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**FINANCIAL
STATEMENTS AND
REPORT OF
INDEPENDENT
CERTIFIED PUBLIC
ACCOUNTANTS**

BUCKMAN DIRECT DIVERSION PROJECT

June 30, 2009 and 2008

atkinson

PRECISE. PERSONAL. PROACTIVE.

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Buckman Direct Diversion Project

OFFICIAL ROSTER

June 30, 2009 and 2008

BOARD MEMBERS

City Councilor Rebecca Wurzbarger	Chair
County Commissioner Virginia Vigil	Vice Chair
City Councilor Chris Calvert	Board Member
County Commissioner Paul Campos	Board Member
Citizen Member Consuelo Bokum	Board Member

ADMINISTRATION

Rick Carpenter	Project Manager
Teresita Garcia	Assistant Finance Director
Erica Martinez	Senior Financial Analyst



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector H. Balderas
New Mexico State Auditor
and
Ms. Rebecca Wurzbarger
Board Chair
Buckman Direct Diversion Project

We have audited the accompanying financial statements of governmental activities, the major capital project fund, the budgetary comparison for the major capital project fund, and the aggregate remaining fund information of the Buckman Direct Diversion Project (BDD Project), as of and for the years ended June 30, 2009 and 2008, which collectively comprise the BDD Project's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Santa Fe's management. Our responsibility is to express opinions on these financial statements based on our audit.

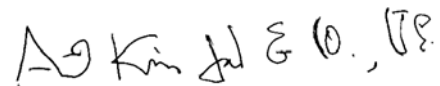
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BDD Project internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major capital project fund, and the aggregate remaining fund information of the BDD Project, as of June 30, 2009 and 2008, and the respective changes in financial position and the respective budgetary comparison of the major capital project fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2010, on our consideration of the BDD Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 6 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and budgetary comparison. The fiduciary schedule of changes in assets and liabilities – agency fund for the City of Santa Fe and the Santa Fe County are presented for purposes of additional analyses and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", written in a cursive style.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 15, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Years ended June 30, 2009 and 2008

Management's discussion and analysis (MDA) of the Buckman Direct Diversion Project (BDD Project) is designed to assist the reader in focusing on significant issues, provide an overview of the BDD Project's financial activity, and identify changes in the BDD Project's financial position for the fiscal years ended June 30, 2009 and 2008. Under a joint powers agreement for the BDD project dated January 11, 2005, the City of Santa Fe (City) joined the Santa Fe County (County) to design and construct the BDD Project in order to divert surface water from the Rio Grande River to the independent water systems of the City and County. The City and County each own 50% of the BDD Project and have established a board to oversee the planning, procurement, financing permitting, design, construction, operations and management of the BDD Project. The BDD Board is comprised of two members of the governing body of the City of Santa Fe, two members of the Board of Santa Fe County Commissioners, and one citizen member at large appointed by a majority vote of the four other members.

FINANCIAL HIGHLIGHTS

The BDD Project's assets exceeded liabilities at the close of the June 30, 2009 fiscal year by \$93,251,051 (net assets) compared to \$24,372,947 at June 30, 2008. The increase in net assets was primarily due to increased construction activity and corresponding increases in amounts recorded as construction in progress. The BDD Project receives both capital contributions from and is reimbursed by the City of Santa Fe, Santa Fe County, and Las Campanas pursuant to Joint Powers Agreement dated January 15, 2005 (JPA) and a Facility Operating and Procedures Agreement dated October 16, 2006 (FOPA).

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the BDD Project's financial statements. The financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The BDD Project has one major Capital Project fund and two agency funds to account for the separate contributions and reimbursements for the City of Santa Fe and the Santa Fe County.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Buckman Direct Diversion Project's finances in a manner similar to a private-sector business. The government-wide financial statements include capital assets and construction in progress amounts as of June 30, 2009 and 2008.

The statement of net assets presents information on all of the BDD Project's assets and liabilities, with the difference between the two reported as net assets.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Years ended June 30, 2009 and 2008

Government-wide Financial Statements – Continued

The statement of activities presents information showing how the BDD Project's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that has been segregated for specific activities or objectives. The BDD Project uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Buckman Direct Diversion Project has one capital project fund.

The BDD Project adopts an annual budget for its capital project fund that is approved by the BDD Board on an annual basis. A budgetary comparison statement has been provided to demonstrate compliance with the budget. The BDD Project is in compliance with its budgetary requirements.

Notes to the Financial Statements

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements.

Capital Contributions

Capital contributions include monies contributed by the City and County for purposes of designing and constructing the BDD Project. Section 16 of the JPA required the City and the County to contribute \$30 million each to design and construct the BDD Project. The City contributed \$1,412,261 and \$32,091,343 in fiscal years 2008 and 2009, respectively. The County contributed \$16,000,000 and \$22,000,000 in fiscal years 2008 and 2009, respectively.

Reimbursements

The BDD Project revenues include reimbursements from the City, County, and Las Campanas (project participants) for separate facility, shared facility, and indirect costs incurred pursuant to the JPA and FOPA. The table below details the percentages billed to project participants detailed above.

Category and Title	City of Santa Fe	Santa Fe County	Las Campanas
Shared Facilities	41.21%	41.21%	17.58%
Separate Facilities	50%	50%	0%
Las Campanas Facilities	0%	0%	100%
Indirect & other elements	47.5%	47.5%	4.86%

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Years ended June 30, 2009 and 2008

Governmental Activities

Governmental activities include BDD project activities during fiscal year 2009 and increased the BDD Project's net assets by \$68,878,104 for 2009 compared to an increase of \$24,372,947 for 2008. Key elements of this change are as follows:

Buckman Direct Diversion Project

Statement of Net Assets

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Current assets	\$ 20,881,465	\$ 15,514,652	\$ 5,366,813
Capital assets	<u>93,251,051</u>	<u>24,372,947</u>	<u>68,878,104</u>
 Total assets	114,132,516	39,887,599	74,244,917
 Current liabilities	<u>20,881,465</u>	<u>15,514,652</u>	<u>5,366,813</u>
 Total liabilities	<u>20,881,465</u>	<u>15,514,652</u>	<u>5,366,813</u>
 Invested in capital assets	93,251,051	24,372,947	68,878,104
Restricted	<u>-</u>	<u>-</u>	<u>-</u>
 Total net assets	<u>\$ 93,251,051</u>	<u>\$ 24,372,947</u>	<u>\$ 68,878,104</u>

