

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2011 - JUNE 30, 2012



Albuquerque Bernalillo County
Water Utility Authority

STATE OF NEW MEXICO

**Albuquerque Bernalillo County Water Utility Authority
Comprehensive Annual Financial Report
Year ended June 30, 2012**

Table of Contents

INTRODUCTORY SECTION

| | |
|-----------------------------|---|
| Letter of Transmittal | 1 |
| Organization Chart..... | 8 |

FINANCIAL SECTION

| | |
|---|----|
| Report of Independent Auditors | 9 |
| Management’s Discussion and Analysis | 11 |
| Basic Financial Statements: | |
| Statement of Net Assets | 24 |
| Statement of Revenues, Expenses, and Changes in Net Assets | 26 |
| Statement of Cash Flows | 27 |
| Notes to Financial Statements: | |
| I. Summary of Significant Accounting Policies | |
| A. Reporting entity | 29 |
| B. Measurement focus, basis of accounting, and financial statement presentation | 29 |
| C. Assets, liabilities, and net assets..... | 30 |
| II. Stewardship, Compliance and Accountability | 33 |
| III. Detailed Notes | |
| A. Cash and investments..... | 34 |
| B. Accounts receivable, notes receivable, and due from other governments | 36 |
| C. Capital assets..... | 37 |
| D. Short-term and long-term obligations | 38 |
| E. Defined benefit pension plan – Public Employees Retirement Association | 42 |
| F. Defined contribution retirement plan..... | 42 |
| G. Post employment benefits. | 43 |
| H. Risk management. | 46 |
| I. Transactions with City of Albuquerque..... | 47 |
| J. Commitments and contingencies | 47 |
| Other Supplementary Information | |
| Schedule of Funding Progress for Life Insurance Benefit Plan | 49 |
| Statement of Revenues, Expenses, and Changes in Net Assets – Budget and Actual..... | 50 |

STATISTICAL SECTION - UNAUDITED

| | | |
|-------|---|----|
| Table | | |
| I | Statement of Revenues, Expenses, and Changes in Net Assets – Last Ten Fiscal Years | 54 |
| II | Selected Water/Sewer System Statistics – Last Ten Calendar Years | 56 |
| III | Demographic Statistics | 58 |
| IV | Top Ten Major Employers..... | 59 |
| V | Water and Wastewater Users by Class and Meter Size – Last Ten Fiscal Years | 60 |
| VI | Water Consumption – Last Ten Calendar Years..... | 61 |
| VII | Revenue from Water and Sewer Charges and Other Operating Revenue – Last Ten Fiscal Years..... | 62 |
| VIII | Revenue from Utility Expansion Charges – Last Ten Fiscal Years | 63 |
| IX | Water System Annual Peak Demand and Top Ten Customers | 64 |
| X | Wastewater System Annual Average Flow and Top Ten Customers | 65 |
| XI | Miscellaneous Trend Analysis – Last Ten Fiscal Years..... | 66 |
| XII | Revenue Bond Debt Service Coverage – Last Ten Fiscal Years..... | 67 |
| XIII | Net Assets by Component – Last Nine Fiscal Years..... | 68 |
| XIV | Outstanding Debt Ratio – Last Nine Fiscal Years | 69 |
| XV | Revenue Rate Comparisons | 70 |

**Albuquerque Bernalillo County Water Utility Authority
Comprehensive Annual Financial Report
Year ended June 30, 2012**

Table of Contents

SINGLE AUDIT INFORMATION

| | |
|--|----|
| Schedule of Expenditures of Federal Awards | 71 |
| Notes to the Schedule of Expenditures of Federal Awards | 72 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 73 |
| Independent Auditors' Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133..... | 75 |
| Schedule of Findings and Questioned Costs..... | 78 |
| Status of Prior Year Audit Findings | 95 |
| Corrective Action Plan | 96 |

STATE COMPLIANCE

| | |
|--|-----|
| Schedule of Deposits and Investments by Financial Institution..... | 98 |
| Schedule of Pledged Collateral by Financial Institution..... | 99 |
| Joint Powers Agreements, Memorandums of Understanding, and Other Agreements..... | 100 |
| Exit Conference | 112 |

INTRODUCTORY SECTION

March 21, 2013

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, 2012. 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 Comprehensive Annual Financial Report consists of five 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, 2012, 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. The Single Audit Information Section contains information about expenditures from federal awards, Independent Auditors' Report on Internal Controls and Compliance, and the Schedules of Findings and Questioned Costs.
5. State Compliance 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, 2012. 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, and 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 of Albuquerque (City) became effective July 1, 2007 and ran through June 30, 2012. The Authority extended the MOU through June 30, 2013. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City. 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, 2012 are as follows:

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

Ex Officio Member at June 30, 2012:

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 MSA has a population of 887,000 as of the 2010 census. 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 | | | | |
|---|---------------------|---------------------------------|-----------------------------|--|
| <u>NAICS CATEGORY</u> | Employment FY/12 | Share of FY/12 Employment | Growth FY/11 to FY/12 | Compound Annual Average FY/08 to FY/12 |
| Total Nonfarm Employment ⁽¹⁾ | 370.98 | 100% | -0.1% | -1.6% |
| Natural Resources and Mining and Construction | 19.95 | 5% | -4.4% | -9.4% |
| Manufacturing | 18.05 | 5% | 2.4% | -5.8% |
| Trade, Transportation, and Utilities | 61.86 | 17% | -2.0% | -2.7% |
| Information | 8.60 | 2% | 0.7% | -1.7% |
| Financial Activities | 17.06 | 5% | -58.3% | -21.5% |
| Aggregate of Services | 163.42 | 44% | 2.9% | -2.0% |
| Professional and Business Services | 55.93 | 15% | -2.6% | -3.4% |
| Educational and Health Services | 58.31 | 16% | 5.5% | 4.0% |
| Leisure and Hospitality | 37.53 | 10% | 0.8% | -1.2% |
| Other Services | 11.65 | 3% | -0.8% | -1.4% |
| Government | 82.04 | 22% | -1.5% | 0.5% |
| Military | 6.20 | NA | 1.0% | 7.0% |

(1) Does not include military

For FY/12, the Albuquerque MSA moved in the same direction as the United States as a whole and saw an increase in employment numbers. The unemployment rate increased from 3.5% in FY/08 to a maximum of 8.3% in November of 2010 and had declined to 7% by June of 2012. Employment gains in FY/12 were inconsistent across sectors but overall increased slightly compared to FY/11 primarily due to the jump in employment in education and health services. Construction, which historically has been a major component of the local economy, declined in FY/12 compared to FY/11, but a rate less than half the rate of decline seen in FY/11 compared to FY/10. While single family construction activity has increased it is at a low level. Commercial and public construction is also at low levels with little if any growth. Besides education and health services the other sectors which experienced employment growth in FY/12 were manufacturing, information and financial activities. The largest drop in service sector employment was in the leisure and hospitality area. In the non-services sectors, the largest employment drop was in the trade, transportation and utilities sector. Government employment, after holding up during the recession, declined in FY/12.

One of the strengths for the Albuquerque economy is the national labs. Sandia National Laboratories (SNL) has devoted a great deal of research to anti-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 2014, fiscal year 2016 and again in fiscal year 2018. The Authority has operated since fiscal year 2004 with one rate increase of 6% in fiscal year 2007 and one rate increase of 5% in fiscal year 2012.

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 2012 budget provided the financial basis of operation for the Authority through June 30, 2012. 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 2012, it is at the general ledger fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2012, were not re-appropriated in fiscal year 2013.

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, 2012 was valued at \$693 million at June 30, 2012. The Authority had an average of \$79 million invested in the City's investment pool in fiscal year 2012. The City portfolio average yield for fiscal year 2012 was 0.607%. Interest earned by the Authority totaled \$408,412 for fiscal year 2012.

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 2012 were \$3.32 million compared to payments in the prior year of \$4.91 million. Total claim reserves (current

and long-term), including the Authority, were \$72.1 million as of June 30, 2012, a \$5.2 million increase from \$66.9 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 began the implementation of an Enterprise Resource Planning (ERP) system in fiscal year 2013. This project will implement a full range financial and human capital resources system over the next two fiscal years. The Authority is implementing SunGard's ERP systems. Phase one is expected to go live on July 1, 2013 and will include all of SunGard's financial suites as well as Payroll and Human Resources (HR) modules that drive payroll and workflow in the financial modules. Phase 2 will begin on July 1, 2013 and will consist of the remaining HR modules and employee self-service. Phase 2 is expected to be completed before December 31, 2013.

Along with the implementation of the new ERP system, the Authority has begun to move most services performed by the City of Albuquerque on the Authority's behalf. The Authority is currently undergoing a transition to bring most of these services in house and will no longer depend on the City to provide them to the Authority.

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 San Juan-Chama Drinking Water Project (DWP) is expected to increase surface water treatment to provide 60% of water supplied to the service area. The Authority will continue to operate two water supply systems, the surface water and the ground water systems. This dual system operation will continue into the future even though the primary source of supply will be the surface water from the DWP. It is anticipated that approximately 70% of the area's future water supply will be surface water from the DWP.

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 2011 and was completed in the fourth quarter of fiscal year 2012. This project utilizes treated wastewater effluent for irrigation and industrial use. Connections to individual users commenced in the spring of 2012 and are expected to continue for approximately a year. Full operations are expected to begin in irrigation season 2013. The project will provide up to 2,500 acre feet of non-potable water to more than forty large turf sites in the southeast heights and south valley of Albuquerque including Isotopes Baseball Park, the University of New Mexico Championship and Puerto del Sol golf courses, Bullhead and Vietnam Veterans Park and Mesa del Sol.

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 2011, 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 2012, the Authority continued 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.

Major renovation of the Southside Water Reclamation Plant, under a multi-year upgrade and replacement program, will continue in fiscal year 2013. The new headworks facility and a new solids dewatering facility are in the final stages of design. Construction on these two facilities is expected to begin in the fall of 2012. The funding for these projects will be provided through the Authority’s CIP Program.

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 2012 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 CAFRs for the fiscal years ended June 30, 2009, 2010, and 2011 met Certificate requirements, these 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, 2012 will not be submitted to the GFOA for certificate determination although the Authority believes the 2012 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, 2011. 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,

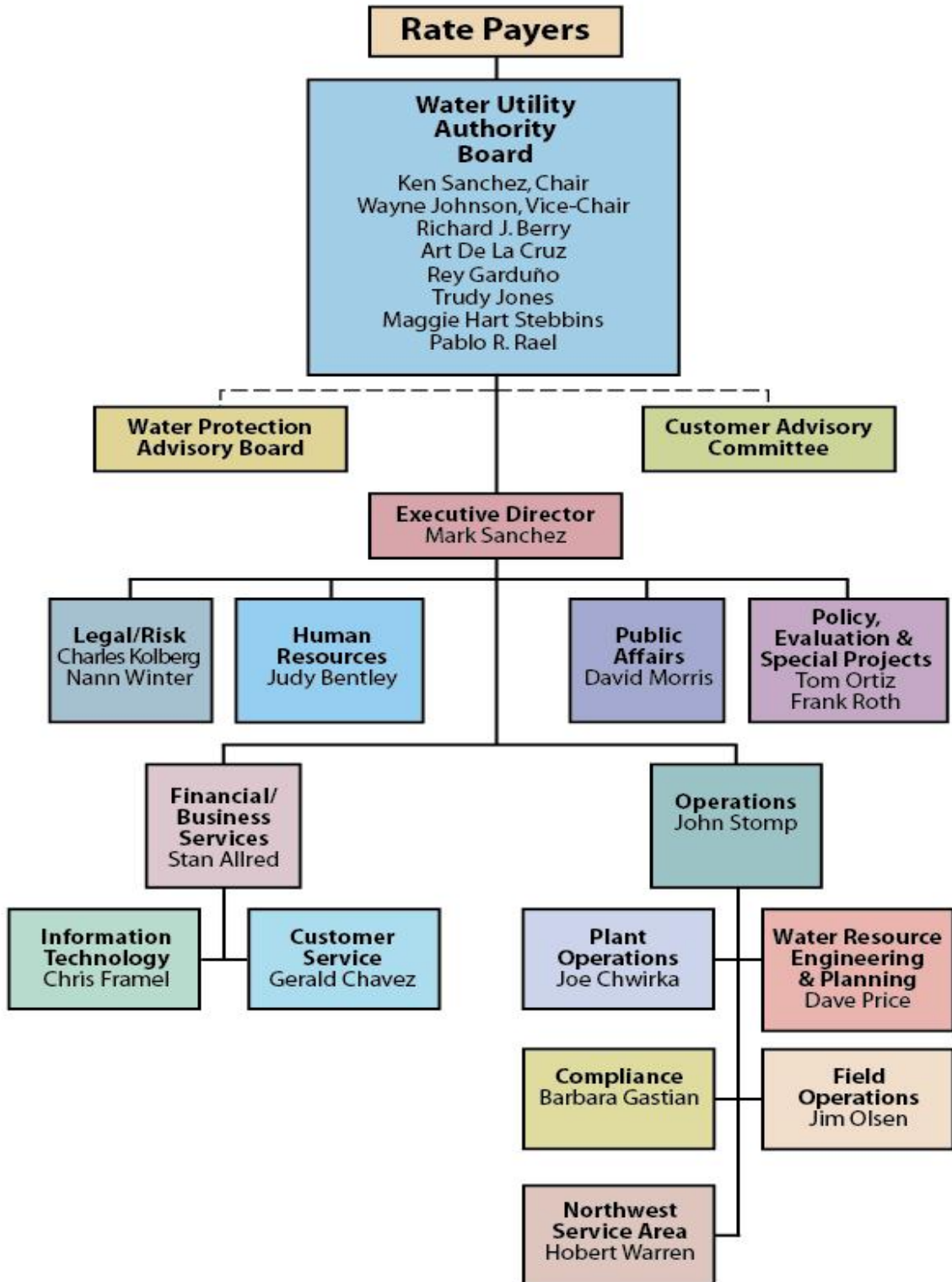


Mark S. Sanchez
Executive Director



Stanley Allred
Chief Financial Officer

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



FINANCIAL SECTION

Independent Auditor's Report

The Board of Directors of the Albuquerque
Bernalillo County Water Utility Authority,
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"), as of and for the year ended June 30, 2012, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and the 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 21, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 23 and page 49, respectively, 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 basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is 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, the Schedule of Deposits and Investments By Financial Institution, the Schedule of Pledged Collateral By Financial Institution, and the Joint Power Agreements, Memorandums of Understanding, and Other Agreements are also presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was 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.

Other data included in this report, listed in the accompanying table of contents as the introductory section and the statistical section, are also not required parts of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

REDW LLC

Albuquerque, New Mexico
March 21, 2013

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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, 2012. 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 2012, the assets of the Authority exceeded its liabilities by \$683.2 million (net assets).
- Comparing fiscal year 2012 with fiscal year 2011, the Authority's net assets decreased by \$18.2 million or 2.6%.
- Comparing fiscal year 2012 with fiscal year 2011, the Authority's total long-term debt obligations increased by \$13.2 million or 2.0%.
- Comparing fiscal year 2012 with fiscal year 2011, cash of the Authority increased by \$17.4 million or 30.3%.

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

- Comparing fiscal year 2012 with fiscal year 2011, operating revenues were \$177.1 million, an increase of \$18.5 million or 11.7%.
- Comparing fiscal year 2012 with fiscal year 2011, operating expenses, net of depreciation, amortization and bad debt expense were \$100.5 million, a decrease of \$0.2 million.
- Comparing fiscal year 2012 with fiscal year 2011, utility expansion charge revenues were \$8.0 million, an increase of \$1.8 million or 28.8%.

From the Statement of Cash Flows

- Comparing fiscal year 2012 with fiscal year 2011, net cash provided by operating activities increased by \$10.0 million to \$70.9 million. Cash received from customers increased by \$14.4 million while cash paid to or on behalf of employees increased by \$4.5 million.
- Comparing fiscal year 2012 with fiscal year 2011, debt service costs were \$74.1 million, an increase of \$4.8 million.
- Comparing fiscal year 2012 with fiscal year 2011, payments for the acquisition and construction of capital assets were \$46.8 million, a decrease of \$19.9 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.

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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

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.

Notes to the Financial Statements

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

Other Information

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

Net Assets

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

Invested in Capital Assets, Net of Related Debt

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

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."

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.

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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

FINANCIAL ANALYSIS

Net Assets

The following Table 1 presents a summarized comparative statement of net assets for the current and prior fiscal year. Table 2 presents a summarized comparative statement of changes in net assets for the current and prior fiscal year.

Table 1 - Condensed Statement of Net Assets

| | <u>FY 2012</u> | <u>FY 2011</u> | <u>Change</u> |
|---|-----------------------|-----------------------|------------------------|
| Assets | | | |
| Current assets | \$ 64,820,403 | \$ 56,179,319 | \$ 8,641,084 |
| Non-current assets other than capital assets | 36,946,275 | 24,430,983 | 12,515,292 |
| Capital assets, net | <u>1,311,476,156</u> | <u>1,339,667,749</u> | <u>(28,191,593)</u> |
| Total assets | <u>1,413,242,834</u> | <u>1,420,278,051</u> | <u>(7,035,217)</u> |
| Liabilities | | | |
| Current liabilities | 68,706,981 | 70,704,419 | (1,997,438) |
| Long term bonds and notes payable | 661,326,909 | 648,105,525 | 13,221,384 |
| Other non-current liabilities | <u>52,457</u> | <u>108,563</u> | <u>(56,106)</u> |
| Total liabilities | <u>730,086,347</u> | <u>718,918,507</u> | <u>11,167,840</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 636,174,669 | 668,170,997 | (31,996,328) |
| Unrestricted | <u>46,981,818</u> | <u>33,188,547</u> | <u>13,793,271</u> |
| Total net assets | <u>\$ 683,156,487</u> | <u>\$ 701,359,544</u> | <u>\$ (18,203,057)</u> |

The comparison of current year and prior year figures for current assets and non-current assets other than capital assets have been affected by a reevaluation done of the Authority's cash balances. Based on the reevaluation, it was determined that the Authority had restricted cash balances as of June 30, 2012 and 2011 of approximately \$27.7 million and \$15.6 million, respectively. The effect was that current assets as shown above for FY 2011 are lower than previously reported and non-current assets other than capital assets are higher than previously reported by the \$15.6 million.

