

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2009 THROUGH JUNE 30, 2010



Albuquerque Bernalillo County
Water Utility Authority

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

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT
July 1, 2009 through June 30, 2010

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Comprehensive Annual Financial Report
Year ended June 30, 2010

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July 26, 2011

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, 2010. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial affairs of the Authority's records be thoroughly examined and audited each year by independent public accountants. The Authority is a component unit of the City of Albuquerque.

The Comprehensive Annual Financial Report consists of four major sections:

1. The Introductory Section includes the Transmittal Letter with the Authority's Organizational Chart, and a listing of the Authority's Officials, as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.
2. The Financial Section which includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2010, explanatory footnotes, and supplementary information.
3. The Statistical Information Section contains tables with general information about the Authority and comparative data for prior years.
4. State Compliance and Operational Findings includes certain schedules required by the New Mexico State Auditor's Office.

This report was prepared by the City of Albuquerque's Department of Finance and Administrative Services. The Water Authority management assumes full responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Moss Adams, Certified Public Accountants, has issued an unqualified opinion on the Authority's comprehensive annual financial report for the year ended June 30, 2010. As indicated by the opinion of the City's independent auditors, the report fairly presents the financial position and results of operations of the Authority as measured by the financial activity of its various funds. The report has been set forth in a manner that will give the reader a broad understanding of the Authority's financial affairs. It includes disclosures necessary for the reader to gain an understanding of the Authority's financial activities. The independent auditor's report is located at the front of the financial statements.

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

Profile of the Authority

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

the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City become effective July 1, 2007 and runs through June 30, 2012. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Members of the Water Authority Board at June 30, 2010:

Councilor Trudy E. Jones, Chair
Commissioner Maggie Hart Stebbins, Vice-Chair
Mayor Richard J. Berry
Commissioner Alan B. Armijo
Commissioner Art De La Cruz
Councilor Rey Garduno
Councilor Debbie O'Malley

Ex Officio Member at June 30, 2010:

Pablo Rael, Trustee, Village of Los Ranchos

Summary of Local Economy

Albuquerque is the major commercial, trade, service and financial center of the state. It is located in the central part of the state, at the intersection of two major interstate highways, and served by both rail and air. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval, Torrance and Valencia Counties. The City has a population of approximately 543,000 and the MSA as of the 2010 census has a population of 887,000. The largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Labs (SNL), and Kirtland Air Force Base.

The Albuquerque economy has an industry composition not unlike that of the U.S. as a whole. Manufacturing, makes up a smaller part of the Albuquerque economy, and has declined in employment in the past 10 years.

Albuquerque MSA Employment in Thousands				
<u>NAICS CATEGORY</u>	<i>Employment</i> <i>FY/10</i>	<i>Share of</i> <i>FY/10</i> <i>Employment</i>	<i>Growth</i> <i>FY/09 to</i> <i>FY/10</i>	<i>Compound</i> <i>Annual</i> <i>Average</i> <i>FY/05 to</i> <i>FY/10</i>
Total Nonfarm Employment (does not include milita	373.97	100%	3.4%	1.1%
Natural Resources and Mining and Construction	22.48	6%	-13.3%	0.9%
Manufacturing	17.50	5%	-13.5%	-2.3%
Trade, Transportation, and Utilities	62.73	17%	-4.4%	-0.1%
Information	9.01	2%	-1.6%	-1.6%
Financial Activities	18.16	5%	-1.2%	-0.6%
Aggregate of Services	160.97	42%	-2.8%	1.0%
Professional and Business Services	57.88	15%	-7.7%	-0.7%
Educational and Health Services	54.08	14%	2.7%	3.4%
Leisure and Hospitality	37.20	10%	-2.0%	0.6%
Other Services	11.81	3%	-3.7%	0.0%
Government	83.13	22%	1.1%	2.0%
MILITARY	6.272	NA	5.6%	-0.3%

While the U.S. has shown some gains in employment the Albuquerque MSA continues to lose jobs. Construction, particularly single family construction, has fallen off dramatically. The unemployment rate increased from 5.4% in FY/09 to an average of 8.3% in FY/10, with June of 2010 being at 8.9%. Employment declined an average of 3.4% in FY/10 with construction and manufacturing declining 13.3% and 13.5% respectively. Both these sectors declined in FY/09 and layoffs continue. The only sectors that had increases in employment are government and educational and health services. One of the strengths for the Albuquerque economy is the national labs. Sandia National Laboratories (SNL) has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

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

Long-term Financial Planning

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

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

Effective July 1, 2007, the Authority Board approved new policies that will impact financial planning for the future. A Rate Reserve Fund 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 2010 budget provided the financial basis of operation for the Authority and the Water Utility Department through June 30, 2010. 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 2010, it is at the general ledger fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2010 were not re-appropriated in fiscal year 2011.

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, 2010 was valued at \$594 million at June 30, 2010. The Authority had an average of \$138 million invested in the City's investment pool in fiscal year 2010. The City portfolio average yield for fiscal year 2010 was 1.189%. Interest earned by the Authority totaled \$1.6 million for fiscal year 2010.

Risk Management

The Authority participates in the City's Risk Management program that is operated as an Internal Service Fund. Managerial control and accountability over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. Transfers to the Risk Management fund from the Authority for fiscal year 2010 were \$4.15 million compared to transfers in the prior year of \$4.82 million. Total claim reserves (current and long-term), including the Authority, were \$61.0 million as of June 30, 2010, a \$6.4 million decrease from \$67.4 million in the previous year.

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

Major Initiatives

The Authority's San Juan-Chama Drinking Water Project became operational in December 2008. When fully operational, the Surface Water Treatment Plant (SWTP) will supply up to 70% of the metropolitan area's future water. San Juan-Chama water is diverted from the Rio Grande River and transported to a state-of-the-art treatment plant, from which purified water is being delivered to Albuquerque area homes and businesses. The Surface Water Treatment Plant is an integral component of the Authority's strategy to

be in compliance with federal standards for the allowable amount of arsenic in municipal drinking water through the blending of low arsenic surface water with high arsenic well water.

The expectation in the fiscal year 2010 budget was that by the end of fiscal year 2010 the SWTP would provide 50% of the water supplied to the service area. Actual operations fell short of that goal; however, surface water treatment continues to increase. The Authority continues to adjust the funding for the SWTP as a history of operating costs is developed.

The third and final water reclamation and reuse project identified in the Water Resource Management Strategy (WRMS), the Southside Municipal Effluent Polishing and Reuse project began construction in fiscal year 2010. This project will utilize treated wastewater effluent for irrigation and industrial use in the southeast heights and south valley areas of Albuquerque. Construction is expected to be complete in early fiscal year 2012 with connections to individual users commencing during the fall/winter of fiscal year 2012 and full operations beginning in the 2012 irrigation season.