Statement of Activities

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Expenses:			
General government	\$ (4,140)	\$ -	\$ (4,140)
Program revenues	<u>68,882,244</u>	<u>24,372,947</u>	<u>44,509,297</u>
 Increase in net assets	68,878,104	24,372,947	44,505,157
 Net assets - beginning	<u>24,372,947</u>	<u>-</u>	<u>24,372,947</u>
 Net assets - ending	<u>\$ 93,251,051</u>	<u>\$ 24,372,947</u>	<u>\$ 68,878,104</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Years ended June 30, 2009 and 2008

Statement of Net Assets Change from Prior Year

Net assets increased by \$68,878,104 from the prior year due to the following factors.

- Capital assets and increased by \$68,878,104 primarily due to increased construction activity compared to fiscal year 2008.
- The increase in current liabilities of \$5,366,813 from the prior year was primarily attributed to an increase in amounts owed to contractors at year-end.
- The increase in current assets of \$5,366,813 from the prior year was primarily attributed to increased reimbursement activity from project participants in fiscal year 2009.

Statement of Activities Change from Prior Year

Program revenues increased from the prior year by \$44,509,297 primarily due to increased construction activity and corresponding increased billings activity to project participants in fiscal year 2009.

Individual Funds Balances and Analysis

Buckman Direct Diversion Project Capital Project Fund

Significant balances and changes from the prior year are reported below:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Due from project participants	\$ 20,881,465	\$ 15,514,652	\$ 5,366,813
Accounts payable	11,676,430	1,188,743	10,487,687
Overdraft of pooled cash and investments	2,192,535	7,020,416	(4,827,881)

Due from project participants increased due to increased billing activity to project participants in fiscal year 2009. Overdraft of pooled cash and investments declined due to reimbursement of prior year amounts owed from project participants. Accounts payable increased due to increased construction activity and amounts owed to contractors at June 30, 2009 compared to June 30, 2008.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED) – CONTINUED**

Years ended June 30, 2009 and 2008

Capital Assets

The BDD Project's investment in capital assets consists of amounts recorded as construction in progress. These amounts include all expenditures necessary to place the Buckman Direct Diversion Structure into its intended use.

Budgetary Highlights and Analysis

Buckman Direct Diversion Project Capital Project Fund – The BDD Project's final budget of \$216,344,136 remained unchanged from the original budgeted amount. Total budgeted expenditures as of June 30, 2009 were \$85,580,719. Budget variance of \$130,763,417 represents cost to complete the BDD Project as of June 30, 2009.

Currently Known Facts and Conditions

The audit of BDD Project was required by the Project Management and Fiscal Services Agreement dated November 8, 2007 between the City of Santa Fe and the Buckman Direct Diversion Project Board. The City of Santa Fe as a fiscal agent for the project maintains separate books and accounts of all transactions that relate to the project including third party transactions. The project is estimated to be completed by December 31, 2010.

Requests for Information

This financial report is designed to provide a general overview of the BDD Project's finances for all those with an interest in the BDD Project's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Santa Fe's Water Management Division, 801 West San Mateo Street, Santa Fe, NM 87505.

Buckman Direct Diversion Project

STATEMENT OF NET ASSETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Due from City of Santa Fe	\$ 9,760,940	\$ 10,723,652
Due from Santa Fe County	9,760,935	4,184,695
Due from Las Campanas	<u>1,359,590</u>	<u>606,305</u>
Total current assets	20,881,465	15,514,652
Capital assets:		
Construction in progress	88,849,203	23,804,081
Ancillary construction costs	4,381,049	568,866
Vehicles (net of accumulated depreciation)	<u>20,799</u>	<u>-</u>
Total capital assets, net of accumulated depreciation	<u>93,251,051</u>	<u>24,372,947</u>
Total assets	<u><u>\$ 114,132,516</u></u>	<u><u>\$ 39,887,599</u></u>
LIABILITIES		
Current liabilities:		
Overdraft of pooled cash and investments	\$ 2,192,535	\$ 7,020,416
Accounts payable	11,676,430	1,188,743
Due to City of Santa Fe	<u>7,012,500</u>	<u>7,305,493</u>
Total current liabilities	20,881,465	15,514,652
NET ASSETS		
Invested in capital assets	93,251,051	24,372,947
Restricted for Buckman Direct Diversion Project	<u>-</u>	<u>-</u>
Total net assets	<u>93,251,051</u>	<u>24,372,947</u>
Total liabilities and net assets	<u><u>\$ 114,132,516</u></u>	<u><u>\$ 39,887,599</u></u>

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

Buckman Direct Diversion Project

STATEMENT OF ACTIVITIES

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
EXPENSES		
Depreciation expense	\$ 4,140	\$ -
Total expenses	4,140	-
PROGRAM REVENUE		
Reimbursements-City of Santa Fe	32,820,601	11,578,647
Reimbursements-Santa Fe County	32,820,602	11,578,647
Reimbursements-Las Campanas	3,228,841	1,215,653
Other revenues	<u>12,200</u>	<u>-</u>
Total revenues	<u>68,882,244</u>	<u>24,372,947</u>
Changes in net assets	68,878,104	24,372,947
Net assets - beginning of year	<u>24,372,947</u>	<u>-</u>
Net assets - end of year	<u>\$ 93,251,051</u>	<u>\$ 24,372,947</u>