The FY 2011 net assets invested in capital assets, net of related debt amount has been increased and the unrestricted net assets amount has been decreased by approximately \$12.1 million from the amounts presented in the prior fiscal year. The reclassification changes were primarily a result of the reevaluation of the Authority's unrestricted and restricted cash balances.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

Table 2 - Condensed Statement of Changes in Net Assets

| | <u>FY 2012</u> | <u>FY 2011</u> | <u>Change</u> |
|--|-----------------------|-----------------------|------------------------|
| Operating revenues | \$ 177,054,690 | \$ 158,514,826 | \$ 18,539,864 |
| Operating expenses other than depreciation, amortization and bad debt expense | 100,532,321 | 100,755,029 | (222,708) |
| Depreciation, amortization and bad debt expense | <u>85,360,738</u> | <u>84,206,526</u> | <u>1,154,212</u> |
| Total operating expenses | <u>185,893,059</u> | <u>184,961,555</u> | <u>931,504</u> |
| Operating loss | <u>(8,838,369)</u> | <u>(26,446,729)</u> | <u>17,608,360</u> |
| Non-operating income (expenses) | | | |
| Utility expansion charges | 8,035,123 | 6,240,073 | 1,795,050 |
| Investment income | 148,520 | 208,699 | (60,179) |
| Interest expense | (31,094,270) | (31,270,463) | 176,193 |
| Current year capitalized interest | 4,384,347 | 3,622,166 | 762,181 |
| Other income | 2,146,169 | 977,081 | 1,169,088 |
| Lease of stored water | 190,010 | 1,105,535 | (915,525) |
| Amortization of deferred amount on refunding / premium / discount | 2,903,859 | 2,324,159 | 579,700 |
| Non-capital expenses paid from a general ledger fund for capital project activity | <u>(1,137,408)</u> | <u>(807,702)</u> | <u>(329,706)</u> |
| | <u>(14,423,650)</u> | <u>(17,600,452)</u> | <u>3,176,802</u> |
| Loss before capital contributions | (23,262,019) | (44,047,181) | 20,785,162 |
| Capital contributions | <u>5,058,962</u> | <u>10,538,027</u> | <u>(5,479,065)</u> |
| Change in net assets | (18,203,057) | (33,509,154) | 15,306,097 |
| Net assets, July 1 | <u>701,359,544</u> | <u>734,868,698</u> | <u>(33,509,154)</u> |
| Net assets, June 30 | <u>\$ 683,156,487</u> | <u>\$ 701,359,544</u> | <u>\$ (18,203,057)</u> |

The increase in current assets is due to two factors. Revenues increased as a result of the rate increase effective July 1, 2011, which in turn led to higher cash and accounts receivable balances at year end. Cash balances increased from the combination of stronger cash flows from operations and unspent debt proceeds from the \$53.4 million NMFA loan which closed in December 2011.

Operating revenues plus utility expansion charge (UEC) revenues increased by \$20.3 million in fiscal year 2012 while operating expenses exclusive of depreciation, amortization and bad debt declined slightly in fiscal year 2012. UEC revenues, while not considered operating revenues because they do not derive from the sale of water and sewer services, are a funding source for debt service and for capital acquisition similar to operating revenues and thus for many management purposes are considered together. Higher salary and benefit costs and utility expenses were offset by reductions in repairs and maintenance and utility costs.

The Authority's financial plan calls for borrowing for capital purposes every other year and the December 2011 loan was the borrowing that would ordinarily have occurred in fiscal year 2011. However the size of this debt was significantly smaller than the debt borrowings in fiscal years prior to 2010 when the Authority was borrowing funds to complete the Drinking Water project and to fund the Southside Reuse project. While the Authority will continue to borrow capital funding going forward, the financial plan calls for limiting new debt in order to improve cash flow and help meet the debt service coverage ratio requirement.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

During the current year, the Authority generated higher revenues, minimized increases in operating costs and limited interest costs. However, these gains were insufficient to offset increases in depreciation expense and declines in capital contributions, and these factors led to a reduction in net assets in fiscal year 2012. The increase in depreciation expense is attributable to the Surface Water Treatment Plant coming on line as well as necessary rehabilitation projects. The fluctuations in capital contributions arise from the value of private developer infrastructure in accordance with development agreements with the Authority. Capital contributions from private developers decreased from \$12.6 million in fiscal year 2010 to \$4.3 million in fiscal year 2012 reflecting both an overall decline in construction activity and the completion of some large development projects in the earlier years. Unrestricted net assets increased in fiscal year 2012 by approximately \$13.8 million. The increase resulted from the rise in operating revenues and unchanged operating expenses other than depreciation, amortization and bad debt expense offset to some degree by the use of unrestricted resources to fund capital acquisition and purchase water rights.

Operating Budget

In the preparation of the fiscal year 2012 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.

- A 5% rate adjustment previously approved by the Board and the implementation of the latest two year rate study as required by Ordinance to maintain rate equity.
- 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 a 2.5% cost of living adjustment for fiscal year 2012 to comply with current labor agreements
- Fringe benefits were calculated at 47.04% of gross wages, an increase of 4.26% from fiscal year 2011 including a 2.5% increase for employee health insurance benefits. The employer/employee split in other employee benefit costs remained at 80%/20%.
- \$2 million was appropriated for addition to the Rate Reserve Fund making the balance in the Rate Reserve Fund equal to \$2 million.

The Authority's operating budget as initially approved had an excess of revenues over expenses of \$9.76 million. Actual results produced a surplus of \$3.25 million. The difference was primarily due to actual revenues that were less than the budgeted amounts by approximately \$3.4 million and certain expenses that were higher than the budgeted costs.

Operating Fund

Actual results fell below budgeted goals in the operating fund primarily because actual revenues were less than budgeted revenues. Budgeted revenues in the operating fund classified as charges for services in the Statement of Revenues, Expenses, and Changes in Net Assets were \$3.78 million below budget although \$18.54 million higher than in fiscal year 2011. Budgeted expenditures in the operating fund were over-expended by \$356 thousand representing a marked improvement from the prior year figure of \$3.87 million. While still falling short of expectations, the improved performance is indicative of the Authority's efforts to control spending.

Operating revenues, whether for water or for sewer charges, are tied to water consumption and the rate structure. Water consumption fluctuates with summer temperatures, summer precipitation, and to a lesser extent, spring precipitation. The weather factors affecting rate revenues were not significantly different in fiscal year 2012 compared to fiscal year 2011. The rate increase effective July 1, 2011 did have a significant impact on rate revenues.

The Authority's rate structure is based upon cost of service principles. It is evaluated every two years to ensure that there is equity amongst the different classes of customers and within the class of customers. During the summer months the rate structure has a seasonal block rate structure to promote conservation. The base line is based upon the customer's winter usage. The Authority rate structure also has additional fees for those highest water users in the summer and rewards those customers that conserve water during this same time period. The new rate

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

structure contained stronger disincentives for the highest water users and stronger rewards for the customers that were already conserving water. A contributing factor in why actual revenues fell short of budgeted revenues is that both the disincentives and the incentives were successful in managing usage.

Operating expenses other than depreciation, amortization and bad debt expense were virtually unchanged from the prior year. Increases in salary and benefit costs and utility expenses were offset by reductions in repairs and maintenance and risk management costs. The fiscal year 2012 budget had an increase of \$3.5 million for total personnel expenditures based upon a 2% cost of living adjustment, an expected \$900 thousand increase in health insurance and the full year impact of seven net new positions added mid fiscal year 2011. In addition, there were eleven net new positions added in fiscal year 2012. Despite those additional positions, the actual increase in total personnel costs was just under \$3 million. The Authority is seeing the benefits from its ongoing employee safety incentive campaign with the decline in risk management costs. For the first time since the Surface Water Treatment Plant began operations, utility and chemical expenses combined were slightly lower in the current fiscal year compared to the prior fiscal year.

Underlying the Authority's operating costs is its continuing responsibility to operate and maintain 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.

Debt Service Fund

Actual results fell below budgeted goals in the Authority's debt service general ledger fund even though actual revenues were higher than budgeted revenues because actual debt service exceeded budgeted debt service. Debt service expenditures are not discretionary.

Utility expansion charges (UEC) are revenues assessed as customers connect to the system. The revenues are not a connection charge but are intended to help defray the costs of building and maintaining the infrastructure necessary to service the new customers. UEC revenues increased over fiscal year 2011 and were higher than budgeted due to current year connections on development projects completed in the prior year.

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 in recent years its utilization of state and federal grants 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. Fiscal year 2012 was the first year of the two year planning element included in the FY 2012-2021 decade plan approved by the Authority 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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

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 2010-2019 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 2012-2021 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.

The major initiative in the current decade plan for fiscal years 2012 and 2013 was the Preliminary Treatment Facility (PTF) / Dewatering project at the Southside Water Reclamation Plant (SWRP). This project was intended to construct separate facilities although the construction was going to be bid as one project. After some delays in getting the construction bid out, the low bid came in well above the engineer's estimate for the work and the available funding and the bids were cancelled. The project is now being redone as two separate projects. The first project will be the construction of a new Preliminary Treatment Facility. This project is expected to have the construction bid out in fiscal year 2013. In the absence of the PTF / Dewatering project, there were no major construction initiatives undertaken in fiscal year 2012.

The largest ongoing construction project in fiscal year 2012 was the substantial completion of 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 coming on-line of the Southside Reuse project is expected to add \$280,000 in annual operating costs.

The growth side of the Basic Program saw a reduction in resources from the \$4 million in fiscal year 2011 to \$3 million in fiscal year 2012. The reduced size of the growth program reflected a no growth projection for UEC revenue and a need to preserve financial resources for operations.

Enterprise Resource Planning System

In fiscal year 2013, the Authority will begin the implementation of an Enterprise Resource Planning (ERP) system. This project will implement a full range of financial and human capital resources modules over the next two fiscal years and will allow the Authority to move off of the City of Albuquerque's ERP system which has been plagued by problems since the go live date of January 1, 2009. The Authority has chosen to use Sungard software for the financial and human resources systems. The Authority's approach to the selection of a software system was driven by two decisions. First, the Authority wanted software that was no more complex than what was needed and second, the Authority was willing to change its business processes to match the capability of the software rather than making modification to the software to accommodate current business processes. The project is being funded by \$2 million of debt proceeds.

The go live date for the financial system and payroll modules is July 1, 2013 and the go live date for the remainder of the human resource modules is January 1, 2014.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

Infrastructure

The following Table 3 presents the Authority's infrastructure and capital assets at June 30, 2012 and 2011 while Table 4 presents significant capital projects or combinations of smaller individual projects with a common purpose placed in service in fiscal year 2012. The project values include capitalized interest.

Table 3 - Schedule of Infrastructure and Capital Assets

| | <u>FY 2012</u> | <u>FY 2011</u> | <u>Change</u> |
|--|-------------------------|-------------------------|------------------------|
| Buildings and Improvements | \$ 2,210,836 | \$ 2,210,836 | \$ - |
| Improvements other than Buildings | 2,025,226,113 | 2,018,325,493 | 6,900,620 |
| Machinery and Equipment | 49,877,090 | 55,677,481 | (5,800,391) |
| Purchased Water Rights | <u>43,720,597</u> | <u>40,443,654</u> | <u>3,276,943</u> |
| Total capitalized assets | 2,121,034,636 | 2,116,657,464 | 4,377,172 |
| Less accumulated depreciation and amortization | <u>(845,642,870)</u> | <u>(856,075,080)</u> | <u>10,432,210</u> |
| Net capitalized assets | 1,275,391,766 | 1,260,582,384 | 14,809,382 |
| Land | 25,699,732 | 25,657,964 | 41,768 |
| Construction work in progress | <u>10,384,658</u> | <u>53,427,401</u> | <u>(43,042,743)</u> |
| Total capital assets | <u>\$ 1,311,476,156</u> | <u>\$ 1,339,667,749</u> | <u>\$ (28,191,593)</u> |

Table 4 - Schedule of Fiscal Year 2012 Major Capital Additions

| | <u>In Millions</u> |
|---|------------------------|
| Basic Program with supplemental Southside Water Reclamation Plant funding | |
| Southside Water Reclamation Plant and collection system improvements | see note below \$ 19.7 |
| Sanitary sewer pipeline renewal | 3.6 |
| Drinking water pipeline renewal | 8.7 |
| Drinking water facilities renewal | 3.9 |
| Franchise Fee Compliance | 1.9 |
| Initiatives in information technology | 1.0 |
| Non-Basic Program | |
| Southside Reuse project | see note below 7.2 |
| Automated meter infrastructure project | 2.8 |
| Third Party Financed | |
| Private developer and grant funded infrastructure improvements | <u>5.0</u> |
| | <u>\$ 53.8</u> |

Note: These additions do not include approximately \$22.0 million of construction work in progress done in FY 2011 and placed in service in FY 2012.

The small increase in land represents the acquisition of easements rather than the purchase of land. Much of the land balance represents easements.

The increase in improvements other than buildings of \$6.9 million is net of \$88.4 million of fully depreciated assets removed from the general ledger in fiscal year 2012. Similarly, the decrease in machinery and equipment is net of \$7.3 million of fully depreciated assets removed from the general ledger in fiscal year 2012. The decline in construction work in progress is indicative of the substantial completion of the Southside Reuse project in fiscal year 2012 along with the lack of a major construction initiative in fiscal year 2012.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

The largest projects completed at the SWRP were for replacement of the final clarifier mechanisms, replacement of the centrifuges at the dewatering facilities and the completion of the FY03 Plant Improvements project.

DEBT ADMINISTRATION

The Authority's debt obligations at June 30, 2012 are presented below. Net revenues of the System secure debt issued by the Authority.

Table 5 - Schedule of Debt Obligations at June 30, 2012

| | <u>Outstanding</u> | | | <u>June 30, 2012</u> | <u>Payable in one year</u> |
|---------------------------|-----------------------|----------------------|----------------------|-----------------------|--------------------------------|
| | <u>June 30, 2011</u> | <u>Increases</u> | <u>Decreases</u> | | |
| Parity Obligations: | | | | | |
| Revenue Bonds | \$ 467,145,000 | \$ - | \$ 24,130,000 | \$ 443,015,000 | \$ 22,235,000 |
| Loan Agreements - NMFA | 173,062,605 | 53,400,000 | 14,543,876 | 211,918,729 | 17,497,222 |
| Subordinate Obligations: | | | | | |
| Loan Agreements - NMED | 9,923,466 | - | 2,489,728 | 7,433,738 | 440,674 |
| Loan Agreements - NMFA | 10,305,359 | 124,172 | 449,451 | 9,980,080 | 466,842 |
| Line of Credit - NMFA | 102,803 | 21,369 | 124,172 | - | - |
| Junior Obligations: | | | | | |
| Loan Agreements - NMFA | 328,543 | - | 17,311 | 311,232 | 17,353 |
| Water rights contract | 13,909,663 | - | 977,546 | 12,932,117 | 1,007,322 |
| Less deferred amounts: | | | | | |
| Unamortized bond premiums | 12,631,266 | 7,775,176 | 2,974,347 | 17,432,095 | - |
| Bond refunding costs | (102,157) | - | (70,488) | (31,669) | - |
| | <u>\$ 687,306,548</u> | <u>\$ 61,320,717</u> | <u>\$ 45,635,943</u> | <u>\$ 702,991,322</u> | <u>\$ 41,664,413</u> |

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

The debt service coverage ratio for fiscal year 2012 was 1.33. The Authority's bond ratings at the time the Revenue Loan 2011 (see below) closed on December 15, 2011 were Aa1 from Moody's, AA from Fitch and AAA from Standard & Poors. This was a slight downgrade from Moody's while the Fitch and Standard & Poor's ratings were unchanged.

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

New Debt

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 received \$45 million for the 2012 and 2013 fiscal years. \$5 million was 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 was allocated to the Southside Reuse Project.

The Joint Water and Sewer System Improvement Revenue Loan 2011 loan is payable over a period of twenty five years on July 1st 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

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. The interest rate on all three grant/loans is 0% but a fiscal agent fee is charged.

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.

As of June 30, 2012 there were no amounts drawn on any of the lines of credit represented by Water Trust Board grant/loan numbers 205, 206 or 207. However each of the three agreements called for the payment of principal and interest on July 1, 2012 regardless of whether any amounts had been drawn on the lines of credit. Accordingly, the Authority made a total principal payment of \$56,406 and a total fee expense payment of \$1,749 on these three grant/loans on July 1, 2012. The principal payments have been classified as a prepaid expense in the accompanying financial statements due to the fact that no draws had been made.

Prior Debt

At June 30, 2011 there was one line of credit outstanding with a balance of \$102,802. During fiscal year 2012, there were additional draws for \$21,370 on the line of credit. At project completion, the line of credit was converted to a subordinate lien loan with the New Mexico Finance Authority in the amount of \$124,172. The first principal payment on the subordinate lien loan was made on July 1, 2012.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

National Economy and Key Points from the Global Insight Outlook

The following is based on the October 2012 forecasts from IHS Global Insight (GI) and events have transpired that may or may not agree with this forecast. Along with the baseline forecast alternative forecasts are prepared with pessimistic and optimistic occurrences.

Baseline Scenario

In the baseline forecast, assigned a probability of 65%, IHS Global Insight (GI) expects limited growth. The year over year growth in real GDP for FY/13 is expected to be 1.7% which is below the 2.0% growth in FY/12. Growth remains low due to the many uncertainties both in the U.S. and in the world. Exports, which had been leading the recovery, are lagging as Europe and the rest of the world slow and the dollar strengthens against the Euro. Consumer spending continues to be sluggish. Consumers have reduced their debt levels though they are still relatively high. In addition consumers lack confidence in the strength of the economy and the government's ability to make things better. GI assumes that the automatic spending cuts and tax increases will be delayed by the lame duck congress and that the new congress will come to some agreement on a package of spending cuts and tax increases, thus avoiding the problem of the "fiscal cliff". Employment growth remains sluggish and is only 1.2% in FY/13, below the 1.4% in FY/12. Total employment is not expected to reach its previous peak of FY/08 until FY/15. Unemployment reached a peak of 9.9% in the fourth quarter of 2009 and by FY/17 only declines to 6.9%.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

Inflation is one of the few bright spots in the GI forecast. Weak employment growth puts little pressure on wages helping to limit pressure on prices. Oil prices are held in check due to the weakness in the world economy and GI expects declines in oil prices. West Texas intermediate crude decreases from \$89 in FY/13 to \$82 in FY/16. Only in FY/17 are prices expected to be above \$100. GI expects growth in the Consumer Price Index (CPI) to remain muted, around 1.5% in FY/13 and FY/14 increasing slightly in FY/15 and FY/16 then increasing to 2.7% in FY/17. 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/16; reaching 1.6% in FY/16 and 4% in FY/17.

There are a number of risks in the economy. With the rate of growth in GDP so low, any unexpected occurrence could push the economy into recession. Global dynamics and the impact of additional stimulus (both announced and expected) will help to boost growth in the near term. Nevertheless, the current levels of uncertainty on businesses restrain activity in investment and hiring. Unfortunately, these high levels of uncertainty are likely to remain with us through the middle of next year and possibly longer. The first dynamic is how the United States is going to solve its fiscal problems. GI believes this is not likely to happen before mid-2013. Internationally, Greece's future in the Eurozone and the details of a Spanish bailout will involve a long process. This could take many months. Finally, the potential for a war with Iran and the blockage of the Strait of Hormuz would cause substantial problems with oil and other trade. GI believes that these uncertainties will almost certainly mean that a growth rebound will be held back until after mid-2013.

Pessimistic Scenario

This scenario is assigned a probability of 20%. In this scenario, the federal government fails to reach agreement and goes over the "fiscal cliff". In addition the European governments fail to come to an agreement for boosting the economy and Greece must exit the Eurozone in early 2013. The combination of problems in Europe and the increases in tax rates and reductions in government expenditures push the U.S. economy into a recession. Unemployment increases going above 9%. Housing starts which had begun to show some strength begin falling.

Optimistic Scenario

This scenario is assigned a probability of 15%. In it basically everything goes right. A tax and spending compromise is reached, the Eurozone takes decisive steps toward a banking and fiscal union that stabilizes the European economies. The economy shows strong growth in the middle of FY/13 and then FY/14 has growth of 4%. Employment growth is stronger and inflation accelerates and the FRB raises interest rates, but the economy is strong enough to take this in stride. Housing starts accelerate and unemployment drops to near 4% in FY/17.

Albuquerque Economy

The Albuquerque economy is affected by the U.S. and world economies. Albuquerque fell with the national economy, but is yet to recover. Employment continues to decline, though at a reduced rate. The FOR-UNM forecast of employment in October 2012, has employment growth showing a positive in the 2nd quarter of FY/13 with FY/13 showing an increase of 0.4%. The Albuquerque economy lost over 27 thousand jobs from FY/08 to FY/12 a loss of 7% of total employment. Growth for FY/13 is expected at 0.4% with increases only beginning in the 2nd quarter of FY/13. Construction is not expected to help the economy in FY/13 and shows no increase until FY/14 and then is relatively muted. While the economy is expected to add jobs it is at a slow rate and the previous employment peak in FY/08 is nearly reached in FY/17. The unemployment rate continues to decline, but some of this is due to discouraged workers leaving the labor force. The rate is expected to slowly decline to 5.7% in FY/17.

