between FY/10 and FY/11. Comparing the three months of greatest water consumption, June, July and August, included in fiscal years 2010 and 2011, the precipitation in fiscal year 2010 was 2.50 inches and 3.14 inches in fiscal year 2011. However, overall precipitation in fiscal year 2010 was 7.45 inches or 88% of normal while fiscal year 2011 had 6.56 inches or 77% of normal.

2 - Operating expenses in general increased due to higher salary and benefit costs and operation of the Surface Water Treatment Plant. The Authority operates and maintains two water systems, the well/aquifer system and the surface water treatment system. Although the well/aquifer system usage is being reduced as the surface water system increases capacity, the well/aquifer system will still have to be fully operational to supplement the surface water as necessary. The operation of these systems represents a dual cost for the Authority.

Employee compensation is the largest cost component and there is not an operational function where these costs are not significant. Employee compensation increased by \$2.9 million in fiscal year 2011 due to increased benefit costs and the implementation of a new compensation system. Other significant cost components are power and chemicals as both are needed in water and water reclamation

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operations. With the operation of the Surface Water Treatment Plant, there is a tradeoff between reduced demand for electricity needed for pumping water from wells and an increased demand for chemicals needed to make the surface water safe for drinking. The combined utility and chemical costs in fiscal year 2011 increased by \$1.76 million in fiscal year 2011. Increased power and chemical costs was a significant contributor to the fiscal year 2011 increases in some programs. The Authority's increased power costs were in line with the national increase in energy costs.

The decline in the Northwest Service Area program costs was due to the plant expenses for electricity and repairs and maintenance being reallocated in fiscal year 2011 to other programs in the Plant division.

3 - The increase in depreciation expense is attributable to the Authority's commitment to improving its infrastructure and there will continue to be annual increases in depreciation expense.

4 - 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 continued to be dismal in FY/11.

5 - The fiscal year 2010 capital contribution figure includes almost \$12.6 million from private developer infrastructure where developers are paying for the installation of small diameter water and sewer lines as part of the development agreement with the Authority and in accordance with the Authority Board's "no net expense" policy for system expansion. The similar figure for fiscal year 2011 was under \$5.5 million and is another indicator of the sluggishness in the local construction industry and the stagnant utility expansion charge revenue results.

#### Operating Budget

In the preparation of the fiscal year 2011 budget, certain assumptions were made related to the operations of the Authority, the economic climate and system growth within Bernalillo County and the City of Albuquerque.

- There was no rate increase for fiscal year 2011.
- Operating revenues were projected using a 5 year historical trend based upon growth and consumption. The trend was structured by class of customer as well as by the service size of each class. The projected revenues took into account the Authority's continued conservation efforts.
- System growth was based on a 2% growth factor offset in part by an estimated 1% water conservation effect.
- Utility expansion charge revenues were increased slightly for fiscal year 2011.
- There was no cost of living salary adjustment for fiscal year 2011.
- Fringe benefits were calculated at 42.78% of gross wages with a 3% shift between the employer/employee split in other employee benefit costs from the prior 83/17% split to 80/20% split.
- Increases in power, fuel, and chemical costs would not exceed the Consumer Price Index in fiscal year 2011.
- \$2 million was appropriated for addition to the Rate Reserve Fund making the balance in the Rate Reserve Fund equal to \$7 million. The full \$7 million was then released by the Authority Board to bolster the Authority's working capital balance.

The Authority's operating budget as approved had a deficit of revenues under expenses of \$1.62 million with the budget being balanced by the use of accumulated resources called working capital balance in the budget document and represented in the financial statements as unrestricted net assets. The Authority's latest ten year financial plan incorporates the accumulation and use of working capital and is integral to the Authority maintaining current rates through fiscal year 2011.

Actual results produced a deficit of (\$15.37) million or (\$13.75) million larger than budgeted. Revenues were \$9.81 million below budget even though they were higher than fiscal year 2010. The actual expenses exceeded the budgeted expenses by \$3.94 million, which was a decline in performance from the \$.71 million overspent figure in fiscal year 2010. Debt service exceeded budget by \$.07 million. A discussion of the factors responsible for the budget performance is shown above in the section on financial statement revenues and expenses classified by budgetary function.

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Note that the operating budget as shown in the Statement of Revenues, Expenses, and Changes in Net Assets – Budget and Actual includes revenues shown as operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets and revenues included in the non-operating revenues and expenses section of that statement. The reason for this lack of conformity is while operating revenues have a specific definition for financial statement income any revenues budgeted in an operating fund are considered operating revenues for budget purposes.

**CAPITAL ASSETS**

The Authority's Capital program is comprised of different categories of projects, each with its own funding rules. The 'Basic Program' is funded by recurring revenues generated from the water/sewer rate structure. Special Projects are done outside of the Basic program but are funded from the same revenue stream that funds the Basic Program. Since the Basic Program is the first in line to get this revenue, the size and scope of these Special projects depend upon the availability of resources. 'Dedicated Revenue' projects have a revenue element in the rate structure dedicated for that specific purpose and accordingly, their size and scope are dependent upon the revenue stream generated. The Authority has increased its utilization of state and federal grants in recent years to fund some capital projects in whole or in part.

The blueprint for the Authority's Basic Program is its Decade Plan, a ten-year capital plan required to be updated biennially in even numbered fiscal years with two, four, six, eight and ten year planning elements. The Decade Plan 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 those fiscal years where the Decade Plan must be updated, the new Decade Plan must be approved by the Authority's 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 Basic Program budget. FY/11 was the last year of the two year planning element included in the FY/10 – FY/19 Decade Plan. FY/12 will be the first year of the two year planning element included in the FY/12 – FY/21 Decade Plan approved by the Board in April, 2011.

Basic Program capital needs are incorporated into the water/sewer rate structure. The Rate Ordinance requires that Basic Program needs are funded at least 50% from cash, with the balance of capital funding obtained through revenue bond or loan financing. The rate structure is designed to provide sufficient revenue to meet the 50% cash requirement and to meet the debt service obligations incurred to finance the remainder of the Basic Program. System growth 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 appropriation to Authority capital projects. UEC revenue is considered cash for purposes of meeting the 50% test. The current Rate Ordinance requires a \$30 million Basic rehabilitation program. The Rate Ordinance does not specify the size of the Basic growth program.

The FY/10 – FY/19 Decade Plan was significant for the use of risk analysis techniques combined with an asset management strategy to determine where the Authority's capital resources should be expended in order to maximize the benefit to rate payers. The Authority's asset management plan is intended to provide a business model for managing infrastructure assets to minimize the total costs of owning and operating them at an acceptable level of risk. Rate payers' investment in the infrastructure is maximized as a result. The FY/12 – FY/21 Decade Plan continued the use of risk analysis techniques and asset management and represented the funding decisions made by a broad array of staff and managers throughout the Authority. Project prioritization resulted from unprecedented levels of discussions within the Authority and with outside consultants engaged to assist the Authority in charting a path for its capital program.

Consistent with a risk based approach for making capital decisions, a condition assessment performed on the Southside Water Reclamation Plant 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 Southside Water Reclamation Plant. The \$20 million was allocated over fiscal years 2010, 2011 and 2012. Outside consultants were brought in 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 and two projects – the Plant Odor Control Phase 2 project and the Digester Rehabilitation project – were delayed. The FY/12 – FY/21 Decade Plan further delays these projects and pushes back the first substantial funding of the Primary Clarifiers project into fiscal year 2014. The FY/12 – FY/21 Decade Plan sets the top capital priority at the Southside Water Reclamation Plant as the Preliminary Treatment Facility / Dewatering project which will consist of constructing two separate facilities but will be bid as one project in late fall of 2011.



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The other major initiative begun in FY/10 that had significant spending in FY/11 was the Southside Reuse project. The Southside Reuse project is the final reuse and reclamation project called for in the 2007 Water Resource Management Strategy which combined existing policies from the original 1997 Water Resource Management Strategy with several new policies that were developed in cooperation with federal, state and local agencies. The Southside Reuse project will provide about 2,500 acre-feet per year of treated and polished wastewater effluent for irrigation and industrial uses in the Southeast Heights and South Valley of Albuquerque including Mesa del Sol.

The Southside Reuse project will encompass two pipeline projects, construction of non-potable water facilities at Puerto Del Sol golf course and an effluent filtration plant on the site of the Southside Water Reclamation Plant. The project is funded by San Juan Chama dedicated funds and a 25% cost share from the Bureau of Reclamation under the Title XVI program. Some of the grant money was American Recovery and Reinvestment Act (ARRA) funding.

The growth side of the Basic Program saw a reduction in resources from the \$6 million in fiscal year 2010 to \$4 million in fiscal year 2011. The reduced size of the growth program reflected a no growth projection for UEC revenue and a need to preserve financial resources for operations. The fiscal year 2012 growth program was budgeted at \$3 million and at \$4 million in fiscal year 2013 per the FY/12 – FY/21 Decade Plan.

The Basic growth program has shifted in focus from placing new pipe in the ground to meeting the demands of a business intent on achieving performance improvement goals and meeting mandated standards. Included in the fiscal year 2011 growth budget was spending for aquifer storage and recovery, arsenic treatment, information technology and asset management / master planning.

A busy area of construction activity in fiscal year 2011 was outside of the Authority's Service Area but within Bernalillo County in the community of Carnuel, east of Albuquerque along the I-40 corridor. The Authority Board has adopted a "no net expense" policy for extension of services outside of the Service Area. The "no net expense" policy covers both the cost of constructing the infrastructure and future costs for maintaining the infrastructure. The expected revenues generated from any expansion or improvement to the System must be sufficient to cover the expected system maintenance costs. In fiscal year 2011, expansion of the water system was being done in Carnuel with funding provided by a mix of state and federal grants combined with low interest loans. Two New Mexico Water Trust Board grants / loans were closed in November 2011 for the purpose of continuing the planning, design, and construction of a water system for the residents of Carnuel. The new phase of the project will extend into fiscal year 2013.

Operating costs are expected to increase by \$148,000 in fiscal year 2012 as a result of the coming on-line of new capital projects other than the Southside Reuse project. The largest contributor is projects which will enhance the Authority's odor control effectiveness along the large diameter sewer lines. The coming on-line of the Southside Reuse project in fiscal year 2012 is expected to add \$430,000 to operating costs.

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.

Available revenues for the Basic rehabilitation program in fiscal year 2011 plus the appropriated portion of the \$20 million in supplemental funding for the Southside Water Reclamation Plant were \$50 million including carryovers from prior years. Available revenues for the Basic growth program were \$3.4 million including carryovers from the prior years. Because the \$3.4 million was considered insufficient to meet needs and obligations, \$1.5 million from bond proceeds received in a prior year were allocated to the Basic growth program for fiscal year 2011.

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**Infrastructure**

The following tables present the Authority's infrastructure and capital assets at June 30, 2011 and 2010 and significant capital projects or combinations of smaller individual projects with a common purpose placed in service in fiscal year 2011. The project values include capitalized interest.

**Table 3 - Schedule of Capital Assets and Changes in Capital Assets**

	<u>Comment</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Land		\$ 25,657,964	\$ 25,644,811	\$ 13,153
Buildings and Improvements		2,210,836	2,210,836	-
Improvements other than Buildings	1	2,018,325,493	1,962,956,597	55,368,896
Machinery and Equipment		55,677,481	53,464,211	2,213,270
Purchased Water Rights		<u>40,443,654</u>	<u>39,962,117</u>	<u>481,537</u>
Total capitalized assets		2,142,315,428	2,084,238,572	58,076,856
Less accumulated depreciation and amortization		<u>(856,075,080)</u>	<u>(772,781,311)</u>	<u>(83,293,769)</u>
Net capitalized assets		1,286,240,348	1,311,457,261	(25,216,913)
Construction work in progress		<u>53,427,401</u>	<u>37,482,194</u>	<u>15,945,207</u>
Total capital assets		<u>\$ 1,339,667,749</u>	<u>\$ 1,348,939,455</u>	<u>\$ (9,271,706)</u>

**Table 4 - Schedule of Fiscal Year 2011 Major Capital Additions**

	<u>Comment</u>	<u>In Millions</u>
Basic Program with supplemental Southside Water Reclamation Plant funding		
Southside Water Reclamation Plant and Collection System improvements	1	\$ 21.4
Sanitary sewer pipeline renewal		5.2
Drinking water pipeline renewal		4.7
Drinking water facilities Renewal		3.0
Franchise Fee Compliance		2.2
Initiatives in information technology		1.0
Non-Basic Program		
Southside Reuse project		16.9
Carmuel water line system expansion		2.2
Steel water line replacement project		1.3
Third Party Financed		
Private developer and grant funded infrastructure improvements		<u>10.5</u>
		<u>\$ 68.4</u>

**Comments**

1 – The fiscal year 2011 capital program was dominated by renovation work at the Southside Water Reclamation Plant (SWRP) and by ongoing construction for the Southside Reuse Project. As noted above, the condition assessment performed at the SWRP in calendar year 2009 accelerated three projects one of which was significantly delayed upon review during the discussion for the FY/12 – FY/21 Decade Plan. The other two projects were the Final Clarifiers project and the Dewatering Facilities project.

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The Final Clarifiers project was started in fiscal year 2011 and will be completed in fiscal year 2012. This \$7 million project will replace center mechanisms, drives, arms and skimmers with new equipment. \$5 million was spent on this project in fiscal year 2011. The final clarifiers settle and remove the activated sludge components and produce the cleaned and treated final effluent which is discharged from the SWRP into the Rio Grande River.

The Dewatering Facilities project consists of two phases, replacement of the existing centrifuges and the construction of a new facility. Centrifuge replacement started in fiscal year 2011 and will be completed in fiscal year 2012. The centrifuge replacement phase will cost \$3 million with \$2.7 million spent in fiscal year 2011. The construction of a new dewatering facility will start in fiscal year 2012. The Dewatering Facility removes water from all of the plant's sludge prior to transport to the Soils Amendment Facility for disposal.

The other project with significant spending in fiscal year 2011 was the continuation of the Ultra-Violet Disinfection project which was the lead project in the FY/10 – FY/19 Decade Plan. This project will be completed in fiscal year 2012 at a cost of close to \$10 million. The UV disinfection system is a state of the art system which kills all pathogens in the final plant effluent prior to discharging into the Rio Grande River. The UV system requires only electrical power to operate which removes the need to purchase and store chemicals. The prior chlorine/sulfur dioxide system involved the bulk transport and storage of deadly gas which put surrounding neighborhoods and the SWRP at risk in the event of a major spill. Fiscal year 2011 spending on the UV project was \$5.3 million.

Of the four major construction projects comprising the Southside Reuse project, only the Effluent Filtration Plant project remained to be completed at June 30, 2011. Connections to the individual users will commence during the fall/winter of fiscal year 2012 with full operations to begin with irrigation season of 2012. Non potable water will be provided to more than forty turf sites in the Southeast Heights and South Valley sections of Albuquerque including Isotopes Baseball Park, UNM Championship and Puerto Del Sol golf courses, and the Mesa Del Sol development. Final project cost will be in excess of \$35 million with nearly \$17 million spent in fiscal year 2011.

**DEBT ADMINISTRATION**

The Authority's debt obligations at June 30, 2011 are presented below. Net revenues of the System secure debt issued by the Authority.

**Table 5 - Schedule of Debt Obligations at June 30, 2011**

	<u>Outstanding</u>			<u>June 30, 2011</u>	<u>Payable in one year</u>
	<u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>		
<b>Parity Obligations:</b>					
Revenue Bonds	\$ 489,210,000	\$ -	\$ 22,065,000	\$ 467,145,000	\$ 24,130,000
Loan Agreements - NMFA	183,840,733	1,000,000	11,778,128	173,062,605	13,198,876
Line of Credit - NMFA	687,072	312,928	1,000,000	-	-
<b>Subordinate Obligations:</b>					
Loan Agreements - NMED	12,326,427	-	2,402,961	9,923,466	427,839
Loan Agreements - NMFA	10,426,232	100,302	221,175	10,305,359	449,451
Line of Credit - NMFA	75,218	127,887	100,302	102,803	-
<b>Junior Obligations:</b>					
Loan Agreements - NMFA	48,555	297,255	17,267	328,543	17,311
Line of Credit - NMFA	(2,745)	2,745	-	-	-
Water rights contract	14,858,313	-	948,650	13,909,663	977,546
<b>Less deferred amounts:</b>					
Unamortized bond premiums	15,159,306	-	2,528,040	12,631,266	-
Bond refunding costs	(306,038)	-	(203,881)	(102,157)	-
	<u>\$ 726,323,073</u>	<u>\$ 1,841,117</u>	<u>\$ 40,857,642</u>	<u>\$ 687,306,548</u>	<u>\$ 39,201,023</u>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**June 30, 2011**

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 2011 was 1.11. The Authority's bond ratings at the time the Revenue Loan 2011 (see below) closed on December 15, 2011 were: Standard & Poors - AAA; Fitch - AA; and Moody's - Aa1 (a slight downgrade from Aa2).

Debt issued for basic capital needs is scheduled for 12 year retirement while debt issued for San Juan Chama Drinking Water and Southside Reuse projects have a 25 year retirement schedule. Net revenues of the system secure all debt of the Authority.

One revenue loan and three New Mexico Water Trust Board grant/loans have been closed in fiscal year 2012. All four borrowings are reported as subsequent events in the accompanying notes to the financial statements. Each of the four borrowings is briefly described below.

The Joint Water and Sewer System Improvement Revenue Loan 2011 closed on December 15, 2011 in the principal amount of \$53.40 million plus a premium of \$7.775 million. The Basic capital program and special projects will receive \$45 million for the 2012 and 2013 fiscal years. \$5 million is allocated for costs already incurred to complete the San Juan Chama Drinking Water project and for future costs for mitigation efforts required by that project. The remainder of the proceeds is allocated to the Southside Reuse project.

The 2011 loan is payable over a period of twenty five years on July 1<sup>st</sup> of every year beginning in 2012 and concluding in 2036. This is a serial loan with each installment priced differently. The largest principal payment is \$4,770,000 in 2023. The coupon rate varies from 3.0% for the installment due in 2012 to 5.0% for several installments. Estimated cost of issuance is \$96,000 including \$75,000 withheld from the proceeds as a placement fee to the New Mexico Finance Authority.

Prior to the closing of the Revenue Loan 2011, the Authority made available this letter from a principal consultant with Red Oak Consulting, the Authority's rate consultants:

"Red Oak Consulting, an ARCADIS group, is providing this summary of our review of Albuquerque Bernalillo County Water Utility Authority's (Water Authority) internal analysis of rate covenant compliance. Red Oak is an independent consulting firm and is not affiliated with the Water Authority. The Water Authority provided the fiscal year (FY) 2012 proposed budget, debt service payment schedule, and an internal calculation of debt service coverage for FY 2012 for our review.