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

Buckman Direct Diversion Project

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Due from City of Santa Fe	\$ 9,760,940	\$ 10,723,652
Due from County of Santa Fe	9,760,935	4,184,695
Due from Las Campanas	<u>1,359,590</u>	<u>606,305</u>
 Total assets	 <u>\$ 20,881,465</u>	 <u>\$ 15,514,652</u>
 LIABILITIES AND FUND BALANCES		
Liabilities		
Overdraft of pooled cash and investments	\$ 2,192,535	\$ 7,020,416
Accounts payable	11,676,430	1,188,743
Due to City of Santa Fe	<u>7,012,500</u>	<u>7,305,493</u>
 Total liabilities	 20,881,465	 15,514,652
 FUND BALANCE		
Reserved for:		
Buckman Capital Project Fund	<u>-</u>	<u>-</u>
 Total fund balances	 <u>-</u>	 <u>-</u>
 Total liabilities and fund balances	 <u>\$ 20,881,465</u>	 <u>\$ 15,514,652</u>

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

Buckman Direct Diversion Project

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balance - total governmental funds	\$ -	\$ -
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Construction in progress for capital improvements	93,230,252	24,372,947
Vehicles	24,939	-
Less: accumulated depreciation	<u>(4,140)</u>	<u>-</u>
Net capital assets	<u>93,251,051</u>	<u>24,372,947</u>
Net assets of governmental activities	<u>\$ 93,251,051</u>	<u>\$ 24,372,947</u>

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

Buckman Direct Diversion Project

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUES		
Reimbursements-City of Santa Fe	\$ 32,820,601	\$ 11,578,647
Reimbursements-Santa Fe County	32,820,602	11,578,647
Reimbursements-Las Campanas	3,228,841	1,215,653
Other revenues	<u>12,200</u>	<u>-</u>
Total revenues	68,882,244	24,372,947
EXPENDITURES		
Capital outlay		
Construction in progress	65,045,122	16,315,144
Ancillary construction costs	3,812,183	383,331
Vehicle acquisition	<u>24,939</u>	<u>-</u>
Total expenditures	<u>68,882,244</u>	<u>16,698,475</u>
EXCESS (DEFICIENCY) OF REVENUES		
over expenditures	-	7,674,472
Construction costs paid by City of Santa Fe in prior fiscal years	-	(7,674,472)
Fund balance, beginning of year	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>

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

Buckman Direct Diversion Project

**RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Net change in fund balances - total governmental funds	\$ -	\$ 7,674,472
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlay additions are recorded as expenditures in the government funds but capitalized in the statement of net assets	68,882,244	16,698,475
Depreciation expense is recorded in the statement of activities but not recorded as a expenditure in the governmental funds	<u>(4,140)</u>	<u>-</u>
Change in net assets of governmental activities	<u>\$ 68,878,104</u>	<u>\$ 24,372,947</u>

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

Buckman Direct Diversion Project

**STATEMENT OF REVENUES AND EXPENDITURES (MULTI-YEAR BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUNDS – BUCKMAN DIRECT DIVERSION PROJECT
CAPITAL PROJECT FUND FY09**

Year ended June 30, 2009

Buckman Direct Diversion Project	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue				
Reimbursements-City of Santa Fe	\$ 102,926,084	\$ 102,926,084	\$ 44,399,248	\$ (58,526,836)
Reimbursements-Santa Fe County	102,926,084	102,926,084	44,399,249	(58,526,835)
Reimbursements-Las Campanas	10,491,968	10,491,968	4,444,494	(6,047,474)
Other revenues	-	-	12,200	12,200
Total revenue (multi-year)	216,344,136	216,344,136	93,255,191	(123,088,945)
Expenditures				
Construction in progress	207,535,094	207,535,094	81,360,266	126,174,828
Ancillary construction costs	8,309,042	8,309,042	4,195,514	4,113,528
Vehicle acquisition	500,000	500,000	24,939	475,061
Total expenditures (multi-year)	216,344,136	216,344,136	85,580,719	130,763,417
Excess of revenue and other financing sources over expenditures	\$ -	\$ -	7,674,472	\$ 7,674,472
Construction costs paid by City of Santa Fe in prior fiscal years not included in multi-year budget			\$ (7,674,472)	
Excess of revenue and other financing sources over expenditures (GAAP Basis)			\$ -	

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

Buckman Direct Diversion Project

**STATEMENT OF REVENUES AND EXPENDITURES (MULTI-YEAR BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUNDS – BUCKMAN DIRECT DIVERSION PROJECT
CAPITAL PROJECT FUND FY08**

Year ended June 30, 2008

Buckman Direct Diversion Project	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue				
Reimbursements-City of Santa Fe	\$ 102,926,084	\$ 102,926,084	\$ 11,578,647	\$ (91,347,437)
Reimbursements-Santa Fe County	102,926,084	102,926,084	11,578,647	(91,347,437)
Reimbursements-Las Campanas	10,491,968	10,491,968	1,215,653	(9,276,315)
State grants	-	-	-	-
Other revenues	-	-	-	-
Total revenue (multi-year)	216,344,136	216,344,136	24,372,947	(191,971,189)
Expenditures				
Work in process	207,535,094	207,535,094	16,315,144	191,219,950
Ancillary construction costs	8,309,042	8,309,042	383,331	7,925,711
Vehicle acquisition	500,000	500,000	-	500,000
Total expenditures (multi-year)	216,344,136	216,344,136	16,698,475	199,645,661
Excess of revenue and other financing sources over expenditures	\$ -	\$ -	7,674,472	\$ 7,674,472
Construction costs paid by City of Santa Fe in prior fiscal years not included in multi-year budget			(7,674,472)	
Excess of revenue and other financing sources over expenditures (GAAP Basis)			\$ -	

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

Buckman Direct Diversion Project

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES –
CITY OF SANTA FE – AGENCY FUND**

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Due from Buckman Direct Diversion Project	\$ 7,012,500	\$ 7,305,493
Share of pooled cash and investments	<u>585,986</u>	<u>-</u>
	<u>\$ 7,598,486</u>	<u>\$ 7,305,493</u>
Liabilities		
Amounts held by fiscal agent for future project expenditures	<u>\$ 7,598,486</u>	<u>\$ 7,305,493</u>

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

Buckman Direct Diversion Project

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES –
SANTA FE COUNTY – AGENCY FUND**