FY 2013 Budget and Rates

The fiscal year 2013 approved budget did not include a rate adjustment. The Authority Board has approved a 5% rate adjustment for fiscal year 2014 beginning July 1, 2013.

The fiscal year 2013 budget is a maintenance-of-effort budget within the projected estimated revenues. The fiscal year 2013 budget has an increase of \$1.7 million for total personnel expenditures reflecting a 2% step salary adjustment to comply with current labor agreements and the full year impact of eleven net new positions added mid fiscal year 2012.

General operating expenditures increase \$2.8 million with the major increase in repairs and maintenance of \$2.4 million to bring into line budgeted expense with actual spending. The most significant expense of the Authority continues to be debt service payments which will comprise 37% of the total operating expense in fiscal year 2013.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2012

On the revenue side, revenues classified as operating revenues in the accompanying financial statements were budgeted at \$186.99 million or \$6.15 million higher than fiscal year 2012 budgeted amounts and \$9.94 million higher than fiscal year 2012 actual amounts.

An additional \$2 million is reserved in the rate reserve fund. The Water Authority will also provide deferred UEC collections on up to 50 affordable housing units developed by non-profit housing developers.

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
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS

Current assets:

| | |
|--|--------------------------|
| Cash, investments, and accrued interest | \$ 13,560,878 |
| Cash held for debt service | 33,547,414 |
| Accounts receivable, net of allowance for uncollectible accounts | 15,861,463 |
| Notes receivable, current portion | 989,359 |
| Due from other governments | 768,235 |
| Prepaid assets | <u>93,054</u> |
| Total current assets | <u>64,820,403</u> |

Noncurrent assets:

| | |
|----------------------------|------------------|
| Long-term notes receivable | <u>5,719,123</u> |
|----------------------------|------------------|

Restricted assets:

| | |
|---|-------------------|
| Cash, investments, and accrued interest | <u>27,689,835</u> |
|---|-------------------|

Capital assets:

| | |
|-----------------------------------|-------------------|
| Buildings and improvements | 2,210,836 |
| Improvements other than buildings | 2,025,226,113 |
| Machinery and equipment | 49,877,090 |
| Purchased water rights | <u>43,720,597</u> |

| | |
|--|----------------------|
| Less accumulated depreciation and amortization | <u>2,121,034,636</u> |
| | <u>845,642,870</u> |

| | |
|--------------------|---------------|
| Net capital assets | 1,275,391,766 |
|--------------------|---------------|

| | |
|------|------------|
| Land | 25,699,732 |
|------|------------|

| | |
|-------------------------------|-------------------|
| Construction work in progress | <u>10,384,658</u> |
|-------------------------------|-------------------|

| | |
|----------------------|----------------------|
| Total capital assets | <u>1,311,476,156</u> |
|----------------------|----------------------|

Other:

| | |
|---------------------------------|------------------|
| Capitalized bond issuance costs | <u>3,537,317</u> |
|---------------------------------|------------------|

| | |
|-------------------------|----------------------|
| Total noncurrent assets | <u>1,348,422,431</u> |
|-------------------------|----------------------|

| | |
|--------------|----------------------|
| Total assets | <u>1,413,242,834</u> |
|--------------|----------------------|

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF NET ASSETS, continued
June 30, 2012

LIABILITIES

Current liabilities:

| | |
|-------------------------------------|--------------------------|
| Trade accounts payable | 3,959,680 |
| Accrued payroll | 434,532 |
| Accrued vacation and sick leave pay | 3,264,417 |
| Deposits | 673,903 |
| Accrued interest payable | 328,260 |
| Construction contracts payable | 6,283,258 |
| Other payables - debt obligations | |
| Current portion: | |
| Bonds | 22,235,000 |
| Loan agreements | 18,422,091 |
| Water rights contract | 1,007,322 |
| Accrued interest | <u>12,098,518</u> |
| Total current liabilities | <u>68,706,981</u> |

Noncurrent liabilities:

Long-term payable:

| | |
|---|---------------------------|
| Bonds, net of current portion, discounts and premiums | 438,180,426 |
| Loan agreements, net of current portion | 211,221,688 |
| Water rights contract, net of current portion | <u>11,924,795</u> |
| Total long-term payable | <u>661,326,909</u> |

Other:

| | |
|-------------------------------------|---------------|
| Accrued vacation and sick leave pay | <u>52,457</u> |
|-------------------------------------|---------------|

| | |
|-------------------------------------|---------------------------|
| Total noncurrent liabilities | <u>661,379,366</u> |
|-------------------------------------|---------------------------|

| | |
|--------------------------|---------------------------|
| Total liabilities | <u>730,086,347</u> |
|--------------------------|---------------------------|

NET ASSETS

| | |
|---|------------------------------|
| Invested in capital assets, net of related debt | 636,174,669 |
| Unrestricted | <u>46,981,818</u> |
| Total net assets | <u>\$ 683,156,487</u> |

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2012

| | |
|--|-----------------------|
| Operating revenues: | |
| Charges for services | <u>\$ 177,054,690</u> |
| Operating expenses: | |
| Salaries and fringe benefits | 46,482,075 |
| Professional services | 297,125 |
| Utilities | 13,125,123 |
| Supplies | 8,985,061 |
| Fuels, repairs, and maintenance | 9,446,768 |
| Contractual services | 9,449,591 |
| Franchise fees | 6,524,463 |
| Tort and other legal fees | 2,489,935 |
| Workman's compensation | 831,048 |
| Administrative fees to other government | 1,550,000 |
| Other operating expenses | 1,351,132 |
| Depreciation | 84,849,475 |
| Amortization | 434,139 |
| Bad debt expense | <u>77,124</u> |
| Total operating expenses | <u>185,893,059</u> |
| Operating loss | <u>(8,838,369)</u> |
| Nonoperating revenues (expenses): | |
| Interest on investments | 148,520 |
| Interest expense | (23,806,064) |
| Water service expansion charges | 8,035,123 |
| Bond issue amortization | (348,123) |
| Other | <u>1,546,894</u> |
| Total nonoperating revenues (expenses), net | <u>(14,423,650)</u> |
| Loss before capital contributions | (23,262,019) |
| Capital contributions | <u>5,058,962</u> |
| Change in net assets | (18,203,057) |
| Net assets, July 1 | <u>701,359,544</u> |
| Net assets, June 30 | <u>\$ 683,156,487</u> |

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2012

| | |
|---|-----------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 172,778,699 |
| Cash payments to employees for services | (47,746,771) |
| Cash payments to suppliers for goods and services | (55,036,424) |
| Miscellaneous cash received | <u>963,393</u> |
| Net cash provided by operating activities | <u>70,958,897</u> |
| Cash flows from capital and related financing activities: | |
| Proceeds from line of credit | 21,368 |
| Proceeds from loan agreements | 61,175,176 |
| Capitalized bond issuance costs | (202,840) |
| Principal paid on revenue bond maturities | (24,130,000) |
| Interest and other expenses paid on revenue bond maturities | (22,063,028) |
| Principal paid on loan agreements | (17,500,365) |
| Interest paid on loan agreements | (9,061,626) |
| Principal paid on water rights contract | (977,546) |
| Interest paid on water rights contract | (423,688) |
| Purchased water rights | (3,276,943) |
| Acquisition and construction of capital assets | (46,797,456) |
| Capital grants received | 2,051,929 |
| Water service expansion charges | <u>7,228,507</u> |
| Net cash used for capital and related financing activities | <u>(53,956,512)</u> |
| Cash flows from investing activities: | |
| Interest received on investments | <u>408,412</u> |
| Net increase in cash and cash equivalents | 17,410,797 |
| Cash and cash equivalents, July 1 | <u>57,387,330</u> |
| Cash and cash equivalents, June 30 | <u>\$ 74,798,127</u> |

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF CASH FLOWS, continued
Year ended June 30, 2012

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

| | |
|---|-----------------------------|
| Operating loss | \$ (8,838,369) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation | 84,849,475 |
| Amortization | 434,139 |
| Miscellaneous cash received | 963,393 |
| Provision for bad debts | 77,124 |
| Decrease (increase) in assets: | |
| Receivables | (4,215,335) |
| Prepaid expenses | (93,054) |
| Increase (decrease) in liabilities: | |
| Accounts payable and customer deposits | (953,780) |
| Accrued payroll and vacation and sick leave pay | <u>(1,264,696)</u> |
| Net cash provided by operating activities | <u>\$ 70,958,897</u> |

Cash and cash equivalents at June 30 consist of:

| | |
|---|-----------------------------|
| Current assets: | |
| Cash, investments, and accrued interest | \$ 13,560,878 |
| Cash held for debt service | 33,547,414 |
| Non-current assets: | |
| Restricted assets: | |
| Cash, investments, and accrued interest | <u>27,689,835</u> |
| Total cash and cash equivalents, June 30 | <u>\$ 74,798,127</u> |

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

I. Summary of Significant Accounting Policies

The financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a related organization 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 provided 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 ran through June 30, 2012. The Authority extended the MOU through June 30, 2013. 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, 2012, and the results of its operations for the year ended June 30, 2012. The Authority is a related organization of the City, and these financial statements are not intended to present fairly the financial position of the City as of June 30, 2012, 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 balance/activity 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
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) 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 (FASB) 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).

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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 rarely has 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 capital 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</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. 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

C. Assets, liabilities, and net assets, continued

6. Accrued vacation and sick leave pay

The employees of the Authority may accumulate limited amounts of vacation pay that is payable to the employee upon termination or retirement. Vacation costs are recognized as a liability when earned by the employee. The amount reported in the current 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.

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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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, 2012.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AIPCA pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – and amendment of GASB Statement No. 27*

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.

For fiscal year 2012, the Authority early implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This statement addressed in part the determination of a component unit. In prior years the Authority was reported as a component unit of the City. In the current year, it has been determined that the Authority is no longer a component unit but instead a “related organization.” This is due to the following:

- the City cannot remove the appointed members of the Authority’s governing board at will;
- the City cannot modify or approve the budget of the Authority;
- the City cannot modify or approve rate or fee changes affecting revenues;
- the City does not have the ability to veto, overrule, or modify the decisions of the Authority’s governing board; and
- the City does not have the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the Authority.

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 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 2012, 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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 held for debt service of the Authority at June 30, 2012, which represents approximately 9.5% of the City's pooled investment program in which the Authority is a participant, consist of the following:

| | <u>(in 000's)</u> |
|--|-------------------|
| Cash, investments, accrued interest and cash held for debt service | <u>(in 000's)</u> |
| Held in the City's pooled investment program: | |
| Investments | |
| Repurchase agreements | \$ 4,774 |
| U.S. Treasury obligations | 1,550 |
| Obligations of federal agencies or instrumentalities | <u>20,365</u> |
| Total investments | <u>26,689</u> |
| Certificates of deposit | 16,244 |
| Bank accounts at book balance | 31,566 |
| Accrued interest receivable | <u>45</u> |
| Total held in City's pooled investment program | <u>74,544</u> |
| Not held in the City's pooled investment program | <u>254</u> |
| Total cash, investments, accrued interest and cash held for debt service | <u>\$ 74,798</u> |
| Current cash, investments and accrued interest: | |
| Held in the City's pooled investment program | \$ 13,307 |
| Not held in the City's pooled investment program | <u>254</u> |
| Total current cash, investments, and accrued interest | 13,561 |
| Restricted noncurrent cash, investments and accrued interest | |
| held in the City's pooled investment program | 27,690 |
| Cash held for debt service | <u>33,547</u> |
| | <u>\$ 74,798</u> |

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the funds of the participants in the pool may not be returned to them. 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, 2012, \$41,298 of the City's bank balances of \$363,085,914 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 participants in the pool will not be able to recover the value of their 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

A. Cash and investments, continued

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 participants in the pool will not be able to recover the value of their 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 allowed 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, 2012, the City's internal investment pool held investments in fully-collateralized overnight repurchase agreements (repos), a fully-insured money market account, U.S. Treasury Securities, and U.S. Government agency notes.

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, 2012, 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 18%, 39%, 3%, and 40% 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, 2012, liquidity and core segment maturities are allocated as follows: 0-12 months – 7%; 1-2 years – 0%; 3-5 years – 93%.

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 Bank | 978 | 141 | AA+ | Aaa |
| Federal National Mortgage Association | 1,000 | 270 | AA+ | Aaa |
| Federal Home Loan Mortgage Corporation | 1,037 | 314 | AA+ | Aaa |
| Federal Farm Credit Bank | 824 | 19 | AA+ | 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

A. Cash and investments, continued

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the 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, 2012 was 1,005 days. The weighted average days to call of the core segment was 256 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. FDIC deposit insurance and pledged collateral by bank (in thousands) at June 30, 2012 consists of the following:

| | US Bank | Bank of America | Bank of the West | Wells Fargo Bank | NM Bank & Trust | Bank of Albuquerque |
|----------------------------------|----------------|--------------------|---------------------|------------------------|--------------------|------------------------|
| Total amount on deposit | \$ 703 | \$ 94,541 | \$ 262,060 | \$ 1,922 | \$ 905 | \$ 2,955 |
| Less FDIC coverage | <u>620</u> | <u>94,541</u> | <u>250</u> | <u>1,922</u> | <u>800</u> | <u>2,955</u> |
| Total uninsured public funds | 83 | - | 261,810 | - | 105 | - |
| 50% collateral requirement | <u>41</u> | <u>-</u> | <u>130,905</u> | <u>-</u> | <u>53</u> | <u>-</u> |
| Pledged securities, fair value | <u>-</u> | <u>-</u> | <u>263,940</u> | <u>-</u> | <u>293</u> | <u>-</u> |
| Pledged in excess of requirement | <u>\$ (41)</u> | <u>\$ -</u> | <u>\$ 133,035</u> | <u>\$ -</u> | <u>\$ 240</u> | <u>\$ -</u> |

B. Accounts receivable, notes receivable, and due from other governments

Accounts receivable are primarily revenues earned from the Authority's water and sewer utility billing system. These are considered 100% collectible since a lien can be placed on the customer's property. They also include some miscellaneous receivables for other services. Accounts receivable at June 30, 2012 were \$15,916,406 net of an allowance for doubtful accounts of \$54,943.

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. Notes receivable at June 30, 2012 were \$6,708,482.

Due from other governments are primarily Federal and State grants receivable of \$142,806 that are for capital improvements. Also included are miscellaneous receivables of \$625,429, of which \$586,281 is due from the City.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

C. Capital assets

Capital asset activity of the Authority for the year ended June 30, 2012, is as follows:

| | Balance July 1 | Increases | Decreases | Balance June 30 |
|---------------------------------------|-------------------------|----------------------|----------------------|-------------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 25,657,964 | \$ 41,768 | \$ - | \$ 25,699,732 |
| Construction work in progress | <u>53,427,401</u> | <u>10,745,911</u> | <u>53,788,654</u> | <u>10,384,658</u> |
| Total assets, not being depreciated | <u>79,085,365</u> | <u>10,787,679</u> | <u>53,788,654</u> | <u>36,084,390</u> |
| Assets being depreciated: | | | | |
| Buildings | 2,210,836 | - | - | 2,210,836 |
| Improvements other than buildings | 2,018,325,493 | 95,299,655 | 88,399,035 | 2,025,226,113 |
| Machinery and equipment | <u>55,677,481</u> | <u>1,519,178</u> | <u>7,319,569</u> | <u>49,877,090</u> |
| Total assets, being depreciated | <u>2,076,213,810</u> | <u>96,818,833</u> | <u>95,718,604</u> | <u>2,077,314,039</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 1,710,357 | 44,216 | - | 1,754,573 |
| Improvements other than buildings | 810,820,197 | 79,103,051 | 88,399,035 | 801,524,213 |
| Machinery and equipment | <u>32,043,269</u> | <u>5,702,208</u> | <u>7,316,789</u> | <u>30,428,688</u> |
| Total accumulated depreciation | <u>844,573,823</u> | <u>84,849,475</u> | <u>95,715,824</u> | <u>833,707,474</u> |
| Capital assets being depreciated, net | <u>1,231,639,987</u> | <u>11,969,358</u> | <u>2,780</u> | <u>1,243,606,565</u> |
| Assets being amortized: | | | | |
| Purchased water rights | 40,443,654 | 3,276,943 | - | 43,720,597 |
| Less amortization | <u>11,501,257</u> | <u>434,139</u> | <u>-</u> | <u>11,935,396</u> |
| Capital assets being amortized, net | <u>28,942,397</u> | <u>2,842,804</u> | <u>-</u> | <u>31,785,201</u> |
| Total capital assets, net | <u>\$ 1,339,667,749</u> | <u>\$ 25,599,841</u> | <u>\$ 53,791,434</u> | <u>\$ 1,311,476,156</u> |

Changes to capital assets of the Authority for the fiscal year ended June 30, 2012, include the following amount of capitalized interest:

| | Total Interest | Interest Related to Tax-Exempt Borrowing | Net |
|----------------------|-------------------|---|---------------|
| Interest expense | \$ 28,190,411 | \$ 4,384,347 | \$ 23,806,064 |
| Interest income | 408,412 | <u>259,892</u> | 148,520 |
| Capitalized interest | | <u>\$ 4,124,455</u> | |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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, 2012, are as follows:

| | Outstanding | | | | Payable in one year |
|---|-----------------------|----------------------|----------------------|-----------------------|------------------------|
| | June 30, 2011 | Increases | Decreases | June 30, 2012 | |
| Parity Obligations: | | | | | |
| Revenue Bonds | \$ 467,145,000 | \$ - | \$ 24,130,000 | \$ 443,015,000 | \$ 22,235,000 |
| Loan Agreements - NMFA | 173,062,605 | 53,400,000 | 14,543,876 | 211,918,729 | 17,497,222 |
| Subordinate Obligations: | | | | | |
| Loan Agreements - NMED | 9,923,466 | - | 2,489,728 | 7,433,738 | 440,674 |
| Loan Agreements - NMFA | 10,305,359 | 124,172 | 449,451 | 9,980,080 | 466,842 |
| Line of Credit - NMFA | 102,803 | 21,369 | 124,172 | - | - |
| Junior Obligations: | | | | | |
| Loan Agreements - NMFA | 328,543 | - | 17,311 | 311,232 | 17,353 |
| Water rights contract | 13,909,663 | - | 977,546 | 12,932,117 | 1,007,322 |
| Accrued vacation and sick leave pay | 3,416,157 | 2,863,734 | 2,963,017 | 3,316,874 | 3,264,417 |
| Less deferred amounts: | | | | | |
| Unamortized bond premiums | 12,631,266 | 7,775,176 | 2,974,347 | 17,432,095 | - |
| Deferred refunding costs | (102,157) | - | (70,488) | (31,669) | - |
| | 690,722,705 | 64,184,451 | 48,598,960 | 706,308,196 | 44,928,830 |
| Current portion of long-term obligations | (42,508,617) | - | 2,420,213 | (44,928,830) | - |
| Total | \$ 648,214,088 | \$ 64,184,451 | \$ 51,019,173 | \$ 661,379,366 | \$ 44,928,830 |

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, 2012, the net revenues were 133% of the annual debt service.