Given the Water Authority's increase in System rates, as adopted by the Water Authority's Board of Directors on July 1, 2011, which are effective July 1, 2011 and July 1, 2013, it is my opinion, after review and analysis of Water Authority regulations, ordinances and financials, that the Water Authority will generate sufficient Net Revenues in Fiscal Year 2012 to satisfy the Rate Covenant and Additional Bonds Test set forth in the Water Authority's outstanding debt. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. Because of this, management should update the analysis when substantial changes in significant underlying assumptions occur".

The three Water Trust Board grant/loans closed on November 23, 2011. Water Trust Board grant/loan numbers 205 and 206 are for the continued planning, design and construction of a regional water conveyance and delivery system for the residents of the community of Carnuel east of Albuquerque in Bernalillo County. Number 205 has a grant amount of \$1,808,000 and a loan amount of \$452,000 for a total of \$2,260,000. Number 206 has a grant amount of \$960,000 and a loan amount of \$640,000 for a total of \$1,600,000. As with the Authority's other agreements with the Water Trust Board, these agreements do not provide forward funding for work but instead will reimburse the Authority as eligible expenditures are made. Water Trust Board grant/loan number 207 is for the planning and design of a large scale aquifer recharge project. Number 207 has a grant amount of \$95,032 and a loan amount of \$63,354 for a total of \$158,386. This funding represents a continuation of state funding for the Authority's aquifer recharge efforts. Phase one of the project was funded in part by an earlier state grant.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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The agreements with the New Mexico Finance Authority or the New Mexico Water Trust Board, which provide for reimbursement to the Authority upon submission of eligible expenditures, are considered lines of credit for financial statement purposes until the final amount of the agreement is known at project completion. At that point, the line of credit is considered to be converted to a loan agreement.

At June 30, 2010 there were four lines of credit with an outstanding balance and two lines of credit for which the Authority had not yet made any draws.

Three of the four lines of credit with an outstanding balance at June 30, 2010 were converted to loan agreements during fiscal year 2011. The aggregate balance at the time of conversion was \$1,157,128. The two lines of credit without an outstanding balance at June 30, 2010 were fully drawn in fiscal year 2011 and converted to loan agreements. The aggregate balance at the time of conversion was \$240,429.

Each of these lines of credit/loan agreements were combined with either a loan subsidy or grant benefit which does not have to be repaid. At the time each of these lines of credit were converted to loan agreements, the aggregate balance of the loan subsidy or grant benefit was \$2,143,751.

The single outstanding line of credit at June 30, 2011 has a balance of \$102,803 with a related subsidy amount of \$291,465. This line of credit is expected to be converted to a loan agreement in January 2012.

More detailed information can be found in the accompanying Notes to the Financial Statements.

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

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

It should be noted that the following is based on the November 2011 Global Insight forecast and events have transpired that may or may not agree with this forecast.

In the November 2011 forecast, Global Insight (GI) expects moderate growth. The year over year growth in real GDP for FY/12 is expected to be 1.7% which is below the 2.6% growth in FY/11. Employment growth after increasing a meager 0.6% in FY/11 is expected to increase 0.9% in FY/12. Total employment is not expected to reach its previous peak in FY/08 until FY/15. Unemployment reached a peak of 9.9% in fourth quarter of 2009 and by FY/16 only declines to 7.2%. Inflation is one of the few bright spots in the GI forecast. They expect growth in the Consumer Price Index (CPI) to remain muted, around 2% throughout the forecast. Some of this is due to the expectation of fairly moderate increases in the price of oil with prices staying around \$89 per barrel through FY/12 and gradually increasing to \$112 in FY/16. 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 (FRB) will not raise rates until FY/14; reaching 0.4% in FY/13 and continue slowly increasing to reach 3.8% in FY/16.

The alternative forecast gives a 40% probability to a pessimistic scenario and 10% probability to an optimistic scenario. The pessimistic scenario has the economy falling back into recession. This is driven by weakening credit markets both domestically and across the world. The unemployment rate peaks at 10.5% in FY/13 and only declines to 9.1% by FY/16. Added to this, increases in the price of commodities push up the CPI to above baseline levels in out years. The optimistic scenario has a quicker recovery. This is driven by the credit markets working better and increases in productivity. The unemployment rate also declines to 5.5% by FY/16.

**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. Single family housing has increased from its low point in FY/09, but declined in FY/11 as it appears that much of the increase in FY/10 was due to federal stimulus programs for home buyers. With the slowdown, overcapacity exists in many industries and vacancy rates remain high, making it unnecessary to build many new commercial developments. Commercial projects have been limited, and government projects have also slowed.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**June 30, 2011**

Employment growth in the Albuquerque economy began slowing in FY/08 and has continued. In FY/09 employment declined 2.2%, FY/10 down by 3.4%, and in FY/11 the decline was only 0.9%. The 2<sup>nd</sup> quarter of FY/12 shows growth of 0.5%. This is the first positive number since the 1st quarter of FY/08. The Albuquerque economy lost 22,681 jobs from FY/08 to FY/11, a loss of 6% of total employment. Growth for FY/12 is expected at 0.5% with growth increasing to 1% in FY/13. While the economy is adding jobs it is at a slow rate and the previous employment peak in FY/08 is not reached until the end of FY/16. The unemployment rate in FY/11 declined to 7.5% from 8.8% in FY/10. Some of this decrease is due to discouraged workers leaving the labor force. The rate is expected to slowly decline to 5.8% in FY/16.

**FY 2012 Budget and Rates**

On May 17, 2011 the United States Environmental Protection Agency issued Administrative Order No. CWA-06-2011-1777 to the Authority for violation of the Clean Water Act based on an unauthorized discharge dated November 30, 2010 and a review of inspections of the Authority's waste water treatment plant including an inspection conducted by the EPA from June 23 through June 25 of 2010. The Administrative Order does not assess a monetary penalty; however, it does require compliance with applicable federal regulations.

The effect on the fiscal year 2012 and subsequent years operating and capital budgets and the potential impact on rates have not been determined. The Authority remains committed to meeting the requirements of its discharge permit.

The fiscal year 2012 approved budget included a 5% rate adjustment that had been previously approved by the Board and the implementation of the latest two year rate study as required by Ordinance to maintain rate equity. The rate adjustment for fiscal year 2012 is one of two approved by the Board prior to fiscal year 2011. A similar 5% rate adjustment is scheduled for fiscal year 2014. Prior to fiscal year 2012, the Authority had operated for the past five years with one rate increase of 1% in fiscal year 2007 which was designated for conservation. The last rate increase prior to fiscal year 2007 was effective in fiscal year 2004. The two rate increases are intended to plan for the future and ensure financial stability.

The key to the fiscal year 2012 operating budget is that while the rate adjustment was 5%, the expected revenue boost is expected to be much higher, closer to 18%. The rate adjustment was made in accordance with the latest two year rate study designed to maintain rate equity among classes of customers.

The fiscal year 2012 operating budget is intended to allow the Authority to meet the Rate Covenant and Additional Bonds Test set forth in the Authority's outstanding debt.

In the development of the fiscal year 2012 budget the Authority took a conservative financial approach to provide effective and efficient water and wastewater services balanced against projected resources. As with other governmental entities, the Authority continued to weather the results of the recent economic decline. Accordingly, the fiscal year 2012 approved budget was a maintenance of effort budget.

Staffing levels remain relatively constant with the addition of two net new positions in fiscal year 2012. There was a 2% cost of living salary adjustment to comply with current labor agreements. Annualized costs associated with the Classification and Compensation study implemented in fiscal year 2011 were also included. There was a 2.5% increase in other employee benefits due to increased health insurance costs. General operating expenditures were maintained at fiscal year 2011 levels. The most significant expense of the Authority continues to be debt service payments which comprised 38% of the total budgeted operating expense for fiscal year 2012.

The approved budget also includes nonrecurring funding for an employee 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. This incentive program has been an effective tool in the reduction of the Water Authority's Workers Compensation expense.

Among the challenges facing the Authority in fiscal year 2012 are managing the increasing costs of fuel, chemicals, and electricity for water treatment. The Authority operates and maintains two water systems, the well/aquifer system and the surface water treatment system. Although the well system usage will be reduced as the surface water system increases capacity, the well system will still have to be fully operational to supplement the surface water as necessary. The operation of these systems represents a dual cost for the Authority. The increasing costs associated with fuel, chemicals and electricity also impact the operation of the Southside Water Reclamation Plant which continues undergoing extensive renovations began in fiscal year 2010.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS, continued**  
**June 30, 2011**

**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, 2011**

**ASSETS**

**Current assets:**

Cash, investments, and accrued interest	\$ 21,457,906
Cash with fiscal agents held for debt service	35,929,424
Accounts receivable	11,723,252
Notes receivable, current portion	963,280
Due from other governments	<u>1,915,253</u>
<b>Total current assets</b>	<b><u>71,989,115</u></b>

**Noncurrent assets:**

Notes receivable, net of current portion	<u>4,938,586</u>
 <b>Capital assets:</b>	
Land	25,657,964
Buildings and improvements	2,210,836
Improvements other than buildings	2,018,325,493
Machinery and equipment	55,677,481
Purchased water rights	<u>40,443,654</u>
	2,142,315,428
Less accumulated depreciation and amortization	<u>856,075,080</u>
Net capital assets	1,286,240,348
Construction work in progress	<u>53,427,401</u>
<b>Total capital assets</b>	<b><u>1,339,667,749</u></b>
 <b>Other:</b>	
Capitalized bond issuance costs	<u>3,682,601</u>
<b>Total noncurrent assets</b>	<b><u>1,348,288,936</u></b>
<b>Total assets</b>	<b><u>1,420,278,051</u></b>

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, 2011**

**LIABILITIES**

**Current liabilities:**

Trade accounts payable	4,852,804
Accrued payroll	1,599,945
Accrued vacation and sick leave pay	3,307,594
Deposits	734,559
Accrued interest payable	12,880,851
Construction contracts payable	8,127,643
Other payables - debt obligations	
<b>Current portion:</b>	
Bonds	24,130,000
Loan agreements	14,093,477
Water rights contract	<u>977,546</u>
<b>Total current liabilities</b>	<u><b>70,704,419</b></u>

**Noncurrent liabilities:**

<b>Long-term payable:</b>	
Bonds, net of current portion, discounts and premiums	455,544,109
Loan agreements, net of current portion	179,526,496
Water rights contract, net of current portion	12,932,117
Line of credit	<u>102,803</u>
<b>Total long-term payable</b>	<u><b>648,105,525</b></u>
<b>Other:</b>	
Accrued vacation and sick leave pay	<u>108,563</u>
<b>Total noncurrent liabilities</b>	<u><b>648,214,088</b></u>
<b>Total liabilities</b>	<u><b>718,918,507</b></u>

**NET ASSETS**

Invested in capital assets, net of related debt	656,043,802
Unrestricted	<u>45,315,742</u>
<b>Total net assets</b>	<u><b>\$ 701,359,544</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 REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**Year ended June 30, 2011**

<b>Operating revenues:</b>	
Charges for services	<u>\$ 158,514,826</u>
<b>Operating expenses:</b>	
Salaries and fringe benefits	43,501,259
Professional services	445,835
Utilities	12,748,440
Supplies	9,103,638
Travel	59,449
Fuels, repairs, and maintenance	11,898,221
Contractual services	9,338,703
Franchise fees	5,843,692
Tort and other legal fees	3,335,152
Workman's compensation	1,579,826
Indirect overhead	1,550,000
Other operating expenses	1,350,814
Depreciation	83,447,066
Amortization	401,370
Provision for bad debts	<u>358,090</u>
<b>Total operating expenses</b>	<u><b>184,961,555</b></u>
<b>Operating loss</b>	<u><b>(26,446,729)</b></u>
<b>Nonoperating revenues (expenses):</b>	
Interest on investments	208,699
Interest expense	(25,324,138)
Utility expansion charges	6,240,073
Bond issue amortization	(413,779)
Other	<u>1,688,693</u>
<b>Total nonoperating revenues (expenses)</b>	<u><b>(17,600,452)</b></u>
<b>Loss before capital contributions</b>	<b>(44,047,181)</b>
<b>Capital contributions</b>	<u><b>10,538,027</b></u>
<b>Change in net assets</b>	<b>(33,509,154)</b>
<b>Net assets, July 1</b>	<u><b>734,868,698</b></u>
<b>Net assets, June 30</b>	<u><u><b>\$ 701,359,544</b></u></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, 2011**

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 158,379,412
Cash payments to employees for services	(43,203,481)
Cash payments to suppliers for goods and services	(56,205,886)
Miscellaneous cash received	<u>1,956,087</u>
<b>Net cash provided by operating activities</b>	<u>60,926,132</u>
<b>Cash flows from capital and related financing activities:</b>	
Proceeds from line of credit	903,925
Proceeds from loan agreements	240,429
Principal paid on revenue bond maturities	(22,065,000)
Interest and other expenses paid on revenue bond maturities	(23,130,232)
Principal paid on loan agreements	(14,419,531)
Interest paid on loan agreements	(8,264,221)
Principal paid on water rights contract	(948,650)
Interest paid on water rights contract	(452,584)
Purchased water rights	(481,537)
Acquisition and construction of capital assets	(66,724,062)
Capital grants received	6,646,971
Proceeds from sale of capital assets	10,000
City water service expansion charges	<u>6,708,220</u>
<b>Net cash used for capital and related financing activities</b>	<u>(121,976,272)</u>
<b>Cash flows from investing activities:</b>	
Interest received on investments	<u>536,814</u>
<b>Net decrease in cash and cash equivalents</b>	(60,513,326)
<b>Cash and cash equivalents, July 1</b>	<u>117,900,656</u>
<b>Cash and cash equivalents, June 30</b>	<u>\$ 57,387,330</u>

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

**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF CASH FLOWS, continued**  
**Year ended June 30, 2011**

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

<b>Operating loss</b>	<b>\$ (26,446,729)</b>
<b>Adjustments to reconcile operating loss to  net cash provided by operating activities:</b>	
Depreciation	83,447,066
Amortization	401,370
Miscellaneous cash received	1,956,087
Provision for bad debts	358,090
<b>Decrease (increase) in assets:</b>	
Accounts receivable	(159,790)
<b>Increase (decrease) in liabilities:</b>	
Trade accounts payable	1,072,260
Accrued payroll, vacation, and sick leave pay	<u>297,778</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 60,926,132</u></b>

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

<b>Current assets:</b>	
Cash, investments, and accrued interest	\$ 21,457,906
Cash with fiscal agents held for debt service	<u>35,929,424</u>
<b>Total cash and cash equivalents, June 30</b>	<b><u>\$ 57,387,330</u></b>

**Noncash transactions:**

Capital contributions by developers	5,768,905
Capital contributions by other governments	4,769,122
Unrealized loss on investments	(111,143)
Conversion of line of credit to loan agreement	<u>1,100,302</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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2011**

**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 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 (MOU) 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, 2011, and the results of its operations for the year ended June 30, 2011. The Authority is a component unit of the City, and these financial statements are not intended to present fairly the financial position of the City as of June 30, 2011, 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. 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.). There are no component units of the Authority.

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.

**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.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2011**

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

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**

*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.

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).

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**C. Assets, liabilities, and net assets, continued**

**2. Accounts 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 uncollectible accounts. Any accounts that are subject to bankruptcy are directly written off when the court order is received.

**3. 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 historical cost information is not available. 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>50 years</i>
<i>Improvements other than buildings</i>	<i>25 years</i>
<i>Machinery and equipment</i>	<i>5 – 12.5 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. 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.

**4. Capitalized bond issuance costs**

Costs incurred in connection with the issuance of bonds are capitalized and are reported as capitalized 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.

**5. 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 liabilities 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 liabilities 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.

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**6. Trade accounts payable and construction contracts payable**

Trade 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, utility expansion charge revenues, and long-term debt proceeds.

**7. Long-term obligations**

Long-term obligation proceeds are used to finance capital improvements, construction activities, expansions, renovations, and other costs as specified in bond indenture and loan agreements. The long-term obligations are payable from the Authority's revenues and 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.

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

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

*Invested 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 or 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 Authority that are not restricted for any project or other purpose.

**9. Statement of cash flows**

For the purposes of the statement of cash flows, all pooled cash and investments 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. 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.

**10. 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.



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**C. Assets, liabilities, and net assets, continued**

**11. New accounting pronouncements**

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2011.

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*

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 with the exception of the accounting for debt service, which includes debt service principal payments, certain cash transfers, capital contributions, capital outlay, and capitalized interest costs. 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 2011, expenditures may not exceed budgetary appropriations at the general ledger fund level. The Authority uses general ledger funds for internal accounting purposes. However, since the Authority is accounted for similar to an enterprise fund, it does not include in its financial statements financial information for individual general ledger funds.

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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, 2011, 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	\$ 22,627	\$ 14,405	\$ 145	\$ 37,177	\$ 1,230
U.S. Treasury obligations	18,223	5,636	117	23,976	990
Obligations of federal agencies or instrumentalities	195,447	60,447	1,253	257,147	10,622
State of New Mexico local government investment pool	586	8,218	4	8,808	32
Held in trust by Wells Fargo Bank in U.S. Treasury Fund	499	1,956	-	2,455	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	1,345	1,583	-	2,928	-
Total investments	<u>238,727</u>	<u>92,245</u>	<u>1,519</u>	<u>332,491</u>	<u>12,874</u>
Certificates of deposit	172,988	53,501	1,109	227,598	9,402
Bank accounts at book balance	76,957	42,803	1,926	121,686	35,083
Total bank balances	<u>249,945</u>	<u>96,304</u>	<u>3,035</u>	<u>349,284</u>	<u>44,485</u>
Accrued interest receivable	513	159	3	675	28
Imprest cash funds	111	15	-	126	-
Escrow deposits	-	283	-	283	-
Total other	<u>624</u>	<u>457</u>	<u>3</u>	<u>1,084</u>	<u>28</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 489,296</u>	<u>\$ 189,006</u>	<u>\$ 4,557</u>	<u>\$ 682,859</u>	<u>\$ 57,387</u>
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 325,547	\$ 54,587	\$ 2,763	382,897	\$ 21,458
Cash and investments with fiscal agents	63,092	29,992	-	93,084	35,929
Cash held by others	-	1,082	-	1,082	-
Total current cash, investments and accrued interest	<u>388,639</u>	<u>85,661</u>	<u>2,763</u>	<u>477,063</u>	<u>57,387</u>
Restricted noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	100,657	103,062	1,794	205,513	-
Escrow deposits	-	283	-	283	-
Total noncurrent cash, investments and accrued interest	<u>100,657</u>	<u>103,345</u>	<u>1,794</u>	<u>205,796</u>	<u>-</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 489,296</u>	<u>\$ 189,006</u>	<u>\$ 4,557</u>	<u>\$ 682,859</u>	<u>\$ 57,387</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, 2011, none of the City's bank balances of \$402,975,000 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, 2011, 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.