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

The fiscal year 2010 operating budget reflects the Authority's continuing efforts to make adjustments to the organizational structure to better align functional operations into work units that make more sense for day to day operations, provide more effective customer service and give the Authority better work-related integration for succession planning. In fiscal year 2009 water and water reclamation operations were restructured into Plant and Field divisions replacing the former structure of Water and Water Reclamation divisions. These changes were budget neutral and were guided by the span of control analysis that was conducted by an independent consultant as recommended in the American Water Works Association's Peer Review.

The Plant and Field division structure was thought to be a favorable complement to the asset management program the Authority established in fiscal year 2008. The Authority in the fiscal year 2010 operating budget continued its commitment to asset management and completed an asset management plan as part of its asset management program. The asset management plan will provide a 30-year projection for capital needs and will allow the Authority to budget for renewals and replacements into the future.

The fiscal year 2010 operating budget continued its nonrecurring funding for a safety/performance incentive program. This program will reward employees for cost savings due to increased efficiencies or a decrease in work related losses. Funding for this program is contingent on the Authority generating the same or a greater amount in savings.

Awards and Acknowledgements

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

The Authority received the Certificate of Achievement for each annual CAFR it prepared through the fiscal year ended June 30, 2008. While the Authority believed that the CAFR for the fiscal year ended June 30, 2009 met Certificate requirements, the 2009 CAFR was 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, 2010 will not be submitted to the GFOA for certificate determination although the Authority believes the 2010 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, 2009. 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,

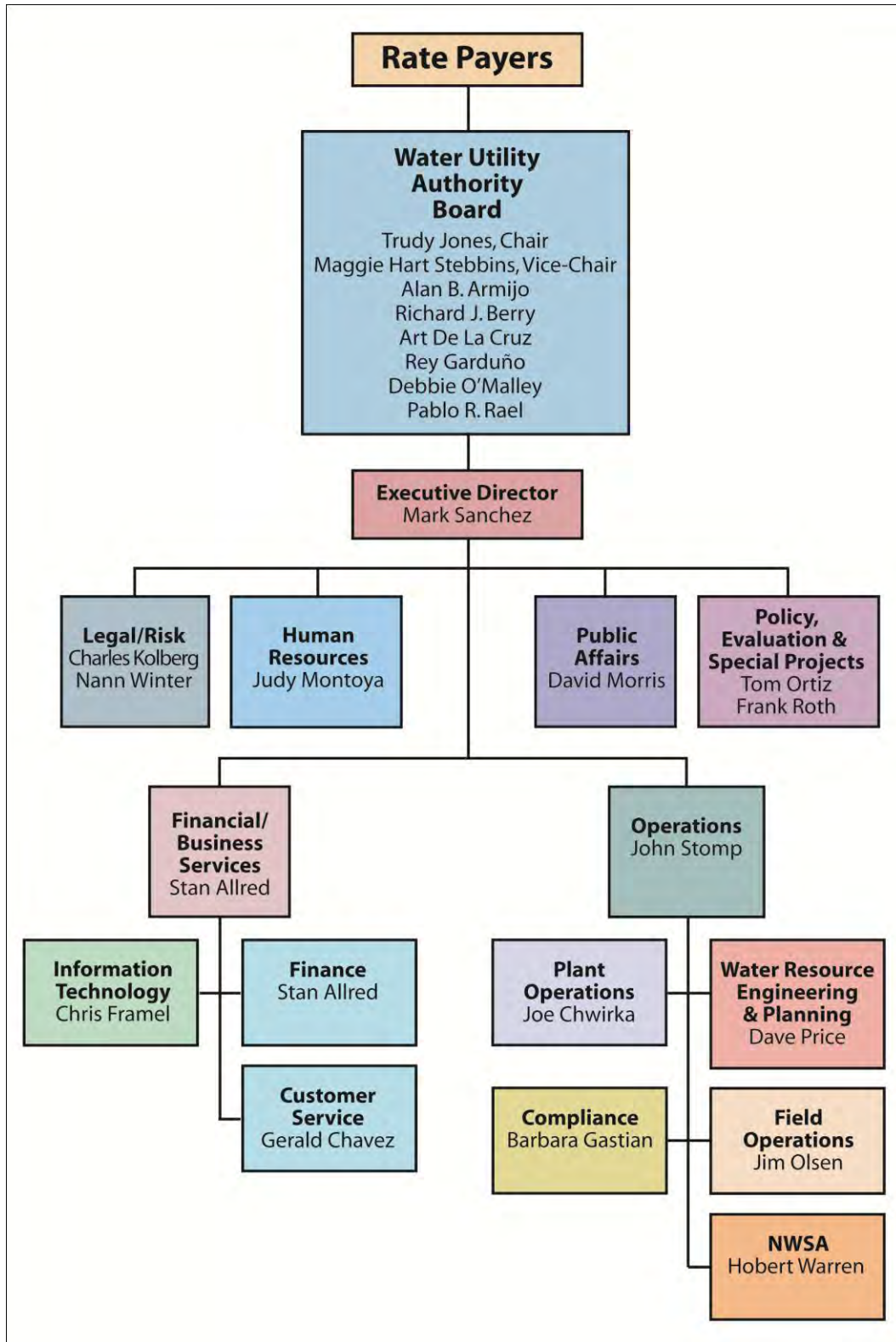


Mark S. Sanchez
Executive Director



Stanley Allred
Chief Financial Officer

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



Report of Independent Auditors

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

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2010, as listed in the table of contents. We have also audited the budgetary comparison for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows of the Authority. The financial statements do not purport to, and do not, present fairly the financial position of the City of Albuquerque as of June 30, 2010 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Authority, as of June 30, 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly the budgetary comparison presented as supplementary information for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report for the City of Albuquerque (fiscal agent for the Authority) dated July 8, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the Schedule of Funding Progress for Life Insurance Benefit Plan on pages 10 through 28 and 54, respectively are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

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

Moss Adams LLP

Albuquerque, New Mexico
July 26, 2011

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010

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, 2010. Readers are encouraged to consider the information presented here in conjunction with our audited financial statements and additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

From the Statement of Net Assets

- At the close of FY 2010, the assets of the Authority exceeded its liabilities by \$734.9 million (net assets). Unrestricted net assets were a negative \$4.6 million.
- Comparing FY 2010 with FY 2009, the Authority's total net assets decreased by \$21.0 million or (2.8) %. Unrestricted net assets decreased by \$21.0 million or (127.7) %.
- Comparing FY 2010 with FY 2009, the Authority's total long-term obligations decreased by \$32.1 million or (4.4) %. Long-term debt decreased by \$32.2 million and non-current accrued vacation, sick leave and deferred revenue increased by \$.1 million.
- Comparing FY 2010 with FY 2009, cash of the Authority decreased by \$56.93 million to \$117.90 million or (32.6) %. Non-restricted cash decreased by \$18.48 million to \$2.92 million. Restricted cash decreased by \$38.45 million to \$114.98 million.