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Share of pooled cash and investments	\$ 6,806,737	\$ 7,319,872
Investment in local government investment pool	-	2,204,716
Interest receivable	<u>108,438</u>	<u>24,181</u>
	<u>\$ 6,915,175</u>	<u>\$ 9,548,769</u>
Liabilities		
Amounts held by fiscal agent for future project expenditures	<u>\$ 6,915,175</u>	<u>\$ 9,548,769</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE A – ORGANIZATION

Under a joint powers agreement for Buckman Direct Diversion Project (BDD Project) dated January 11, 2005 (JPA), the City of Santa Fe (City) joined the Santa Fe County (County) to design and construct the BDD Project in order to divert surface water from the Rio Grande River to the independent water systems of the City and County to reduce reliance on over-taxed ground water resources. The BDD Project division site is located 15 miles northwest of Santa Fe, approximately 3 miles downstream from where Route 3 crosses the Rio Grande River at the Otowi Bridge and is estimated to cost \$216,311,136. The BDD Project is considered under the provisions of the Joint Powers Act to be an entity separate from the individual parties named in the JPA as prescribed by state statute section 11-1-5(B) NMSA 1978. The City and County each own 50% of the BDD Project and have established a board to oversee the planning, procurement, financing permitting, design, construction, operations and management of the BDD Project. The BDD Board is comprised of two members of the governing body of the City of Santa Fe, two members of the Board of Santa Fe County Commissioners, and one citizen member at large appointed by a majority vote of the four other members. Other project participants include Las Campanas Limited Partnership, who retains no ownership interest in the BDD Project but pays for its proportional share of that system (diversion structure, sediment pond, and related infrastructure) it actually uses.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the BDD Project have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the BDD Project's accounting policies are described below.

1. Reporting Entity

The financial reporting entity as defined by GASB 14 consists of the primary government, organizations for which the primary government is financially accountable and other organizations whose exclusion from the financial reporting entity would cause the financial statements to be misleading. A primary government is any state government or general-purpose local government and the organizations that make up its legal entity.

The joint powers agreement for the BDD Project dated January 11, 2005 included formation of the BDD Board to oversee the BDD Project and the establishment of the terms and conditions governing the ownership, planning, procurement, financing, permitting, design, construction, operations, and allocation of capacity and management of the BDD Project. Article 7 of the Project Management and Fiscal Services Agreement dated November 8, 2007 between the City of Santa Fe and the Buckman Direct Diversion Project Board designated

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Reporting Entity – Continued

fiscal agent responsibilities to the Sangre de Cristo Water Company owned by the City of Santa Fe. Article 7 item 6 requires financial statements of the BDD Project, showing the assets, liabilities, revenues, expenses, equity balances, and budget comparison of the Project fund on an annual basis in accordance with GAAP. The City of Santa Fe as a fiscal agent for the project maintains separate books and accounts of all transactions that relate to the project including third party transactions. The BDD Project expenditures are also included in the separately audited financial statements of the City of Santa Fe and the Santa Fe County as construction in progress.

These financial statements are prepared for the initial period of significant resource transactions and construction activity beginning for the year ending June 30, 2008. Expenditures incurred prior to the year ended June 30, 2008 by the City of Santa Fe for initial activities of the project are reflected as a separate deduction on the statement of revenues, expenditures and changes in fund balance for the year ending June 30, 2008 and as a receivable from the project which was reported as part of required contributions to project.

Criteria for determining the entity for financial reporting purposes is whether the governing body exercises oversight responsibility. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The financial statements include all the funds and account groups of the BDD Project over which the BDD Board exercises operating control. The BDD Project has no blended or discretely present component units during the years ended June 30, 2009 and 2008. The BDD is reported by the City and County as a capital projects (proprietary) fund the governments share project requirements.

2. Government-Wide and Fund Financial Statements

Governmental Accounting Standards Board Statement No. 34 – The BDD Project follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34) as amended by GASB Statement 37 and 38. This statement affects the manner in which the BDD Project records transactions and presents financial information. State governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB 34 establishes a new reporting model, much like private-sector financial reports, for the annual financial reports of state governments. The new format was developed to make annual reports of state governments easier to understand and more useful to users of governmental financial information.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Government-Wide and Fund Financial Statements – Continued

Management's Discussion and Analysis – GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the BDD Project's financial activities in the form of management's discussion and analysis (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all the nonfiduciary activities of the BDD Project, thus the City and County agency funds are not included. The effect of material interfund activity has been removed from these government-wide statements.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and reimbursements from the City of Santa Fe, Santa Fe County, and Las Campanas (project participants). The BDD Project does not apply FASB pronouncements issued after November 30, 1989.

Investments in capital assets reflect the portion of net assets which are associated with non-liquid, capital assets. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets".

The BDD Project has one governmental fund that is reported as a major fund in the accompanying financial statements that is described below.

Buckman Direct Diversion Project Fund – The Buckman Direct Diversion Project Fund is a capital project fund that is used to account for resources used to acquire, construct, and improve major capital assets and for all construction activities related to the BDD Project including design, construction, and management of the BDD Project. It is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Government-Wide and Fund Financial Statements – Continued

The BDD Project includes two agency funds for both the City of Santa Fe and the Santa Fe County that are used to report resources held by the City of Santa Fe (fiscal agent) in a purely custodial capacity (assets equal liabilities) in accordance with GASB 34 paragraph 73. The agency funds account for the separate financial contributions and reimbursements from the City, County, and Las Campanas in accordance with Article 7 item 7 of the fiscal services agreement. The agency fund activity is not included in the government-wide financial statements in conformance with GASB 34 paragraph 12 item B.

An agency fund is fiduciary fund type that is used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fund types is used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The financial activities of the BDD Project are recorded in individual capital project fund, which is deemed to be a separate accounting entity. The BDD Project uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The measurement focus is on the flow of expendable financial resources, rather than on net income determination. The following are the governmental fund types used:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Governmental fund type (capital project fund) use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (when they become both measurable and available). “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter (60 days at most) to be used to pay liabilities of the current period. Revenues, which are recognized when they become both measurable and available, include intergovernmental revenues and interest earnings. Expenditures are recorded when the related fund liability is incurred.