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, 2011 the City continued to hold \$803,067 on the STO's ledger in a "Reserve Contingency Fund." This amount represents the City's portion of the LGIP's un-retained 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. The City does not expect any further recoveries from the reserve and has accrued the remaining balance as a loss. The City's Housing Authority continued to hold a non-pooled position in the STO LGIP Fund of \$8,013,601 and a balance in the Reserve Contingency Fund of \$23,198.

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, 2011, 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 16%, 28%, 9%, and 47% respectively, of the core segment residual. Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. At June 30, 2011, core segment maturities are allocated as follows: 0-12 months – 17%; 1-2 years – 26%; 3-5 years – 57%.

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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	826	118	AAA	Aaa
Federal National Mortgage Association	469	55	AAA	Aaa
Federal Home Loan Mortgage Corporation	777	120	AAA	Aaa
Federal Farm Credit Bank	1,051	321	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 no less than 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, 2011 was 694 days. The weighted average days to call of the core segment was 153 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 FDIC provides standard insurance of \$250,000 per depositor, per insured bank. Effective December 31, 2010 through December 31, 2012, at all FDIC-insured institutions, deposits held in noninterest bearing transaction accounts are fully insured regardless of the amount in the account, according to the Dodd-Frank Wall Street Reform and Consumer Protection Act. The pledged collateral by bank (in thousands) at June 30, 2011 consists of the following:

	First Community	Bank of America	Bank of the West	Wells Fargo Bank	NM Bank & Trust
Total amount on deposit	\$ 1,959	\$ 161,013	\$ 237,060	\$ 2,043	\$ 899
Less FDIC coverage	<u>1,959</u>	<u>161,013</u>	<u>250</u>	<u>2,043</u>	<u>899</u>
Total uninsured public funds	-	-	236,810	-	-
50% collateral requirement	<u>-</u>	<u>-</u>	<u>118,405</u>	<u>-</u>	<u>-</u>
Pledged securities, fair value	<u>-</u>	<u>-</u>	<u>354,278</u>	<u>-</u>	<u>-</u>
Pledged in excess of requirement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235,873</u>	<u>\$ -</u>	<u>\$ -</u>

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**B. Due from other governments and notes receivable**

Due from other governments are primarily Federal and State grants receivable of \$1,392,443 that are for capital improvements. Also included are miscellaneous receivables of \$522,810. 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.

**C. Capital assets**

Capital asset activity of the Authority for the year ended June 30, 2011, is as follows:

	Balance July 1	Increases	Decreases	Balance June 30
Assets not being depreciated:				
Land	\$ 25,644,811	\$ 13,153	\$ -	\$ 25,657,964
Construction work in progress	<u>37,482,194</u>	<u>34,721,589</u>	<u>18,776,382</u>	<u>53,427,401</u>
Total assets, not being depreciated	<u>63,127,005</u>	<u>34,734,742</u>	<u>18,776,382</u>	<u>79,085,365</u>
Assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improvements other than buildings	1,962,956,597	55,368,896	-	2,018,325,493
Machinery and equipment	<u>53,464,211</u>	<u>3,045,332</u>	<u>832,062</u>	<u>55,677,481</u>
Total assets, being depreciated	<u>2,018,631,644</u>	<u>58,414,228</u>	<u>832,062</u>	<u>2,076,213,810</u>
Less accumulated depreciation:				
Buildings	1,666,141	44,216	-	1,710,357
Improvements other than buildings	733,277,831	77,542,366	-	810,820,197
Machinery and equipment	<u>26,737,452</u>	<u>5,860,484</u>	<u>554,667</u>	<u>32,043,269</u>
Total accumulated depreciation	<u>761,681,424</u>	<u>83,447,066</u>	<u>554,667</u>	<u>844,573,823</u>
Capital assets being depreciated, net	<u>1,256,950,220</u>	<u>(25,032,838)</u>	<u>277,395</u>	<u>1,231,639,987</u>
Assets being amortized:				
Purchased water rights	39,962,117	481,537	-	40,443,654
Less amortization	<u>11,099,887</u>	<u>401,370</u>	<u>-</u>	<u>11,501,257</u>
Capital assets being amortized, net	<u>28,862,230</u>	<u>80,167</u>	<u>-</u>	<u>28,942,397</u>
Total capital assets, net	<u>\$ 1,348,939,455</u>	<u>\$ 9,782,071</u>	<u>\$ 19,053,777</u>	<u>\$ 1,339,667,749</u>

Changes to capital assets of the Authority for the fiscal year ended June 30, 2011, include the following amount of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	\$ 28,946,304	\$ 3,622,166	\$ 25,324,138
Interest income	536,814	<u>328,115</u>	208,699
Capitalized interest		<u>\$ 3,294,051</u>	

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

The change in the short-term and long-term obligations of the Authority for the year ended June 30, 2011, are as follows:

	Outstanding			June 30, 2011	Payable in one year
	June 30, 2010	Increases	Decreases		
<b>Parity Obligations:</b>					
Revenue Bonds	\$ 489,210,000	\$ -	\$ 22,065,000	\$ 467,145,000	\$ 24,130,000
Loan Agreements - NMFA	183,840,733	1,000,000	11,778,128	173,062,605	13,198,876
Line of Credit - NMFA	687,072	312,928	1,000,000	-	-
<b>Subordinate Obligations:</b>					
Loan Agreements - NMED	12,326,427	-	2,402,961	9,923,466	427,839
Loan Agreements - NMFA	10,426,232	100,302	221,175	10,305,359	449,451
Line of Credit - NMFA	75,218	127,887	100,302	102,803	-
<b>Junior Obligations:</b>					
Loan Agreements - NMFA	48,555	297,255	17,267	328,543	17,311
Line of Credit - NMFA	(2,745)	2,745	-	-	-
Water rights contract	14,858,313	-	948,650	13,909,663	977,546
Accrued vacation and sick leave pay	3,179,488	3,490,299	3,253,630	3,416,157	3,307,594
<b>Less deferred amounts:</b>					
Unamortized bond premiums	15,159,306	-	2,528,040	12,631,266	-
Bond refunding costs	(306,038)	-	(203,881)	(102,157)	-
	729,502,561	5,331,416	44,111,272	690,722,705	42,508,617
<b>Current portion of</b>					
long-term obligations	(38,529,601)	-	3,979,016	(42,508,617)	-
<b>Total</b>	<b>\$ 690,972,960</b>	<b>\$ 5,331,416</b>	<b>\$ 48,090,288</b>	<b>\$ 648,214,088</b>	<b>\$ 42,508,617</b>

**Parity Obligations – Revenue Bonds, Loan Agreements, and Lines of Credit:**

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. If the annual net revenues are less than 133% of the annual debt service requirements, the Authority shall either promptly increase rates in order to produce sufficient net revenues or employ a consultant or manager to make recommendations to revise the Authority's rate structure and other charges in order to satisfy the rate covenant as soon as practicable. For the year ended June 30, 2011, the net revenues were 111% of the annual debt service. In June 2011, the Board approved an amendment to the Authority's Rate Ordinance that will increase rates in fiscal year 2012 to comply with the rate covenant in future years. The increase in rates was based on the evaluation of existing rates and consultations with an external consultant. The Authority's management anticipates that future net revenues will be sufficient to meet the rate covenant requirements.

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

Authority parity obligations outstanding at June 30, 2011, are as follows:

<u>Revenue Bonds Issued</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Call Provisions</u>
January 1, 1999A	11,910,000	3.80% to 5.25%	July 1, 2011	Not callable
October 25, 2005	125,825,000	3.50% to 5.00%	July 1, 2025	100% beginning July 1, 2015
July 12, 2006	126,900,000	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	135,740,000	3.00% to 5.50%	July 1, 2029	100% beginning July 1, 2019
April 8, 2009, Refunding	<u>11,140,000</u>	3.00% to 5.00%	July 1, 2013	Not callable
Total outstanding	467,145,000			
Unamortized:				
Premiums	12,631,266			
Deferred refunding costs	<u>(102,157)</u>			
Net outstanding	<u>\$ 479,674,109</u>			

<u>Loan Agreements Issued</u>	<u>Current Loan Balance</u>	<u>Original Loan Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>
May 10, 2002	\$ 282,814	\$ 2,450,000	2.75%	July 1, 2012
April 11, 2003	1,604,791	3,600,000	2.00%	January 1, 2016
October 13, 2004	86,455,000	118,415,000	1.32% to 4.16%	May 1, 2024
October 28, 2005	18,750,000	20,000,000	2.93% to 4.01%	May 1, 2025
September 26, 2007	64,970,000	77,005,000	4.00% to 5.0%	May 1, 2025
December 1, 2010	<u>1,000,000</u>	1,000,000	0.75%	July 1, 2031
Total outstanding	<u>\$ 173,062,605</u>			

The Authority entered into a line of credit agreement on January 18, 2010 with the New Mexico Finance Authority (NMFA) whereby the Authority could draw up to \$2,000,000. The agreement was partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complied with the terms of the agreement, then \$1,000,000 would be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to construction of a water line extension to serve the community of Carnuel in Bernalillo County. The Authority completed the project in FY/11. On December 1, 2010, the line of credit was resized and converted to a long-term parity loan agreement for \$1,000,000 with a .75% interest rate. It requires annual principal payments until final maturity on July 1, 2031.

**Subordinate Obligations – Loan Agreements and Lines of Credit:**

On October 1, 1994, the Authority executed a promissory note with the New Mexico Environment Department (NMED) 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, 2011, is \$1,086,709.

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, 2011, is \$1,526,565.

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

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, 2011, is \$7,310,192.

On November 17, 2008, the Authority entered into a line of credit agreement with the New Mexico Finance Authority. The agreement provided that the Authority could draw a total of \$12,000,000. Construction of the project was completed in fiscal year 2010 for a total cost of \$10,426,232. This credit line was converted to a long-term subordinate loan agreement on November 11, 2010 at an interest rate of 1.75% with annual payments due beginning May 1, 2011 and maturing on May 1, 2030. The balance due at June 30, 2011, is \$10,207,281.

The Authority entered into a line of credit agreement on January 22, 2010, with the New Mexico Finance Authority (NMFA) whereby the Authority could draw up to \$200,000. The agreement was partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complied with the terms of the agreement, then \$140,000 would be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to, expansion of the leak detection system to cover an additional 5% of the distribution system. This project was completed in fiscal year 2011 for a total cost of \$199,873, of which \$140,000 was forgiven and a new long-term subordinate loan created for \$59,873. The interest rate is .75%, with an administrative fee of .25%. The close occurred August 11, 2010. Payments begin May 1, 2011, and final maturity is May 1, 2030. The balance due at June 30, 2011, is \$57,649.

The Authority entered into a line of credit agreement on January 22, 2010, with the New Mexico Finance Authority (NMFA) whereby the Authority could draw up to \$156,826. The agreement was partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complied with the terms of the agreement, then \$109,778 would be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve 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 completed the project in fiscal year 2011, for a total cost of \$150,207, of which \$109,778 was forgiven and a new long-term subordinate loan created for \$40,429. The interest rate is .75%, with an administrative fee of .25%. The close occurred May 1, 2011. Payments begin July 1, 2012, and final maturity is July 1, 2031. The balance due at June 30, 2011, is \$40,429.

Also on January 22, 2010, the Authority entered into a line of credit agreement with the New Mexico Finance Authority (NMFA) whereby the Authority can draw up to \$414,036. The agreement is partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complies with the terms of the agreement, then \$289,825 will be subsidized by the grant and therefore not repayable. The purpose of the project is to upgrade and improve the water utility system, including, but not limited to, a water use efficiency retrofit analysis. The Authority must complete the project by January 22, 2012. Upon completion, the line of credit will be resized to a loan for the actual cost incurred. The interest rate is .75%, with an administrative fee of .25%. At June 30, 2011, the Authority had drawn \$342,677 (\$102,803 loan and \$239,874 subsidy).

**Junior Obligations – Loan Agreements:**

On November 13, 2009, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for \$50,000 with 0% interest and an administrative fee of .25%. The agreement includes a \$450,000 grant funded through the State of New Mexico. The grant amount was not repayable. The project was for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It extended water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. The loan payments began June 1, 2010, and extend until June 1, 2029. The project was completed in November, 2010 with all drawdowns on the grant received. The balance due on the loan at June 30, 2011, is \$46,057.



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

Also on November 13, 2009, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for \$100,000 with 0% interest and an administrative fee of .25%. The agreement included a \$400,000 grant funded through the State of New Mexico. The grant amount was not repayable. The project was for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It extended water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. The loan payments began June 1, 2010, and extend until June 1, 2029. The project was started and completed in fiscal year 2011. All drawdowns on the grant were received. The balance due on the loan at June 30, 2011, is \$92,251.

On May 28, 2010, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for \$200,000 with 0% interest and an administrative fee of .25%. The agreement includes an \$800,000 grant funded through the State of New Mexico. The grant amount is not repayable. The project is for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It will extend water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. Loan payments began June 1, 2011, and extend until June 1, 2030. The balance due on the loan at June 30, 2011, is \$190,235. Drawdowns on the grant at June 30, 2011, were \$471,686. The project is not complete at June 30, 2011.

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, 2011, is \$13,909,663.

The annual debt service requirements on the revenue bonds, loan agreements, and the water rights contract payable outstanding at June 30, 2011, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 39,201,023	\$ 30,187,923	\$ 69,388,946
2013	40,764,732	28,642,124	69,406,856
2014	40,606,834	26,854,637	67,461,471
2015	39,201,986	25,133,326	64,335,312
2016	42,250,211	23,417,794	65,668,005
2017 - 2021	195,554,902	89,816,722	285,371,624
2022 - 2026	163,083,631	46,988,675	210,072,306
2027 - 2031	68,144,230	19,433,216	87,577,446
2032 - 2035	<u>45,867,087</u>	<u>4,219,682</u>	<u>50,086,769</u>
Total	<u>\$ 674,674,636</u>	<u>\$ 294,694,099</u>	<u>\$ 969,368,735</u>

**E. Defined benefit 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).

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**E. Defined benefit pension plan – Public Employees Retirement Association, continued**

*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 Authority has elected to make a percentage of the employee's contributions. 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. The Authority's employer contribution to PERA for the fiscal years ending June 30, 2011, 2010, and 2009, were \$2,477,629, \$2,404,453 and \$2,168,754 respectively, which equal the amount of the required contributions for each fiscal year.

**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 \$148,147 in fiscal year 2011 of which \$110,566 were from employer contributions and \$37,581 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 and Authority's employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the City or Authority.

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 Authority. 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 4,071 at June 30, 2011, and the amount of life insurance coverage for these retired employees was \$86,192,650.

*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, 2011, 2010, and 2009, were \$275,971, \$262,030, and \$247,265, respectively. The life insurance and accidental death and dismemberment premium costs for the City's active employees for the years ending June 30, 2011, 2010, and 2009, were \$1,149,148, \$1,178,243, and \$1,170,789, 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 City's annual

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**G. Post employment benefits, continued**

OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation to the Life Insurance Benefit plan.

Net OPEB Obligation at beginning of year	<u>\$ 5,989,231</u>
<i>Plus</i> Projected Annual OPEB Cost:	
Interest on Net OPEB Obligation at beginning of year	239,569
Annual Required Contribution (ARC) for current fiscal year	3,685,799
ARC Adjustment for current fiscal year	<u>(260,832)</u>
	<u>3,664,536</u>
<i>Less</i> Net Employer Contribution	<u>(1,281,281)</u>
Expected Net OPEB Obligation at end of year	<u><u>\$ 8,372,486</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 3,348,091	40.7%	\$ 3,969,105
6/30/2010	\$ 3,458,126	41.6%	\$ 5,989,231
6/30/2011	\$ 3,664,536	35.0%	\$ 8,372,486

The Authority's portion of the Net OPEB Obligation is \$331,217 and is carried on the City's books at this time because a significant portion of the obligation for retirees of the Authority was incurred when the Authority was a department of the City.

*Funding Status and Funding Progress.* As of June 30, 2010, the most recent actuarial valuation date, the plan was 0% percent funded using the criteria established by GASBS 45. The total actuarial accrued liability (AAL) for benefits was \$57,659,176 (\$17,629,654 for active employees and \$40,029,522 for retired employees). There are no plan assets; however, the City has earmarked \$4,601,066 in the City's Internal Service Employee Insurance Fund for future plan costs. The covered payroll for the Authority (annual payroll of active employees covered by the plan) was \$27,047,218 and the ratio of the UAAL to the covered payroll was 4.79%. The Authority's ARC as a percent of payroll is 0.54% of which .4% is the normal cost as a percent of payroll. The ARC per active employee is \$250. 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 is presented as required supplementary information following the notes to the financial statements.

*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, 2010, 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,

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**G. Post employment benefits, continued**

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, 2011, 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, 2011, was 27 years. The ARC was based on a 4.0 percent discount rate, funding will be based on an 8.0 percent discount rate.

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 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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee's annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal years ending June 30, 2012 and 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:

Fiscal <u>Year</u>	Employer Contribution <u>Rate</u>	Employee Contribution <u>Rate</u>
2012	1.834%	0.917%
2013	2.000%	1.000%

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**G. Post employment benefits, continued**

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]), during the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 2.084% of each participating employee's annual salary, and each participating employee was required to contribute 1.042% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013, the contribution rates for both employees and employers will rise as follows:

Fiscal <u>Year</u>	Employer Contribution <u>Rate</u>	Employee Contribution <u>Rate</u>
2012	2.292%	1.146%
2013	2.500%	1.250%

Employers joining the program after January 1, 1998, 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, 2011, 2010, and 2009, were \$677,304, \$501,380 and \$464,425, 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, 2011, 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

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**H. Risk management, continued**

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 \$4,118,526 during fiscal year 2011.

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 2011 with \$11,125,655 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.

The amounts and change in the Fund's claims liability in fiscal year 2011 and 2010 were:

	2011	2010
Claims liability at July 1	\$ 60,963,311	\$ 67,372,880
Current year claims and change in estimates	33,803,818	27,977,251
Claims liquidated	(27,864,593)	(34,386,820)
Claims liability at June 30	\$ 66,902,536	\$ 60,963,311
The components of the claims liability at June 30 are:		
Current portion	\$ 22,994,750	\$ 20,440,000
Noncurrent portion	43,907,786	40,523,311
Total claims liability	\$ 66,902,536	\$ 60,963,311

The Authority paid \$4,914,978 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	\$ 5,323,371
Administrative indirect overhead, including accounting and other central services	2,136,280
Warehouse supplies	2,771,108
Fleet management services	1,561,439
Barricading and street sweeping	660,370
Total	\$ 12,452,568

The City paid the Authority for water and sewer services in the amount of: \$ 5,978,064

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**J. Commitments and contingencies**

Construction Commitments. At June 30, 2011, the uncompleted construction and other commitments in the Authority was \$23,950,989. This amount will be paid from unspent bond proceeds used 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 that 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.

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.