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

- Comparing FY 2010 with FY 2009, operating revenues were \$153.14 million, an increase of 6.00 million or 4.1%.
- Comparing FY 2010 with FY 2009, operating expenses, net of depreciation, amortization and bad debt expense were \$95.00 million, an increase of \$5.27 million or 5.9%.
- Comparing FY 2010 with FY 2009, utility expansion charge revenues were \$6.83 million, an increase of \$.49 million or 7.7%.

From the Statement of Cash Flows

- Comparing FY 2010 with FY 2009, net cash provided by operating activities decreased by \$9.41 million to \$61.80 million. Cash received from customers increased by \$2.63 million. Cash paid to or on behalf of employees increased by \$3.23 million and cash paid for goods and services increased by \$2.47 million. Other operating cash received decreased by \$6.34 million.
- Comparing FY 2010 with FY 2009, proceeds from debt borrowings were \$7.71 million a decrease of \$139.88 million. Debt service costs including issuance costs were \$72.07 million, an increase of \$4.61 million.
- Comparing FY 2010 with FY 2009, payments for the acquisition and construction of capital assets were \$72.11 million, a decrease of \$61.07 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Authority for financial statement reporting purposes is considered a business like entity, an enterprise fund, and as such does not include in its financial statements, financial information on any individual funds that may exist for accounting purposes. The conceptual framework for an enterprise fund is that it exists for one purpose, regardless of how it might be structured in the general ledger, and its

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010

presentation as a single fund in the financial statements enhances the reader's understanding of the entity and facilitates financial analysis. An overarching goal in financial statement presentation is to enhance comparability between entities and a single fund presentation is considered the most useful level at which comparisons can be made. The thinking is similar to a commercial enterprise that presents its financial statements on an entity wide basis rather than say presenting the marketing and accounting departments as separate components.

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

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

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

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

Basic Financial Statements

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

The *statement of net assets* presents information on the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Authority is improving or deteriorating, absent extraordinary events.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010

Notes to the Financial Statements

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

Other Information

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

Net Assets

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

Invested in Capital Assets, Net of Related Debt

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

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

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

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

Restricted Net Assets

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

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

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

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

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

Unrestricted Net Assets

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

FINANCIAL ANALYSIS

Net Assets and Changes in Net Assets

The following two schedules – the schedule of changes in net assets and the schedule of revenues, expenses and changes in fund net assets using budgetary functional categories of expenses – are presented together to offer different but complementary views of the Authority's economic performance in FY 2010. The analysis that follows the schedules will discuss both schedules.

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Schedule of Changes in Net Assets					
	<u>Comment</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted for Construction</u>	<u>Invested In Capital Assets</u>
Net assets, July 1		\$ 755,901,242	\$ 16,462,707	\$ 13,671,991	\$ 725,766,544
Current year sources and (uses):					
From water and sewer rate revenues:					
Operating revenues	1	153,144,852	153,144,852	-	-
Utility expansion charge revenues	2	<u>6,834,261</u>	<u>6,834,261</u>	-	-
		159,979,113	159,979,113	-	-
Operating expenses other than depreciation and amortization	3	<u>(94,996,405)</u>	<u>(94,996,405)</u>	-	-
Net available for transfers to capital and for debt service		64,982,708	64,982,708	-	-
Transfers to assets restricted:					
for capital acquisition	4	-	(17,500,000)	17,500,000	-
for debt service used as follows:	5				
Interest expense		(31,532,885)	(31,532,885)		
Principal shown as payable from restricted assets at prior year end		(11,053,279)	(11,053,279)		
Principal not shown as current liability at prior year end		-	(1,920,180)		1,920,180
7/1/2010 principal payable from cash with fiscal agent		<u>-</u>	<u>(22,523,128)</u>	<u>-</u>	<u>22,523,128</u>
Net after transfers		22,396,544	(19,546,764)	17,500,000	24,443,308
Other sources (uses):					
Investment income		865,763	553,512	312,251	-
Other income (expense)		1,240,013	1,192,326	47,687	-
Interest expense on water rights contract		(457,257)	(457,257)		
Principal shown as payable from restricted assets at prior year end		11,053,279	11,053,279		
Purchase of capital assets		-	(940,979)	-	940,979
Current portion of long-term debt to be paid next fiscal year other than on 7/1		-	(12,920,245)	-	12,920,245
Sale of capital assets		7,450	21,890	-	(14,440)
Change in balance of capital project fund					
liabilities payable from unrestricted assets		-	13,628	(13,628)	-
Lease of water rights revenue		1,192,826	-	1,192,826	-
Non-capital expenses paid from a capital project fund		(905,244)	-	(905,244)	-
Transfers for capital acquisition		-	-	(20,734,075)	20,734,075
Amortization of deferred amount on refunding, premiums and discounts		2,543,397	-	-	2,543,397
Capital contributions		18,917,211	-	-	18,917,211
Current year capitalized interest		4,469,084	-	-	4,469,084
Depreciation and amortization		<u>(82,355,610)</u>	<u>-</u>	<u>-</u>	<u>(82,355,610)</u>
Increase (decrease) in current fiscal year		<u>(21,032,544)</u>	<u>(21,030,610)</u>	<u>(2,600,183)</u>	<u>2,598,249</u>
Net assets, June 30		<u>\$ 734,868,698</u>	<u>\$ (4,567,903)</u>	<u>\$ 11,071,808</u>	<u>\$ 728,364,793</u>