Revenues derived from Federal and State grants are recognized and recorded as receivables when the related expenditures are incurred and all other eligibility requirements are met. Amounts expended under Federal and State grants for which payment is not expected to be received within 60 days are recorded as deferred revenue. Likewise, amounts received from Federal and State grants which have not been expended are recorded as deferred revenue. Interest income is recorded when earned.

4. Cash and Investments

The BDD Project does not have a separate bank account. Cash and investments consist of amounts invested in a cash and investment pooled account maintained by the City of Santa Fe (fiscal agent). The fiscal agent invests its cash into US Government securities, municipal bonds, certificates of deposit, the New Mexico State Treasurer’s Local Government Investment Pool, and US Government Securities. Please refer to the Comprehensive Annual Financial Report for the City of Santa Fe, New Mexico for the disclosure information regarding risk exposures, including custodial credit risk. This report may be obtained from the City contacting the Finance Department Direct at 200 Lincoln Avenue, P.O. Box 909, Santa Fe, NM 87504-0909. Please see Note C.

5. Budgets and Budgetary Accounting

BDD Project operates under a multi-year project which anticipates total project cost.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgets and Budgetary Accounting – Continued

The BDD Project multi-year budget is adopted on a basis consistent with generally accepted accounting principles. The fiscal agent submits a proposed budget, which has been approved by the governing body, for each fiscal year on or before June 1st, with the State of New Mexico Local Government Division of the Department of Finance and Administration. Before July 1st, the Local Government Division approves and certifies an operating budget for use pending approval of the final budget. Prior to the first Monday in September, the Local Governmental Division must certify a final budget for the municipality which includes the BDD Project Budget.

The Local Government Division must also approve the following changes throughout the fiscal year:

1. Budget increases;
2. Transfers of budget between funds;
3. Transfers of cash, both permanent and temporary, between funds; and
4. Any combination of the above

New Mexico state law prohibits municipalities from making expenditures in excess for the approved expenditures. State law mandates that municipalities develop and operate within the confines of a balanced budget. The total amounts which the governing body appropriates in any particular fiscal year cannot exceed the probable amount of money available at the beginning of the year (cash balance or reserves) plus anticipated revenues during the fiscal year. The BDD Project prepares and approves a multi-year construction budget which forecast total future expenditures and revenues over the life of the project. The legal level of budgetary control (i.e., the level at which expenditure may not legally exceed appropriations) is at the fund level.

6. Capital Assets

The BDD Project's capital assets include construction in progress and vehicles. Capital assets are reported at historical costs and include **all ancillary charges** necessary to place the asset into its intended location and condition for use in accordance with GASB 34 paragraph 18. Components of construction are defined as follows.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Capital Assets – Continued

- a) Construction in progress - Construction in progress includes startup, design, and construction costs associated with the BDD Project diversion site located 15 miles northwest of Santa Fe, approximately 3 miles downstream from where Route 3 crosses the Rio Grande river at the Otowi Bridge. These costs include separate and shared facility infrastructure costs and indirect costs incurred for purposes of diverting, conveying, and treating river water diverted from the Rio Grande to the independent water systems of the project participants. These costs include cost incurred before and after the effective date of the JPA (March 7, 2005) in accordance with generally accepted accounting principles referenced above.
- b) Ancillary construction costs - Ancillary construction costs include both professional and legal contractual services, as well as utility costs necessary to bring the BDD Project into its intended use. These costs include cost incurred before and after the effective date of the JPA (March 7, 2005) in accordance with generally accepted accounting principles referenced above.
- c) Vehicles - Capital assets include the purchase of one vehicle in fiscal year 2009. The BDD Project depreciates vehicles over an 8 year useful life. The vehicle is reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the BDD Project as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets if purchased or constructed are recorded at historical costs and depreciated using the straight-line method over assets useful life.

7. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts to 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 period. Actual results could differ from those estimates. The project is estimated to be completed by December 31, 2010.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net Assets/Fund Balances

In the **government-wide financial statement**, net assets consist of three components: invested in capital assets, net of related debt, restricted, and unrestricted. The BDD Project has no debt related to capital assets; therefore net assets invested in capital assets equal the capital assets, net of accumulated depreciation. Net assets are reported as restricted when constraints placed on net assets use are externally imposed by creditors such as through joint powers agreements, debt covenants, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be used only for the specific purposes stipulated in the legislation. The BDD Project had no net assets restricted by enabling legislation as of June 30, 2009 and 2008.

The BDD Project financial statement has no net assets restricted of as of June 30, 2009. Generally, the BDD Project would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of unrelated debt.

In the **fund financial statements** reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated for or (2) identify the portion of the fund balance that is not appropriable for future expenditures. There were no reservations of fund balance as of June 30, 2009 and 2008.

NOTE C – POOLED CASH AND INVESTMENTS

The BDD Project does not have a separate bank account. Cash and investments consist of amounts invested in a cash and investment pooled account maintained by the City of Santa Fe (fiscal agent). The fiscal agent invests its cash into US Government securities, municipal bonds, certificates of deposit, the New Mexico State Treasurer's Local Government Investment Pool, and US Government security mutual funds. Please refer to the Comprehensive Annual Financial Report for the City of Santa Fe, New Mexico for the disclosure information regarding risk exposures, including custodial credit risk. This report may be obtained from the City contacting the Finance Department Direct at 200 Lincoln Avenue, P.O. Box 909, Santa Fe, NM 87504-0909. Details of cash and investment are as follows:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE C – POOLED CASH AND INVESTMENTS – CONTINUED

Funds	Fund No.	Share of Cash and Investment Pool	Reconciling Items	Fair Value June 30, 2009
City of Santa Fe - Agency Fund	7401	\$ 585,986	\$ -	\$ 585,986
Santa Fe County - Agency Fund	7402	6,806,737	-	6,806,737
Total		\$ 7,392,723	\$ -	\$ 7,392,723

Funds	Fund No.	Share of Cash and Investment Pool	Reconciling Items	Fair Value June 30, 2008
City of Santa Fe - Agency Fund	7401	\$ -	\$ -	\$ -
Santa Fe County - Agency Fund	7402	7,319,872	-	7,319,872
Total		\$ 7,319,872	\$ -	\$ 7,319,872

Santa Fe County invested available cash in the New Mexico Local Government Investment Pool (NMLGIP) on behalf of the BDD Project. The amount invested in NMLGIP as of June 30, 2008 was divested of in fiscal year 2009. In accordance with GASB 31, the BDD Project as stated the investment at fair value at June 30, 2009 and 2008.