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 permit SP-4830 from the Office of the State Engineer in 2004 for diverting and fully consuming imported Colorado River water (San Juan-Chama water) in the amount of 96,200 acre-feet per annum. A group of environmentalists and farming activists filed an appeal of the surface diversion permit in State District Court. The District Court upheld the Office of the State Engineer decision including the permit conditions imposed by the State Engineer and ruled in favor of the Authority on all counts. The decision of the District Court granting the surface diversion permit was appealed by the same group of protestants to the New Mexico Court of Appeals. Recently, the decision of the Court of Appeals affirmed the previous decisions by the State Engineer and District Court that the San Juan-Chama Drinking Water Project is not contrary to conservation, is not detrimental to the public welfare, does not impair the water rights of downstream users, and does not adversely affect New Mexico's obligation under the Rio Grande Compact. The Court of Appeals noted that these issues had been exhaustively addressed and disposed of and need not be raised or litigated again. The Court of Appeals then announced that a non-consumptive appropriation permit should be introduced as a new process under the law. The Court of Appeals was careful to emphasize that this process would not threaten the already established fact that the Drinking Water Project does not impair downstream users. To the contrary, the Court emphasized that a new non-consumptive 'appropriation' process would provide permanent protection to water users such as the Authority. Because this decision was adverse to the protestants and announces a new permitting process, it may be appealed to the State Supreme Court.

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.

On May 17, 2011, the United States Environmental Protection Agency (EPA) issued Administrative Order CWA-06-2011-1777 to the Authority for violations of its permit to discharge effluent into the Rio Grande river at its Southside Water Reclamation Plant. The permit is obtained under the National Pollutant Discharge Elimination System (NPDES) program. The Administrative Order (AO) listed NPDES violations that occurred between 2006 and 2010. The majority of the violations related to Sanitary Sewer Overflows (SSO's). The Authority responded to the AO and provided supplemental information regarding the violations and also presented a draft Corrective Action Plan (CAP) that included rehabilitation and new construction totaling \$250 million over the next ten years. The Authority's management is awaiting comments from EPA on the draft CAP that was submitted in October 2011.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2011**

**K. Significant effects of subsequent events**

The Authority entered into three loan and grant agreements with the New Mexico Finance Authority (NMFA) and the Water Trust Board on November 23, 2011. The general terms for each agreement is a repayable loan amount at zero percent interest and a .25% administrative fee. The loans require 20 annual installments beginning July 1, 2012, and ending July 1, 2031. The grant amount is not repayable. The agreements with the New Mexico Finance Authority or the New Mexico Water Trust Board which provide for reimbursement to the Authority upon submission of eligible expenditures are considered lines of credit for financial statement purposes until the final amount of the agreement is known at project completion. At that point, the line of credit is considered to be converted to a loan agreement.

The three agreements and purpose are as follows:

<u>Issue</u>	<u>Loan Amount</u>	<u>Grant Amount</u>	<u>Total</u>	<u>Purpose</u>
ABCWUA #12 (#0205-WTB)	\$ 452,000	\$ 1,808,000	\$ 2,260,000	Construction of a regional water conveyance and delivery system for the community of Carnuel
ABCWUA #13 (#0206-WTB)	\$ 640,000	\$ 960,000	\$ 1,600,000	Construction of a regional water conveyance and delivery system for the community of Carnuel
ABCWUA #14 (#0207-WTB)	\$ 63,354	\$ 95,032	\$ 158,386	Planning and design of a large scale aquifer recharge

On December 15, 2011, the Authority entered into a loan agreement with New Mexico Finance Authority for \$53,400,000. The loan requires annual principal payments and semi-annual interest payments commencing on June 1, 2012, and maturing on June 1, 2036. Interest rates are between 3.0% and 5.0%. The purpose of the loan is to improve the Authority's water and sewer system.



**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, 2011**

<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>
6/30/2009	0	1,328,431	1,328,431	0.00%	33,434,911	3.97%
6/30/2010	0	1,296,421	1,296,421	0.00%	27,047,218	4.79%
6/30/2011	0	1,296,421	1,296,421	0.00%	27,047,218	4.79%

**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 \$57,659,176

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL**  
**Year ended June 30, 2011**

	<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	\$ 135,531,000	\$ 135,531,000	\$ 132,295,332	\$ (3,235,668)
City water service expansion charges	9,000,000	9,000,000	6,240,073	(2,759,927)
Sustainable water supply	27,977,000	27,977,000	26,219,494	(1,757,506)
Interest on investments	2,200,000	2,200,000	172,707	(2,027,293)
Valley system connection charges	100,000	100,000	38,249	(61,751)
City system connection charges	240,000	240,000	293,626	53,626
Other miscellaneous	1,924,000	1,924,000	1,904,745	(19,255)
Transfer to cash held for debt service from cash for operations	<u>65,337,000</u>	<u>65,337,000</u>	<u>65,337,000</u>	<u>-</u>
<b>Total revenues and transfers</b>	<u>242,309,000</u>	<u>242,309,000</u>	<u>232,501,226</u>	<u>(9,807,774)</u>
<b>Expenses:</b>				
Water plant facility production	9,409,000	9,409,000	10,213,680	(804,680)
Water plant facility distribution	10,027,000	10,027,000	12,514,335	(2,487,335)
Water distribution facilitation	5,388,000	5,388,000	5,769,089	(381,089)
Wastewater treatment	13,293,000	13,293,000	14,499,800	(1,206,800)
Compliance	3,444,000	3,444,000	3,507,729	(63,729)
Wastewater collection	7,591,000	7,591,000	8,147,070	(556,070)
Sustainable water supply	10,976,000	10,976,000	9,422,059	1,553,941
North I-25 reuse	342,000	342,000	317,202	24,798
Customer services	4,999,000	4,999,000	5,072,758	(73,758)
Finance	7,485,000	7,485,000	7,023,419	461,581
Human resources	1,465,000	1,465,000	1,387,193	77,807
NW service area	2,709,000	2,709,000	1,437,495	1,271,505
San Juan-Chama	2,247,000	2,247,000	2,283,673	(36,673)
Water resources, engineering and planning	5,830,000	5,830,000	5,871,027	(41,027)
Information systems	3,768,000	3,768,000	4,194,453	(426,453)
Low income utility credit	250,000	250,000	243,976	6,024
Water Authority	2,779,000	2,779,000	3,967,766	(1,188,766)
Administrative services	7,257,000	7,257,000	7,255,906	1,094
Debt service - principal and interest	69,337,000	69,337,000	69,405,238	(68,238)
Transfer from cash for operations to cash held for debt service	<u>65,337,000</u>	<u>65,337,000</u>	<u>65,337,000</u>	<u>-</u>
Transfer of cash held for debt service to cash used for capital acquisitions	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>-</u>
Transfer from cash for operations to cash used for capital acquisitions	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>	<u>-</u>
<b>Total expenses and transfers</b>	<u>243,933,000</u>	<u>243,933,000</u>	<u>247,870,868</u>	<u>(3,937,868)</u>
<b>Revenues over (under) expenses and transfers</b>	<u>\$ (1,624,000)</u>	<u>\$ (1,624,000)</u>	<u>(15,369,642)</u>	<u>\$ (13,745,642)</u>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET TO ACTUAL, continued**  
**Year ended June 30, 2011**

	<u>Actual</u>
<b>Revenues (expenses) not budgeted:</b>	
Interest on investments in capital acquisition fund	475,249
Gain (loss) on disposition of property and equipment	(267,394)
Depreciation	(83,447,066)
Amortization of deferred bond costs	(413,779)
Amortization on water rights contract	(401,370)
Amortization on premium and discounts	2,528,040
Amortization of deferred amounts on refundings	(203,881)
Unrealized gain (loss) on investments	(111,143)
Miscellaneous expenses	(739,880)
Bad debt expense	(358,090)
Lease of water rights	<u>1,105,535</u>
Net expenses over revenues not budgeted	<u>(81,833,779)</u>
<b>Changes to conform to generally accepted accounting principles:</b>	
Principal payments on bonds and loan agreements	39,508,929
Transfer in to cash used for capital acquisitions from cash held for debt service and for operations	10,000,000
Capital contributions	10,538,027
Capital outlay	353,259
Capitalized interest on long-term debt	<u>3,294,052</u>
Net changes to conform to generally accepted accounting principles	<u>63,694,267</u>
Change in net assets	<u>\$ (33,509,154)</u>

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**STATISTICAL SECTION – UNAUDITED**

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Operating revenues:</b>			
Charges for services	\$ 113,781	\$ 117,681	\$ 130,420
<b>Operating expenses:</b>			
Salaries and fringe benefits	25,433	24,760	25,479
Professional services	754	236	388
Utilities	7,581	7,924	8,306
Supplies	1,307	1,529	2,425
Travel	13	5	26
Fuels, repairs, and maintenance	7,169	7,524	7,387
Contractual services	3,145	2,637	3,886
Franchise fees <sup>(1)</sup>	-	-	-
Tort and other legal fees <sup>(1)</sup>	-	-	-
Workman's compensation <sup>(1)</sup>	-	-	-
Indirect overhead <sup>(1)</sup>	-	-	-
Other operating expenses	10,743	10,786	12,498
Depreciation	39,355	40,843	42,877
Amortization - water rights	348	359	370
Bad debt expense	-	-	-
<b>Total operating expenses</b>	<u>95,848</u>	<u>96,603</u>	<u>103,642</u>
<b>Operating income (loss)</b>	<u>17,933</u>	<u>21,078</u>	<u>26,778</u>
<b>Nonoperating revenues (expenses):</b>			
Interest on investments	2,032	1,073	419
Gain (loss) on disposition of capital assets	66	19	10
Interest expense	(12,206)	(12,278)	(10,428)
City water service expansion charges	11,909	14,433	15,112
Bond issue amortization	(35)	(97)	(130)
Equipment purchased for outside agency or fund	-	(332)	(242)
Expenses incurred for outside agency or fund	-	-	(296)
Other	544	4,938	203
<b>Total nonoperating revenues (expenses)</b>	<u>2,310</u>	<u>7,756</u>	<u>4,648</u>
<b>Income (loss) before capital contributions and transfers</b>	20,243	28,834	31,426
Capital contributions	14,995	22,178	28,288
<b>Change in net assets</b>	35,238	51,012	59,714
<b>Net assets, July 1</b>	<u>452,495</u>	<u>487,733</u>	<u>538,745</u>
<b>Net assets, June 30</b>	<u>\$ 487,733</u>	<u>\$ 538,745</u>	<u>\$ 598,459</u>

(1) In 2011, the Authority expanded the operating expenses line items for improved disclosure. In prior years, these expenses were included in "other operating expenses".

TABLE I  
Page 1 of 1

2005	2006	2007	2008	2009	2010	2011
\$ 126,622	\$ 138,202	\$ 141,034	\$ 152,232	\$ 147,146	\$ 153,145	\$ 158,515
26,796	27,200	30,151	33,435	37,383	40,632	43,501
1,139	522	572	706	859	602	446
7,935	8,575	7,844	9,218	12,203	11,361	12,748
2,939	3,567	4,493	5,249	6,092	9,010	9,104
24	19	36	47	28	52	60
7,252	7,322	9,494	10,441	10,873	11,809	11,898
4,422	2,907	3,937	6,334	8,890	8,813	9,339
-	-	-	-	-	-	5,844
-	-	-	-	-	-	3,335
-	-	-	-	-	-	1,580
-	-	-	-	-	-	1,550
12,909	14,058	14,058	14,111	13,401	12,718	1,351
46,410	51,934	55,926	60,906	72,295	81,443	83,447
374	383	392	393	396	396	401
-	-	-	339	93	-	358
110,200	116,487	126,903	141,179	162,513	176,836	184,962
16,422	21,715	14,131	11,053	(15,367)	(23,691)	(26,447)
1,549	5,019	8,936	6,443	2,648	866	209
(356)	7	(51)	(2)	-	-	-
(8,406)	(8,619)	(15,889)	(21,782)	(21,682)	(24,977)	(25,324)
12,404	17,255	12,516	11,075	6,346	6,834	6,240
(143)	(313)	(305)	(405)	(360)	(516)	(414)
-	-	-	-	-	-	-
(161)	(278)	(118)	-	-	-	-
1,390	570	70	1,359	7,870	1,535	1,689
6,277	13,641	5,159	(3,312)	(5,178)	(16,258)	(17,600)
22,699	35,356	19,290	7,741	(20,545)	(39,949)	(44,047)
20,849	16,854	15,448	11,939	27,811	18,917	10,538
43,548	52,210	34,738	19,680	7,266	(21,032)	(33,509)
598,459	642,007	694,217	728,955	748,635	755,901	734,869
\$ 642,007	\$ 694,217	\$ 728,955	\$ 748,635	\$ 755,901	\$ 734,869	\$ 701,360



**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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Estimated Population (Service Area)	482,577	489,248	499,684	512,288
Number of Meters (Billed)	153,245	156,502	160,135	162,536
Estimated Persons Per Meter	3.15	3.13	3.12	3.15
Annual Pumpage (1,000 Gallons)	35,750,000	34,760,000	34,734,000	32,600,000
Annual Water Billed (1,000 Gallons)	31,670,527	30,836,908	30,886,343	29,235,684
Average Daily Pumpage (Gallons)	97,945,205	95,232,877	95,161,644	89,315,068
Peak Day Pumpage (Gallons)	163,600,000	160,140,000	182,638,000	180,759,600
Peak Day Consumption (Gallons)	-	-	163,500,000	151,000,000
Average Daily Production Per Meter (Gallons)	639	609	594	549
Well Pumping Capacity (per 24 Hour Period)	294,000,000	294,000,000	294,000,000	294,000,000
Storage Capacity (Gallons)	211,000,000	211,000,000	211,000,000	211,000,000
Surface Water Pumping Capacity	-	-	-	-
Surface Water Storage Capacity	-	-	-	-
Fire Hydrants	12,175	12,413	12,771	13,062
Water Reclamation Treatment Capacity	76,000,000	76,000,000	76,000,000	76,000,000
Number of Miles of Lines <sup>(1)</sup>				
- Water	2,520	2,520	2,520	2,520
- Sewer	1,730	1,780	1,820	1,820
- San Juan Chama	-	-	-	-

<sup>(1)</sup> Estimated

Source: City of Albuquerque, Water Utility Department.

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
525,347	530,600	533,253	538,586	543,971	549,411
167,737	171,130	172,394	174,005	194,087	200,498
3.13	3.10	3.09	3.10	2.80	2.74
32,469,000	31,384,000	32,598,000	31,940,000	33,098,373	33,830,964
29,551,899	27,942,376	28,573,691	27,816,110	28,844,216	29,949,844
89,860,274	85,983,561	89,284,930	87,506,849	90,680,474	92,687,573
179,876,700	165,478,800	174,986,400	155,329,700	186,819,804	226,902,542
150,459,000	149,879,000	147,670,000	149,870,000	144,030,800	160,000,000
536	502	518	503	467	462
294,000,000	294,000,000	294,000,000	294,000,000	314,250,000	282,000,000
211,000,000	211,000,000	211,000,000	211,000,000	228,700,000	249,000,000
-	-	-	-	140,000,000	140,000,000
-	-	-	-	20,000,000	20,000,000
13,435	14,093	14,093	14,577	14,778	14,879
76,000,000	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
2,520	2,520	2,520	2,599	2,626	2,636
1,820	1,820	1,820	1,846	1,858	1,863
-	-	-	-	37	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.
2010	*	662,564	3.43%	545,852	3.14%	2,059,179	2.58%
2009	**	640,567	1.10%	529,219	1.14%	2,007,315	1.17%
2008	**	633,611	1.01%	523,240	1.18%	1,984,179	0.91%
2007	**	627,259	1.46%	517,162	1.71%	1,966,357	1.33%
2006	**	618,226	1.89%	508,486	2.20%	1,940,631	1.35%
2005	**	606,779	4.20%	497,543	4.63%	1,914,699	2.49%
2004	**	593,866	1.98%	486,319	2.27%	1,890,215	1.18%
2003	**	582,349	1.35%	475,511	1.72%	1,868,121	1.05%
2002	**	573,489	1.94%	466,455	2.15%	1,849,187	1.32%
2001	**	562,635	0.92%	455,961	1.03%	1,828,437	0.50%
2000	*	557,432	0.84%	450,557	6.87%	1,820,802	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%

\* Source: Bureau of the Census

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

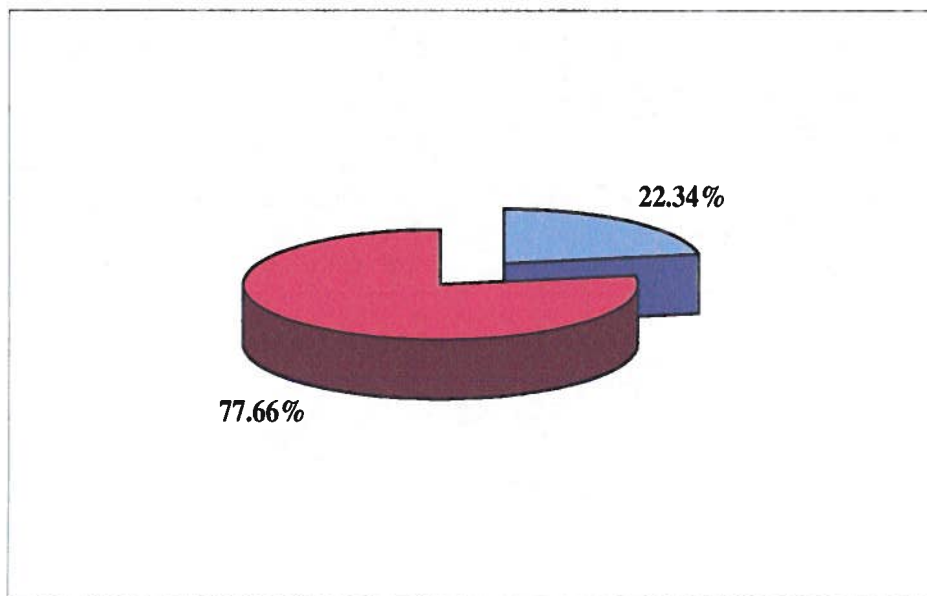
**Unemployment**

Calendar Year	-----Bernalillo County-----			-----Unemployment Rates-----		
	Civilian Labor Force	Number Employed	Number Unemployed	Bernalillo County	New Mexico	United States
2011	305,122	284,802	20,320	6.70%	6.40%	8.80%
2010	314,600	287,419	27,181	8.60%	8.90%	9.70%
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%

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**

2011				
	<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	24,140	6.07%
2.	University of New Mexico	Education	15,890	4.00%
3.	Albuquerque Public Schools	Education	14,000	3.52%
4.	Presbyterian	Hospital/ Medical Services	7,369	1.85%
5.	UNM Hospital	Hospital/ Medical Services	5,950	1.50%
6.	City of Albuquerque	Government	5,940	1.49%
7.	State of New Mexico	Government	5,910	1.49%
8.	Lovelace	Hospital/ Medical Services	3,700	0.93%
9.	Intel Corporation	Semiconductor Manufacturer	3,300	0.83%
10.	Bernalillo County	Government	<u>2,618</u>	<u>0.66%</u>
	<b>Total</b>		<b><u>88,817</u></b>	<b><u>22.34%</u></b>
	<b>Total Non-Ag Civil and Military Employees</b>		<b><u>397,552</u></b>	<b><u>100.00%</u></b>