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

	<u>Comment</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>Change</u>
Operating revenues:				
Water charges including reuse		\$ 71,224,394	\$ 67,783,039	\$ 3,441,355
Sewer charges		47,685,066	46,805,468	879,598
Strategy implementation fee		23,245,176	23,560,512	(315,336)
Franchise fees billed		5,628,627	5,390,739	237,888
High consumption water surcharges		2,197,078	2,312,596	(115,518)
Administrative fees		997,000	980,000	17,000
Other		<u>2,167,511</u>	<u>313,235</u>	<u>1,854,276</u>
Total operating revenues	1	<u>153,144,852</u>	<u>147,145,589</u>	<u>5,999,263</u>
Operating expenses:				
Program expenses:				
	3			
Water plant facility production	6	10,401,379	6,696,461	3,704,918
Water plant facility distribution		12,420,957	11,841,404	579,553
Water distribution facilitation		3,468,153	3,363,172	104,981
Wastewater treatment	7	13,916,853	12,816,684	1,100,169
Compliance		2,833,507	2,839,650	(6,143)
Wastewater collection		7,858,467	7,637,362	221,105
Sustainable water supply	6	7,985,026	10,404,765	(2,419,739)
North I-25 reuse		472,530	507,033	(34,503)
Customer services		4,647,582	4,513,987	133,595
Finance		6,163,571	6,214,304	(50,733)
Human resources		1,354,292	1,228,950	125,342
Northwest service area	8	2,277,291	252,106	2,025,185
San Juan-Chama		627,657	1,022,401	(394,744)
Water resources management		5,974,990	5,901,310	73,680
Information systems		3,640,489	3,326,906	313,583
Low income utility credit		229,612	228,970	642
Water Authority		3,181,924	3,490,708	(308,784)
Administrative expenses:				
Franchise fees paid		5,737,125	5,403,694	333,431
Administrative fees paid to City		1,805,000	2,038,000	(233,000)
Other operating expenses:				
Depreciation and amortization	9	81,839,587	72,691,786	9,147,801
Bad debt expense		<u>-</u>	<u>93,018</u>	<u>(93,018)</u>
Total operating expenses		<u>176,835,992</u>	<u>162,512,671</u>	<u>14,323,321</u>
Operating income (loss)		(23,691,140)	(15,367,082)	(8,324,058)

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

	<u>Comment</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>Change</u>
Operating income (loss)		(23,691,140)	(15,367,082)	(8,324,058)
Non-operating income (expenses)				
Utility expansion charges	2	6,834,261	6,346,401	487,860
Investment income		865,763	2,647,735	(1,781,972)
Interest expense	5	(31,990,142)	(29,712,977)	(2,277,165)
Current year capitalized interest		4,469,084	6,727,989	(2,258,905)
Gain (loss) on disposition of assets		7,450	(12,971)	20,421
Bond issue amortization		(516,023)	(360,666)	(155,357)
Other income		1,240,013	1,938,124	(698,111)
Lease of water rights	10	1,192,826	3,498,655	(2,305,829)
Litigation award	10	-	3,250,000	(3,250,000)
Amortization of deferred amount on refunding / premium / discount		2,543,397	1,303,114	1,240,283
Non-capital expenses paid in a capital project fund		<u>(905,244)</u>	<u>(803,448)</u>	<u>(101,796)</u>
Loss before capital contributions		(39,949,755)	(20,545,126)	(27,728,687)
Capital contributions	11	<u>18,917,211</u>	<u>27,811,538</u>	<u>(8,894,327)</u>
Change in net assets		(21,032,544)	7,266,412	<u>\$ (36,623,014)</u>
Net assets, July 1		<u>755,901,242</u>	<u>748,634,830</u>	
Net assets, June 30		<u>\$ 734,868,698</u>	<u>\$ 755,901,242</u>	

Comments

1 – Operating revenues, whether for water or for sewer charges, are tied to water consumption. Water consumption fluctuates with summer temperatures and summer precipitation and to a lesser extent spring precipitation. There were no rate changes between FY 2009 and FY 2010. Comparing the three months of greatest water consumption, June, July and August, included in fiscal years 2009 and 2010, the precipitation in fiscal year 2009 was 5.22 inches and less than half that at 2.50 inches in fiscal year 2010. Overall precipitation in fiscal year 2010 was 88% of normal and 87% of fiscal year 2009.

2 – Utility expansion charge revenues result primarily from the number of new housing developments, both multi-family and single family. Economic growth and new housing starts in the Authority's service area continued to be dismal in FY 2010.

3 – Operating expenses in general increased due to higher salary and benefit costs and a full year's operation of the Surface Water Treatment Plant. Employee compensation is the largest cost component and there is not an operational function where these costs are not significant. Employee compensation increased by \$3.25 million in fiscal year 2010. Other significant cost components are power and chemicals as both are needed in water and water reclamation operations. With the operation of the Surface Water Treatment Plant, there is a tradeoff between reduced demand for electricity needed for pumping water from wells and an increased demand for chemicals needed to make the surface water safe for drinking. The combined utility and chemical costs in fiscal year 2010 increased by \$2.11 million. The increase in power costs was in line with the national increase in energy costs.

4 – Transfers to assets restricted for capital acquisition were reduced by \$2.75 million in fiscal year 2010 recognizing the continued lack of utility expansion charge revenue used a capital program funding source and a need to conserve cash in the operating fund.

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Comments, continued

5 – Transfers to assets restricted for debt service increased by \$1.46 million in fiscal year 2010 indicative of the increased debt the Authority has assumed over the past few years primarily for construction of the Drinking Water Treatment Plant and related distribution lines. Additional debt was incurred in fiscal year 2009 and will continue to be incurred for significant capital projects at the Southside Water Reclamation Plant.

6 – The Water Plant Facility Production program and the Sustainable Water Supply program moved in opposite directions in FY 2010 for the same reason. The Sustainable Water Supply program contains the operations of the Surface Water Treatment Plant. The surface water plant was not used at the expected capacity level in fiscal year 2010 with an offsetting greater reliance on well water. The actual versus the expectations at the start of the fiscal year for both programs can be seen in the budget comparison statement. The Sustainable Water Supply program incurred more costs in fiscal year 2009 than in fiscal year 2010 even though the surface water plant was not in operation for the entire 2009 fiscal year due to the significant start up and testing costs of the system in 2009

7 – The Wastewater Treatment program increase is attributable to increases in power and chemical costs.

8 – The Northwest Service Area program was created when the Authority acquired New Mexico Utilities Inc. in April 2009. There were two months of operations in fiscal year 2009 and a full twelve months of operations in fiscal year 2010.

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

10 - There were two unusually large non-recurring revenue transactions in fiscal year 2009. \$3,344,060 was received from the United States Bureau of Reclamation for the right to use San Juan Chama water stored in northern New Mexico for the benefit of the silvery minnow, an endangered species living in the Rio Grande River. \$3,250,000 was received for damages awarded to the Authority as the result of a dispute with the entity that sold the Authority the land on which the Surface Water Treatment Plant was constructed.

11 – The fiscal year 2009 capital contribution figure includes a large contribution from Bernalillo County for its share of costs for completed work in the Valley Utilities Projects program. This program comprises water and sewer projects in the unincorporated areas of Bernalillo County for the purpose of allowing residents to connect to the Authority's system and end their use of wells and septic tanks. The Water Authority is providing the majority of funding for each project with Bernalillo County, the State of New Mexico and the U.S. Environmental Protection Agency funding the remaining costs. The major project completed in fiscal year 2010 was funded almost entirely by the Authority.