On December 15, 2011, the Authority entered into a parity 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. At June 30, 2012, the balance due was \$52,055,000.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

Authority parity obligations outstanding at June 30, 2012, are as follows:

| Revenue Bonds Issued | Amount | Interest Rate | Final Maturity | Call Provisions |
|--------------------------|-----------------------|-----------------|----------------|-----------------------------|
| October 25, 2005 | 124,045,000 | 3.50% to 5.00% | July 1, 2025 | 100% beginning July 1, 2015 |
| July 12, 2006 | 121,435,000 | 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 | 134,295,000 | 3.00% to 5.50% | July 1, 2029 | 100% beginning July 1, 2019 |
| April 8, 2009, Refunding | <u>7,610,000</u> | 3.00% to 5.00% | July 1, 2013 | Not callable |
| Total outstanding | 443,015,000 | | | |
| Unamortized: | | | | |
| Premiums | 8,569,393 | | | |
| Deferred refunding costs | <u>(31,669)</u> | | | |
| Net outstanding | <u>\$ 451,552,724</u> | | | |

| Loan Agreements Issued | Current Loan Balance | Original Loan Amount | Interest Rate | Final Maturity |
|------------------------|-----------------------|----------------------|----------------|-----------------|
| May 10, 2002 | \$ 122,280 | \$ 2,450,000 | 2.75% | July 1, 2012 |
| April 11, 2003 | 1,296,449 | 3,600,000 | 2.00% | January 1, 2016 |
| October 13, 2004 | 78,155,000 | 118,415,000 | 1.32% to 4.16% | May 1, 2024 |
| October 28, 2005 | 18,055,000 | 20,000,000 | 2.93% to 4.01% | May 1, 2025 |
| September 26, 2007 | 61,235,000 | 77,005,000 | 4.00% to 5.0% | May 1, 2025 |
| December 1, 2010 | 1,000,000 | 1,000,000 | 0.75% | July 1, 2031 |
| December 15, 2011 | <u>52,055,000</u> | 53,400,000 | 3.00% to 5.0% | June 1, 2036 |
| Total outstanding | \$ 211,918,729 | | | |
| Unamortized: | | | | |
| Premiums | <u>8,862,702</u> | | | |
| Net outstanding | <u>\$ 220,781,431</u> | | | |

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, 2012, is \$551,385.

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 20th each year. Final payment is due May 20, 2025. The balance due at June 30, 2012, is \$6,882,353.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

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, 2012, is \$9,760,600.

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. The loan requires annual principal payments and semi-annual interest payments beginning November 1, 2010 and maturing on May 1, 2030. The balance due at June 30, 2012, is \$54,879.

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. The loan requires annual principal payments and semi-annual interest payments beginning July 1, 2012 and maturing on July 1, 2031. The balance due at June 30, 2012, 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 was to upgrade and improve the water utility system, including, but not limited to, a water use efficiency retrofit analysis. The Authority completed the project in fiscal year 2012 for a total cost of \$413,969, of which \$289,797 was forgiven and a new long-term subordinate loan created for \$124,172. The interest rate is .75%, with an administrative fee of .25%. The close occurred March 5, 2012. The loan requires annual principal payments and semi-annual interest payments beginning July 1, 2012 and maturing on July 1, 2031. The balance due at June 30, 2012, is \$124,172.

Junior Obligations – Loan Agreements:

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 term for each agreement is a repayable loan amount at 0% 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/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. Upon completion the amount to be repaid will be resized and converted to a junior loan agreement.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

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 |

At June 30, 2012, no expenditures or draw-downs had been incurred on any of these credit lines. As a consequence, there is no liability on the financial statements for these credit lines.

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, 2012, is \$43,552.

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, 2012, is \$87,234.

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, 2012, is \$180,446. Drawdowns on the grant at June 30, 2012, were \$652,595. The project is not complete at June 30, 2012.

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, 2012, is \$12,932,117.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

The annual debt service requirements on the revenue bonds, loan agreements, and the water rights contract payable outstanding at June 30, 2012, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-----------------------|-----------------------|-----------------------|
| 2013 | \$ 41,664,413 | \$ 31,061,688 | \$ 72,726,101 |
| 2014 | 43,744,089 | 29,247,951 | 72,992,040 |
| 2015 | 42,489,437 | 27,372,067 | 69,861,504 |
| 2016 | 45,702,861 | 25,494,397 | 71,197,258 |
| 2017 | 41,372,512 | 23,502,936 | 64,875,448 |
| 2018 - 2022 | 218,469,393 | 87,543,999 | 306,013,392 |
| 2023 - 2027 | 152,536,345 | 41,947,151 | 194,483,496 |
| 2028 - 2032 | 63,635,795 | 17,626,548 | 81,262,343 |
| 2033 - 2036 | <u>37,075,000</u> | <u>2,612,214</u> | <u>39,687,214</u> |
| Total | <u>\$ 686,689,845</u> | <u>\$ 286,408,951</u> | <u>\$ 973,098,796</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 benefits, disability benefits, survivor benefits, and cost of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 13.15% of their gross salary. The Authority is required to contribute 9.15% of the gross covered salary. The Authority has elected to pay 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, 2012, 2011, and 2010, were \$2,668,261, \$2,477,629 and \$2,404,453 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 \$164,691 in fiscal year 2012 of which \$123,124 were from employer contributions and \$41,567 was from employee contributions.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

G. Post employment benefits

In addition to providing pension benefits described in Notes E and F, the Authority provides certain health care and life insurance benefits for retired employees by participating in the City's post employment benefit plans. Substantially all of the Authority's employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the 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 4,280 at June 30, 2012, and the amount of life insurance coverage for these retired employees was \$91,602,150.

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, 2012, 2011, and 2010, were \$310,637, \$275,971, and \$262,030, respectively. The life insurance and accidental death and dismemberment premium costs for the City's active employees for the years ending June 30, 2012, 2011, and 2010, were \$1,148,553, \$1,149,148, and \$1,178,243 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 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>8,372,486</u> |
| <i>Plus</i> Projected Annual OPEB Cost: | |
| Interest on Net OPEB Obligation at beginning of year | 334,900 |
| Annual Required Contribution (ARC) for current fiscal year | 3,951,642 |
| ARC Adjustment for current fiscal year | <u>(376,900)</u> |
| | <u>3,909,642</u> |
| <i>Less</i> Net Employer Contribution | <u>(892,000)</u> |
| Expected Net OPEB Obligation at end of year | <u>\$ 11,390,128</u> |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

G. Post employment benefits, continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|--|------------------------|
| 6/30/2010 | \$ 3,458,126 | 41.6% | \$ 5,989,231 |
| 6/30/2011 | \$ 3,664,536 | 35.0% | \$ 8,372,486 |
| 6/30/2012 | \$ 3,909,642 | 22.8% | \$ 11,390,128 |

The Authority's portion of the Net OPEB Obligation is \$490,837 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, 2012, the most recent actuarial valuation date, the plan was 0% percent funded using the criteria established by GASBS 45. The actuarial accrued liability (AAL) for benefits was \$60,846,100 (\$16,711,769 for active employees and \$44,134,331 for retired employees). There are no plan assets; however, the City has earmarked \$7,200,000 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 \$33,131,853 and the ratio of the UAAL to the covered payroll was 4.27%. The Authority's ARC as a percent of payroll is 0.51% of which .33% is the normal cost as a percent of payroll. The ARC per active employee is \$272. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence 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, 2012 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 believes that EAN funding method effectively meets that goal in most circumstances. Another important issue in these calculations is the treatment of implicit subsidies where retiree coverage is subsidized by active employee costs. The City pays the same insurance premium rates for both active and retired employees, because the retired employees are on average older than active employees, there is an implicit subsidy of retiree coverage by active employee costs, which GASBS 45 generally requires be attributed to the retiree liability. The actuarial assumptions included a 4.0 percent investment rate of return on expected long-term returns on the City's own investments calculated on the funded level of the plan at the valuation date. As of June 30, 2012, 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, 2012, was 26 years. The ARC was based on a 4.0 percent discount rate, funding will be based on a 6.0 percent discount rate.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

G. Post employment benefits, continued

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.

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, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending 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 | Employer | Employee |
|-------------|---------------------|---------------------|
| <u>Year</u> | <u>Contribution</u> | <u>Contribution</u> |
| <u>2013</u> | <u>Rate</u> | <u>Rate</u> |
| 2013 | 2.000% | 1.000% |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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, 2012, the statute required each participating employer to contribute 2.292% of each participating employee’s annual salary, and each participating employee was required to contribute 1.146% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for both employees and employers will rise as follows:

| <u>Fiscal</u> <u>Year</u> | <u>Employer</u> <u>Contribution</u> <u>Rate</u> | <u>Employee</u> <u>Contribution</u> <u>Rate</u> |
|------------------------------|---|---|
| 2013 | 2.500% | 1.250% |

Also, 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, 2012, 2011, and 2010, were \$819,943, \$677,304 and \$501,380, respectively, which equal the required contributions for each year.

H. Risk management

The Authority is 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 its officers and officials; and natural disasters. The Authority participates in the City’s Risk Management Fund (an internal service fund of the City) 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 and Authority 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 and Authority continue 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, 2012, and is included in the unrestricted net assets 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, management believes the Risk Management Fund is adequately funded. During fiscal year 2012, a comprehensive actuarial review was done to gauge the adequacy of the reserves for both the Workers' Compensation and Tort Liability programs. The actuarial review validated that the current reserves are adequate for reserves in anticipation of adverse developments in

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

H. Risk management, continued

reported cases and for claims which may have occurred but have not yet been reported. The cash balance grew by \$5,316,342 during fiscal year 2012.

The amounts and change in the City's Risk Management Fund's claims liability in fiscal year 2012 and 2011 were:

| | 2012 | 2011 |
|---|---------------|---------------|
| Claims liability at July 1 | \$ 66,902,536 | \$ 60,963,311 |
| Current year claims and change in estimates | 26,923,508 | 33,803,818 |
| Claims liquidated | (21,689,486) | (27,864,593) |
| Claims liability at June 30 | \$ 72,136,558 | \$ 66,902,536 |

The Authority paid \$3,320,983 for its share of the risk management charges for the year.

I. Transactions with City of Albuquerque

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 | \$ 5,900,433 |
| Administrative indirect overhead, including accounting and other central services | 2,089,123 |
| Warehouse supplies | 2,373,246 |
| Fleet management services | 1,746,291 |
| Barricading and street sweeping | 573,996 |
| Total | \$ 12,683,089 |

The City paid the Authority for water, sewer and other services in the amount of: \$ 6,907,077

J. Commitments and contingencies

Construction Commitments. At June 30, 2012, the uncompleted construction and other commitments in the Authority was \$24,672,006. 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

J. Commitments and contingencies, continued

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

The Authority received 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.

In fall of 2011, 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, the protestants requested rehearing. Their rehearing request resulted first in the issuance of a substitute decision which was then later found to be procedurally defective and withdrawn. At this point, rehearing is pending in the Court of Appeals and whatever decision is ultimately issued may be appealed to the State Supreme Court by the non-prevailing party(s).

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. The Authority has completed the design of the environmental mitigation and will be starting construction in September 2013 and continuing until the winter months until April 2014. If the construction cannot be completed in one season (September to April), then the Authority will complete the work in the following year.

On May 17, 2011, the United States Environmental Protection Agency (EPA) issued Administrative Order CWA-06-2012-1777 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 and revised and resubmitted in April 2012.

On May 31, 2012, the Authority received a letter from the Internal Revenue Service (the 'IRS') informing the Authority that the IRS would be conducting an examination of its Joint Water and Sewer System Improvement Revenue Bonds Series 2006A issued July 12, 2006 (the 'Bonds'). The letter indicates that the IRS routinely examines debt issuances to determine compliance with Federal tax requirements. The Authority is cooperating with the IRS in its on-going examination of the Bonds.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR LIFE INSURANCE BENEFIT PLAN
Year ended June 30, 2012

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability Entry Age Normal</u> | <u>Unfunded Actuarial Liability (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL Percentage of Covered Payroll</u> |
|---|--|---|--|-------------------------|----------------------------|---|
| 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% |
| 6/30/2012 | 0 | 1,416,172 | 1,416,172 | 0.00% | 33,131,853 | 4.27% |

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 \$60,846,100.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL
Year ended June 30, 2012

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|----------------------------|---------------------------|---|
| Revenues: | | | | |
| Charges for services | \$ 152,858,000 | \$ 152,858,000 | \$ 147,958,409 | \$ (4,899,591) |
| City water service expansion charges | 7,000,000 | 7,000,000 | 8,035,123 | 1,035,123 |
| Sustainable water supply | 27,977,000 | 27,977,000 | 29,096,281 | 1,119,281 |
| Interest on investments | 1,250,000 | 1,250,000 | 108,162 | (1,141,838) |
| Valley system connection charges | 50,000 | 50,000 | 21,520 | (28,480) |
| City system connection charges | 240,000 | 240,000 | 369,264 | 129,264 |
| Other miscellaneous | 1,924,000 | 1,924,000 | 2,339,821 | 415,821 |
| Transfer to cash held for debt service from cash for operations | <u>66,727,000</u> | <u>66,727,000</u> | <u>66,727,000</u> | <u>-</u> |
| Total revenues | <u>258,026,000</u> | <u>258,026,000</u> | <u>254,655,580</u> | <u>(3,370,420)</u> |
| Expenses: | | | | |
| Water plant facility production | 11,470,000 | 11,470,000 | 13,439,322 | (1,969,322) |
| Water plant facility distribution | 12,114,000 | 12,114,000 | 11,439,838 | 674,162 |
| Water distribution facilitation | 2,024,000 | 2,024,000 | 2,217,809 | (193,809) |
| Wastewater treatment | 14,511,000 | 14,511,000 | 16,076,678 | (1,565,678) |
| Compliance | 4,059,000 | 4,059,000 | 3,846,553 | 212,447 |
| Wastewater collection | 8,055,000 | 8,055,000 | 8,943,029 | (888,029) |
| Sustainable water supply | 11,233,000 | 11,233,000 | 8,316,236 | 2,916,764 |
| North I-25 reuse | 236,000 | 236,000 | 254,187 | (18,187) |
| Customer services | 5,262,000 | 5,262,000 | 5,357,970 | (95,970) |
| Finance | 6,804,000 | 6,804,000 | 6,293,534 | 510,466 |
| Human resources | 961,000 | 961,000 | 952,475 | 8,525 |
| NW service area | 2,325,000 | 2,325,000 | 1,119,150 | 1,205,850 |
| San Juan-Chama | 2,247,000 | 2,247,000 | 2,306,670 | (59,670) |
| Water resources, engineering and planning | 6,353,000 | 6,353,000 | 6,287,656 | 65,344 |
| Information systems | 3,807,000 | 3,807,000 | 4,839,801 | (1,032,801) |
| Low income utility credit | 250,000 | 250,000 | 238,933 | 11,067 |
| Water authority administration | 3,007,000 | 3,007,000 | 3,535,796 | (528,796) |
| Debt service - principal and interest | 67,727,000 | 67,727,000 | 70,505,920 | (2,778,920) |
| Transfer from cash for operations to cash held for debt service | <u>66,727,000</u> | <u>66,727,000</u> | <u>66,727,000</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>8,000,000</u> | <u>8,000,000</u> | <u>8,000,000</u> | <u>-</u> |
| Administrative services to City | <u>8,097,000</u> | <u>8,097,000</u> | <u>7,705,433</u> | <u>391,567</u> |
| Total expenses | <u>248,269,000</u> | <u>248,269,000</u> | <u>251,403,990</u> | <u>(3,134,990)</u> |
| Excess of revenues over (under) expenses | <u>\$ 9,757,000</u> | <u>\$ 9,757,000</u> | <u>3,251,590</u> | <u>\$ (6,505,410)</u> |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL, continued
Year ended June 30, 2012

| | <u>Actual</u> |
|---|------------------------|
| Revenues (expenses) not budgeted: | |
| Interest on investments in capital acquisition fund | 320,440 |
| Gain (loss) on disposition of property and equipment | (2,780) |
| Depreciation | (84,849,475) |
| Amortization of deferred bond costs | (348,123) |
| Amortization on water rights contract | (434,139) |
| Amortization on premium and discounts | 2,974,347 |
| Amortization of deferred amounts on refundings | (70,488) |
| Unrealized gain (loss) on investments | (20,190) |
| Miscellaneous expenses | (671,747) |
| Bad debt expense | (77,124) |
| Lease of water rights | <u>190,010</u> |
| Net expenses over revenues not budgeted | <u>(82,989,269)</u> |
| | |
| Changes to conform to generally accepted accounting principles: | |
| Principal payments on bonds and loan agreements | 40,791,071 |
| Transfer in to cash used for capital acquisitions from cash held for debt service and for operations | 11,000,000 |
| Capital contributions | 5,058,962 |
| Capital outlay | 560,134 |
| Capitalized interest on long-term debt | <u>4,124,455</u> |
| Net changes to conform to generally accepted accounting principles | <u>61,534,622</u> |
| Change in net assets | <u>\$ (18,203,057)</u> |

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STATISTICAL SECTION – UNAUDITED

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(In thousands of dollars)

| | 2012 | 2011 | 2010 |
|---|-------------------|-------------------|-------------------|
| Operating revenues: | | | |
| Charges for services | \$ 177,055 | \$ 158,515 | \$ 153,145 |
| Operating expenses: | | | |
| Salaries and fringe benefits | 46,482 | 43,501 | 40,632 |
| Professional services | 297 | 446 | 602 |
| Utilities | 13,125 | 12,748 | 11,361 |
| Supplies | 8,985 | 9,104 | 9,010 |
| Fuels, repairs, and maintenance | 9,447 | 11,898 | 11,809 |
| Contractual services | 9,450 | 9,339 | 8,813 |
| Franchise fees ⁽¹⁾ | 6,524 | 5,844 | - |
| Tort and other legal fees ⁽¹⁾ | 2,490 | 3,335 | - |
| Workman's compensation ⁽¹⁾ | 831 | 1,580 | - |
| Indirect overhead ⁽¹⁾ | 1,550 | 1,550 | - |
| Other operating expenses | 1,351 | 1,411 | 12,770 |
| Depreciation | 84,850 | 83,447 | 81,443 |
| Amortization - water rights | 434 | 401 | 396 |
| Bad debt expense | 77 | 358 | - |
| Total operating expenses | 185,893 | 184,962 | 176,836 |
| Operating income (loss) | (8,838) | (26,447) | (23,691) |
| Nonoperating revenues (expenses): | | | |
| Interest on investments | 148 | 209 | 866 |
| Gain (loss) on disposition of capital assets | - | - | - |
| Interest expense | (23,806) | (25,324) | (24,977) |
| City water service expansion charges | 8,035 | 6,240 | 6,834 |
| Bond issue amortization | (348) | (414) | (516) |
| Equipment purchased for outside agency or fund | - | - | - |
| Expenses incurred for outside agency or fund | - | - | - |
| Other | 1,547 | 1,689 | 1,535 |
| Total nonoperating revenues (expenses) | (14,424) | (17,600) | (16,258) |
| Income (loss) before capital contributions and transfers | (23,262) | (44,047) | (39,949) |
| Capital contributions | 5,058 | 10,538 | 18,917 |
| Change in net assets | (18,204) | (33,509) | (21,032) |
| Net assets, July 1 | 701,360 | 734,869 | 755,901 |
| Net assets, June 30 | \$ 683,156 | \$ 701,360 | \$ 734,869 |

(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".