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**

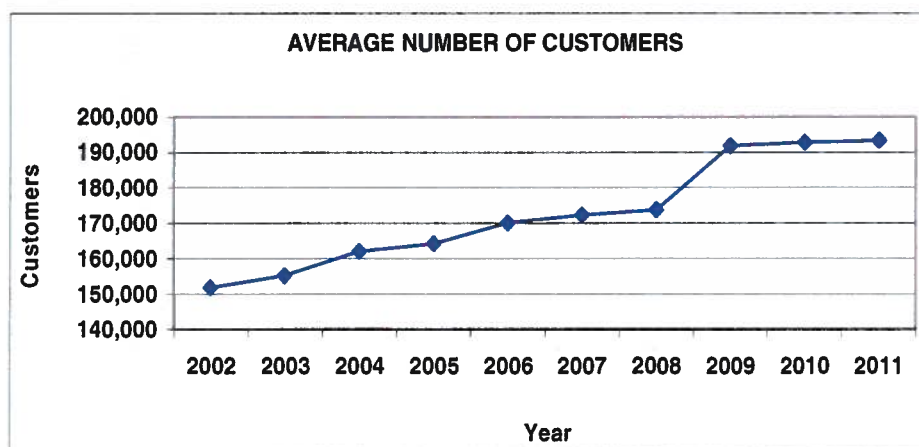
History of Water Users by Class

Class	Average Number of Customers by Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Residential	137,081	140,347	146,656	148,974	151,089	152,563	153,959	171,983	172,787	173,339
Multi-Family <sup>(1)</sup>	-	-	-	-	6,812	7,565	7,644	6,231	6,349	6,364
Commercial	12,952	13,033	13,388	13,304	10,065	10,049	9,998	11,367	11,272	11,226
Institutional	1,683	1,712	1,836	1,853	1,981	1,983	2,013	2,119	2,223	2,279
Industrial	124	121	122	114	113	110	110	113	106	99
<b>Total</b>	<b>151,840</b>	<b>155,213</b>	<b>162,002</b>	<b>164,245</b>	<b>170,060</b>	<b>172,270</b>	<b>173,724</b>	<b>191,813</b>	<b>192,737</b>	<b>193,307</b>

History of Water Users by Meter Sizes

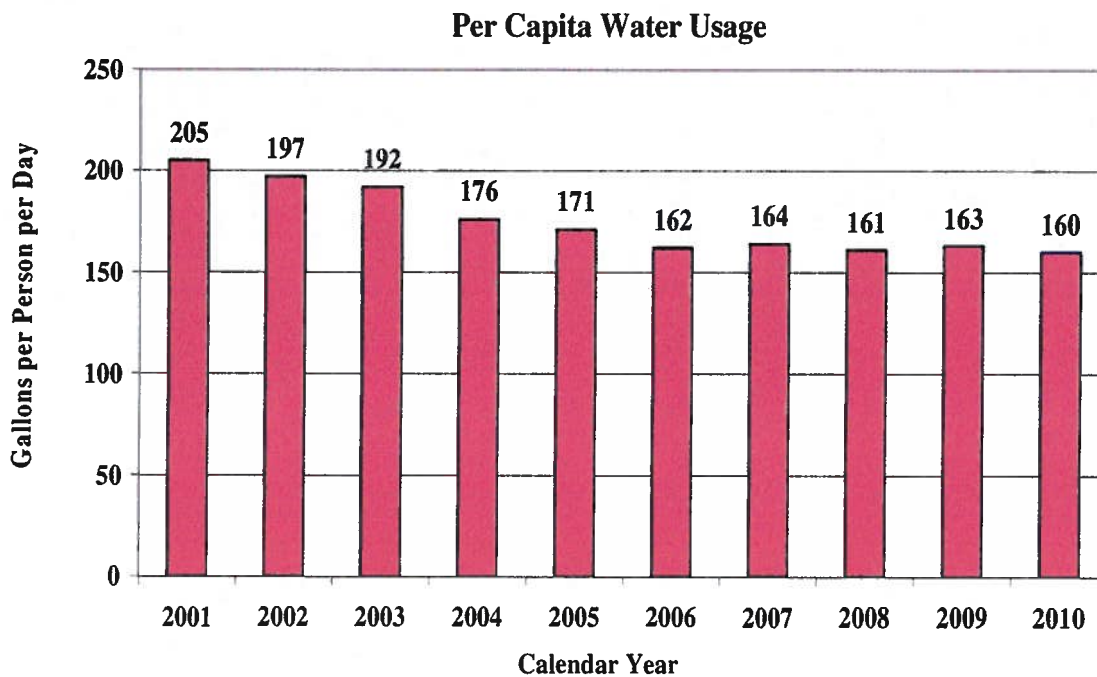
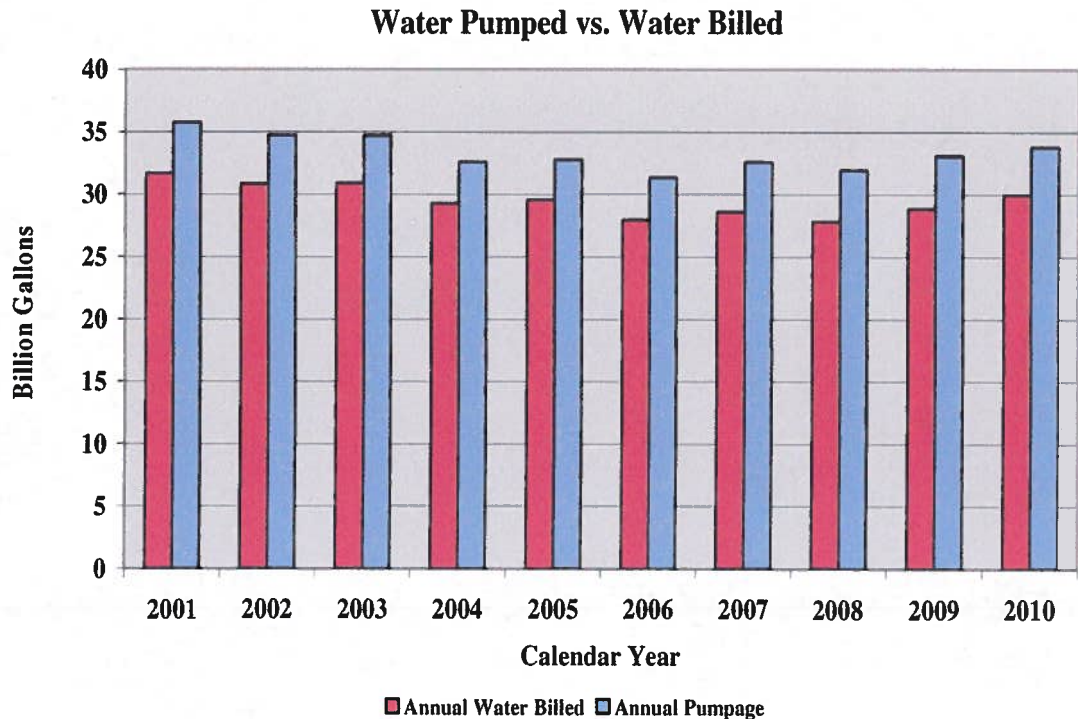
Meter Size	Average Number of Customers by Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
¾"	128,192	132,387	139,351	142,018	146,842	149,846	151,172	168,632	169,414	169,984
1" and 1 ¼ "	19,153	18,321	17,863	17,588	17,773	17,581	17,621	17,611	17,820	17,820
1 ½ "	1,854	1,847	1,854	1,879	1,945	1,955	1,968	2,169	2,195	2,195
2"	1,892	1,905	1,958	1,997	2,509	1,816	1,839	2,179	2,228	2,228
3"	410	412	524	419	654	733	766	834	714	714
4"	246	247	311	251	244	246	264	275	268	268
6"	55	55	73	52	52	53	53	67	58	58
8" and over	38	39	68	41	41	40	41	46	40	40
<b>Total</b>	<b>151,840</b>	<b>155,213</b>	<b>162,002</b>	<b>164,245</b>	<b>170,060</b>	<b>172,270</b>	<b>173,724</b>	<b>191,813</b>	<b>192,737</b>	<b>193,307</b>

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



Source: Albuquerque Bernalillo County Water Utility Authority

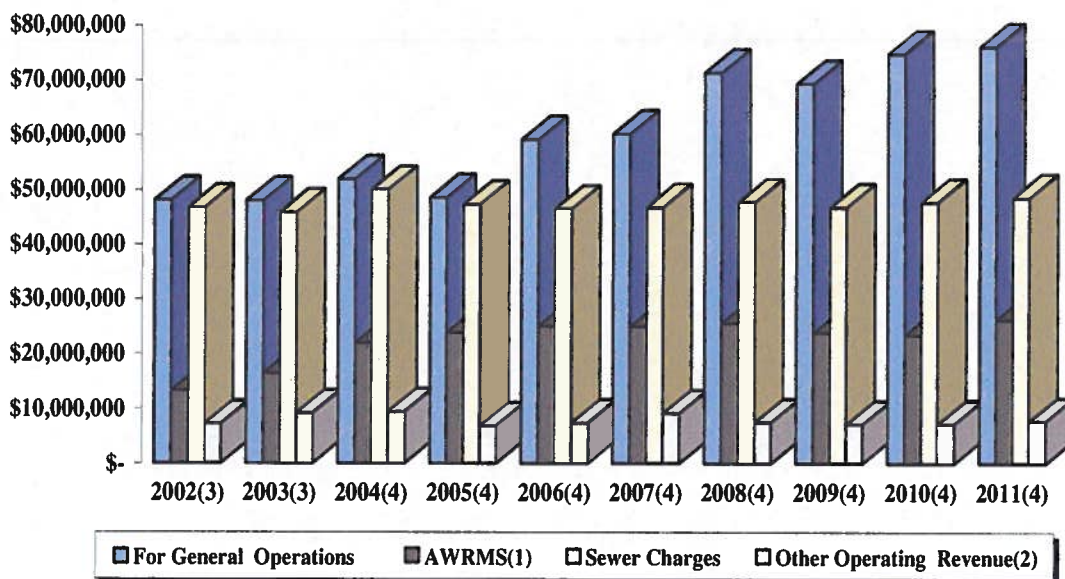
**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**WATER CONSUMPTION**  
**LAST TEN CALENDAR YEARS**



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**

<u>Fiscal Year</u>	<u>Revenue from Water Charges</u>		<u>Revenue From Sewer Charges</u>	<u>Other Operating Revenue<sup>(2)</sup></u>	<u>Total Operating Revenue</u>
	<u>For General Operations</u>	<u>For AWRMS<sup>(1)</sup></u>			
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
2010 <sup>(4)</sup>	74,773,904	23,483,160	47,685,066	7,202,722	153,144,852
2011 <sup>(4)</sup>	76,072,550	26,219,494	48,504,637	7,718,145	158,514,826



(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).

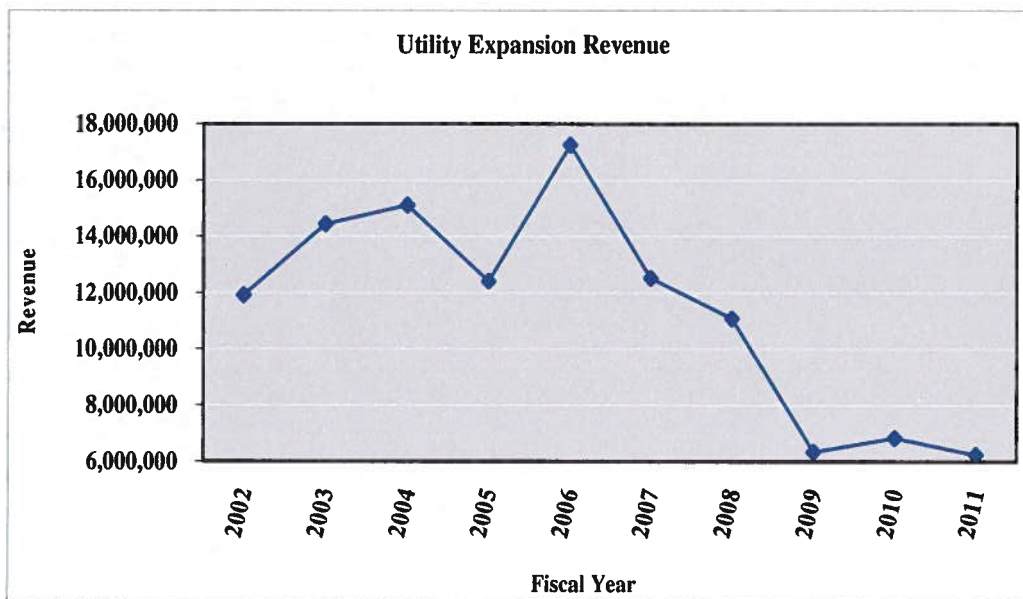
(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

(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>
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
2010 <sup>(2)</sup>	6,834,261
2011 <sup>(2)</sup>	6,240,073



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

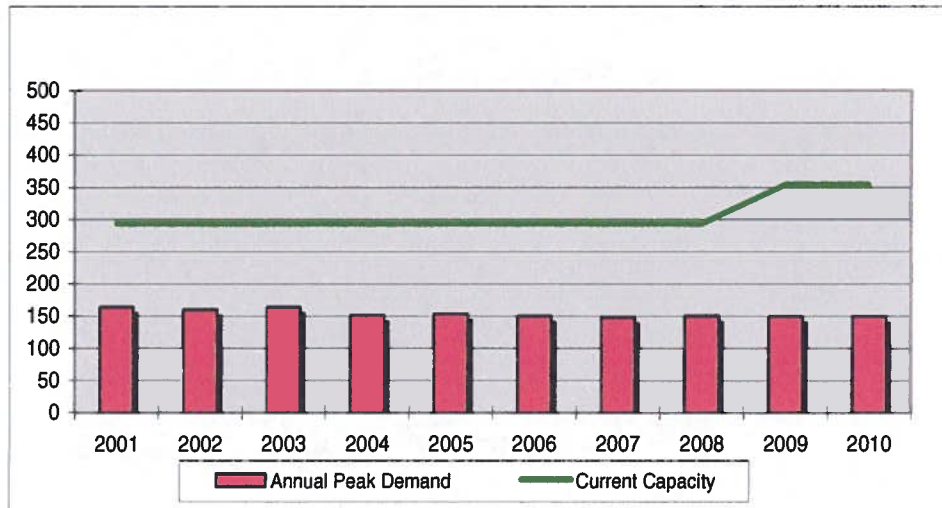
(2) Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.



**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**

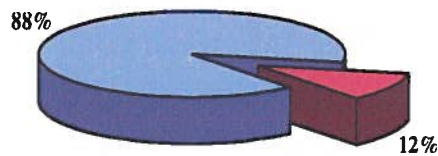
**WATER SYSTEM ANNUAL PEAK DEMAND**  
(calendar year)

- ◆ *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 2011 Revenue</u>	<u>% of Total Revenue</u>
1. City of Albuquerque	2,767,271	\$ 6,501,413	6.36%
2. Albuquerque Public Schools	705,396	2,215,548	2.17%
3. University of New Mexico	290,259	1,458,396	1.43%
4. Bernalillo County	235,721	605,090	0.59%
5. Kirtland Air Force Base	221,818	617,867	0.60%
6. Sumitomo	148,492	245,814	0.24%
7. Lovelace Health	119,489	241,174	0.24%
8. Albuquerque Academy	106,388	182,936	0.18%
9. General Mills	77,221	150,478	0.15%
10. Central New Mexico Community College	74,363	229,767	0.22%
<b>Total</b>		<b>\$ 12,448,483</b>	<b>12.17%</b>
<b>Total Revenue for System</b>		<b>\$ 102,292,044</b>	

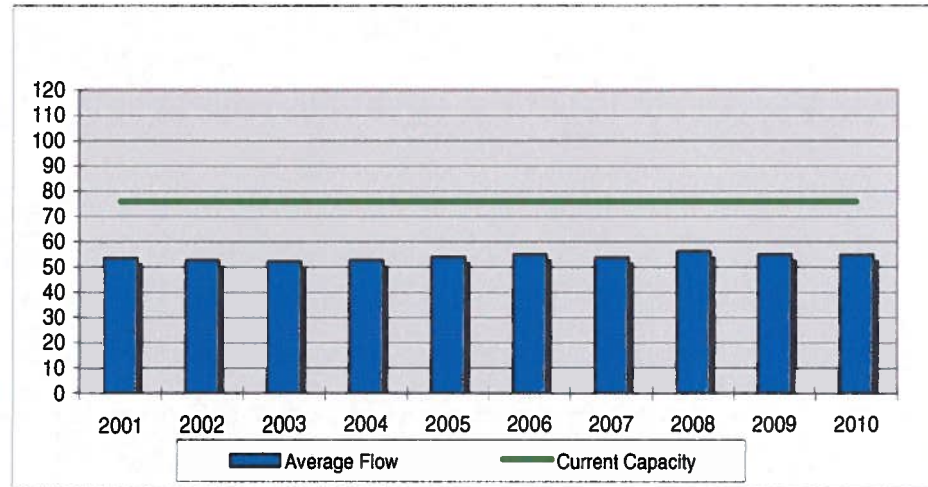


Source: Albuquerque Bernalillo County Water Utility Authority

**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**

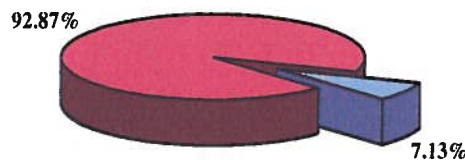
**WASTEWATER SYSTEM ANNUAL AVERAGE FLOW**  
(calendar year)