Fund Description	Description of Investment	Fair Value June 30, 2009	Fair Value June 30, 2008
Santa Fe County - Agency Fund	Local Government Investment Pool	\$ -	\$ 2,204,716
	Total investments	\$ -	\$ 2,204,716

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE D – CAPITAL ASSETS

The following is the capital assets activity for the years ended June 30, 2009 and 2008.

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Construction in progress	\$ 23,804,081	\$ 65,045,122	\$ -	\$ 88,849,203
Ancillary construction costs	568,866	3,812,183	-	4,381,049
Total capital assets not being depreciated	24,372,947	68,857,305		93,230,252
Capital assets being depreciated:				
Vehicles	-	24,939	-	24,939
Total capital assets being depreciated	-	24,939	-	24,939
Less accumulated depreciation				
Vehicles	-	(4,140)	-	(4,140)
Total accumulated depreciation	-	(4,140)	-	(4,140)
Net capital assets	<u>\$ 24,372,947</u>	<u>\$ 68,878,104</u>	<u>\$ -</u>	<u>\$ 93,251,051</u>
	Balance			Balance
	June 30, 2007	Additions	Deletions	June 30, 2008
Capital assets not being depreciated:				
Construction in progress	\$ 7,488,937	\$ 16,315,144	\$ -	\$ 23,804,081
Ancillary construction costs	185,535	383,331	-	568,866
Total capital assets not being depreciated	7,674,472	16,698,475	-	24,372,947
Capital assets being depreciated:				
Vehicles	-	-	-	-
Total capital assets being depreciated	-	-	-	-
Less accumulated depreciation				
Vehicles	-	-	-	-
Total accumulated depreciation	-	-	-	-
Net capital assets	<u>\$ 7,674,472</u>	<u>\$ 16,698,475</u>	<u>\$ -</u>	<u>\$ 24,372,947</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation expense was \$4,140 and \$0 for fiscal years 2009 and 2008 respectively. Non-depreciable assets include construction in progress and ancillary construction costs as reported in the schedule above. The schedule above includes a beginning balance of \$7,674,472 equal to construction in progress activity from fiscal year 2002 through 2007. A detail of that activity by fiscal year is detailed below. A detail of the activity by cost category is described in Note D on page 30.

2002	\$	612,032
2003		681,800
2004		455,170
2005		32,238
2005		479,762
2006		3,682,825
2007		<u>1,730,645</u>
	\$	<u>7,674,472</u>

NOTE E – CONSTRUCTION IN PROGRESS

The following schedule details all construction in progress activity and ancillary costs associated with the BDD Project as of June 30, 2009 by fiscal year. The amounts include both costs incurred before and after the effective date of the JPA (March 7, 2005) in conformance with GASB 34 paragraph 18. Details of costs included in construction in progress and ancillary costs are defined at Note B, 6, items a and b on page 27.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE E – CONSTRUCTION IN PROGRESS – CONTINUED

	Start-Up	Design	Construction	Ancillary	Total Construction
Pre-JPA Costs					
2002	\$ 612,032	\$ -	\$ -	\$ -	\$ 612,032
2003	380,618	-	289,534	11,648	681,800
2004	74,832	-	380,338	-	455,170
2005	29,280	-	2,958	-	32,238
Total Pre-JPA Costs	1,096,762	-	672,830	11,648	1,781,240
Post-JPA Costs					
2005	185,881	220,782	73,099	-	479,762
2006	2,331,328	1,351,497	-	-	3,682,825
2007	1,556,465	293	-	173,887	1,730,645
2008	332,039	1,006,126	14,976,979	383,331	16,698,475
2009	74,709	930,703	64,039,710	3,812,183	68,857,305
Total Post-JPA Costs	4,480,422	3,509,401	79,089,788	4,369,401	91,449,012
Total Costs of Construction	\$ 5,577,184	\$ 3,509,401	\$ 79,762,618	\$ 4,381,049	\$ 93,230,252

NOTE F – ACCOUNTS RECEIVABLE

The BDD Project revenues include reimbursements from the City, County, and Las Campanas (project participants) for separate facility, shared facility, and indirect costs incurred pursuant to the JPA and FOPA. The City and County reimburse the BDD Project with contributions deposited in their respective agency funds, thus the reimbursement for the City and County are equal to the reimbursements reported in the agency funds. Pre-JPA costs of \$1,781,240 was recorded as an expenditure and revenue so that the costs of the project includes all costs necessary to bring the BDD project into its intended use in accordance with GASB 34 paragraph 18. Management believes the accounts receivable amounts to be fully collectible and thus no allowance for uncollectible accounts has been recorded.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE F – ACCOUNTS RECEIVABLE – CONTINUED

	City of Santa Fe	Santa Fe County	Las Campanas	Total Receivables
Beginning balances, July 1, 2007	\$ -	\$ -	\$ -	\$ -
Revenue	11,578,647	11,578,647	1,215,653	24,372,947
Less pre-JPA costs not billed	(854,995)	(854,995)	(71,250)	(1,781,240)
Less reimbursements	-	(6,538,957)	(538,098)	(7,077,055)
Ending balances, June 30, 2008	<u>\$ 10,723,652</u>	<u>\$ 4,184,695</u>	<u>\$ 606,305</u>	<u>\$ 15,514,652</u>

	City of Santa Fe	Santa Fe County	Las Campanas	Total Receivables
Beginning balance, July 1, 2008	\$ 10,723,652	\$ 4,184,695	\$ 606,305	\$ 15,514,652
Revenue	32,820,601	32,820,602	3,228,841	68,870,044
Less reimbursements	(33,783,313)	(27,244,362)	(2,475,556)	(63,503,231)
Ending balances, June 30, 2009	<u>\$ 9,760,940</u>	<u>\$ 9,760,935</u>	<u>\$ 1,359,590</u>	<u>\$ 20,881,465</u>