Operating Budget

Several assumptions were made in the preparation of the fiscal year 2010 operating budget including labor costs would increase no more than 4% which was the amount of the cost of living increase, Authority debt would be approximately 25 basis points under market rate based on the Authority's AAA bond rating, increases in power, chemicals and fuels would not exceed the Consumer Price Index and the cost of operating the newly acquired New Mexico Utilities Inc. would not exceed Authority estimates. On the revenue side, operating revenues were estimated at \$13 million higher than actual revenues for fiscal year 2009. The entire \$13 million was the estimated impact of acquiring New Mexico Utilities. Operating revenues otherwise were estimated to remain flat. \$2 million was added to the Rate Reserve Fund which brought the balance to \$5 million as of the close of fiscal year 2010.

The Authority's operating budget as initially approved had a deficit of revenues over expenses of (\$12.66) million with the budget being balanced by the use of accumulated resources represented in the financial statements as unrestricted net assets. The Authority's latest ten year financial plan incorporates the accumulation and use of working capital and is integral to the Authority maintaining current rates through fiscal year 2011. The Board prior to the start of fiscal year 2010 approved an amendment to the Rate Ordinance that increases rates by 5% in fiscal year 2012.

Actual results produced a deficit of (\$20.1) million or (\$7.46) million larger than budgeted. Revenues were \$9.35 million below budget even though higher than in fiscal year 2009. The revenue expectations were based on a 2% growth factor and a full year of revenues

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from the Northwest Service area created by the acquisition of New Mexico Utilities. The actual to budgeted expenditures excluding the transfers for debt service and capital acquisition and the debt service program were \$.71 million overspent, an improvement from the \$2.1 million overspent in fiscal year 2009. Overall budgeted expenditures were less than actual expenditures because of less than budgeted debt service payments. One factor in the better expenditure performance compared to budget in fiscal year 2010 was the increased timeliness of data from the City of Albuquerque's financial system which the Authority shares.

CAPITAL ASSETS

The Authority's Capital Implementation Program (CIP) consists of a ten-year Decade Plan updated biennially in even numbered fiscal years with two, four, six, eight and ten year planning elements and includes detailed requirements for program development and project scope, schedule, budget, justification and alternatives. The Decade Plan requires approval by the Authority Board with at least one public hearing and due deliberation. In even numbered fiscal years, the Decade Plan must be updated and approved by the Authority Board before that year's Capital program budget can be approved. This policy ensures there is always an approved two year planning element in place for every approved annual Capital program budget. FY 2010 was the first year of the two year planning element included in the FY 2010 – FY 2019 Decade Plan adopted by the Authority Board in the spring of 2009.

The development of the FY 2010 – FY 2019 Decade Plan represented a major step forward for the Authority in capital planning. The involvement of engineering staff was unprecedented and represented a significant change from the top down approach used in prior plans. The most significant change was the use of asset management principles to rank projects using risk analysis. The analysis required the insight of and shared discussion among the engineering staff to determine where the greatest need for funding existed given the scarcity of resources.

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

For fiscal year 2010, the Board approved a Basic program comprised of a \$30 million rehabilitation program and a \$6 million growth program. In addition the Board approved \$13.8 million in special projects, none of which had a dedicated funding source. The \$13.8 million did not include the Southside Reuse project which had been approved in stages in prior years.

With the completion of the Surface Water Treatment Plant and related transmission lines and pump station, the capital focus of the Authority shifted to the Southside Water Reclamation Plant (SWRP). Consistent with a risk based approach for making capital decisions, a condition assessment done of the SWRP and its in-line feeder systems determined the need for an accelerated renovation program. \$20 million of proceeds from the revenue bond sale in April 2009 were earmarked for supplementing Basic Program rehabilitation spending at the SWRP. The \$20 million was allocated over three fiscal years beginning with fiscal year 2010 in the FY 2010 – FY 2019 Decade Plan. \$6.6 million of the \$13.8 million in special projects was for SWRP rehabilitation,

Outside consultants were brought in to develop a strategic reclamation rehab and asset management plan and prioritize the spending of these resources. As a result of this effort, three projects – the Dewatering Facilities project, the Final Clarifiers Rehabilitation project and the Primary Clarifiers Rehabilitation project – were accelerated and two projects – the Plant Odor Control Phase 2 project and the Digester Rehabilitation project – were delayed. A further refinement of project priorities will be included in the FY 2011- FY 2012 decade plan that will be approved by the Board in the spring of 2011.

The effort to jump start renovation at the SWRP was set back when the Authority and the engineering firm doing phase one of the reclamation rehab and asset management plan could not agree on a fee structure for phase 2 of the project. There were time delays caused by the need to rebid the work and select a firm. That has occurred but the time line for some large renovation projects has slipped into fiscal years 2011 and 2012.

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The two largest projects at the SWRP ongoing in fiscal year 2010 were the Ultra-Violet Disinfection and the FY03 Plant Improvements projects. The Ultra-Violet project will replace the existing chlorine / sulfur dioxide disinfection system with a state of the art ultra-violet disinfection system. The FY03 Plant Improvements project is primarily the replacement of equipment that is obsolete or worn out. While the project had an initial list of work items, the scope of work continues to be amended to include work at the SWRP where needed. The contractor chosen for this work has a long history of successful projects at the SWRP which is allowing the great flexibility in assigned work.

The Basic growth program has shifted in focus from placing from new pipe in the ground to meeting the demands of a business intent on achieving performance improvement goals and meeting mandated standards. Included in the fiscal year 2010 growth budget was spending for aquifer storage and recovery, arsenic treatment, information technology and asset management / master planning.

Included in the \$7.2 million of special projects other than SWRP renovation was \$1 million for the Valley Utilities Projects, \$2 million for the Advanced Metering Infrastructure program, the new term coined to represent smart meters able to apply programmed logic to collected data and \$1 million for supplemental steel water line replacement.

The Southside Reuse project is the final reuse and reclamation project called for in the 2007 Water Resource Management Strategy (WRMS) 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. Fiscal year 2010 spending was ten million dollars with a projected total cost of close to thirty five million dollars for the pipelines and treatment plant. In addition to a dedicated revenue source, funding will be provided by federal grants from the United States Bureau of Reclamation. Construction will ramp up even higher in fiscal year 2011.

The busiest area of construction activity was outside of the Authority's Service Area but within Bernalillo County. The Authority Board has adopted a "no net expense" policy for extension of services outside of the Service Area. The "no net expense" policy covers both the cost of constructing the infrastructure and future costs for maintaining the infrastructure. The expected revenues generated from any expansion or improvement to the System must be sufficient to cover the expected system maintenance costs. In fiscal year 2010, system expansion outside of the Service Area was being done at the southwestern and eastern boundaries of the System. Funding was provided by grants from the New Mexico Environment Department. Work will continue in both areas in fiscal year 2011.