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



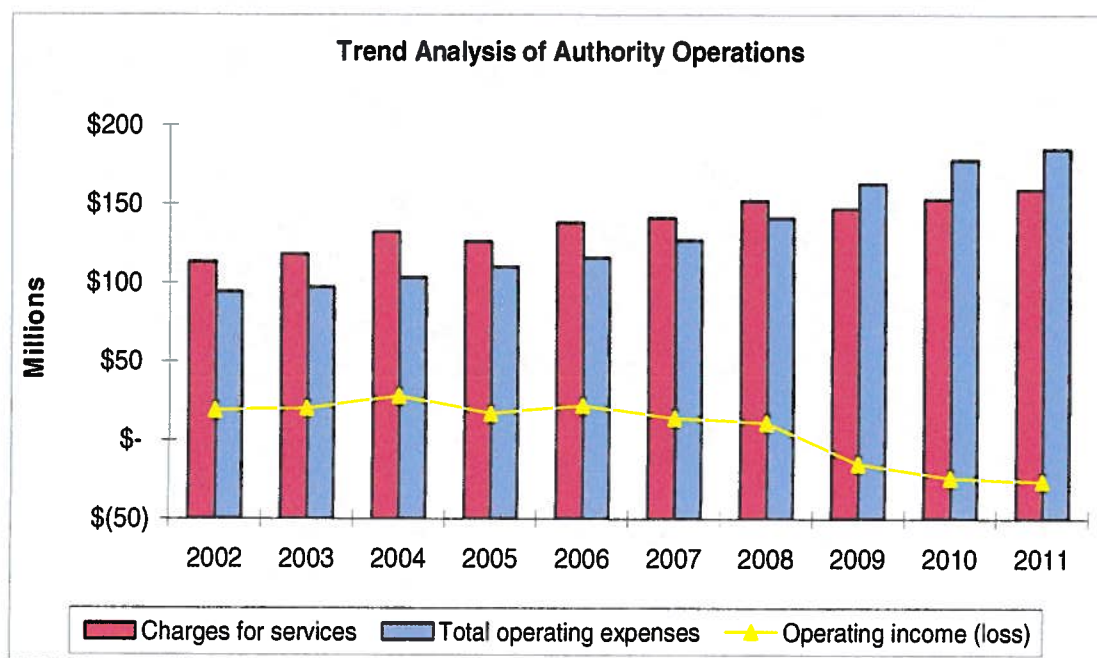
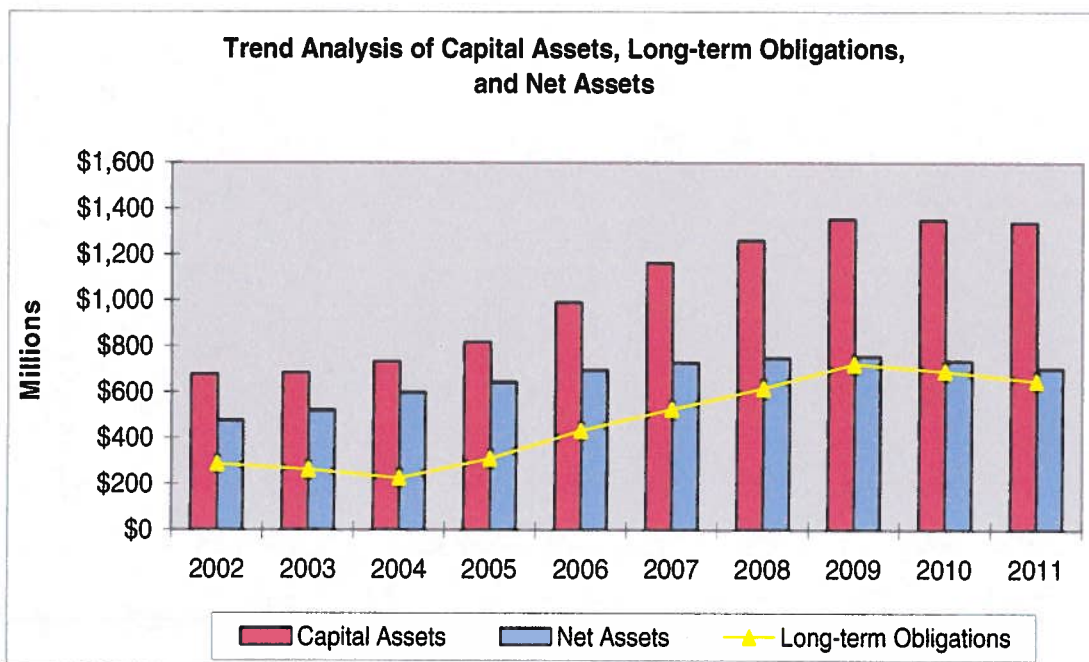
**WASTEWATER SYSTEM TOP 10 CUSTOMERS**  
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2011 Revenue</u>	<u>% of Total Revenue</u>
1. Kirtland Air Force Base	743,391	\$ 955,622	1.97%
2. University of New Mexico	553,371	619,376	1.28%
3. City of Albuquerque	174,407	405,371	0.84%
4. Albuquerque Public Schools	154,980	571,486	1.18%
5. Lovelace Health	102,045	124,665	0.26%
6. Bernalillo County	94,585	157,579	0.32%
7. Sandia Peak Services	87,068	69,267	0.14%
8. Creamland Dairies	50,887	385,178	0.79%
9. Four Hills MHP	35,486	48,039	0.10%
10. Central New Mexico Community College	28,534	122,576	0.25%
<b>Total</b>		<b>\$ 3,459,159</b>	<b>7.13%</b>
<b>Total Revenue for System</b>		<b>\$ 48,504,637</b>	



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

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**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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Water Utility Authority Revenue Bonds <sup>(1)</sup></b>				
Revenues	\$ 129,425	\$ 139,937	\$ 150,224	\$ 144,074
Release of cash from rate reserve fund	-	-	-	-
Expenses <sup>(2)</sup>	<u>55,356</u>	<u>57,315</u>	<u>55,892</u>	<u>59,005</u>
Available for debt service	74,069	82,622	94,332	85,069
Debt service	45,919	47,516	49,179	52,279
Debt service coverage ratio	1.6	1.7	1.9	1.6

<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 provision for bad debts.

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

<u>2006</u>	<u>2007<sup>(3)</sup></u>	<u>2008<sup>(3)</sup></u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	Ratio Required <u>2011</u>
\$ 163,278	\$ 162,390	\$ 166,580	\$ 160,800	\$ 158,528	\$ 166,652	
-	-	-	-	-	7,000	
<u>61,932</u>	<u>65,336</u>	<u>72,541</u>	<u>83,177</u>	<u>87,768</u>	<u>95,790</u>	
101,346	97,054	94,039	77,623	70,760	77,862	
55,641	62,027	61,785	65,144	70,983	70,359	
1.8	1.6	1.5	1.2	1.0	1.1	1.3

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

Components of Net Assets:	Fiscal Years							
	2004	2005	2006	2007	2008	2009	2010 <sup>(1)</sup>	2011
Invested in capital assets, net of related debt	\$ 517,181	\$ 566,451	\$ 609,955	\$ 666,487	\$ 698,063	\$ 725,767	\$ 692,921	\$ 656,044
Restricted for debt service	10,393	11,491	12,919	6,003	-	-	-	-
Restricted for construction	17,576	26,621	5,539	-	10,553	13,672	11,072	-
Unrestricted	54,949	37,444	65,804	56,465	40,019	16,462	30,875	45,316
Total Net Assets	\$ 600,099	\$ 642,007	\$ 694,217	\$ 728,955	\$ 748,635	\$ 755,901	\$ 734,868	\$ 701,360

(1) The FY2010 data has been restated to show the current portion of long-term debt as a reduction of the net assets category called 'Invested in capital assets, net of related debt'. The FY2010 financial statements, as issued, reflected the current portion of long-term debt as a reduction of the net assets category called 'Unrestricted'. The amount of the restatement was \$35,443,373.

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

Outstanding Obligations (in 000's)	Fiscal Years							
	2004	2005	2006	2007	2008	2009	2010	2011
Revenue bonds, net	\$ 213,188	\$ 182,194	\$ 289,213	\$ 389,871	\$ 418,114	\$ 532,742	\$ 504,063	\$ 479,674
Loan agreements	26,029	147,928	159,712	152,529	219,780	209,584	206,642	193,620
Water rights contract	19,990	19,197	18,381	17,539	16,672	15,779	14,858	13,910
Lines of credit	-	-	-	-	-	3,524	760	103
Total outstanding obligations	\$ 259,207	\$ 349,319	\$ 467,306	\$ 559,939	\$ 654,566	\$ 761,629	\$ 726,323	\$ 687,307
Number of Customers <sup>(2)(3)</sup>	162,536	167,737	171,130	172,394	174,005	194,087	200,498	201,884
Average debt per customer	\$ 1,595	\$ 2,083	\$ 2,731	\$ 3,248	\$ 3,762	\$ 3,924	\$ 3,623	\$ 3,404
Estimated population <sup>(2)</sup>	512,288	525,347	530,600	533,253	538,586	543,971	549,411	554,905
Per capita debt	\$ 506	\$ 665	\$ 881	\$ 1,050	\$ 1,215	\$ 1,400	\$ 1,322	\$ 1,239
Per capita income <sup>(1)</sup>	\$ 30,303	\$ 31,724	\$ 33,470	\$ 34,528	\$ 35,608	\$ 35,329	\$ 34,929	\$ 34,929

<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 year, from Table 2

<sup>(3)</sup> Represents number of billed meters



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

City	Effective Date	Monthly Wastewater Charges									
		5/8-Inch Meter					2-Inch Meter				
		Residential 0 cf (0 gal)	Residential 500 cf (3,740 gal)	Residential 1,000 cf (7,480 gal)	Residential 1,500 cf (11,220 gal)	Residential 3,000 cf (22,440 gal)	Non-manuf./ Commercial 3,000 cf (22,440 gal)	Commercial/ Light Industrial 50,000 cf (374,000 gal)	4-Inch Meter Industrial 1,000,000 cf (7,480,000 gal)	8-Inch Meter Industrial 1,500,000 cf (11,220,000 gal)	
Albuquerque, NM	9/1/2010	\$7.49	\$11.60	\$15.71	\$19.82	\$32.15	\$32.69	\$547.15	\$8,580.61	\$16,953.97	
El Paso, TX	3/1/2010	10.11	11.25	15.83	21.54	38.69	43.26	632.60	11,639.66	17,713.61	
Aurora, CO	1/1/2010	2.97	13.18	23.39	33.60	64.23	64.23	1,044.76	20,568.97	30,927.76	
Boise, ID	10/1/2009	4.56	17.51	30.46	43.41	82.26	82.26	302.55	12,950.86	19,424.01	
North Las Vegas, NV	10/1/2009	15.15	18.35	34.55	36.80	36.80	100.44	1,622.69	32,391.67	48,585.87	
Lubbock, TX	4/9/2009	9.80	17.47	25.13	32.80	55.80	55.80	790.37	15,393.98	23,178.40	
Oklahoma City, OK	10/1/2009	1.62	13.74	25.86	37.97	74.33	74.33	1,219.65	24,259.73	36,431.76	
Salt Lake City, UT	7/1/2005	5.28	5.28	8.30	12.45	24.90	39.60	660.00	13,200.00	19,800.00	
Scottsdale, AZ	7/1/2009	14.29	14.29	21.14	31.06	60.82	59.49	1,220.28	19,843.13	29,764.05	
Wichita, KS	7/1/2010	4.32	12.10	16.80	16.80	16.80	51.00	790.38	15,618.57	23,462.26	

Monthly Water Charges										
City	Effective Date	Residential 0 cf (0 gal)	Residential 500 cf (3,740 gal)	Residential 1,000 cf (7,480 gal)	Residential 1,500 cf (11,220 gal)	Residential 3,000 cf (22,440 gal)	Non-manuf./ Commercial 3,000 cf (22,440 gal)	Commercial/ Light Industrial 50,000 cf (374,000 gal)	4-Inch Meter Industrial 1,000,000 cf (7,480,000 gal)	8-Inch Meter Industrial 1,500,000 cf (11,220,000 gal)
Albuquerque, NM	9/1/2010	\$11.41	\$18.46	\$25.51	\$32.55	\$59.23	\$54.21	\$851.06	\$19,365.64	\$33,194.79
Austin, TX	11/1/2009	6.70	13.26	23.06	41.94	134.26	110.60	1,753.17	32,090.44	48,858.78
Denver, CO	4/13/2010	4.41	11.55	18.70	26.26	69.12	70.83	1,111.45	22,145.21	33,215.61
El Paso, TX	3/1/2010	10.70	12.15	19.40	28.60	89.89	77.60	1,837.63	20,543.48	32,318.26
North Las Vegas, NV	10/1/2009	8.67	15.20	22.41	30.65	60.17	80.42	1,150.94	21,898.35	33,178.58
Oklahoma City, OK	10/1/2009	7.37	15.82	24.27	32.73	58.08	58.08	881.13	17,016.38	25,716.41
Phoenix, AZ	3/3/2009	4.64	6.49	8.34	25.99	78.94	78.94	1,742.89	35,305.49	42,179.74
San Antonio, TX	1/1/2009	6.96	16.76	26.56	37.86	85.48	73.19	1,106.28	13,166.58	20,056.86
Tulsa, OK	10/1/2009	4.20	11.31	20.79	30.27	56.34	48.86	770.26	11,040.16	11,653.52
Tucson, AZ	7/5/2010	5.87	14.07	22.27	30.47	118.22	84.37	159.24	24,427.55	36,826.34

Source: Reprinted from 2009 Water and Wastewater Rate Survey, by permission. Copyright © 2010, AWWA & Raftelis Financial Consultants, Inc.

**STATE COMPLIANCE AND OPERATIONAL FINDINGS**



CPAs | Business & Financial Advisors

INTEGRITY COUNTS®

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*

The Board of Directors of the Albuquerque  
Bernalillo County Water Utility Authority,  
The Honorable Mayor and City Council Members  
of the City of Albuquerque,  
and  
Mr. Hector Balderas  
New Mexico State Auditor

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (the "Authority"), a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 14, 2012. 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*

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 08-16 and 09-15 to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and responses as items 08-02 and 11-01 to be significant deficiencies.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Authority's basic 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other 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 responses as items 05-13, 08-13, 09-14, 09-18, 10-01, 10-03, and 11-02 through 11-07.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 Authority Board, the City Council, the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, others within the entity, 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.

REDW LLC

Albuquerque, New Mexico  
March 14, 2012

**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, 2011**

**A — Financial Statement Findings**

**08-02 Manual Payroll Checks Handling (Repeated and Modified) (Significant Deficiency)**

*Condition:* Payroll staff initiates, prints, and distributes manual payroll checks. This may create a lack of segregation of duties because a payroll staff member that processes a manual check may also be the one who prints and distributes it.

*Criteria:* Segregation of duties between those who process transactions from those who handle the related assets is an important element of internal control.

*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 independent of payroll processing.

*Auditors' Recommendations:* Policies and procedures should be changed to provide a segregation of duties so payroll personnel are no longer authorized to handle the checks that they process. Only personnel whom do not process payroll should be authorized to distribute checks to employees.

*Management's Response:* The City and Authority concur with the finding. There are internal controls in place 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 or Authority personnel authorized to handle checks, who must review and sign a copy of the check which is retained for the Payroll Section's files.

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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2011**

A — Financial Statement Findings — continued

**08-16 Bank Reconciliation Process (Repeated and Modified) (Material Weakness)**

*Condition:* General ledger cash balances of the common fund, accounts payable, and payroll accounts are adjusted monthly to equal balances derived from adjusting bank balances for the effect of known outstanding items. Adjustments to cash resulting from this process are accumulated throughout the fiscal year and allocated to investment income among various funds at year-end. This process does not result in a true reconciled bank balance, nor does it allow City or Authority personnel to accurately track and resolve reconciling items on a timely basis. Moreover, the process does not ensure that book/bank differences are identified and resolved.

*Criteria:* Bank reconciliations are an important element of internal control, facilitating timely detection of book/bank differences so they can be investigated and resolved. Such reconciliations are consistent with New Mexico statutes, Section 6-6-3 A NMSA 1978, which require that the City “keep all the books, records, and accounts in their respective offices in a form as 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.

*Effect:* Errors in general ledger amounts, and/or bank errors, may not be detected. Moreover, the resulting current process does not reconcile the general ledger balances with the corresponding bank balances and therefore, does not facilitate identification and correction of errors on a timely basis, resulting in potential misstatements.

*Cause:* Reports that would facilitate reconciliation of general ledger book balances to the corresponding bank balance are not currently produced by the accounting system.

*Auditors’ Recommendations:* Establish and implement procedures to ensure book balances are regularly reconciled to corresponding bank balances. Unreconciled differences should be investigated and resolved on a timely basis.

*Management’s Response:* The City and Authority concur 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 issues related to the integration of data from various source systems (both PeopleSoft and non-PeopleSoft) will be addressed in the PeopleSoft remediation effort. In addition, the City and Authority are looking at the PeopleSoft capabilities and will make changes where possible.

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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2011**

A — Financial Statement Findings — continued

**09-15 Timely Closing of General Ledger and Reconciliation of Subsidiary Ledgers (Modified and Repeated) (Material Weakness)**

*Condition:* The general ledger for fiscal year ended June 30, 2011, was not closed until January 2012. We also noted that various subsidiary ledgers were not timely reconciled to the general ledger on a monthly or year-end basis.

*Criteria:* Timely reconciliation of subsidiary ledgers is essential to the detection of errors and/or irregularities so that corrections can be made to facilitate timely closing of the general ledger and production of timely, accurate financial reports.

*Effect:* When subsidiary ledgers are not timely reconciled to the general ledger, there is an increased risk of errors and irregularities not being detected and corrected in a timely manner. Completion of the City and Authority's Comprehensive Annual Financial Report (CAFR) was delayed, which could affect the City and Authority's bond ratings and federal funding. Other important deadlines were missed, which places the City and Authority out of compliance with various regulations, such as the 2011 New Mexico State Auditor Rule.

*Cause:* The City and Authority converted 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, creating the need for in depth review of information by accounting, resulting in 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, which further complicates the reconciliation and closing process.

*Auditors' Recommendations:* The City and Authority should continue to work diligently to catch up the information in the new general ledger system. The City and Authority should perform monthly reconciliations to the general ledger and close out each month. The City and Authority should devote appropriate resources in gaining better functionality of the new system.

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

*Management's Response:* The City and Authority concur with this finding. The Accounting Division has resolved a majority of the general ledger issues that resulted from the PeopleSoft conversion. The monthly closing and reconciliation of the subsidiary ledgers will be done on a timely basis in the next fiscal year.

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**SCHEDULE OF FINDINGS AND RESPONSES, continued**  
**Year Ended June 30, 2011**

A — Financial Statement Findings — continued

**11-01 Accounts Payable Controls (Significant Deficiency)**

*Condition:* E-payable wire transfers to vendors are not independently reviewed for accuracy prior to making the transfers. An aged payables report is not routinely produced by the accounting system.

*Criteria:* Controls over disbursements should include procedures that ensure prior independent review of wire transfers. Production of an aged payable report would facilitate identification of accounts that are not paid timely.

*Effect:* Payments could be made through wire transfers for inappropriate amounts or to the wrong party. There is increased risk that invoices may be paid late.

*Cause:* The City and Authority converted their general ledger system to PeopleSoft in January 2009. Certain aspects of the new software did not function as needed; and an aged payables report cannot be produced. The City and Authority have also been operating with limited resources and have not had an adequate amount of staff required to review wire transfers.

*Auditors' Recommendations:* Establish procedures to ensure prior independent review of all wire transfers. The City and Authority should also identify a way to review the aging of accounts payables, and assign persons to review E-payable wire transfers.