| 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <u>\$ 147,146</u> | <u>\$ 152,232</u> | <u>\$ 141,034</u> | <u>\$ 138,202</u> | <u>\$ 126,622</u> | <u>\$ 130,420</u> | <u>\$ 117,681</u> |
| 37,383 | 33,435 | 30,151 | 27,200 | 26,796 | 25,479 | 24,760 |
| 859 | 706 | 572 | 522 | 1,139 | 388 | 236 |
| 12,203 | 9,218 | 7,844 | 8,575 | 7,935 | 8,306 | 7,924 |
| 6,092 | 5,249 | 4,493 | 3,567 | 2,939 | 2,425 | 1,529 |
| 10,873 | 10,441 | 9,494 | 7,322 | 7,252 | 7,387 | 7,524 |
| 8,890 | 6,334 | 3,937 | 2,907 | 4,422 | 3,886 | 2,637 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 13,429 | 14,158 | 14,094 | 14,077 | 12,933 | 12,524 | 10,791 |
| 72,295 | 60,906 | 55,926 | 51,934 | 46,410 | 42,877 | 40,843 |
| 396 | 393 | 392 | 383 | 374 | 370 | 359 |
| 93 | 339 | - | - | - | - | - |
| <u>162,513</u> | <u>141,179</u> | <u>126,903</u> | <u>116,487</u> | <u>110,200</u> | <u>103,642</u> | <u>96,603</u> |
| <u>(15,367)</u> | <u>11,053</u> | <u>14,131</u> | <u>21,715</u> | <u>16,422</u> | <u>26,778</u> | <u>21,078</u> |
| 2,648 | 6,443 | 8,936 | 5,019 | 1,549 | 419 | 1,073 |
| - | (2) | (51) | 7 | (356) | 10 | 19 |
| (21,682) | (21,782) | (15,889) | (8,619) | (8,406) | (10,428) | (12,278) |
| 6,346 | 11,075 | 12,516 | 17,255 | 12,404 | 15,112 | 14,433 |
| (360) | (405) | (305) | (313) | (143) | (130) | (97) |
| - | - | - | - | - | (242) | (332) |
| - | - | (118) | (278) | (161) | (296) | - |
| <u>7,870</u> | <u>1,359</u> | <u>70</u> | <u>570</u> | <u>1,390</u> | <u>203</u> | <u>4,938</u> |
| <u>(5,178)</u> | <u>(3,312)</u> | <u>5,159</u> | <u>13,641</u> | <u>6,277</u> | <u>4,648</u> | <u>7,756</u> |
| (20,545) | 7,741 | 19,290 | 35,356 | 22,699 | 31,426 | 28,834 |
| <u>27,811</u> | <u>11,939</u> | <u>15,448</u> | <u>16,854</u> | <u>20,849</u> | <u>28,288</u> | <u>22,178</u> |
| 7,266 | 19,680 | 34,738 | 52,210 | 43,548 | 59,714 | 51,012 |
| <u>748,635</u> | <u>728,955</u> | <u>694,217</u> | <u>642,007</u> | <u>598,459</u> | <u>538,745</u> | <u>487,733</u> |
| <u>\$ 755,901</u> | <u>\$ 748,635</u> | <u>\$ 728,955</u> | <u>\$ 694,217</u> | <u>\$ 642,007</u> | <u>\$ 598,459</u> | <u>\$ 538,745</u> |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SELECTED WATER/SEWER SYSTEM STATISTICS
LAST TEN CALENDAR YEARS

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|-------------|-------------|
| Estimated Population (Service Area) | 554,905 | 549,411 | 543,971 | 538,586 |
| Number of Meters (Billed) | 201,884 | 200,498 | 194,087 | 174,005 |
| Estimated Persons Per Meter | 2.75 | 2.74 | 2.80 | 3.10 |
| Annual Pumpage (1,000 Gallons) | 33,577,000 | 33,830,964 | 33,098,373 | 31,940,000 |
| Annual Water Billed (1,000 Gallons) | 28,621,945 | 29,949,844 | 28,844,216 | 27,816,110 |
| Average Daily Pumpage (Gallons) | 91,991,781 | 92,687,573 | 90,680,474 | 87,506,849 |
| Peak Day Pumpage (Gallons) | 182,000,000 | 226,902,542 | 186,819,804 | 155,329,700 |
| Peak Day Consumption (Gallons) | 161,500,000 | 160,000,000 | 144,030,800 | 149,870,000 |
| Average Daily Production Per Meter (Gallons) | 456 | 462 | 467 | 503 |
| Well Pumping Capacity (per 24 Hour Period) | 282,000,000 | 282,000,000 | 314,250,000 | 294,000,000 |
| Storage Capacity (Gallons) | 249,000,000 | 249,000,000 | 228,700,000 | 211,000,000 |
| Surface Water Pumping Capacity | 140,000,000 | 140,000,000 | 140,000,000 | - |
| Surface Water Storage Capacity | 20,000,000 | 20,000,000 | 20,000,000 | - |
| Fire Hydrants | 14,996 | 14,879 | 14,778 | 14,577 |
| Water Reclamation Treatment Capacity | 76,000,000 | 76,000,000 | 76,000,000 | 76,000,000 |
| Number of Miles of Lines ⁽¹⁾ | | | | |
| - Water | 2,650 | 2,636 | 2,626 | 2,599 |
| - Sewer | 1,866 | 1,863 | 1,858 | 1,846 |
| - San Juan Chama | 37 | 37 | 37 | - |

⁽¹⁾ Estimated

Source: Albuquerque Bernalillo County Water Utility Authority

| <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 533,253 | 530,600 | 525,347 | 512,288 | 499,684 | 489,248 |
| 172,394 | 171,130 | 167,737 | 162,536 | 160,135 | 156,502 |
| 3.09 | 3.10 | 3.13 | 3.15 | 3.12 | 3.13 |
| 32,598,000 | 31,384,000 | 32,469,000 | 32,600,000 | 34,734,000 | 34,760,000 |
| 28,573,691 | 27,942,376 | 29,551,899 | 29,235,684 | 30,886,343 | 30,836,908 |
| 89,284,930 | 85,983,561 | 89,860,274 | 89,315,068 | 95,161,644 | 95,232,877 |
| 174,986,400 | 165,478,800 | 179,876,700 | 180,759,600 | 182,638,000 | 160,140,000 |
| 147,670,000 | 149,879,000 | 150,459,000 | 151,000,000 | 163,500,000 | - |
| 518 | 502 | 536 | 549 | 594 | 609 |
| 294,000,000 | 294,000,000 | 294,000,000 | 294,000,000 | 294,000,000 | 294,000,000 |
| 211,000,000 | 211,000,000 | 211,000,000 | 211,000,000 | 211,000,000 | 211,000,000 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 14,093 | 14,093 | 13,435 | 13,062 | 12,771 | 12,413 |
| 76,000,000 | 76,000,000 | 76,000,000 | 76,000,000 | 76,000,000 | 76,000,000 |
| 2,520 | 2,520 | 2,520 | 2,520 | 2,520 | 2,520 |
| 1,820 | 1,820 | 1,820 | 1,820 | 1,820 | 1,780 |
| - | - | - | - | - | - |

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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. |
|------------------|----|--------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| 2011 | ** | 670,968 | 1.27% | 552,804 | 1.27% | 2,082,224 | 1.12% |
| 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% |

* Source: Bureau of the Census

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

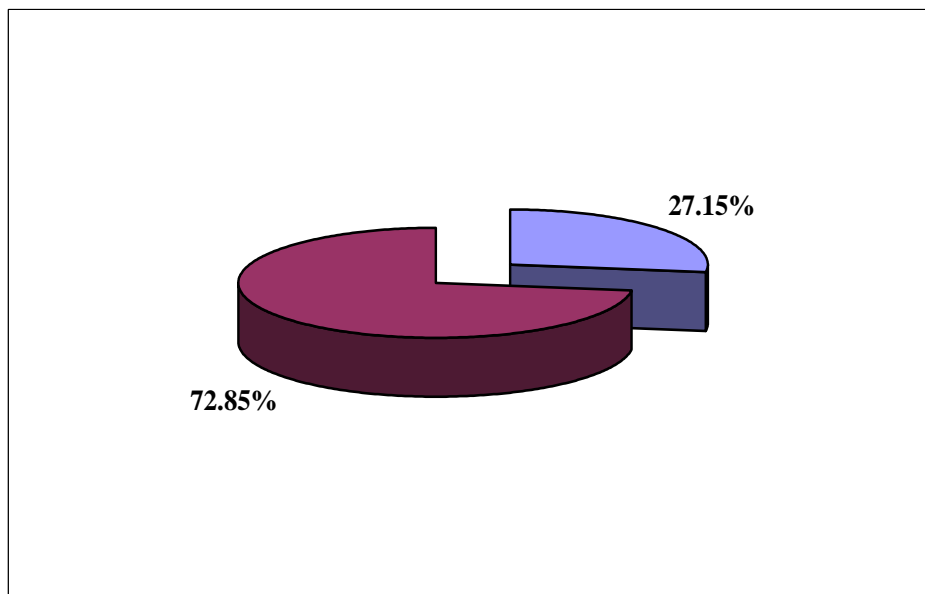
Unemployment

| Calendar Year | -----Bernalillo County----- | | | -----Unemployment Rates----- | | |
|----------------------|------------------------------------|------------------------|--------------------------|-------------------------------------|-------------------|----------------------|
| | Civilian Labor Force | Number Employed | Number Unemployed | Bernalillo County | New Mexico | United States |
| 2012 | 304,994 | 285,978 | 19,016 | 6.20% | 6.00% | 7.60% |
| 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% |

Source: New Mexico Department of Labor

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
TOP TEN MAJOR EMPLOYERS

| 2012 | | | | |
|------|--|----------------------------|----------------------------|-------------------------------|
| | <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 | 44,090 | 11.07% |
| 2. | Albuquerque Public Schools | Education | 14,480 | 3.64% |
| 3. | University of New Mexico | Education | 14,300 | 3.59% |
| 4. | Presbyterian | Hospital/ Medical Services | 7,369 | 1.85% |
| 5. | City of Albuquerque | Government | 6,680 | 1.68% |
| 6. | UNM Hospital | Hospital/ Medical Services | 5,950 | 1.49% |
| 7. | State of New Mexico | Government | 5,910 | 1.48% |
| 8. | Lovelace | Hospital/ Medical Services | 3,700 | 0.93% |
| 9. | Intel Corporation | Semiconductor Manufacturer | 3,300 | 0.83% |
| 10. | Bernalillo County | Government | <u>2,300</u> | <u>0.58%</u> |
| | Total | | <u>108,079</u> | <u>27.15%</u> |
| | Total Non-Ag Civil and Military Employees | | <u>398,152</u> | <u>100.00%</u> |



Source: Albuquerque Economic Development, Inc.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
WATER AND WASTEWATER USERS BY CLASS AND METER SIZE
LAST TEN FISCAL YEARS

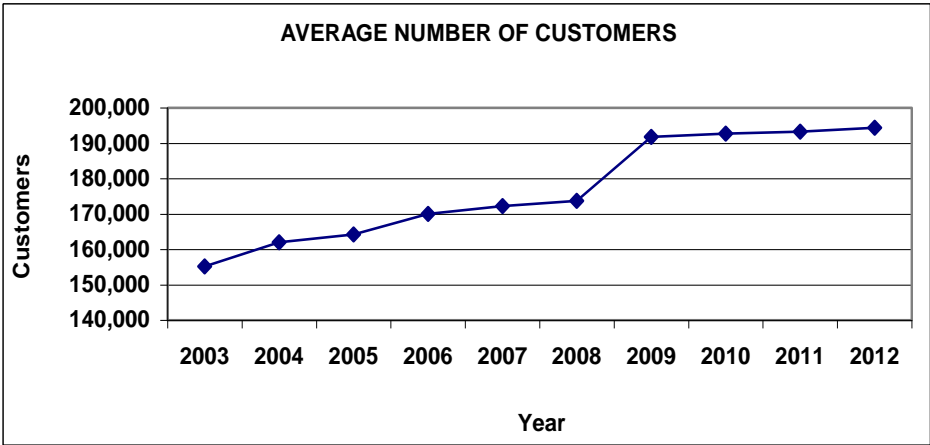
History of Water Users by Class

| <u>Class</u> | <i>Average Number of Customers by Fiscal Year</i> | | | | | | | | | |
|-----------------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| Residential | 140,347 | 146,656 | 148,974 | 151,089 | 152,563 | 153,959 | 171,983 | 172,787 | 173,339 | 174,277 |
| Multi-Family ⁽¹⁾ | - | - | - | 6,812 | 7,565 | 7,644 | 6,231 | 6,349 | 6,364 | 6,393 |
| Commercial | 13,033 | 13,388 | 13,304 | 10,065 | 10,049 | 9,998 | 11,367 | 11,272 | 11,226 | 11,287 |
| Institutional | 1,712 | 1,836 | 1,853 | 1,981 | 1,983 | 2,013 | 2,119 | 2,223 | 2,279 | 2,316 |
| Industrial | <u>121</u> | <u>122</u> | <u>114</u> | <u>113</u> | <u>110</u> | <u>110</u> | <u>113</u> | <u>106</u> | <u>99</u> | <u>102</u> |
| Total | <u>155,213</u> | <u>162,002</u> | <u>164,245</u> | <u>170,060</u> | <u>172,270</u> | <u>173,724</u> | <u>191,813</u> | <u>192,737</u> | <u>193,307</u> | <u>194,375</u> |

History of Water Users by Meter Sizes

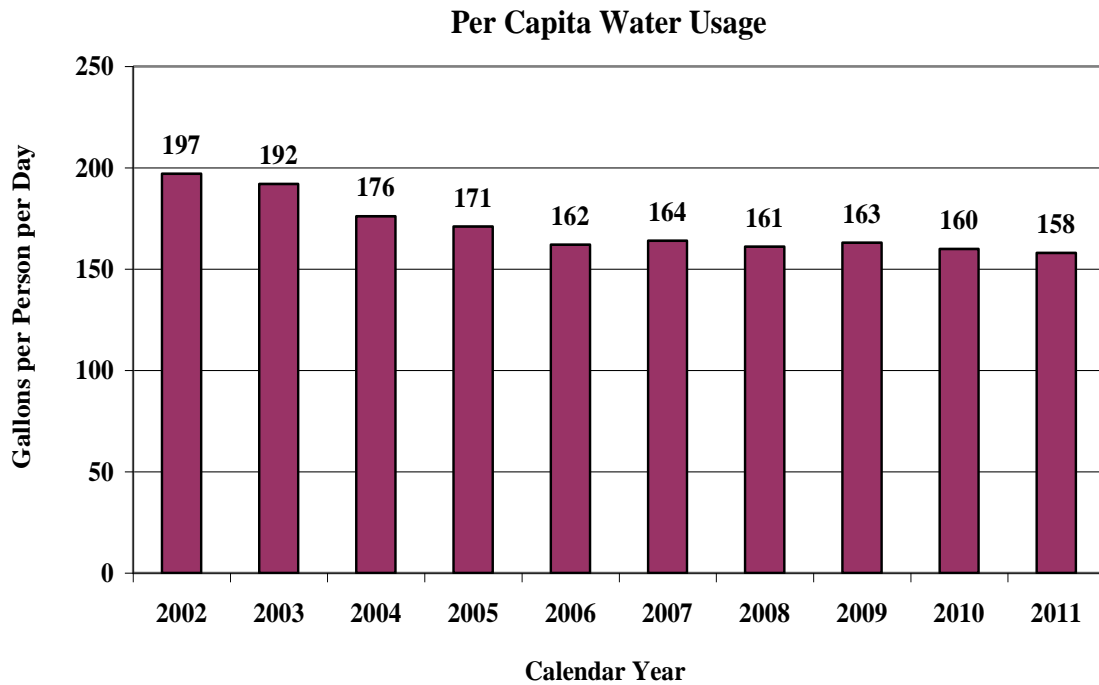
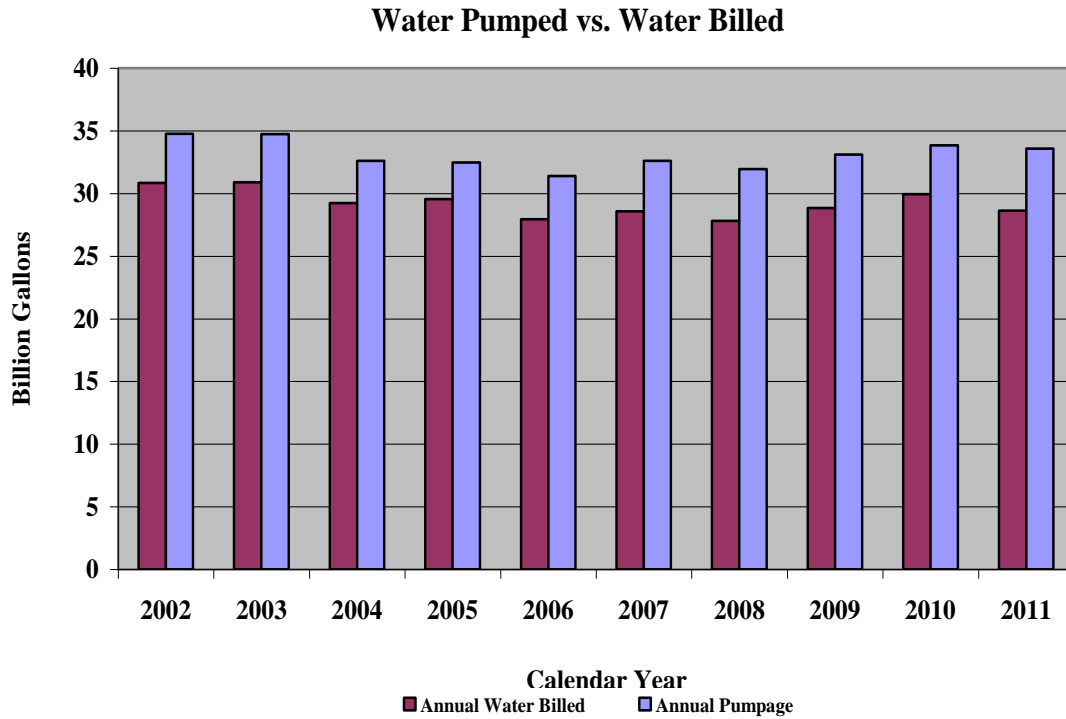
| <u>Meter Size</u> | <i>Average Number of Customers by Fiscal Year</i> | | | | | | | | | |
|-------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| ¾" | 132,387 | 139,351 | 142,018 | 146,842 | 149,846 | 151,172 | 168,632 | 169,414 | 169,984 | 171,103 |
| 1" and 1 ¼ " | 18,321 | 17,863 | 17,588 | 17,773 | 17,581 | 17,621 | 17,611 | 17,820 | 17,820 | 17,717 |
| 1 ½ " | 1,847 | 1,854 | 1,879 | 1,945 | 1,955 | 1,968 | 2,169 | 2,195 | 2,195 | 2,221 |
| 2" | 1,905 | 1,958 | 1,997 | 2,509 | 1,816 | 1,839 | 2,179 | 2,228 | 2,228 | 2,320 |
| 3" | 412 | 524 | 419 | 654 | 733 | 766 | 834 | 714 | 714 | 634 |
| 4" | 247 | 311 | 251 | 244 | 246 | 264 | 275 | 268 | 268 | 273 |
| 6" | 55 | 73 | 52 | 52 | 53 | 53 | 67 | 58 | 58 | 61 |
| 8" and over | <u>39</u> | <u>68</u> | <u>41</u> | <u>41</u> | <u>40</u> | <u>41</u> | <u>46</u> | <u>40</u> | <u>40</u> | <u>46</u> |
| Total | <u>155,213</u> | <u>162,002</u> | <u>164,245</u> | <u>170,060</u> | <u>172,270</u> | <u>173,724</u> | <u>191,813</u> | <u>192,737</u> | <u>193,307</u> | <u>194,375</u> |

⁽¹⁾ The Authority started using this class of user in 2006.