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

Available revenues for the Basic rehabilitation program in FY 2010 were \$35.0 million including a \$5.0 million carryover from FY 2009. Available revenues for the Basic growth program were \$6.7 million including a \$.7 million carryover from FY 2009. Basic rehabilitation spending on a cash basis was \$31.0 million and Basic growth spending on a cash basis was \$7.3 million. The resulting carryovers to FY 2011 were \$4.0 million for rehabilitation and \$(.6) million for growth.

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Infrastructure

The following schedule table presents the Authority's infrastructure and capital assets at June 30, 2010 and 2009 and significant capital projects or combinations of smaller individual projects with a common purpose placed in service in FY 2010. The project values include capitalized interest.

Schedule of Capital Assets and Changes in Capital Assets

	<u>Comment</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>Change</u>
Land		\$ 25,644,811	\$ 23,548,127	\$ 2,096,684
Buildings and Improvements		2,210,836	2,210,836	-
Improvements other than Buildings	1	2,249,150,283	2,182,523,178	66,627,105
Fully depreciated assets written off	2	(286,193,686)		(286,193,686)
Machinery and Equipment		64,822,945	59,869,486	4,953,459
Fully depreciated assets written off		(11,358,734)		(11,358,734)
Purchased Water Rights		<u>39,962,117</u>	<u>39,943,365</u>	<u>18,752</u>
Total capitalized assets		2,084,238,572	2,308,094,992	(223,856,420)
Less accumulated depreciation and amortization	2	(1,070,333,731)	(989,575,711)	(80,758,020)
Fully depreciated assets written off		<u>297,552,420</u>	<u>-</u>	<u>297,552,420</u>
Net capitalized assets		1,311,457,261	1,318,519,281	(7,062,020)
Construction work in progress		<u>37,482,194</u>	<u>34,077,876</u>	<u>3,404,318</u>
Total capital assets		<u>\$ 1,348,939,455</u>	<u>\$ 1,352,597,157</u>	<u>\$ (3,657,702)</u>

The year's major additions are:

	<u>Comment</u>	<u>In Millions</u>
Drinking Water Treatment Plant		\$ 1.4
Santa Barbara Pump Station, Reservoir and Transmission Lines project		11.6
Arsenic Treatment		1.0
Private Developer Infrastructure		12.6
Southside Water Reclamation Plant and Collection System improvements		2.8
Small Diameter Water Line Rehabilitation		5.8
Water Line Extensions and Meters		1.9
Valley Utility Projects		7.6
Franchise Fee Compliance		0.8
Large Diameter Sewer Line Rehabilitation		10.0
Water Facility Rehabilitation		2.8
Small Diameter Sewer Line Rehabilitation		2.1

Comments

1 – Fiscal year 2010 was relatively quiet for large scale construction projects. The Surface Water Treatment Plant was completed in fiscal year 2009 and the large planned projects at the Southside Water Reclamation Treatment Plant other than the Ultra-Violet Disinfection project had not started. The Southside Reuse project was the largest project ongoing in fiscal year 2010.

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Comments, continued

2 – In an attempt to clean-up the Authority's depreciation schedule, nearly three hundred million dollars of fully depreciated assets were removed from the Authority's general ledger. The effect is to present a better picture of the Authority's capital assets.

DEBT ADMINISTRATION

The Authority's debt obligations at June 30, 2010 are presented below. Net revenues of the System secure debt issued by the Authority.

	<u>Outstanding</u>			<u>June 30, 2010</u>	<u>Payable in one year</u>
	<u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>		
Parity Obligations:					
Revenue Bonds	\$ 515,345,000	\$ -	\$ 26,135,000	\$ 489,210,000	\$ 22,065,000
Loan Agreements - NMFA	194,938,370	-	11,097,637	183,840,733	11,778,128
Line of Credit - NMFA	-	687,072	-	687,072	-
Subordinate Obligations:					
Loan Agreements - NMED	14,645,696	-	2,319,269	12,326,427	415,377
Loan Agreements - NMFA	-	10,426,232	-	10,426,232	218,951
Line of Credit - NMFA	3,524,340	6,977,110	10,426,232	75,218	-
Junior Obligations:					
Loan Agreements - NMFA	-	50,000	1,445	48,555	2,498
Line of Credit - NMFA	-	-	2,745	(2,745)	14,769
Water rights contract	15,778,921	-	920,608	14,858,313	948,650
Less deferred amounts:					
Unamortized bond premiums	18,105,065	-	2,945,759	15,159,306	-
Bond refunding costs	(708,400)	-	(402,362)	(306,038)	-
	<u>\$ 761,628,992</u>	<u>\$ 18,140,414</u>	<u>\$ 53,446,333</u>	<u>\$ 726,323,073</u>	<u>\$ 35,443,373</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 2010 was 1.00.

Debt issued for basic capital needs is scheduled for 12 year retirement while debt issued for San Juan Chama Drinking Water and Southside Reuse projects have a 20 year retirement schedule.

The Authority entered into a Line of Credit Agreement with the New Mexico Finance Authority (NMFA) on November 17, 2008. This agreement provided that the Authority could draw a total of \$12,000,000; \$11,881,188 for construction, and \$118,812 for costs of issuance. As of June 30, 2010 the Authority had made the final construction draw. Amount drawn was \$10,324,190 of which \$1,188 was refunded to NMFA in January 2011 resulting in a net construction draw of \$10,323,002 plus a 1% cost of issuance of \$103,230. The total of \$10,426,232 was converted from a line of credit to a loan in fiscal year 2011.

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

ECONOMIC FACTORS

This was the forecast submitted with the fiscal year 2012 operating budget.

National Economy and Key Points from the Global Insight Outlook

It should be noted that the following is based on the October 2010 forecast and events have transpired that may or may not agree with this forecast.

The National Bureau of Economic Research (NBER) declared that the recession ended in June 2009. At 18 months, this is the longest post WWII recession. The recovery has been weak and to this point relatively jobless. Unemployment remains high and is not expected to come down noticeably in the next year.

In the October 2010 forecast, Global Insight (GI) expects moderate growth with year over year growth in real GDP and FY/11 is expected to be 2.2% above FY/10 which increased by 0.7%. Employment growth is not expected to be positive until FY/11 when it is expected to grow only 0.5%. Total employment is not expected to reach its previous peak, which occurred in the last quarter of 2007, until the second quarter of 2014. Unemployment is expected to reach its peak of 9.8% in fourth quarter of 2010 and by FY/15 only decline to 7.6%. Inflation is one of the few bright spots in the GI forecast. They expect growth in the Consumer Price Index (CPI) to remain muted, below 2% for most of the forecast. Some of this is due to the expectation of fairly moderate increases in the price of oil with prices staying around \$78 per barrel through FY/11 and gradually increasing to \$98 in FY/14. The primary reason for the expectation of low inflation is the weakness in demand due to the weak labor market.