*Management's Response:* The City and Authority concur with this finding. A preliminary aged payable report has been developed in PeopleSoft and data input issues are being reviewed. The volume of ACH payments have increased dramatically over the last few years. Accounting staff is reviewing processes and procedures that will enable the department to review ACH and check payments.



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**Year Ended June 30, 2011**

**B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978**

**05-13 Audit Report Due Date (Repeated and Modified)**

*Condition:* The fiscal year 2011 audit report was submitted to the New Mexico Office of the State Auditor more than three months past the December 1, 2011, submission deadline.

*Criteria:* Section 2.2.2.9A (1) (d) of NMAC Audit Rule 2011, Requirements for Contracting and Conducting Audits of Agencies, requires that annual audit reports be received in the Office of the State Auditor on or before December 1<sup>st</sup> each year.

*Effect:* The Authority is not in compliance with the New Mexico State Auditor Rule.

*Cause:* The Authority was unable to close the books in a timely manner, primarily because of the continuing impact of the implementation of a new accounting system in January 2009.

*Auditors' Recommendations:* The Authority should work towards having their books closed and ready for audit in a timely manner.

*Management's Response:* The Authority concurs with this finding and is taking actions to prevent this situation in the future.

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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**08-13 Controls Over Equipment Tagging (Repeated and Modified)**

*Condition:* Machinery and equipment additions in the current year were assigned tag numbers in the capital asset records. However, audit procedures revealed that none of the current year machinery and equipment additions were attached to the asset. Control procedures have not been implemented to ensure that all machinery and equipment additions meeting the criteria for capitalization are tagged with an asset number or other identifying characteristic.

*Criteria:* The Authority's policies and procedures require the Authority to mark capitalized equipment with an asset number or other identifying characteristic that will allow it to be traced from the equipment records to the physical asset.

*Effect:* Without marking of equipment additions, reconciliation from accounting records to the physical assets is not feasible, which could result in inaccurate accounting records.

*Cause:* A process has not been established to ensure marking of capitalized machinery and equipment to facilitate reconciliation with the accounting records at the Authority.

*Auditors' Recommendations:* The Authority should enforce current policies and procedures and ensure that all machinery and equipment tags are attached to the asset.

*Management Response:* The Authority agrees with this finding of fact but does not believe that the tag numbers sent out by City Financial Reporting represents the answer to maintaining a formal and universal control process. Most of this perceived lack of value relates to the documented deficiencies in the current City fixed asset system and to a tag numbering system that does not enhance the Authority's ability to track its assets.

Without important identifying information such as asset location and license plate number being reported in the fixed asset system, the tag numbers are difficult to accurately place on the correct asset. The Authority has not been given its own asset numbering system in the City system leaving large gaps in the numerical sequence of its assets. The numbering system used by the City is simply a number without containing any other useful information.

The Authority is internally maintaining asset listings for its IT equipment, and the asset management system has some information on equipment items that might be in the fixed asset inventory. As the Authority moves towards acquiring the ability to perform an annual physical inventory of its fixed assets, it will concurrently develop a process to "tag" those assets. That process will necessarily involve a technological solution.

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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**09-14 Accurate and Timely Budget to Actual Information and Budget Overspending (Repeated and Modified)**

*Condition:* Procedures were not in place to ensure that expenses did not exceed budgets. As a result, expenses of the Authority exceeded budget amounts.

*Criteria:* According to the Authority's Budget Policies and Procedures Ordinance, Section 2-1-6, the Authority shall not expend any enterprise funds unless the expense is authorized in the budget and is made or encumbered in the fiscal year covered by the budget.

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

*Cause:* The Authority converted 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 that has caused a delay in timely closing and reconciliation of subsidiary ledgers. Thus, budget to actual reports had to be generated during the trial balance close and preparation process.

*Auditors' Recommendations:* The Authority 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 for the Authority.

*Management's Response:* The Authority concurs with this finding. The Authority is sufficiently concerned with the ability of the City's financial system to post general ledger transactions in a timely and thorough fashion and to produce meaningful budget to actual reports. Due to these concerns, the Authority is in the process of acquiring its own Enterprise Resource Planning (ERP) financial system. The Request For Proposal (RFP) for the system is out and some criteria in the RFP pertain to the financial system's ability to produce real-time budget to actual reports. The earliest this system will be on-line will be at the start of fiscal year 2014 on July 1, 2013.

The Authority is very much aware of the operational budget overspending in fiscal year 2011. The lack of timely financial results being posted in the general ledger and the inability to effectively track the accounts payable accruals at year end were key elements in the Authority overspending its operational budget. A more efficient financial system would have certainly aided the Authority's efforts to stay within budget. For fiscal year 2012, the Authority is continuing its best efforts to track actual versus budget results, make reasonable projections of the year's spending including accruals and take appropriate and timely actions to prevent overspending by year end. Keeping spending within the operation budget is one facet of budget management. The other facet is managing expenditures within projected revenue levels. The Authority is doing both tasks.

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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**09-18 Bond Covenants (Repeated) (Significant Deficiency)**

*Condition:* The Authority was not in compliance with the rate covenant ratio as of June 30, 2011.

*Criteria:* According to the Bond Ordinance of the Authority's revenue bonds, the Authority is required to set rates sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all outstanding system obligations.

*Effect:* The Authority is not maintaining the debt covenant requirements, which could cause the Authority to have to repay outstanding bond obligations.

*Cause:* The Authority did not increase rates in fiscal year 2011 sufficient to produce net revenues to pay 133% of annual debt service requirements.

*Auditors' Recommendations:* The Authority should adjust rates in order to generate sufficient revenues to satisfy this covenant.

*Management's Response:* Based upon the Authority's rate covenant, the Authority has taken the necessary actions to bring the Authority to the appropriate debt service levels. In January 2011, the Authority hired Red Oak Consulting to review the Authority's rates. As a result, two 5% rate increases were approved by the Authority Board, the first being effective July 1, 2011 and the next on July 1, 2013. Based upon the work done by the Authority's rate consultant and upon their analysis, the Authority will generate sufficient revenues to maintain adequate debt service coverage levels. At this time, FY12 revenues have been coming in at budgeted amounts and expenditures have been held at or below budgeted amounts. Through the 2<sup>nd</sup> quarter of FY12, the Authority is in a position to achieve its desired debt service coverage levels.

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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**10-01 Business Continuity and Disaster Recovery Plan (BCP/DRP) (Modified and Repeated)**

*Condition:* The City and Authority do not have a comprehensive written BCP/DRP. Information Technology Services Department (ITSD) has developed a partial plan, but it has not been fully tested and is not complete. Information technology personnel have identified a suitable hot site for recovery of critical systems and applications. However, there is not yet a budget to develop this further. In the event of a disaster, the City and Authority may be unable to effectively manage the recovery effort and continue business in a timely manner without a written and tested BCP/DRP.

*Criteria:* The City's Security Policies (last updated in 2006) state that the City is responsible to protect against disruption of the operation of its technology assets and thereby help to protect the citizens, economy, essential human and government services, and public safety of the City. These policies are also used by the Authority. Information must be protected according to its sensitivity, criticality and value, regardless of the media on which it is stored, the manual or automated systems that process it, or the methods by which it is distributed. A written BCP/DRP should be comprehensive in scope addressing all areas and departments, covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain operations. The plan should be periodically tested to ensure its effectiveness.

*Effect:* The lack of comprehensive written and tested BCP/DRP may pose a serious risk to the City and Authority's ability to maintain continuity of operations and recover critical data and applications in the event of a disaster.

*Cause:* ITSD does not have a budget to develop a hot site for recovery of critical applications and systems. The City is still working on updating its BCP/DRP.

*Auditors' Recommendations:* The City and Authority should develop a comprehensive written BCP/DRP. The plan and the recovery strategies should be based on a comprehensive business impact analysis and risk assessment. Once the plan is developed, it should be tested to ensure the viability of the plan and the timeliness of recovery. The City and Authority should also consider developing an information systems hot site. System recovery testing should be conducted periodically and the tests should be documented and formalized to be included with the City and Authority's overall BCP/DRP and testing.

*Management's Response:* The City and Authority concur with this finding. The City has written documentation defining a disaster recovery strategy for PeopleSoft ERP which details the specific steps to perform a disaster recovery. This will also be used by the Authority. Components of this plan have been successfully executed. The plan is currently being updated. The City will regularly review the plan to ensure it remains updated.

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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**10-03 Reporting Unclaimed Property (Repeated and Modified)**

*Condition:* The Authority did not report unclaimed property to the State as required by the Uniform Unclaimed Property Act (1995). This unclaimed property includes outstanding checks as well as unclaimed customer deposits.

*Criteria:* The Uniform Unclaimed Property Act (1995) Article SA states that property held by a court, government, governmental subdivision, or agency is assumed abandoned if it is unclaimed by the apparent owner one year after the property becomes distributable. Such funds must be escheated to the State of New Mexico.

*Effect:* Noncompliance with the Uniform Unclaimed Property Act (1995) Article SA.

*Cause:* Procedures were not in place to ensure that unclaimed property has been reported to the State on an annual basis.

*Auditors' Recommendations:* Policies and procedures should be implemented to ensure compliance with the Uniform Unclaimed Property Act (1995) Article SA. The Authority should evaluate all unclaimed property and exercise due diligence in reporting unclaimed property to the State.

*Management's Response:* The Authority concurs with this finding. Now that general ledger account balances have been identified as representing unclaimed deposits or monies due developers, the Authority will undertake an effort to see what depositor or developer information is available and will remit those funds to the State as required. The Authority is no longer requiring deposits for new accounts in the same circumstances as before and the volume of pro rata payments to developers has sharply declined in recent years. The Authority will monitor the balance in this general ledger account for potential unclaimed funds.

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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**11-02 Support for Cash Disbursements**

*Condition:* Based on our testing of a sample of 40 disbursements, totaling \$27,017, a \$4,124 invoice for phone service was paid on September 21, 2010, based on a vendor contract that expired on January 10, 2010. Two disbursements totaling \$226 did not have time stamps on the invoices.

*Criteria:* The City and Authority's disbursement policy states that invoices must be time stamped upon receipt. It also states that contracts for vendors should be kept current.

*Effect:* Unauthorized payments could be made.

*Cause:* Lack of adherence to the City and Authority's policies and inadequate management oversight.

*Auditors' Recommendations:* The City and Authority should enforce their internal policies to ensure proper payment of disbursements.

*Management's Response:* The City and Authority concur with this finding. The Department of Finance and Administration will work with the staff to ensure proper procedures are followed.

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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**11-03 Lack of Payroll Supporting Documentation**

*Condition:* Nine hours of overtime paid to an employee in the pay period ended July 2, 2010, was not supported by a timesheet or other documentation of hours worked.

*Criteria:* Payroll disbursements should be supported by approved timesheets or other evidence of hours worked. Documentation supporting payroll transactions should be maintained.

*Effect:* The City and Authority could be paying their employees for unauthorized hours.

*Cause:* Procedures were not in place to ensure all documentation supporting payroll was maintained.

*Auditors' Recommendations:* Strengthen existing payroll procedures to ensure that adequate support for time worked is maintained for all payroll disbursements.

*Management's Response:* The City and Authority concur with this finding. The department involved could not locate the backup documentation. The City and Authority will review the Rules and Regulations regarding approvals with department Directors and timekeepers through Payroll User Group meetings and email communications.



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**Year Ended June 30, 2011**

B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**11-04 Information Technology (IT) Policies and Procedures**

*Condition:* IT policies and standards (including those related to PeopleSoft) have not been updated to address current practices and systems. Many of the policies, particularly the IT security policies, have latest revision dates in 2004, 2005, 2006 or 2007.

*Criteria:* IT including systems, applications, and infrastructure are essential and integral to the efficiency of the City and Authority's operations. Updated IT internal controls, policies, standards, and procedures are essential to maintain the confidentiality, integrity and availability of data.

*Effect:* Inadequate and/or outdated IT policies, standards and procedures may result in security issues, security breaches, inability to hold employees accountable for activities on the network, and possible noncompliance with laws and regulations.

*Cause:* The Information Technology Services Department and the PeopleSoft Group are aware that the current policies, standards and procedures are in need of updating. Some IT policies and standards are in the process of being updated.

*Auditors' Recommendations:* Management should ensure that all IT policies, standards and procedures are updated and that a continuous update and review process is implemented.

*Management's Response:* The City and Authority concur with this finding. The City and Authority has begun an IT Policy review. All IT policies are being evaluated and updated as required. Any updated policies will require approval by the City's IT Commission (ITC). The target date for completion is set for the end of fiscal year 2012.

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B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**11-05 PeopleSoft Implementation**

*Condition:* The City and Authority's implementation of PeopleSoft ERP is incomplete and significant issues remain unresolved. This has caused operational efficiency issues. City and Authority employees lack trust in the financial data as a result of the PeopleSoft implementation, resulting in employees developing "workarounds," and making extensive use of spreadsheets and other tools to compensate for the perceived deficiencies in PeopleSoft. These issues impeded efficient monthly and year-end closing, and timely annual financial reporting because multiple non-integrated systems are used in order to complete these tasks.

*Criteria:* The successful implementation and end-user acceptance of a new enterprise-wide system requires buy-in from end-users and extensive hands-on training with the new system. Another critical success factor is process re-engineering to ensure that legacy processes and procedures are not carried forward to the new system.

*Effect:* Accounting and financial reporting processes are inefficient and susceptible to error.

*Cause:* There was lack of employee training and process re-engineering to accommodate the PeopleSoft system when it was implemented. Also, modules for accounts receivable, asset management, and financial reporting were not installed.

*Auditors' Recommendations:* A third-party consultant was engaged to perform an assessment of the City and Authority's PeopleSoft implementation. They provided their final report to the City in May 2011, which is a very comprehensive report that provides detailed steps to address the City and Authority's PeopleSoft issues. Management should also adopt this remediation road map and provide the resources and support to complete this project.

*Management's Response:* The City and Authority concur with this finding. Many of the purchased modules have not been implemented which has caused workarounds and impeded the monthly close process. The City and Authority is in the process of selecting a vendor to remediate the modules implemented in 2009 and implement the modules owned but not implemented. In 2010, the City added several edit checks to limit input errors. This has drastically decreased the occurrence of data input problems. The City and Authority have the ability to access financial data through several queries previously set up to access legacy system tables. The City and Authority have resolved many of the issues associated with PeopleSoft conversion and will be able to provide timely posting of journals. The recent increase in staffing levels in the ERP division will enable the users to get training on how to run reports created in the query system.

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B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**11-06 Lack of Backup for Key IT Personnel**

*Condition:* Cross-training of IT personnel is limited. There are nine key positions in Information Technology Services Department for which there is no backup or replacement person. These represent “single points of human failure.” If the person in one of these key positions leaves or for any reason is unable to work, IT functionality and performance is likely to be impaired and it may fail in that area.

*Criteria:* Technology is a rapidly changing and developing subject that requires constant training to keep up with evolving technologies. As operations depend more and more on IT systems, they become increasingly complex. In keeping with this increased complexity, IT personnel are no longer generalists, but have become specialized in different areas.

*Effect:* Loss of key IT personnel for whom there is no backup may result in essential tasks going undone or not being performed in a timely manner.

*Cause:* Lack of IT resources and training budgets make it difficult to designate and cross-train backup personnel for key IT positions.

*Auditors' Recommendations:* Management should identify key IT personnel and tasks for which there is no backup and cross-train other personnel in those key areas. IT personnel should keep abreast of new technologies through a structured training and cross-training program.

*Management's Response:* The City and Authority concur with the finding. The Information Technology Systems Department (ITSD) has begun the process of “one-deep” identification of key staff and functions. Where possible, we are cross-training and re-classifying positions to meet this demand. This will continue to be a challenge as we work with static budgets and do not have the ability to add staff or provide complete backup capability.

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B — Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978 — continued

**11-07 Capital Assets Inventory**

*Condition:* The Authority did not perform an annual physical inventory of machinery and equipment during fiscal year 2011.

*Criteria:* According to Section 12-6-10(A) NMSA 1978, each agency shall conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory is performed. This certification should be provided to the agency's auditors.

*Effect:* The Authority's capital assets listing for machinery and equipment may be incorrect.

*Cause:* The Authority is not performing annual physical inventory counts of its capital assets to ensure compliance with state statutes.

*Auditors' Recommendations:* Management should complete a physical inventory of capital assets every year in compliance with Section 12-6-10(A) NMSA 1978. Results from this physical inventory should be reconciled to the Authority's detailed capital assets listing for machinery and equipment.

*Management Response:* The Authority concurs with this finding and recognizes that an annual physical inventory is required by State Statute. However, given the lack of available technology to assist in the inventory taking, the amount of labor and effort that would be required to complete a physical inventory makes doing the task impractical. While the Authority has benefitted from technological advances in almost every aspect of its business operations, the fixed asset inventory process has remained in the paper and pencil era.