NOTE G – COMMITMENTS1. Encumbrances

Encumbrances represent commitments related to yet unreceived or unperformed goods or services. Valid encumbrances (purchase orders, contract, and other commitments) are reappropriated for expenditure in subsequent years. The BDD Project had \$102,372,254 in valid encumbrances outstanding as of June 30, 2009.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE G – COMMITMENTS – CONTINUED

2. Compensation for Fiscal Agent

Article 8 of the fiscal service agreement dated November 8, 2007 between the BDD Board and the Sangre De Cristo Water Division of the City of Santa Fe requires the City of Santa Fe to be compensated for its services as fiscal agent to the BDD Project for services rendered prior to and after the date of the agreement in an amount equal to one percent (1%) of the total annual operating budget of the BDD Project in any given fiscal year. Compensation amounts to the City of Santa Fe for services as fiscal agent have not been determined as of the date of this report and no liability to the City of Santa Fe for these services has been recorded as of June 30, 2009 and 2008. As of the date of this report the incurred liability may or may not require the use of the BDD Project's current financial resources.

3. Operation and Rights Payments

On August 22, 2008 the BDD Project Board received rights to construct, operate, maintain, and terminate a water treatment plant for the BDD Project pursuant to Title V of the Federal Land Policy and Management Act in exchange for rental payments equal to the fair market value as determined by the authorized officer. The lease was effective on August 22, 2008 and terminates on December 31, 2037. Future commitments under the lease are as follows.

2010	\$	96,526
2011		96,526
2012		96,526
2013		96,526
2014		96,526
2015		96,526
2016-2020		468,514
2021-2025		464,985
2026-2030		464,985
2031-2035		464,985
Thereafter		<u>185,944</u>
Total	\$	<u><u>2,628,569</u></u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009 and 2008

NOTE H – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. The BDD Project recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The BDD Project's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued. Significant subsequent events may be disclosed as appropriate.

The BDD Project has evaluated subsequent events through November 15, 2010, the date which the financial statements are available to be issued. The following items are detailed below.

- 1) In July of 2009 the New Mexico Water Trust Board awarded \$4 million in state financing for the construction of the BDD Project. The financing includes a \$3.2 million grant and an \$800,000 loan at 0% interest that matures on June 1, 2029.
- 2) Future anticipated milestones are estimated as follows:
 - a. Completion of construction and systems testing – December 2010
 - b. Completion of Staffing – December 2010
 - c. Acceptance testing – April 2011
 - d. Operations and Management turned over to City of Santa Fe staff – May 2011

NOTE I – NEW ACCOUNTING STANDARDS

In February of 2009 the Government Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* effective for periods beginning after June 15, 2010. This standard was issued to provide increased clarity for fund balance type definitions and for classification rules for fund balances. The BDD Project is considering the effects of this new accounting standard for fiscal year 2011 implementation.

OTHER SUPPLEMENTARY INFORMATION

Buckman Direct Diversion Project

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES –
CITY OF SANTA FE – AGENCY FUND**

Years ended June 30, 2009 and 2008

	June 30, 2008	Capital Contributions	Grant Contributions	Project Reimbursements	Repayment of Project Costs	June 30, 2009
Assets						
Due from Buckman Direct Diversion Project	\$ 7,305,493	\$ -	\$ -	\$ -	\$ (292,993)	\$ 7,012,500
Share of pooled cash and investments	-	32,091,344	1,984,962	(33,783,313)	292,993	585,986
	<u>\$ 7,305,493</u>	<u>\$ 32,091,344</u>	<u>\$ 1,984,962</u>	<u>\$ (33,783,313)</u>	<u>\$ -</u>	<u>\$ 7,598,486</u>
Liabilities						
Amounts held by fiscal agent for future project expenditures	<u>\$ 7,305,493</u>	<u>\$ 32,091,344</u>	<u>\$ 1,984,962</u>	<u>\$ (33,783,313)</u>	<u>\$ -</u>	<u>\$ 7,598,486</u>

	June 30, 2007	Capital Contributions	Grant Contributions	Project Reimbursements	Project Costs Paid by City of Santa Fe	June 30, 2008
Assets						
Due from Buckman Direct Diversion Project	\$ 5,893,232	\$ -	\$ -	\$ -	\$ 1,412,261	\$ 7,305,493
Share of pooled cash and investments	-	-	-	-	-	-
	<u>\$ 5,893,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,412,261</u>	<u>\$ 7,305,493</u>
Liabilities						
Amounts held by fiscal agent for future project expenditures	<u>\$ 5,893,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,412,261</u>	<u>\$ 7,305,493</u>

Disclosure

Amounts included in due from Buckman Direct Diversion Project include start-up, design, construction, and ancillary costs paid by the City of Santa Fe through its own fund (5358) in fiscal years 2005 through 2008. The amount owed to the City of Santa Fe will be offset against amounts owed to the BDD Project as of June 30, 2009. A reconciliation between costs paid through the City's internal fund and total fiscal year costs as reported in Note E of page 32 is as follows:

	FY08	FY07	FY06	FY05	Total
Paid through City of Santa Fe Fund	\$ 1,412,261	\$ 1,730,645	\$ 3,682,825	\$ 479,762	\$ 7,305,493
Paid through BDD Project Fund:					
WIP construction	14,976,979	-	-	-	14,976,979
Legal contract	11,713	-	-	-	11,713
WIP start up	251,133	-	-	-	251,133
WIP design	46,388	-	-	-	46,388
Total paid through BDD Project Fund	<u>15,286,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,286,213</u>
Total fiscal year construction costs as reported on page 32	<u>\$ 16,698,474</u>	<u>\$ 1,730,645</u>	<u>\$ 3,682,825</u>	<u>\$ 479,762</u>	<u>\$ 22,591,706</u>

Buckman Direct Diversion Project

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES –
SANTA FE COUNTY-AGENCY FUND**