Source: Albuquerque Bernalillo County Water Utility Authority

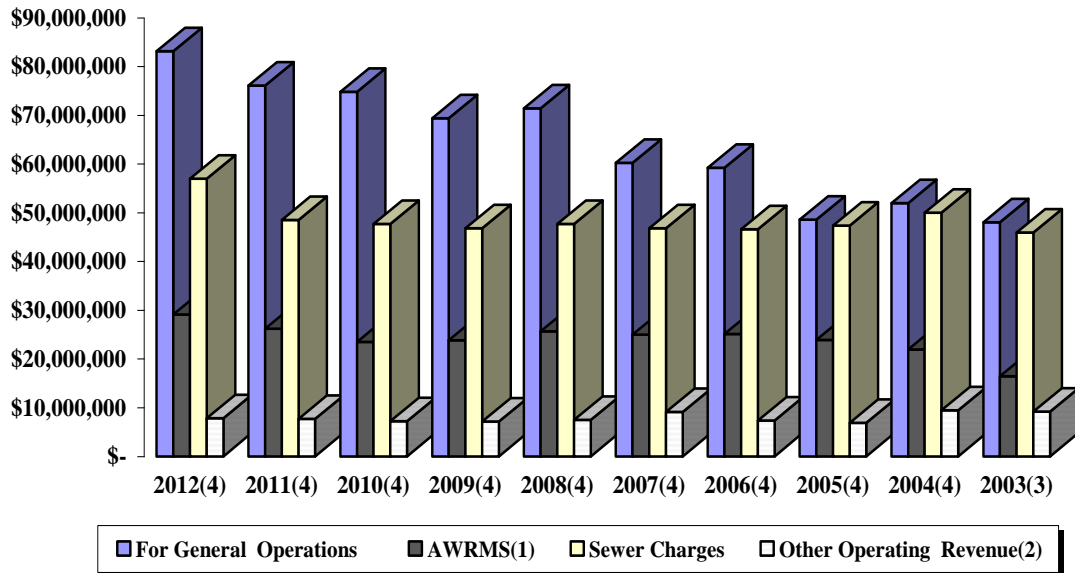
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
WATER CONSUMPTION
LAST TEN CALENDAR YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
REVENUE FROM WATER AND SEWER CHARGES AND OTHER OPERATING REVENUE
LAST TEN FISCAL YEARS**

| Fiscal Year | Revenue from Water Charges | | Revenue From Sewer Charges | Other Operating Revenue ⁽²⁾ | Total Operating Revenue |
|---------------------|----------------------------|-----------------------------|-------------------------------|---|----------------------------|
| | For General Operations | For AWRMS ⁽¹⁾ | | | |
| 2012 ⁽⁴⁾ | 83,145,457 | 29,096,281 | 56,982,228 | 7,830,724 | 177,054,690 |
| 2011 ⁽⁴⁾ | 76,072,550 | 26,219,494 | 48,504,637 | 7,718,145 | 158,514,826 |
| 2010 ⁽⁴⁾ | 74,773,904 | 23,483,160 | 47,685,066 | 7,202,722 | 153,144,852 |
| 2009 ⁽⁴⁾ | 69,395,141 | 23,803,266 | 46,805,468 | 7,141,714 | 147,145,589 |
| 2008 ⁽⁴⁾ | 71,398,950 | 25,630,246 | 47,683,918 | 7,519,231 | 152,232,345 |
| 2007 ⁽⁴⁾ | 60,186,959 | 24,975,068 | 46,771,690 | 9,100,112 | 141,033,829 |
| 2006 ⁽⁴⁾ | 59,172,344 | 25,095,852 | 46,563,188 | 7,371,006 | 138,202,390 |
| 2005 ⁽⁴⁾ | 48,560,930 | 23,904,227 | 47,310,366 | 6,846,660 | 126,622,183 |
| 2004 ⁽⁴⁾ | 51,968,803 | 21,950,195 | 50,012,413 | 9,437,552 | 133,368,963 |
| 2003 ⁽³⁾ | 48,027,213 | 16,410,278 | 45,893,219 | 9,185,099 | 119,515,809 |



(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).

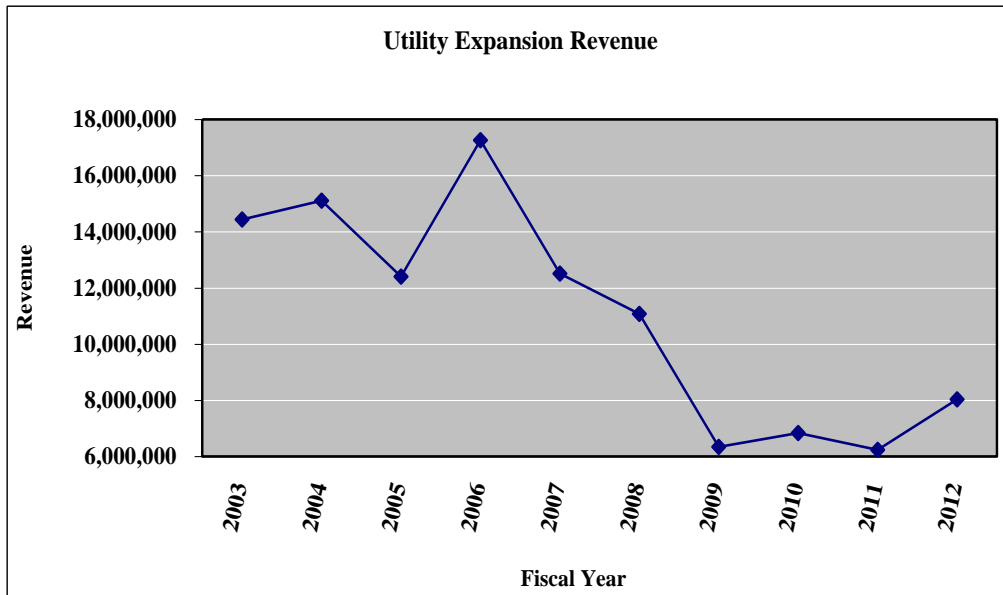
(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

(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
REVENUE FROM UTILITY EXPANSION CHARGES
LAST TEN FISCAL YEARS

| <u>Fiscal Year</u> | <u>Total Utility Expansion Charge Revenues</u> |
|---------------------|--|
| 2003 ⁽¹⁾ | 14,432,966 |
| 2004 ⁽²⁾ | 15,111,935 |
| 2005 ⁽²⁾ | 12,404,189 |
| 2006 ⁽²⁾ | 17,254,474 |
| 2007 ⁽²⁾ | 12,516,234 |
| 2008 ⁽²⁾ | 11,074,840 |
| 2009 ⁽²⁾ | 6,346,401 |
| 2010 ⁽²⁾ | 6,834,261 |
| 2011 ⁽²⁾ | 6,240,073 |
| 2012 ⁽²⁾ | 8,035,123 |

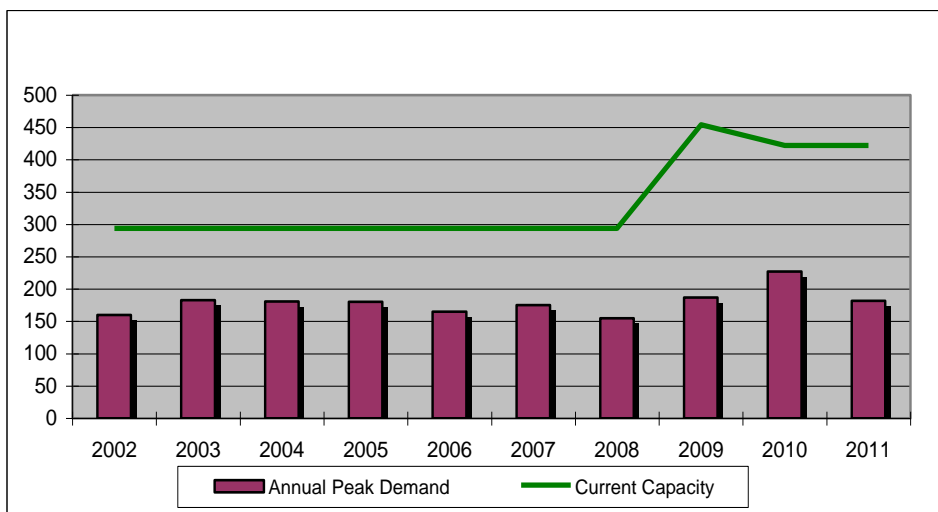


Source: (1) City of Albuquerque Comprehensive Annual Financial Report.
(2) Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
WATER SYSTEM ANNUAL PEAK DEMAND AND TOP TEN CUSTOMERS

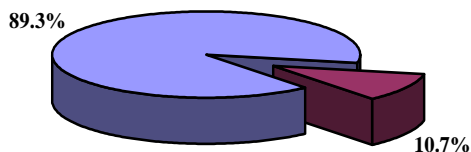
WATER SYSTEM ANNUAL PEAK DEMAND
(calendar year)

- ◆ *Current system peak demand of 182 MGD*
- ◆ *Current system peak capacity of 422 MGD*
- ◆ *System's current peak demand is 54% of capacity*



WATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)

| <u>Customer Name</u> | <u>Consumption Rate (Kgal)</u> | <u>Total Collected 2012 Revenue</u> | <u>% of Total Revenue</u> |
|---|--------------------------------|-------------------------------------|---------------------------|
| 1. City of Albuquerque | 2,670,583 | \$ 6,376,402 | 5.68% |
| 2. Albuquerque Public Schools | 670,264 | 2,236,868 | 1.99% |
| 3. University of New Mexico | 309,098 | 1,028,516 | 0.92% |
| 4. Bernalillo County | 216,554 | 614,860 | 0.55% |
| 5. Kirtland Air Force Base | 192,614 | 578,997 | 0.52% |
| 6. Sumitomo | 141,671 | 256,844 | 0.23% |
| 7. Albuquerque Academy | 111,988 | 202,655 | 0.18% |
| 8. Lovelace Health | 106,336 | 239,824 | 0.21% |
| 9. Central New Mexico Community College | 81,128 | 284,977 | 0.25% |
| 10. ABCWUA | 75,400 | 228,333 | 0.20% |
| Total | | \$ 12,048,276 | 10.73% |
| Total Revenue for System | | \$ 112,241,738 | |

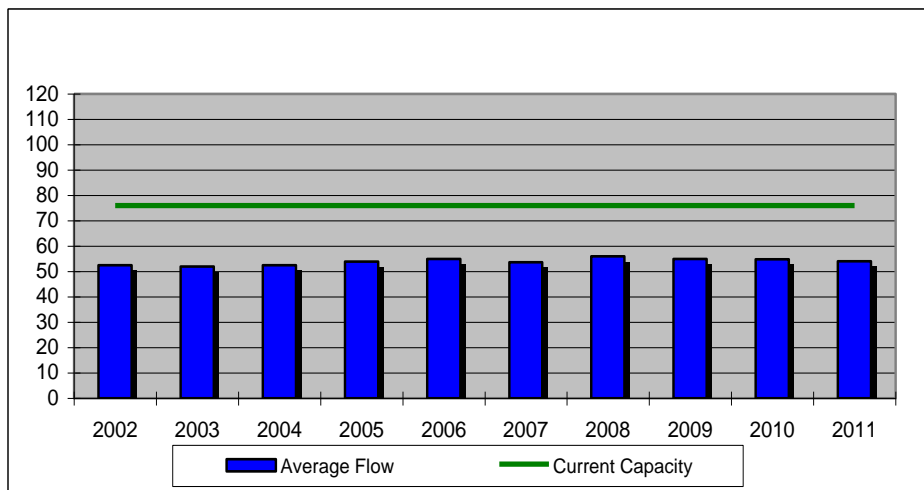


Source: Albuquerque Bernalillo County Water Utility Authority

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
WASTEWATER SYSTEM ANNUAL AVERAGE FLOW AND TOP TEN CUSTOMERS**

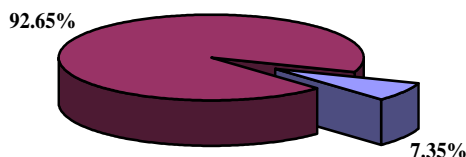
**WASTEWATER SYSTEM ANNUAL AVERAGE FLOW
(calendar year)**

- ◆ *Current system average flow of 54 MGD*
- ◆ *Current system peak capacity of 76 MGD*
- ◆ *System's current average flow is 71% of capacity*



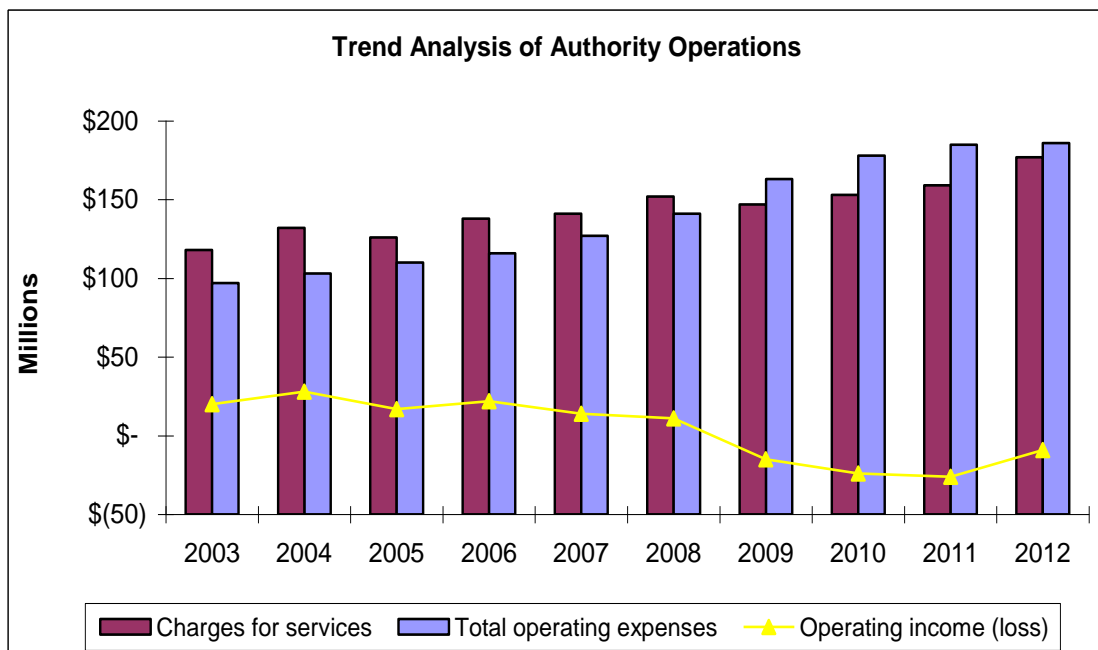
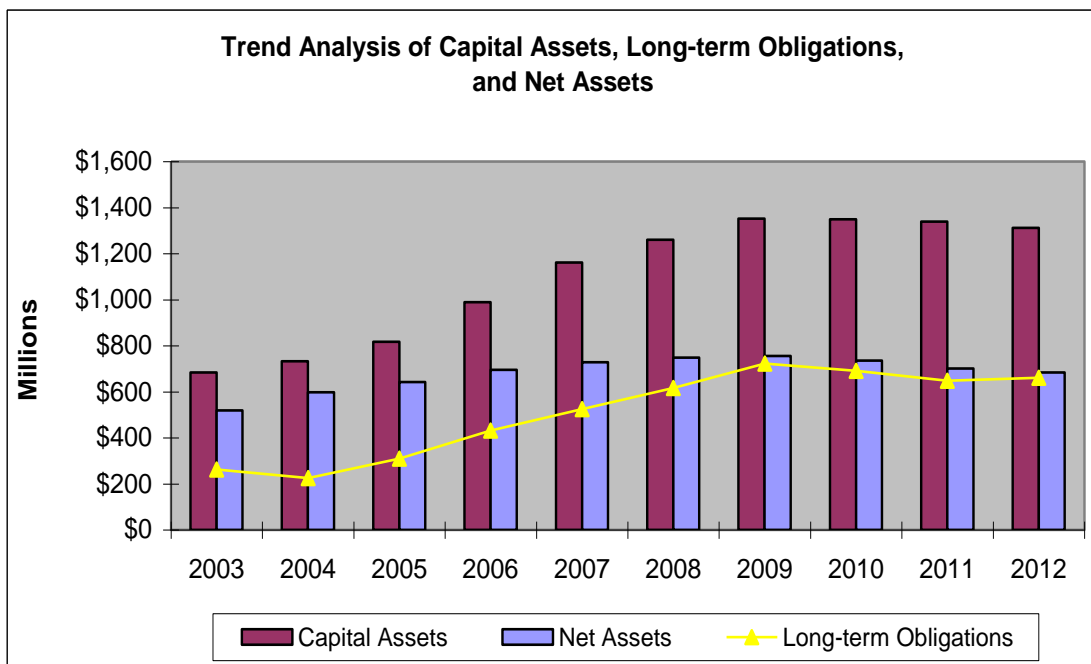
**WASTEWATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)**

| <u>Customer Name</u> | <u>Consumption Rate (Kgal)</u> | <u>Total Collected 2012 Revenue</u> | <u>% of Total Revenue</u> |
|--|--------------------------------|-------------------------------------|---------------------------|
| 1. Kirtland Air Force Base | 687,317 | \$ 1,125,049 | 1.97% |
| 2. University of New Mexico | 545,296 | 785,525 | 1.38% |
| 3. City of Albuquerque | 177,032 | 490,072 | 0.86% |
| 4. Albuquerque Public Schools | 170,825 | 676,160 | 1.19% |
| 5. Lovelace Health | 95,110 | 156,384 | 0.27% |
| 6. Sandia Peak Services | 86,299 | 95,531 | 0.17% |
| 7. Bernalillo County | 68,718 | 163,398 | 0.29% |
| 8. Creamland Dairies | 52,696 | 516,135 | 0.91% |
| 9. Four Hills MHP | 40,341 | 68,824 | 0.12% |
| 10. Central New Mexico Community College | 36,631 | 111,158 | 0.20% |
| Total | | \$ 4,188,236 | 7.35% |
| Total Revenue for System | | \$ 56,982,228 | |



Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
MISCELLANEOUS TREND ANALYSIS
LAST TEN FISCAL YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
REVENUE BOND DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(In thousands of dollars)

| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Water Utility Authority Revenue Bonds ⁽¹⁾ | | | | | | | | | | |
| Revenues | \$ 180,272 | \$ 166,652 | \$ 158,528 | \$ 160,800 | \$ 166,580 | \$ 162,390 | \$ 163,278 | \$ 144,074 | \$ 150,224 | \$ 139,937 |
| Release of cash from rate reserve fund | - | 7,000 | - | - | - | - | - | - | - | - |
| Expenses ⁽²⁾ | <u>94,086</u> | <u>95,790</u> | <u>87,768</u> | <u>83,177</u> | <u>72,541</u> | <u>65,336</u> | <u>61,932</u> | <u>59,005</u> | <u>55,892</u> | <u>57,315</u> |
| Available for debt service | 86,186 | 77,862 | 70,760 | 77,623 | 94,039 | 97,054 | 101,346 | 85,069 | 94,332 | 82,622 |
| Debt service | 64,978 | 70,359 | 70,983 | 65,144 | 61,785 | 62,027 | 55,641 | 52,279 | 49,179 | 47,516 |
| Debt service coverage ratio | 1.33 | 1.11 | 1.00 | 1.19 | 1.52 | 1.56 | 1.80 | 1.63 | 1.92 | 1.74 |
| | | | | | | | | | | |
| Ratio required | 1.33 | 1.33 | 1.33 | 1.33 | 1.33 | 1.33 | 1.33 | 1.33 | 1.33 | 1.33 |