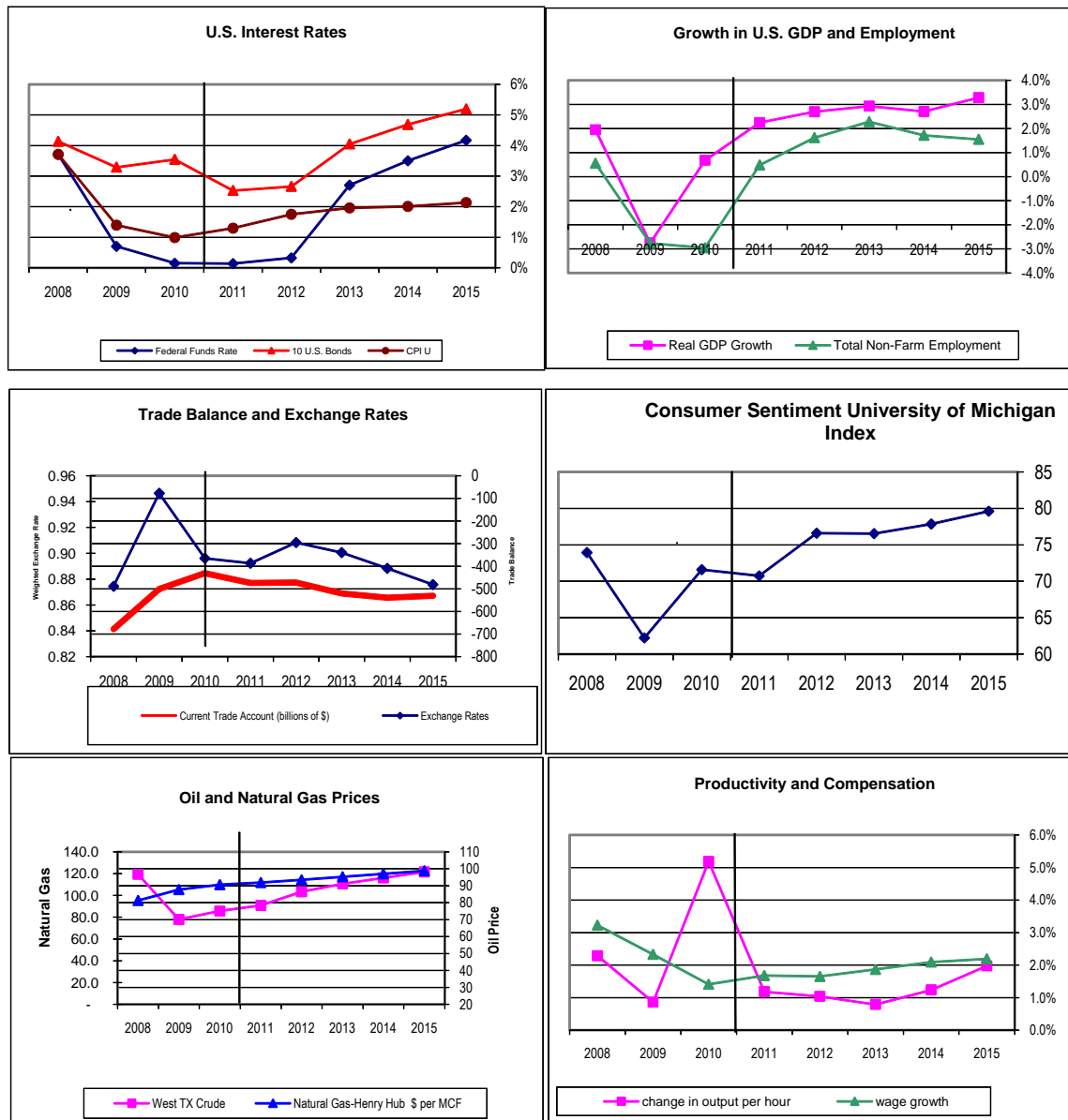
The low inflation expectation also plays into moderate increases in interest rates. GI believes that the Federal Reserve Bank (FRB) will not raise rates until 2012; reaching 2.7% in 2013 and continue slowly increasing to reach 4.2% in FY/15.

The alternative forecast gives a 25% probability to a pessimistic scenario and 15% probability to an optimistic scenario. The pessimistic scenario has the economy falling back into recession. This is driven by weakening in credit markets both domestically and across the world. The unemployment rate peaks at 10.7% in FY/12 and only declines to 9.1% by FY/15. Added to this, increases in the price of commodities push up the CPI to above baseline levels in out years. The optimistic scenario has a quicker recovery. This is driven by the credit markets working better and increases in productivity. The unemployment rate also declines to 6.5% by FY/15

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The following charts present a general description of important variables in the GI forecast.

TABLE 1
U.S. ECONOMIC VARIABLES AND FORECAST (FISCAL YEAR)
October 2010 Baseline Forecast



ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010

Albuquerque Economy

The Albuquerque economy is affected by the U.S. and world economies. Housing construction in Albuquerque has slowed dramatically, with single family housing permits falling to a fraction of their peak. Single family housing has increased, but it appears that much of the increase was due to stimulus programs for home buyers. With the slowdown and inability to get loans firms have closed and construction projects have lingered. Commercial development has been limited, with several government projects helping construction.

Employment growth in the Albuquerque economy began slowing in FY/08 and has continued. In FY/09 employment declined 2.2% continuing with FY/10 down by 2.9%, and in FY/11 the decline is only 0.6%, with growth expected in the 2nd two quarters of the fiscal year. The third quarter of 2009 showed the largest year over year decrease at -4.8%. The slowdown is due in part to construction slowing, but layoffs at several major firms have also played a major role. Manufacturing suffered with cuts at Intel, Eclipse Aviation and GE. Public Service Company of New Mexico (PNM) eliminated approximately 500 jobs. The unemployment rate is expected to increase from 3.5% in FY/08 to 8.8% in FY/11. It remains at this level in FY/12 and declines to 7.4% in FY/15. The pre-recession peak in employment (399 thousand in the 4th quarter 2007) is not reached again until the 4th quarter of 2015.

Wholesale and Retail Trade. These sectors account for about 14% of employment in the Metropolitan Statistical Area (MSA). The sectors posted declines of 4.7% and 4.3% in FY/09 and FY/10. Wholesale trade is expected to recover somewhat faster than retail but together they decline 0.4% in FY/11. FY/12 has growth of 2.5%. The forecast remains well below the employment levels of FY/06 to FY/08.

Transportation, Warehousing and Utilities. Employment in this sector was weak before the recession hit. The recession exacerbated this with decreases of 6.6% in FY/09 and 8.8% in FY/10. The forecast has a slight increase in FY/11 then employment bounces back with growth of 2.5% and 2.6% in FY/12 and FY/13. Growth slows to near 1% for the remainder of the forecast.