The Authority recognizes it will have to move out of the paper and pencil era and utilize technology and financial systems so that an annual physical inventory can be done and have it represent a useful business process. The Authority has an asset management system, and an upgraded Maximo work order system which is integrated with its Geographical Information System (GIS). The Authority will be acquiring its own ERP financial system. As those resources are developed and some new technology is acquired, the Authority expects it will be able to do an annual physical inventory and be in compliance with State Statutes.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**STATUS OF PRIOR YEAR AUDIT FINDINGS**  
**Year Ended June 30, 2011**

<b>Prior Year Number</b>	<b>Description</b>	<b>Current Status</b>
05-13	Audit Report Due Date	Repeated
07-10	Purchase Cards and Travel Cards – Purchase Log/Reconciliation	Resolved
08-02	Manual Payroll Checks Handling	Repeated
08-13	Capital Asset Additions	Repeated
08-16	Bank Reconciliation Process	Repeated
09-02	Premature Purchase of Airline Tickets	Resolved
09-05	Purchase and Travel Cards Request/Cardholder Agreements – No Authorization	Resolved
09-14	Accurate and Timely Budget to Actual Information	Repeated
09-15	Timely Closing of General Ledger and Reconciliation of Subsidiary Ledgers	Repeated
09-18	Bond Covenants	Repeated
10-01	Disaster Recovery Plan	Repeated
10-02	Access Administration	Resolved
10-03	Reporting Unclaimed Property	Repeated
10-05	Procurement Finding	Resolved
10-06	Reporting	Resolved

The Authority's prior year Comprehensive Annual Financial Report (CAFR) included finding numbers 09-04 and 10-04, which related to Payroll – Lack of Approvals and the Schedule of Expenditures of Federal Awards, respectively. These findings related to the City's operations and CAFR rather than the operations and CAFR of the Authority. Therefore, these findings are not presented in the Status of Prior Year Audit Findings.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF DEPOSITS AND INVESTMENTS BY FINANCIAL INSTITUTION**  
**June 30, 2011**

The Schedule of Deposits and Investments by Financial Institution, which includes amounts related to the City and the Authority, is as follows:

Financial Institution: Account name	Type of Account	Bank Balance	Outstanding (Checks) Deposits	Book Balance
<b>Deposits:</b>				
<b>Wells Fargo Bank</b>				
APD Evidence	Checking	\$ 1,741,672	\$ (21,450)	\$ 1,720,222
Las Cruces Land	Savings	43,094	-	43,094
Library Petty Cash	Checking	1,100	(1,100)	-
Bluewater Apartments - operating and maintenance	Checking	257,312	(28,428)	228,884
Mayor and First Lady's Charity Ball	Checking	-	73,650	73,650
		<u>2,043,178</u>	<u>22,672</u>	<u>2,065,850</u>
<b>Bank of America</b>				
Common Fund	Checking	152,378,216	1,918,991	154,297,207
City Payroll	Checking	-	(136,997)	(136,997)
Water Utility Authority Payroll	Checking	-	(3,760)	(3,760)
City Accounts Payable	Checking	(17,330)	(6,371,940)	(6,389,270)
Water Utility Authority Accounts Payable	Checking	(12,323)	(2,956,569)	(2,968,892)
Real Property	Checking	369	(369)	-
Legal Department	Checking	1,957	81,701	83,658
Employee Health Services	Checking	2,449	(395)	2,054
APD Criminal Investigations	Checking	1,004	(29)	975
Housing Authority - Public Housing	Checking	8,539,247	(1,214,097)	7,325,150
Housing Authority - Section 8	Checking	469	(41,109)	(40,640)
Housing Authority - Modernization	Checking	-	-	-
Housing Authority - Section 8	Checking	104,771	-	104,771
Housing Authority - Public Housing FSS	Checking	14,096	-	14,096
		<u>161,012,925</u>	<u>(8,724,573)</u>	<u>152,288,352</u>
<b>New Mexico Bank &amp; Trust (all related to The Apartments Fund)</b>				
Candelaria Gardens - Tenant security deposits	Checking	2,317	-	2,317
Santa Barbara - Tenant security deposits	Checking	1,203	-	1,203
Tucson - Tenant security deposits	Checking	1,206	-	1,206
Manzano Vista-Tenant security deposits	Checking	29,794	-	29,794
Glorieta-Tenant security deposits	Checking	3,050	-	3,050
Beach-Tenant security deposits	Checking	15,632	-	15,632
Bluewater-Tenant security deposits	Checking	44,600	-	44,600
Manzano Vista- Operating and maintenance	Checking	64,167	(63,517)	650
Santa Barbara - Operating and maintenance	Checking	10,679	(814)	9,865
Tucson - Operating and maintenance	Checking	51,763	(1,349)	50,414
Beach - Operating and maintenance	Checking	82,825	(8,353)	74,472
Candelaria Gardens - Operating and maintenance	Checking	128,511	(1,903)	126,608
Glorieta - Operating and maintenance	Checking	71,332	(904)	70,428
Candelaria Gardens - Property reserve	Checking	95,002	-	95,002
Glorieta - Property reserve	Checking	41,127	-	41,127
Tucson - Property reserve	Checking	63,633	-	63,633
Santa Barbara - Property reserve	Checking	39,037	-	39,037
FCSD property management trust	Checking	153,325	(16)	153,309
		<u>899,203</u>	<u>(76,856)</u>	<u>822,347</u>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF DEPOSITS AND INVESTMENTS BY FINANCIAL INSTITUTION**  
**June 30, 2011**

Financial Institution: Account name	Type of Account	Bank Balance	Outstanding (Checks) Deposits	Book Balance
Deposits continued:				
First Community Bank				
Common Fund	Checking	\$ 28,515	\$ -	\$ 28,515
Water Utility Authority Water Clearing	Checking	1,006,110	-	1,006,110
APD SID	Checking	81,374	(403)	80,971
APD SID	Checking	473,915	-	473,915
APD SID	Checking	369,356	-	369,356
		<u>1,959,270</u>	<u>(403)</u>	<u>1,958,867</u>
Bank of the West				
Certificate of Deposit	Investment	237,060,038	(60,038)	237,000,000
Total deposit accounts		<u>402,974,614</u>	<u>(8,839,198)</u>	<u>394,135,416</u>
Investments:				
Bank of America				
Working Capital Account				
Short-Term Investment Account	Investment	293,586,711	(851,285)	292,735,426
Short-Term Investment Account	Investment	31,000,000	-	31,000,000
	Investment	7,407,100	-	7,407,100
State of New Mexico				
Local Government Investment Pool				
LGIP Fund Pool-4101	Investment	8,013,601	-	8,013,601
LGIP Fund Pool-4102	Investment	803,067	-	803,067
LGIP Fund Pool-4102	Investment	23,198	-	23,198
Bank of New York Mellon Trust Company				
U.S. Treasury Money Market Fund	Investment	1,164,776	180,070	1,344,846
Bank of Albuquerque				
U.S. Treasury Money Market Fund	Investment	1,584,128	(1,607)	1,582,521
Wells Fargo Trust in Denver, Colorado				
U.S. Treasury Money Market Fund	Investment	1,173,066		1,173,066
U.S. Treasury Money Market Fund	Investment	500,560		500,560
U.S. Treasury Money Market Fund	Investment	498,539	-	498,539
U.S. Treasury Money Market Fund	Investment	282,224	-	282,224
U.S. Treasury Money Market Fund	Investment	1	(1)	-
Total investments		<u>346,036,971</u>	<u>(672,823)</u>	<u>345,364,148</u>
Total cash and investments		<u>\$ 749,011,585</u>	<u>\$ (9,512,021)</u>	<u>\$ 739,499,564</u>
Imprest cash not in bank				42,809
Accrued interest investment fund				703,064
Fiduciary cash				<u>(4,556,701)</u>
Cash and Investments in Statement of Net Assets				<u>\$ 735,688,736</u>
Cash and Investments in Statement of Net Assets - Authority				\$ 57,387,330
Cash and Investments in Statement of Net Assets - City Primary Government				<u>678,301,406</u>
				<u>\$ 735,688,736</u>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**SCHEDULE OF PLEDGED COLLATERAL BY FINANCIAL INSTITUTIONS**  
**June 30, 2011**

The Schedule of Pledged Collateral by Financial Institutions, which includes amounts related to the City and the Authority, is as follows:

The collateral for deposit accounts is as follows:

Financial Institution Collateral Description	Original Face	Current Face	Current Market	Maturity Date	Coupon Rate
<b>Bank of the West</b>					
FHLMC FH 1Q1162	\$ 61,000,000	\$ 57,386,952	\$ 60,011,939	02/01/2036	2.38%
FHLMC FHR 3339 HF	72,000,000	34,556,959	34,636,402	07/15/2037	0.71%
FHLMC FG A95831	50,000,000	49,024,465	51,137,901	12/01/2040	4.50%
FNMA FN MA0654	50,000,000	47,467,141	49,812,180	2/02/2021	3.50%
FHLMC FH 1Q0682	42,488,732	18,583,637	19,591,310	04/01/2038	3.48%
FNMA FN AA7681	42,000,000	34,614,999	36,172,152	06/01/2039	4.50%
FHLMC FH 1B4492	12,000,000	7,121,915	7,471,721	10/01/2039	3.74%
FNMA FN AH0951	10,000,000	9,857,655	10,310,342	12/01/2040	4.50%
FHLMC FH 1Q1195	8,000,000	7,628,236	8,053,683	05/01/2037	2.75%
FNMA FN AH0951	5,605,000	5,525,215	5,778,947	12/01/2040	4.50%
FNMA FNR 2010-43 FD	2,265,000	2,092,373	2,100,224	05/25/2040	0.79%
FNMA FN 872467	13,957,485	3,453,702	3,638,699	05/01/2036	2.72%
FNMA FN AB1366	74,000,000	62,551,003	65,563,048	08/01/2025	4.00%
	<u>\$ 443,316,217</u>	<u>\$ 339,864,252</u>	<u>\$ 354,278,548</u>		

Location of collateral: Bank of the West, Walnut Creek, CA

Total all banks \$ 354,278,548

The collateral for repurchase agreements is as follows:

Financial Institution Collateral Description	Original Face	Current Face	Current Market	Maturity Date	Coupon Rate
<b>Bank of America</b>					
City of Albuquerque Common Fund					
FNMA FNAR LBAH7804	\$ 28,387,844	\$ 28,499,358	\$ 29,069,345	04/01/2041	3.12%
FNMA FNMS CIAE1806	2,680,355	2,500,642	2,550,655	10/01/2025	3.50%
	<u>\$ 31,068,199</u>	<u>\$ 31,000,000</u>	<u>\$ 31,620,000</u>		
102% collateral requirement			<u>31,620,000</u>		
Collateral in excess (deficit) of requirement			<u>\$ -</u>		

Location of collateral: Bank of New York Mellon, New York, NY

The market value shown of the pledged collateral for the common fund repurchase agreement is as of the time of purchase on 6/30/2011.

<b>Bank of America</b>					
Housing Authority					
Gov Natl Mtg Assoc	\$ 7,627,320	\$ 7,407,100	\$ 7,555,242	02/20/2036	0.00%
102% collateral requirement			<u>7,555,242</u>		
Collateral in excess (deficit) of requirement			<u>\$ -</u>		

Location of collateral: Bank of America, N.A., Charlotte, NC

All pledged collateral is held in the city's name at each financial institution.

Directed trades (portfolio investment purchases) are held at the Federal Reserve Bank, Richmond, Virginia in an account separate from the account where the collateral for the common fund repurchase agreement is held.



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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**JOINT POWERS AGREEMENT, MEMORANDUMS OF UNDERSTANDING**  
**AND OTHER AGREEMENTS**  
**JUNE 30, 2011**

**Joint Powers Agreement -**

<b><u>Contract Control Number (CCN)</u></b>	<b><u>Participants other than Water Authority</u></b>	<b><u>Responsible Party</u></b>	<b><u>Description</u></b>
Eminent domain powers CCN 2004-0692	City of Albuquerque/Bernalillo County	All Participants	City, County & Authority have right-of-way eminent domain powers

**Memorandums of Understanding & Other Agreements**

<b><u>Contract Control Number (CCN)</u></b>	<b><u>Participants other than Water Authority</u></b>	<b><u>Responsible Party</u></b>	<b><u>Description</u></b>
Original Agreement	City of Albuquerque	All Participants	Full scope of the understanding between the Authority and the City, including the services to be provided by each party upon the Authority acquiring all the powers necessary to operate a public water and wastewater utility
First Amendment 2008-0045	City of Albuquerque	All Participants	Provides the City's Solid Waste Department or other City agency with the use of the Authority's billing and collection system based upon a mutually agreed cost
Third Amendment 2009-0021	City of Albuquerque	All Participants	Provide a practical mechanism for the review and identification of real property transferred to the Authority by operation of law so that the City can convey record title to the Authority
2008-0046	City of Albuquerque Fire Department	All Participants	The City will paint up to 3,187 fire hydrants per year at a cost of \$8 per hydrant for an annual cost to the Authority not to exceed \$25,500
2008-0076	City of Albuquerque Parks and Recreation Department	All Participants	Landscaping and irrigation system improvements to be made by the Authority along Campbell Road and the Rio Grande Compound made necessary by damages from the San Juan Chama drinking water project and the Parks and Recreation Department agreement to provide yearly maintenance of such improvements

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
September 22, 2004	Indefinite	Not specified	Unknown	All Parties

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
July 1, 2007	June 30, 2012	NA	NA	All Parties

July 1, 2007	June 30, 2012	NA	NA	All Parties
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September 16, 2008	June 30, 2012	NA	NA	All Parties
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August 10, 2007	Terminated by either party with a six month written notice	\$25,500 per year	Unknown	All Parties
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December 6, 2007	December 31, 2050	\$103,530	0	All Parties
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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**JOINT POWERS AGREEMENT, MEMORANDUMS OF UNDERSTANDING**  
**AND OTHER AGREEMENTS**  
**JUNE 30, 2011**

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2008-0151	City of Albuquerque Office of Emergency Management	All Participants	Allows the use of the Authority's facilities at Pino Yards on a no notice basis as an alternate emergency operations facility in the event the primary emergency operations facility is unavailable
2009-0132	City of Albuquerque	All Participants	The Authority agrees to reimburse the City for low flow toilets and urinals purchased, retrofitted and installed by the City in City facilities
2010-0117	City of Albuquerque Parks and Recreation Department, Black Cattle Ranch LLC, Quail Ranch	All Participants	Biosolids assisted sustainable grazing study on City of Albuquerque Open Space land and on land leased by Black Cattle Ranch LLC from Quail Ranch
2011-0137	City of Albuquerque	All Participants	Conditions and terms for the Authority requesting barricade and excavation permits and the fees to be charged for such permits by the City
2012-0020	City of Albuquerque	All Participants	Requires the City Fire Department and the Authority to perform various inspection and maintenance services on public fire hydrants and the Authority will map in its GIS system all public and private fire hydrants
2011-0111	City of Albuquerque Solid Waste Department	All Participants	Use of non-potable water from storage tank at the Metropolitan Detention Center for dust control at the Cerro Colorado landfill operated by the City Solid Waste Department

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
April 30, 2008	December 31, 2050	NA	NA	All Parties
April 1, 2009	April 1, 2013	\$156,825	0	All Parties
March 16, 2010	February 28, 2013	NA	NA	All Parties
April 12, 2011	June 30, 2012	NA	NA	All Parties
August 10, 2011	August 10, 2016	NA	NA	All Parties
May 2, 2011	December 31, 2060	NA	NA	All Parties

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**JOINT POWERS AGREEMENT, MEMORANDUMS OF UNDERSTANDING**  
**AND OTHER AGREEMENTS**  
**JUNE 30, 2011**

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2009-0018	City of Rio Rancho	All Participants	Authority agrees to provide water and wastewater services to the 11,000 acres within Bernalillo County annexed by the City of Rio Rancho and the City of Rio Rancho agrees not to extend its own water and wastewater services to this area, which was done in contemplation of a successful condemnation of New Mexico Utilities Inc. (NMUI) by the Authority which in fact was accomplished by the Authority's acquisition of NMUI
2008-0105	Bernalillo County	All Participants	the Authority agrees to accept and the County agrees to provide yard trimmings, brush and tree trimmings and horse stable bedding for the purpose of beneficial reuse of these materials at the Authority's Soil Amendment Facility
2008-0105	Bernalillo County	All Participants	County agrees to provide the services of its grinder to pulverize brush and tree trimmings in accordance with an equipment lease agreement
2009-0111	Bernalillo County	All Participants	Long term extension of the jointly funded Partners in Improving and Protecting the Environment (PIPE) program which provides low and moderate income water and sewer connection assistance within the Authority service area
2010-0090	Bernalillo County	All Participants	Expansion of water capacity in Cordero Mesa Business Park through County managed and paid for facility construction and for which the Authority agrees to extend the water system to the project area and connect to the system

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
September 5, 2008	In Perpetuity	NA	NA	All Parties
August 29, 2007	August 29, 2015	NA	NA	All Parties
January 22, 2008	August 29, 2015	\$10,000	Unknown	All Parties
June 9, 2009	June 30, 2050	NA	\$168,508	All Parties
December 3, 2009	Until terminated by both parties	NA	NA	All Parties

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**JOINT POWERS AGREEMENT, MEMORANDUMS OF UNDERSTANDING**  
**AND OTHER AGREEMENTS**  
**JUNE 30, 2011**

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2010-0090.1	Bernalillo County	All Participants	Allows for the design and construction of an additional water transmission line from the new Cordero reservoir to the existing reservoir serving the Metropolitan Detention Center for which the County agrees to pay all costs and stipulates this new line shall not be used to provide service for existing or future development
2011-0065	Bernalillo County	All Participants	Joint funding of a staff person (to be hired as an Authority employee) and operating budget to support the Water Protection Advisory Board
2009-0169	Kirtland AFB (KAFB)	All Participants	KAFB agrees to pay the Authority for water quality lab analyses of monthly groundwater samples for the purpose of monitoring fuel related contamination in Authority drinking water production wells in response to the KAFB bulk fuels release with a maximum reimbursement of \$41,000
First Amendment 2009-0169.1	Kirtland AFB	All Participants	Extended term of original agreement by one year and set a maximum reimbursement of \$41,000
Second Amendment 2009-0169.2	Kirtland AFB	All Participants	Extended term of original agreement by one year and set a maximum reimbursement of \$53,000
2012-0064	Kirtland AFB	All Participants	In substance, extended term of original agreement by one year, provided for a review of the status of the investigation by July 31, 2012 for the purpose of determining whether to renew the agreement and set a maximum reimbursement of \$53,000



<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
September 30, 2010	Until terminated by both parties	NA	NA	All Parties
December 16, 2010	Until terminated by both parties	\$50,000 per year	\$30,000	All Parties
October 1, 2008	September 30, 2009	NA	NA	All Parties
October 1, 2009	September 30, 2010	NA	NA	All Parties
October 1, 2010	September 30, 2011	NA	NA	All Parties
October 1, 2011	September 30, 2012	NA	NA	All Parties

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**JOINT POWERS AGREEMENT, MEMORANDUMS OF UNDERSTANDING**  
**AND OTHER AGREEMENTS**  
**JUNE 30, 2011**

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2012-0055	Mid Region Council of Governments	All Participants	Cooperative effort for acquisition and production of high resolution natural color digital orthophotography for several counties in New Mexico
2009-0106	NMWARN members	All Participants	Participation in the New Mexico Mutual Aid and Assistance Agreement Water/Wastewater Agency Response Network (NMWARN) whereby mutual aid and assistance activities are conducted under the New Mexico Intrastate Mutual Aid and Assistance Program and the Interstate Emergency Management Assistance Compact
2009-0043	United States Geological Survey of the United States Department of the Interior	All Participants	Joint funding of continuing geohydrologic investigations in the Albuquerque Basin
2011-0060	Village of Tijeras	All Participants	The Authority may at its sole discretion grant return flow credits approved by the State Engineer to the Village and the Village agrees to undertake efforts to ensure that there are no unauthorized connections to the Authority's wastewater collection system by Village water customers

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
December 1, 2011	November 30, 2013	\$10,000	\$0	All Parties
March 10, 2009	December 31, 2050	NA	NA	All Parties
July 1, 2008	June 30, 2013	\$1,250,000	Unknown	All Parties
December 13, 2010	By the Authority at the end of any fiscal year with 90 days advance written notice to the Village	NA	NA	All Parties

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO**  
**EXIT CONFERENCE**  
**June 30, 2011**

An exit conference was held on March 21, 2012, and attended by the following:

**AUTHORITY PERSONNEL:**

Ken Sanchez,  
Chair, Water Authority Board

Mark Sanchez  
Executive Director

Stanley Allred  
Chief Financial Officer

Cliff Wintrode  
Accounting Officer

**REDW LLC:**

James Montoya  
Principal

Joshua Trujillo  
Senior Manager

**CITY PERSONNEL:**

Pamela Berry  
Accounting Officer

Nela Wilkinson  
Accounting Systems Coordinator

Elaine Romero  
Policy Analyst, City Council