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

⁽²⁾ Not including depreciation, amortization, franchise fees, and provision for bad debts.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(In thousands of dollars)

| Components of Net Assets: | <u>2012</u> | <u>2011⁽¹⁾</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|--------------------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Invested in capital assets, net of related debt | \$ 636,174 | \$ 668,171 | \$ 692,921 | \$ 725,767 | \$ 698,063 | \$ 666,487 | \$ 609,955 | \$ 566,451 | \$ 517,181 |
| Restricted for debt service | - | - | - | - | - | 6,003 | 12,919 | 11,491 | 10,393 |
| Restricted for construction | - | - | 11,072 | 13,672 | 10,553 | - | 5,539 | 26,621 | 17,576 |
| Unrestricted | 46,982 | 33,189 | 30,875 | 16,462 | 40,019 | 56,465 | 65,804 | 37,444 | 54,949 |
| Total Net Assets | <u>\$ 683,156</u> | <u>\$ 701,360</u> | <u>\$ 734,868</u> | <u>\$ 755,901</u> | <u>\$ 748,635</u> | <u>\$ 728,955</u> | <u>\$ 694,217</u> | <u>\$ 642,007</u> | <u>\$ 600,099</u> |

⁽¹⁾ The 2011 net assets invested in capital assets, net of related debt amount has been increased and the unrestricted net assets amount has been decreased by approximately \$12.1 million from the amounts presented in the prior fiscal year. The reclassification changes were primarily a result of a reevaluation of the Authority's unrestricted and restricted cash balances.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
OUTSTANDING DEBT RATIO
LAST NINE FISCAL YEARS

| <u>Outstanding Obligations (in 000's)</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenue bonds, net | \$ 460,415 | \$ 479,674 | \$ 504,063 | \$ 532,742 | \$ 418,114 | \$ 389,871 | \$ 289,213 | \$ 182,194 | \$ 213,188 |
| Loan agreements | 229,644 | 193,620 | 206,642 | 209,584 | 219,780 | 152,529 | 159,712 | 147,928 | 26,029 |
| Water rights contract | 12,932 | 13,910 | 14,858 | 15,779 | 16,672 | 17,539 | 18,381 | 19,197 | 19,990 |
| Lines of credit | - | 103 | 760 | 3,524 | - | - | - | - | - |
| Total outstanding obligations | <u>\$ 702,991</u> | <u>\$ 687,307</u> | <u>\$ 726,323</u> | <u>\$ 761,629</u> | <u>\$ 654,566</u> | <u>\$ 559,939</u> | <u>\$ 467,306</u> | <u>\$ 349,319</u> | <u>\$ 259,207</u> |
| Number of Customers ⁽²⁾⁽³⁾ | 201,884 | 201,884 | 200,498 | 194,087 | 174,005 | 172,394 | 171,130 | 167,737 | 162,536 |
| Average debt per customer | \$ 3,482 | \$ 3,404 | \$ 3,623 | \$ 3,924 | \$ 3,762 | \$ 3,248 | \$ 2,731 | \$ 2,083 | \$ 1,595 |
| Estimated population ⁽²⁾ | 554,905 | 554,905 | 549,411 | 543,971 | 538,586 | 533,253 | 530,600 | 525,347 | 512,288 |
| Per capita debt | \$ 1,267 | \$ 1,239 | \$ 1,322 | \$ 1,400 | \$ 1,215 | \$ 1,050 | \$ 881 | \$ 665 | \$ 506 |
| Per capita income ⁽¹⁾ | \$ 34,929 | \$ 34,929 | \$ 34,929 | \$ 35,329 | \$ 35,608 | \$ 34,528 | \$ 33,470 | \$ 31,724 | \$ 30,303 |

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

⁽²⁾ Based on calendar year, from Table 2

⁽³⁾ Represents number of billed meters

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
REVENUE RATE COMPARISONS

Monthly Wastewater Charges

| City | Effective Date | 5/8-Inch Meter | | | | | | 2-Inch Meter | 4-Inch Meter | 8-Inch Meter |
|---------------------|----------------|-----------------|-----------------------|-------------------------|--------------------------|--------------------------|--|--|---------------------------------|----------------------------------|
| | | Residential | Residential | Residential | Residential | Residential | Non-manuf./ | Commercial/ | Industrial | Industrial |
| | | 0 cf (0 gal) | 500 cf (3,740 gal) | 1,000 cf (7,480 gal) | 1,500 cf (11,220 gal) | 3,000 cf (22,440 gal) | Commercial 3,000 cf (22,440 gal) | Light Industrial 50,000 cf (374,000 gal) | 1,000,000 cf (7,480,000 gal) | 1,500,000 cf (11,220,000 gal) |
| Albuquerque, NM | 9/1/2010 | \$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

| | | | | | | | | | | |
|---------------------|-----------|---------|---------|---------|---------|---------|---------|----------|-------------|-------------|
| 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 Vas 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.

SINGLE AUDIT INFORMATION

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Period of July 1, 2011 through June 30, 2012

| <u>Grantor Agency and Grant Title</u> | <u>Grant Number- Federal or State</u> | <u>Federal CFDA Number</u> | <u>Grant Period</u> | | <u>Expenditures/ Adjustments</u> |
|---|---|------------------------------------|---------------------|------------|--------------------------------------|
| | | | <u>From</u> | <u>To</u> | |
| <u>U.S. Department of the Interior</u> | | | | | |
| <u>Water Reclamation and Reuse Program</u> | | | | | |
| Direct: | | | | | |
| Alb. Metro Area Water Reclamation | R12AC40009 | 15.504 | 6/1/1999 | 12/31/2014 | \$ 550,886 |
| <u>Bureau of Reclamation</u> | | | | | |
| Direct: | | | | | |
| Southwestern Willow Flycatcher Habitat Restoration Project | R10AP40051 | 15.537 | 9/23/2010 | 9/30/2012 | <u>59,976</u> |
| Total U.S. Department of the Interior | | | | | <u>\$ 610,862</u> |
| <u>U.S. Environmental Protection Agency</u> | | | | | |
| <u>American Recovery and Reinvestment Act of 2009</u> | | | | | |
| Pass through: | | | | | |
| Water Use and Efficiency and Retrofit Analysis Study | 2381-ADW | 66.468 | 40,087 | completion | <u>\$ 19,728</u> |
| TOTAL | | | | | <u>\$ 630,590</u> |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

NOTE A. SIGNIFICANT ACCOUNTING POLICY

The accompanying schedule of federal awards is prepared on the modified accrual basis of accounting.

NOTE B. SUBRECIPIENTS OF GRANT AWARDS

There were no subrecipients of grant awards for fiscal year 2012.

NOTE C. NON-CASH ASSISTANCE, LOANS, AND LOAN GUARANTEES

There were no non-cash assistance, loans or loan guarantees for fiscal year 2012.

Independent Auditors' 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
and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the financial statements of the Albuquerque Bernalillo County Water Utility Authority (the "Authority") as of and for the year ended June 30, 2012 and have issued our report thereon dated March 21, 2013. 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

The Authority's management 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 questioned costs, 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 questioned costs 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 accompanying schedule of findings and questioned costs 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 pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16 and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 05-13, 08-13, 09-14, 10-01, 10-03, 11-04, 11-05, 11-06, 11-07 and 12-02.

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

This report is intended solely for the information and use of management, the Board of Directors, the New Mexico Department of Finance and Administration, the New Mexico State Auditor, the New Mexico Legislature, and applicable federal grantors and the 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 21, 2013

**Independent Auditors' Report on Compliance With
Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

The Board of Directors of the Albuquerque
Bernalillo County Water Utility Authority
and
Mr. Hector Balderas
New Mexico State Auditor

Compliance

We have audited the Albuquerque Bernalillo County Water Utility Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2012. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-01.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in the internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 12-01. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, the Board of Directors, the New Mexico Department of Finance and Administration, the New Mexico State Auditor, the New Mexico Legislature, and applicable federal grantors and the 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 21, 2013

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

A — Summary of Auditors' Results

Financial Statements

| | |
|---|-------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | Yes |
| Significant deficiencies identified? | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|-------------|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | Yes |
| Type of auditors' report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

A — Summary of Auditors' Results — continued

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

15.504

Water Reclamation and Reuse Program

Dollar threshold used to distinguish
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

No

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

B — Financial Statement Findings

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

Criteria: Adequate segregation of duties should exist to mitigate the likelihood of errors or fraud within significant transaction cycles. Those who process transactions in the general ledger should not have access to the related assets.

Condition: The City of Albuquerque (the “City”) prints checks on behalf of the Authority by accessing Authority bank accounts. The City processes manual payroll checks in certain circumstances, which are processed differently than regular payroll disbursements. Within the manual payroll checks process, payroll personnel are responsible for initiating, printing, and distributing manual payroll checks, which represents a lack of segregation of duties in this process.

Cause: The current configuration of the PeopleSoft (accounting system) payroll module requires manual checks to be printed as processed and does not allow for batch printing independent of payroll processing.

Effect: There is an increased risk of error and/or fraud within this process.

Auditors’ Recommendations: Policies and procedures should be revised to provide for segregation of duties within the manual payroll checks process. Payroll personnel should no longer be authorized to handle and distribute the checks that they process. The City should assign responsibility for distributing manual payroll checks to an individual that does not have access to the payroll module in the accounting system.

Management’s Response: The Authority concurs with the finding. The City has internal controls in place within that require the manual check amounts to be dual verified by a payroll employee other than the initiator. With the Authority’s implementation of its SunGard ERP system these controls are being built into its workflow. The Authority has also engaged the services of Ricci and Porch as its Internal Auditor and they are reviewing this process and will do testing monthly in regards to the controls put into place.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

B — Financial Statement Findings — continued

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

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.

Condition: While the Authority maintains its own bank accounts, much of its cash balances are maintained in the City’s pooled investment program. Within this program, 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 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.

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

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

Auditors’ Recommendations: The Authority should work with the City to disburse its portion of the common fund cash balances to the Authority’s separate bank accounts. This will enable the Authority to implement its own reconciliation process and to ensure general ledger cash balances are regularly reconciled to corresponding bank balances.

Management’s Response: The Authority concurs with the finding. This process was handled by the City on the Authority’s behalf. With the Authority’s implementation of its SunGard ERP system the Authority will segregate its banking activities from the City. The Authority has engaged the services of Alan & Associates, Inc. to help the Authority implement its own treasury services. With this a process will be set up to reconcile GL cash balances on a regular basis. This will also be a function built into the Authority’s new ERP system.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

B — Financial Statement Findings — continued

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

Criteria: Timely reconciliation of subsidiary ledgers supporting asset and liability balances is essential to the detection of errors and/or irregularities and to facilitate timely closing of the general ledger. Procedures should be in place to ensure that timely, accurate reconciliations are prepared, and that differences are investigated and resolved timely.

Condition: The Authority is dependent on the City for reconciliation of several of its general ledger balances. Several of the City's subsidiary ledgers were not reconciled to the general ledger on a monthly basis, which prolonged the year-end reconciliation process and presented the error for undetected errors and irregularities.

Cause: The City and Authority converted their accounting system to PeopleSoft in January 2009. Certain aspects of this software did not function as needed. In many instances, information was not accurate and created the need for an in-depth review and adjustment.

Effect: There is an increased risk that errors and/or irregularities will occur and not be detected and corrected in a timely manner. In addition, the Authority is not able to draft its Comprehensive Annual Financial Report (CAFR) in a timely manner, which could affect the Authority's bond ratings and availability of federal funding. This also affects the Authority's ability to comply with regulatory deadlines, such as the New Mexico State Auditor Rule.

Auditors' Recommendations: The Authority should devote appropriate resources in gaining better functionality within the PeopleSoft accounting system. Alternatively, the Authority could consider procuring a different accounting system than the City, which is tailored more toward business enterprises and/or utility companies.

Management's Response: The Authority concurs with this finding. The Authority currently uses the City's PeopleSoft ERP System. The City Accounting Division has resolved a majority of the general ledger issues that resulted from the PeopleSoft conversion and is currently developing and documenting the monthly closing process.

With the Authority's implementation of its SunGard ERP system the Authority will begin to have monthly closings to the General Ledger. The systems accounting structure was also designed to complete the year end close and the CAFR report. The monthly General Ledger close will also be reviewed by the Authority's Internal Auditors Ricci and Porch.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

B — Financial Statement Findings — continued

11-01 Accounts Payable Controls (Modified and Repeated) (Significant Deficiency)

Criteria: Controls over disbursements should include, among others, procedures that ensure prior independent review of wire transfers. In addition, there should be monthly analysis of an aged payable report to identify accounts that are not being paid timely.

Condition: E-payable wire transfers to vendors are not independently reviewed for accuracy prior to the transfers being made.

Cause: The Authority has been operating with limited resources and does not have adequate staffing to enable an independent review of E-payable wire transfers.

Effect: Payments could be made through wire transfers to fictitious or inappropriate vendors.

Auditors' Recommendations: The Authority should work with its banks to establish procedures to ensure that all wire transfers are approved by two individuals prior to being sent to vendors.

Management's Response: The Authority concurs with this finding. The City of Albuquerque currently provides this service to the Authority. On July 1, 2013 the Authority will go live with its on ERP system. The Authority has currently contracted with Alan & Associates to conduct its treasury services. They are currently working with the ERP implementation team as well as the bank to put these controls in place. Also, the Authority's internal auditor Ricci and Porch will review these procedures as part of their monthly internal audit work.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

C — Federal Award Findings and Questioned Costs

12-01 Davis-Bacon Act (Significant Deficiency)

Federal program information:

| | |
|------------------------|---|
| Funding agency: | U.S. Department of the Interior – Bureau of Reclamation |
| Title: | Water Reclamation and Reuse Program |
| CFDA Number: | 15.504 |
| Award year and number: | 2012, R12AC40009 |

Criteria: Non-federal entities shall include in their construction contracts, subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Condition: The Authority did not receive copies of certified payrolls during the year for three contractors/subcontractors that were selected for testing.

Cause: The Authority previously used an external engineering company to monitor compliance with Davis-Bacon Act requirements. This external contractor was not engaged in fiscal year 2012 and the Authority did not designate this responsibility to an employee.

Context: Three of the three contractors/subcontractors selected for testing did not submit certified payroll reports to the Authority.

Effect: The Authority did not comply with Davis-Bacon Act requirements, which could affect the Authority's ability to obtain further construction grants.

Auditors' Recommendations: The Authority should assign the responsibility for verifying and maintaining the required weekly certified payrolls to an employee directly involved with the project. In addition, this individual should verify that all laborers working on each construction project are being paid at least the prevailing wage rates as specified by the Department of Labor for the applicable position.

Management's Response: The Authority concurs with this finding. The larger compliance issue which encompasses Davis-Bacon is the requirement for wage decisions when the cost of a project exceeds \$60,000. When wage decisions are required, the contractor is required to send certified payrolls to the State of New Mexico Department of Workforce Solutions and to the Authority. The Authority is developing a manual for project managers which will contain the criteria for determining when certified payrolls are required and compliance procedures.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

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

05-13 Audit Report Due Date (Repeated)

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 1st.

Condition: The fiscal year 2012 Comprehensive Annual Financial Report (CAFR) for the Authority was not submitted to the New Mexico Office of the State Auditor by the December 1, 2012 submission deadline.

Cause: The Authority is dependent on the City for reconciliation of several of its general ledger balances. Several of the City's subsidiary ledgers were not reconciled to the general ledger on a monthly basis, which prolonged the year-end reconciliation process and presented the error for undetected errors and irregularities.

Effect: The Authority was unable to close their accounting records in a timely manner and have the records ready for the audit. The Authority is not in compliance with the New Mexico State Auditor Rule.

Auditors' Recommendations: The Authority should devote appropriate resources in gaining better functionality within the PeopleSoft accounting system. Alternatively, the Authority could consider procuring a different accounting system than the City, which is tailored more toward business enterprises and/or utility companies.

Management's Response: The Authority concurs with this finding. The Authority is currently in the process of implementing our own ERP system. This is expected to go live on July 1, 2013. Currently the Authority is on the City of Albuquerque's ERP system and is working with the City to file the FY13 CAFR timely. Beginning with FY14 the Authority's financials will be maintained on the Authority's own ERP system and expects the FY14 CAFR to be filed timely.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

D — 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)

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.

Condition: Machinery and equipment additions in the current year were assigned tag numbers in the capital asset records. However, audit procedures revealed that the tags were not attached to the assets.

Cause: 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.

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

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

Management's 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 implements its own ERP system the ability to perform an annual physical inventory of its fixed assets will be implemented as well and, it will concurrently develop a process to "tag" those assets. That process will necessarily involve a technological solution.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

**D — 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)

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.

Condition: Procedures were not in place to ensure that expenses did not exceed budgets. As a result, expenses of the Authority exceeded budget amounts by \$3,134,990.

Cause: The Authority converted their accounting 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.

Effect: There is an increased risk of overspending budgets.

Auditors' Recommendations: The Authority should continue to work diligently to catch up the information in the new accounting 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 process of implementing its own financial reporting system that will go live on July 1, 2013. This system will generate budget to actual reports real time and will also include encumbrances as well, which the City's system cannot currently do. Payroll data will also tie into these reports.

The Authority is very much aware of the operational budget overspending in fiscal year 2012. The lack of timely financial results being posted to 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 2013, the Authority is continuing its best efforts to track actual versus budget result, 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 with projected revenue levels. The Authority will continue to do both tasks.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

**D — 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)

Criteria: The City's Security Policies (last updated in 2006), which state that the City is responsible for protecting its technology assets against disruption thereby protecting the citizens, economy, essential human and government services, and public safety of the City. 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.

Condition: The Authority follows the City's Security Policies. The City's Information Technology Services Department (ITSD) has drafted a comprehensive BCP/DRP, but it has not been fully tested. In addition, this BCP/DRP is pending final approval by the Technology Review Committee (TRC) and by City Council, at which point this plan can be fully implemented by the City.

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.

Effect: The lack of an approved and tested BCP/DRP poses a 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.

Auditors' Recommendations: The City and Authority should continue its process of testing the draft BCP/DRP. The draft should be presented for approval by the TRC and City Council. Once the BCP/DRP has been approved and implemented, system recovery testing should be conducted periodically to support the ongoing implementation of the BCP/DRP.

Management's Response: The Authority concurs with this finding. The City's disaster recovery plan has been completed and critical systems are currently being tested. Testing is scheduled to be complete by March 2013. This will also be used by the Authority. The disaster recovery plan will be updated annually.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

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

10-03 Reporting Unclaimed Property (Repeated and Modified)

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.

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 over one year old as well as unclaimed customer deposits, which amounted to \$14,259 and \$45,198, respectively, as of June 30, 2012.

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

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

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. The City's Accounting department has reviewed the policy regarding unclaimed property with accounting staff. The Authority will establish procedures to ensure that unclaimed property, including unclaimed tenant security deposits and outstanding checks, are reported and escheated to the State of New Mexico annually. The current unclaimed property of the Authority was reported and escheated to the State of New Mexico on February 25, 2013.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

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

11-04 Information Technology (IT) Policies and Procedures

Criteria: Policies and procedures communicate the City's and Authority's expectations and controls relating to certain cycles within the City and Authority. Information technology is a significant cycle within the City and Authority and their systems, applications, and infrastructure are essential and integral to the efficiency of their operations. IT internal controls are important aspects of the internal controls that surround the input of financial transactions into the general ledger.

Condition: The Authority follows the IT policies and procedures of the City. Documentation of several IT policies and procedures (including those related to PeopleSoft) has not been updated to address current practices and systems. The City's Information Technology Services Department (ITSD) has drafted numerous policies and procedures related to IT, but these are pending final approval by the Technology Review Committee (TRC) and by City Council.