Years ended June 30, 2009 and 2008

	June 30, 2008	Capital Contributions	Investment of County Funds	Grant Contributions	Interest Receivable Collected	Investment Income	Project Reimbursements	June 30, 2009
Assets								
Pooled cash and investments	\$ 7,319,872	\$ 22,000,000	\$ 2,204,716	\$ 2,000,000	\$ 24,181	\$ 502,330	\$ (27,244,362)	\$ 6,806,737
Investment in LGIP	2,204,716	-	(2,204,716)	-	-	-	-	-
Interest receivable	24,181	-	-	-	(24,181)	108,438	-	108,438
	<u>\$ 9,548,769</u>	<u>\$ 22,000,000</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 610,768</u>	<u>\$ (27,244,362)</u>	<u>\$ 6,915,175</u>

Liabilities

Amounts held by fiscal agent for
future project expenditures

	<u>\$ 9,548,769</u>	<u>\$ 22,000,000</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 610,768</u>	<u>\$ (27,244,362)</u>	<u>\$ 6,915,175</u>
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	June 30, 2007	Capital Contributions	Investment of County Funds	Grant Contributions	Interest Receivable Collected	Investment Income	Project Reimbursements	June 30, 2008
Assets								
Pooled cash and investments	\$ -	\$ 16,000,000	\$ (2,204,716)	\$ -	\$ -	\$ 63,545	\$ (6,538,957)	7,319,872
Investment in LGIP	-	-	2,204,716	-	-	-	-	2,204,716
Interest receivable	-	-	-	-	-	24,181	-	24,181
	<u>\$ -</u>	<u>\$ 16,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,726</u>	<u>\$ (6,538,957)</u>	<u>\$ 9,548,769</u>

Liabilities

Amounts held by fiscal agent for
future project expenditures

	<u>\$ -</u>	<u>\$ 16,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,726</u>	<u>\$ (6,538,957)</u>	<u>\$ 9,548,769</u>
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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

Mr. Hector H. Balderas
New Mexico State Auditor
and
Ms. Rebecca Wurzburger
Board Chair
Buckman Direct Diversion Project

We have audited the accompanying financial statements of governmental activities, the major capital project fund, the budgetary comparison for capital project fund and the aggregate remaining fund information of the Buckman Direct Diversion Project (BDD Project), as of and for the years ended June 30, 2009 and 2008, which collectively comprise the BDD Project's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 15, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the BDD Project's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BDD Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BDD Project'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the agency's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as finding 09-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

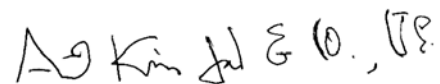
Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the BDD Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that is required to be reported under *Government Auditing Standards* January 2007 Revision paragraphs 5.14 and 5.16 and section 12-6-5 NMSA 1978 which are described in the accompanying schedule of findings and responses as finding 09-02.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the BDD Project, the Office of the State Auditor, the New Mexico Legislature, Department of Finance and Administration, and applicable Federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 15, 2010

Buckman Direct Diversion Project

SCHEDULE OF FINDINGS AND RESPONSES

Years ended June 30, 2009 and 2008

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

CURRENT YEAR FINDINGS

Finding in Accordance with *Government Auditing Standards*

09-01 Due Date of the Audit Report

Finding in Accordance with 2.2.2 NMAC

09-02 Project Budget not Timely Approved

PRIOR YEAR FINDINGS

None

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

Years ended June 30, 2009 and 2008

FINDING IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

09-01 Due Date of the Audit Report (Significant Deficiency)

Condition:

The June 30, 2009 and 2008 audit report was not completed by the required due date. The report was not completed until November 2, 2010.

Criteria:

Article 7 of the project management and fiscal services agreement dated November 8, 2007 item number 6 required annual audited financial statements within 90 days after the end of the fiscal year.

Effect:

The BDD Project is not in compliance with the project management and fiscal services agreement for fiscal years ended June 30, 2009 and 2008. The users of the financial statements such as project participants, legislators, creditors, and grantors do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on state and federal funding.

Cause:

There were several accounts that required additional time to reconcile and additional time to make correcting journal entries. Unusual economic conditions occurred during fiscal year 2009 requiring priority attention. The City of Santa Fe migrated into a web-base financial system which delayed the completion of the audit.

Recommendation:

We recommend the BDD Project management evaluate whether there is adequate personnel resources to produce both accurate and timely financial statements and identify areas where additional training and procedures could be established.

Management's Response:

The City of Santa Fe migrated into a web-base financial system and new human capital software. This delayed completion of the audit. The BDD Project management will work with the auditors on giving the information needed to assist in completing the audit on a timely basis.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

Years ended June 30, 2009 and 2008

FINDING IN ACCORDANCE WITH 2.2.2 NMAC

09-02 Project Budget not Timely Approved

Condition:

The BDD Board did not approve the BDD Project budget until January 8, 2009. \$15,377,608 in project costs were incurred before the BDD Project budget was approved by the Board.

Criteria:

New Mexico State Statute 6-6-6 NMSA 1978 requires that local government spending does not exceed budgeted amounts, unless approved budget adjustments are made.

Effect:

Lack of an approved budget adversely affects the BDD Project's ability to control costs, set priorities, and establish objectives of the project.

Cause:

The project management did not draft a project budget for Board approval at the inception of the project.

Recommendation:

As an annual budget has been subsequently approved, we recommend the project manager submit annual budget adjustments timely for board approval.

Managements Response:

The project budget was subsequently approved on January 8, 2009. All subsequent amendments to project budgets will be formally approved by the Board.

Buckman Direct Diversion Project

FINANCIAL STATEMENT PREPARATION AND EXIT CONFERENCE

Years ended June 30, 2009 and 2008

Financial Statement Preparation

The financial statements were prepared with the assistance of the independent certified public accounting firm performing the audit. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance. Management has reviewed and approved the financial statements.

Exit Conference

An exit conference was held on November 2, 2010. The following individuals were in attendance:

Buckman Direct Diversion Project

Chris Calvert, City Councilor
Liz Stefanics, County Member
Rick Carpenter, Project Manager
Teresita Garcia, Assistant Finance Director
Erica Martinez, Senior Financial Analyst

Independent Auditors – Atkinson & Co., Ltd.

Martin Mathisen, CPA, CGFM, Audit Director
Morgan Browning, CPA, CGFM, Audit Manager

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