Cause: Although the IT Department has made a great deal of improvement in the strength of IT internal controls, the lack of IT resources is hindering this continued momentum. The IT Department is staffed at minimal levels required to meet the needs of the City's computer users. In addition to implementing the new PeopleSoft ERP system, much of the IT staff time is spent in "firefighting" and daily support issues leaving little time to focus on updating IT policies and procedures.

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

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 Authority concurs with this finding. The policies have been updated and are currently being reviewed by Senior Management and the Authority's internal auditor Ricci and Porch. These policies should go in effect by May 2013.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

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

11-05 PeopleSoft Implementation

Criteria: The successful implementation and end-user acceptance of a new enterprise-wide accounting system requires extensive hands-on training within 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.

Condition: The Authority uses the City's PeopleSoft system as its accounting system. The City's and Authority's implementation of the PeopleSoft ERP system 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 the PeopleSoft ERP system. 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.

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

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

Auditors' Recommendations: The Authority should devote appropriate resources in gaining better functionality within the PeopleSoft accounting system. Alternatively, the Authority could consider procuring a different accounting system than the City, which is tailored more toward business enterprises and/or utility companies.

Management's Response: The Authority concurs with this finding. The Authority is currently implementing SunGard's ERP system. This system will go live on July 1, 2013 and the Authority will no longer use the City's PeopleSoft system.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

D — 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

Criteria: Technology is a rapidly changing and developing area that requires constant training to keep up with evolving technologies. As operations depend more and more on IT systems, they become increasingly complex.

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. Areas that may be affected include finance, accounts receivable, budgets, the Mayor’s office, City Clerk and the City’s public website.

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

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.

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: This finding pertains mostly to the City’s Information Technology Systems Department. The Authority concurs with this finding and has developed backup and cross training for all IT staff. The Authority is also planning on developing a career ladder for Information Technology staff.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

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

11-07 Capital Assets Inventory

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.

Condition: The Authority did not perform an annual physical inventory of machinery and equipment during fiscal year 2012.

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

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

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's Response: The Authority concurs with this finding and recognizes that an annual physical inventory is required by State Statute. During fiscal year 2013, the Authority has started the process of separating from the City and taking ownership of selected business processes prior to the go live date of July 1, 2013 for the Authority's Sungard financial system. The Authority will stop using the City's Fleet and Risk Management services beginning with fiscal year 2014 and directly contract for those services. The Authority has begun the process of working with the City to get the title and registration of the Authority's vehicles transferred from the City's name to the Authority's name which is necessary for the Authority to have an insurable interest in the vehicles. The title transfer process will in essence require the Authority to conduct an inventory of the Authority vehicles.

The Authority has an asset management system and an upgraded Maximo work order system which is integrated with its Geographical Information System (GIS). As these resources are developed and new technology is acquired which can be paired with the Sungard financial system, the Authority expects it will be able to do an annual physical inventory of all inventory items and be in compliance with State Statutes.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
Year Ended June 30, 2012

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

12-02 P-Card Transactions

Criteria: Purchasing cards policies and procedures require: (1) cardholders to read, sign, and date the Card Request/Employee Agreement form; (2) card administrators to approve the issuance of cards, and ; (3) department directors to review and sign reconciled transaction logs supporting transactions.

Condition: One of ten employees tested did not have an approved Card Request/Employee Agreement form on file.

Cause: There was a lack of management oversight to ensure compliance of the purchasing card policies and procedures.

Effect: Unauthorized purchases could be made by employees that have not been properly authorized to use purchasing cards.

Auditors' Recommendations: The Authority should ensure compliance with purchasing policies and procedures in all cases.

Management's Response: The Authority concurs with this finding. The Authority is in the process in working with its Internal Auditor Ricci and Porch to develop policies and procedures and develop and monthly audit plan to ensure compliance and oversight in the P-Card process.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATUS OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2012

| Prior Audit Findings | Description | Current Status |
|--|---|-----------------------|
| <u>Financial Statement Findings</u> | | |
| 08-02 | Manual Payroll Checks Handling | Repeated |
| 08-16 | Bank Reconciliation Process | Repeated |
| 09-15 | Timely Closing of General Ledger and Reconciliation of Subsidiary Ledgers | Repeated |
| 11-01 | Accounts Payable Controls | Repeated |
| <u>Federal Awards Findings</u> | | |
| None. | | |
| <u>Other Findings</u> | | |
| 05-13 | Audit Report Due Date | Repeated |
| 08-13 | Controls Over Equipment Tagging | Repeated |
| 09-14 | Accurate and Timely Budget to Actual Information | Repeated |
| 09-18 | Bond Covenants | Resolved |
| 10-01 | Business Continuity and Disaster Recovery Plan | Repeated |
| 10-03 | Reporting Unclaimed Property | Repeated |
| 11-02 | Support for Cash Disbursements | Resolved |
| 11-03 | Lack of Payroll Supporting Documentation | Resolved |
| 11-04 | Information Technology (IT) Policies and Procedures | Repeated |
| 11-05 | PeopleSoft Implementation | Repeated |
| 11-06 | Lack of Backup for Key IT Personnel | Repeated |
| 11-07 | Capital Assets Inventory | Repeated |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
CORRECTIVE ACTION PLAN
Year Ended June 30, 2012

| <u>Audit Finding</u> | <u>Corrective Action Plan</u> | <u>Person Responsible</u> | <u>Estimated Completion Date</u> |
|-------------------------|--|--------------------------------|----------------------------------|
| 12-01 – Davis Bacon Act | See management’s response in the Schedule of Findings and Questioned Costs | ABCWUA Engineering Group | 12/31/13 |

STATE COMPLIANCE

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF DEPOSITS AND INVESTMENTS BY FINANCIAL INSTITUTION
June 30, 2012

As stated in Note I.C.1 , the Authority participates in the City's pooled investment program. This schedule only reflects the deposits and investments by financial institution for those accounts in which the Authority is a participant.

| Financial Institution: Account name | Type of Account | Bank Balance | Outstanding (Checks) Deposits | Book Balance |
|---|--------------------|-----------------------|-------------------------------------|-----------------------|
| Deposits: | | | | |
| Bank of Albuquerque | | | | |
| Common Fund | Checking | \$ 101,150 | \$ - | \$ 101,150 |
| Water Utility Authority Water Clearing | Checking | 2,853,757 | - | 2,853,757 |
| | | <u>2,954,907</u> | <u>-</u> | <u>2,954,907</u> |
| Bank of America | | | | |
| Common Fund | Checking | 88,371,782 | 5,030,722 | 93,402,504 |
| Water Utility Authority Payroll | Checking | - | (870,731) | (870,731) |
| Water Utility Authority Accounts Payable | Checking | (1,763) | (1,727,347) | (1,729,110) |
| Water Utility Authority Water Clearing | Checking | - | - | - |
| | | <u>88,370,019</u> | <u>2,432,644</u> | <u>90,802,663</u> |
| Bank of the West | | | | |
| Certificate of Deposit | Investment | 262,060,065 | (60,065) | 262,000,000 |
| Total cash deposit accounts | | <u>353,384,991</u> | <u>2,372,579</u> | <u>355,757,570</u> |
| Investments: | | | | |
| Bank of America | | | | |
| Working Capital Account | Investment | 353,452,371 | 12,937 | 353,465,308 |
| Short-Term Investment Account (Repurchase Agreement) | Investment | 77,000,000 | - | 77,000,000 |
| | | <u>430,452,371</u> | <u>12,937</u> | <u>430,465,308</u> |
| Total cash and investments | | <u>\$ 783,837,362</u> | <u>\$ 2,385,516</u> | <u>\$ 786,222,878</u> |
| Pooled Cash and Investments in the Statement of Net Assets of the Authority | | | | \$ 74,544,211 |
| Non-Pooled Cash and Investments in the Statement of Net Assets of the Authority | | | | 253,916 |
| Other Pooled Cash and Investments of the City | | | | <u>711,424,751</u> |
| | | | | <u>\$ 786,222,878</u> |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SCHEDULE OF PLEDGED COLLATERAL BY FINANCIAL INSTITUTION
June 30, 2012

This schedule only reflects the collateral by financial institution for those accounts in which the Authority is a participant.

The collateral for deposit accounts is as follows:

| Financial Institution Collateral Description | Original Face | Current Face | Current Market | Maturity Date | Coupon Rate |
|---|-----------------------|-----------------------|-----------------------|------------------|----------------|
| Bank of the West | | | | | |
| GNMA G2 4882 | \$ 1,500,000 | \$ 1,332,307 | \$ 1,459,343 | 12/20/2040 | 4.00% |
| GNMA G2 5202 | 30,350,787 | 29,501,298 | 31,585,938 | 10/20/2041 | 3.50% |
| GNMA GN 770469 | 51,000,000 | 47,542,448 | 52,129,939 | 07/15/2041 | 4.00% |
| GNMA G2 5202 | 52,500,000 | 51,030,575 | 54,636,532 | 10/20/2041 | 3.50% |
| FNMA FN MA0654 | 50,000,000 | 37,174,320 | 39,280,399 | 02/01/2021 | 3.50% |
| GNMA GN 727469 | 35,500,000 | 33,175,868 | 36,377,091 | 09/15/2041 | 4.00% |
| GNMA G2 82760 | 16,000,000 | 14,810,858 | 15,408,767 | 03/20/2041 | 2.50% |
| GNMA G2 4945 | 13,300,000 | 11,973,547 | 13,115,228 | 02/20/2041 | 4.00% |
| GNMA GN 727469 | 8,600,000 | 8,036,971 | 8,812,478 | 09/15/2041 | 4.00% |
| GNMA G2 4945 | 5,900,000 | 5,311,573 | 5,818,033 | 02/20/2041 | 4.00% |
| GNMA GN 727469 | 1,600,000 | 1,495,250 | 1,639,531 | 09/15/2041 | 4.00% |
| GNMA GN 738970 | <u>3,600,000</u> | <u>3,440,819</u> | <u>3,676,616</u> | 11/15/2026 | 3.50% |
| | <u>\$ 269,850,787</u> | <u>\$ 244,825,834</u> | <u>\$ 263,939,895</u> | | |

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

New Mexico Bank and Trust

| | | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|------------|-------|
| GNMA Pool 658185 SF CRA Qualified | <u>\$ 400,000</u> | <u>\$ 266,468</u> | <u>\$ 292,534</u> | 06/15/2040 | 4.50% |
|-----------------------------------|-------------------|-------------------|-------------------|------------|-------|

Location of collateral: Heartland Financial USA, Dubuque, IA

Total all banks \$ 264,232,429

The collateral for repurchase agreements is as follows:

| Financial Institution Collateral Description | Original Face | Current Face | Current Market | Maturity Date | Coupon Rate |
|---|----------------------|----------------------|----------------------|------------------|----------------|
| Bank of America | | | | | |
| City of Albuquerque Common Fund US Treasury Note Y17 | <u>\$ 77,700,800</u> | <u>\$ 77,000,000</u> | <u>\$ 78,540,095</u> | 04/30/2017 | 0.88% |
| | <u>\$ 77,700,800</u> | <u>\$ 77,000,000</u> | <u>\$ 78,540,095</u> | | |
| 102% collateral requirement | | | <u>78,540,000</u> | | |
| Collateral in excess (deficit) of requirement | | | <u>\$ 95</u> | | |

Location of collateral: Bank of New York Mellon, New York, N.Y.

The market value shown of the pledged collateral for the common fund repurchase agreement is as of the time of purchase on 6/30/2012.

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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING,
AND OTHER AGREEMENTS
JUNE 30, 2012

**Joint Powers Agreements -
Contract Control Number
(CCN)**

| <u>Contract Control Number (CCN)</u> | <u>Participants other than Water Authority</u> | <u>Responsible Party</u> | <u>Description</u> |
|---|---|---------------------------------|--|
| Eminent domain powers CCN 2004-0692 | City of Albuquerque/Bernalillo County | All Participants | City, County & Authority have right-of-way eminent domain powers |
| CCN 2002-0350 | New Mexico Interstate Stream Commission, City of Albuquerque Bio Park | All Participants | Provide support for the Rio Grande silvery minnow naturalized refugium at the Albuquerque Bio Park |

**Memorandums of
Understanding & Other
Agreements**

| <u>Memorandums of Understanding & Other Agreements</u> | <u>Participants other than Water Authority</u> | <u>Responsible Party</u> | <u>Description</u> |
|---|---|---------------------------------|--|
| 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 2008-0045 | 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 |
| Extension of Time 2008-0045 | City of Albuquerque | All Participants | Extension of time only, no change in scope of services |
| 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 |

| <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 |

| | | | | |
|-----------------|------------|---------------|------------|-------------|
| October 5, 2001 | Indefinite | Not specified | \$ 165,000 | 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 |
|--------------|---------------|----|----|-------------|

| | | | | |
|--------------------|---------------|----|----|-------------|
| September 16, 2008 | June 30, 2012 | NA | NA | All Parties |
|--------------------|---------------|----|----|-------------|

| | | | | |
|--------------|---------------|----|----|-------------|
| July 1, 2012 | June 30, 2013 | NA | NA | All Parties |
|--------------|---------------|----|----|-------------|

| | | | | |
|-----------------|--|-------------------|---------|-------------|
| August 10, 2007 | Terminated by either party with a six month written notice | \$25,500 per year | Unknown | All Parties |
|-----------------|--|-------------------|---------|-------------|

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING,
AND OTHER AGREEMENTS
JUNE 30, 2012

| <u>Memorandums of Understanding & Other Agreements</u> | <u>Participants other than Water Authority</u> | <u>Responsible Party</u> | <u>Description</u> |
|--|--|--------------------------|--|
| 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 |
| 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 |

| <u>Beginning Date</u> | <u>Ending Date</u> | <u>Project Amount</u> | <u>Current Year Contributions</u> | <u>Audit Responsibility</u> |
|-----------------------|--------------------|-----------------------|-----------------------------------|-----------------------------|
| December 6, 2007 | December 31, 2050 | \$103,530 | Unknown | All Parties |
| April 30, 2008 | December 31, 2050 | NA | NA | All Parties |
| April 1, 2009 | April 1, 2013 | \$156,825 | Unknown | 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 |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING,
AND OTHER AGREEMENTS
JUNE 30, 2012

| <u>Memorandums of Understanding & Other Agreements</u> | <u>Participants other than Water Authority</u> | <u>Responsible Party</u> | <u>Description</u> |
|--|--|--------------------------|--|
| 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 |
| 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 |
| 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 |

| <u>Beginning Date</u> | <u>Ending Date</u> | <u>Project Amount</u> | <u>Current Year Contributions</u> | <u>Audit Responsibility</u> |
|-----------------------|--------------------|-----------------------|-----------------------------------|-----------------------------|
| May 2, 2011 | December 31, 2060 | NA | NA | All Parties |
| August 10, 2011 | August 10, 2016 | NA | NA | All Parties |
| May 2, 2011 | December 31, 2060 | NA | NA | All Parties |
| 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 |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING,
AND OTHER AGREEMENTS
JUNE 30, 2012

| <u>Memorandums of Understanding & Other Agreements</u> | <u>Participants other than Water Authority</u> | <u>Responsible Party</u> | <u>Description</u> |
|--|--|--------------------------|--|
| 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 |
| 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 |

| <u>Beginning Date</u> | <u>Ending Date</u> | <u>Project Amount</u> | <u>Current Year Contributions</u> | <u>Audit Responsibility</u> |
|-----------------------|----------------------------------|-----------------------|-----------------------------------|-----------------------------|
| June 9, 2009 | June 30, 2050 | NA | \$262,810 | All Parties |
| December 3, 2009 | Until terminated by both parties | NA | NA | All Parties |
| September 30, 2010 | Until terminated by both parties | NA | NA | All Parties |
| December 16, 2010 | Until terminated by both parties | \$50,000 per year | \$50,000 | All Parties |
| October 1, 2008 | September 30, 2009 | NA | NA | All Parties |
| October 1, 2009 | September 30, 2010 | NA | NA | All Parties |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING,
AND OTHER AGREEMENTS
JUNE 30, 2012

| <u>Memorandums of Understanding & Other Agreements</u> | <u>Participants other than Water Authority</u> | <u>Responsible Party</u> | <u>Description</u> |
|--|---|--------------------------|---|
| 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 |
| 2013-0069 | Kirtland AFB | All Participants | Replaces and expands the terms and conditions of 2012-0064. The Authority and KAFB will jointly support the development of contingency plans for maintaining the safety of drinking water supplies potentially placed at risk by groundwater contamination associated with the Kirtland Bulk Fuels site. |
| 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 |

| <u>Beginning Date</u> | <u>Ending Date</u> | <u>Project Amount</u> | <u>Current Year Contributions</u> | <u>Audit Responsibility</u> |
|-----------------------|--------------------|-----------------------|-----------------------------------|-----------------------------|
| October 1, 2010 | September 30, 2011 | NA | NA | All Parties |
| October 1, 2011 | September 30, 2012 | NA | NA | All Parties |
| December 1, 2012 | November 30, 2013 | NA | NA | All Parties |
| 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 |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING,
AND OTHER AGREEMENTS
JUNE 30, 2012

| <u>Memorandums of Understanding & Other Agreements</u> | <u>Participants other than Water Authority</u> | <u>Responsible Party</u> | <u>Description</u> |
|--|---|--------------------------|---|
| 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 |
| 2012-0006 | Kirtland AFB | All Participants | Kirtland agrees to provide chipped clean green waste to the Soil Amendment Facility in exchange for screened biosolids compost material. The rate will be 3 tons of green waste from Kirtland for 1 ton of compost material from the Authority |
| 2013-0030 | Bernalillo County | All Participants | Pilot loan program to connect County residents to available water services. The loan based program is called CONNECT. This program will be run parallel and in conjunction with the PIPE program with the County |
| 2013-0070 | Bernalillo County | All Participants | Bernalillo County owns and maintains Rio Bravo Park at 3902 Isleta Blvd SW adjacent to a pump station operated by the Authority. The Authority and Bernalillo County agree to place a transportable mural on the block wall separating the two properties. The County and the Authority share maintenance. |
| None | Albuquerque Public Schools, University of New Mexico, City of Albuquerque Parks and Recreation Department, City of Albuquerque Zoo, City of Albuquerque Solid Waste Department, Village of Los Ranchos, Ciudad Soil and Conservation District | All Participants | Each participating agency provides shredded green waste and discarded animal bedding to the Authority's Soil Amendment Facility where the materials are blended with the solids from the Authority's water reclamation facility to provide an enhanced compost material. The enhanced compost is then returned to the participating agencies for beneficial re-use on green and open space areas. |

| <u>Beginning Date</u> | <u>Ending Date</u> | <u>Project Amount</u> | <u>Current Year Contributions</u> | <u>Audit Responsibility</u> |
|-----------------------|---|-----------------------|-----------------------------------|-----------------------------|
| 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 |
| September 7, 2011 | July 31, 2016 | NA | NA | All Parties |
| September 4, 2012 | September 4, 2016 | NA | None as of June 30, 2012 | All Parties |
| December 17, 2012 | Indefinite until either party decides to remove the mural | NA | None as of June 30, 2012 | All Parties |
| Fiscal year 1992 | Indefinite | NA | NA | All Parties |

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
EXIT CONFERENCE
June 30, 2012

An exit conference was held on March 20, 2013, and attended by the following:

AUTHORITY PERSONNEL:

Rey Garduno,
Vice-Chair, Water Authority Board

Mark Sanchez
Executive Director

Stanley Allred
Chief Financial Officer

Ken Sanchez
Board member and City Councilor

REDW LLC:

James Montoya
Principal

Joshua Trujillo
Senior Manager

CITY PERSONNEL:

Nela Wilkinson
Accounting Systems Coordinator