Manufacturing. This sector accounted for about 6% of employment in the MSA in FY/07 but falls to below 5% in FY/10 and the remainder of the forecast. The sector lost approximately 6,600 jobs between FY/07 and FY/10, with FY/11 showing an additional loss of around 70 jobs but starting to create new jobs at the end of FY/11. Employment is expected to increase just over 3% in both FY/12 and FY/13. Growth slows in FY/14 and FY/15. In FY/15 manufacturing employment is still almost 5,000 jobs below the FY/07 level.

Educational and Health Services. Albuquerque is a major regional medical center. Presbyterian Hospital and its HMO are one of the largest employers in the area. This is also one of the fastest growing categories in the MSA economy. In the period FY/06 to FY/09, the sector increased at an average rate of 3.8%. In FY/10 the sector grew at 3%; making it the only sector outside of government to grow in either FY/09 or FY/10. Growth is expected to slow to 2.7% in FY/11. The sector slows and has average annual growth of around 2% in FY/12 to FY/15.

Leisure and Hospitality. This category includes eating and drinking establishments as well as hotels and other travel related facilities. Growth has been volatile in this sector. In FY/07 growth was 4.7% driven by expansion in restaurants and hotels. In FY/08 the growth had slowed to 0.6% and then declined 3.7% in FY/09. In FY/10 growth is expected to decline 0.9%. This is a major component of GRT and Lodgers' Tax and the growth in tax revenues trends somewhat with employment in the sector. The forecast shows subdued growth in the sector with a maximum of 2.5% in FY/13.

Financial Activities. This sector includes finance, insurance and real estate including credit intermediation. The employment in this sector had a slight decline between FY/05 and FY/08. Growth in FY/05 and FY/06 was offset by declines in FY/07 and FY/08. In FY/09 employment decreased by 3.3% and is expected to decline another 2.3% in FY/10. Both the financial crisis and the construction decline impact this sector. Not until FY/12 does the sector show growth.

Professional and Business Services. This category includes temporary employment agencies and some of Albuquerque's back-office operations. It also includes Sandia National Labs (SNL). Growth from FY/05 to FY/08 averaged 2.3%. Employment declined by 2.4% in FY/09 and is expected to decline 5.6% in FY/10 and an additional decline of 2% in FY/11. The sector has a moderate rebound of 3.1% in FY/12. Growth slows, but is still relatively strong for the remainder of the forecast.

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Information. This sector includes businesses in publishing, broadcasting, telecommunications, and internet service establishments. This sector was very strong in the 1990s but lost over 2,300 jobs from FY/02 to FY/05 including the loss of jobs when the MCI call center closed. In FY/06 the sector grew by only 0.2%, but rebounded in FY/07 with growth of 4.1% then declined 1.9% in FY/08. FY/09 only had a decline of 0.7%, but FY/10 is expected to decline by 3.7%.

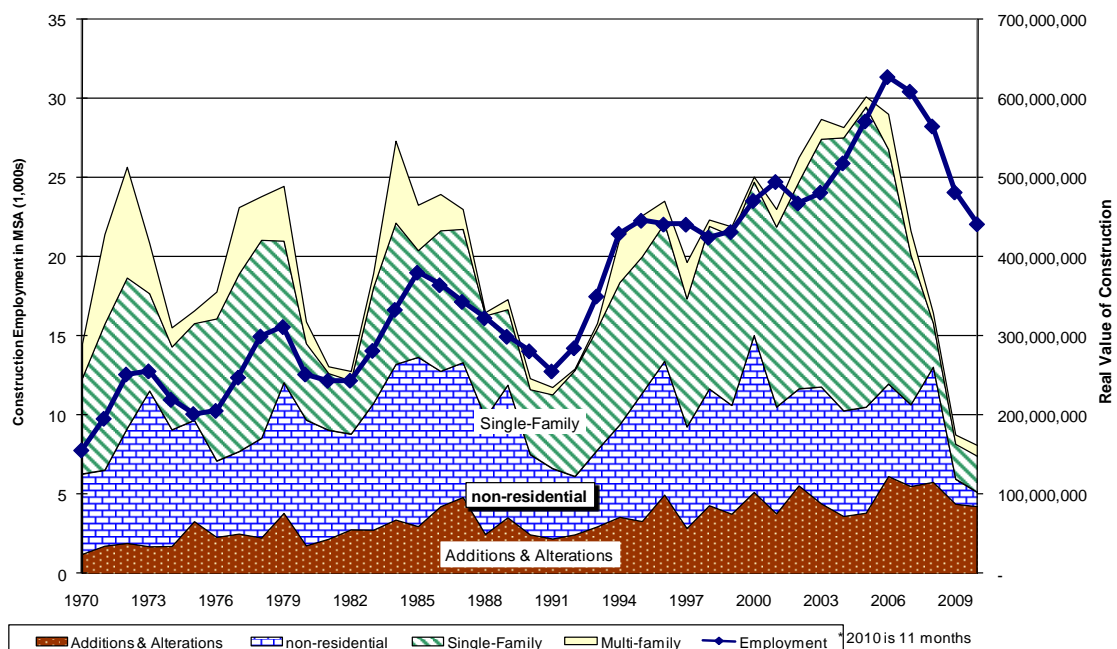
Construction. Construction is typically cyclical, with significant swings in building and employment. The following chart shows the real value of new residential (single-family, multi-family), non-residential (public and private), and additions alterations and repairs from 1970 to 2009 (11 months of data) and deflated by the CPI; 100=1982-84. Five distinct peaks occur in 1973, 1979, 1985, 1995 and 2005. The fall in single family housing from 2005 to 2009 is the largest in this time period but apparently reached bottom in the period of August 2008 to February 2009. Construction employment is also decreasing. Commercial construction in real terms has remained relatively flat and the total annual value of commercial construction has not reached any of the previous peaks, though it did well in 2008, in part due to public construction.

Single family construction fell dramatically in 2008. The City issued an average of 27 permits a month in the period August 2008 through February 2009. In FY/10 there were 876 single family permits issued. In FY/09 only 436 single family permits were issued. This compares to 1,214 in FY/08 and 2,490 in FY/07. The peak occurred in FY/04 and FY/05 with approximately 5,000 permits issued each year.

While there was some strengthening of non-residential permitted value in FY/08 and early FY/09 much of this was due to Albuquerque Public Schools construction program. Following this, new non-residential permits have continued to fall. In the first 11 months of 2010 compared to the same period in 2009, the decline in total value was about 1%. Most of this decline occurred because of the slowdown in new public construction. Additions, alterations and repairs have held up relatively well and the modest increases in single family permitting has the total value of building permits 44% below the same period in 2008. Commercial construction was the largest source of this decline with value declining 77%. This was somewhat offset by single family and additions and Alterations.

City of Albuquerque Value of Permits Deflated by CPI

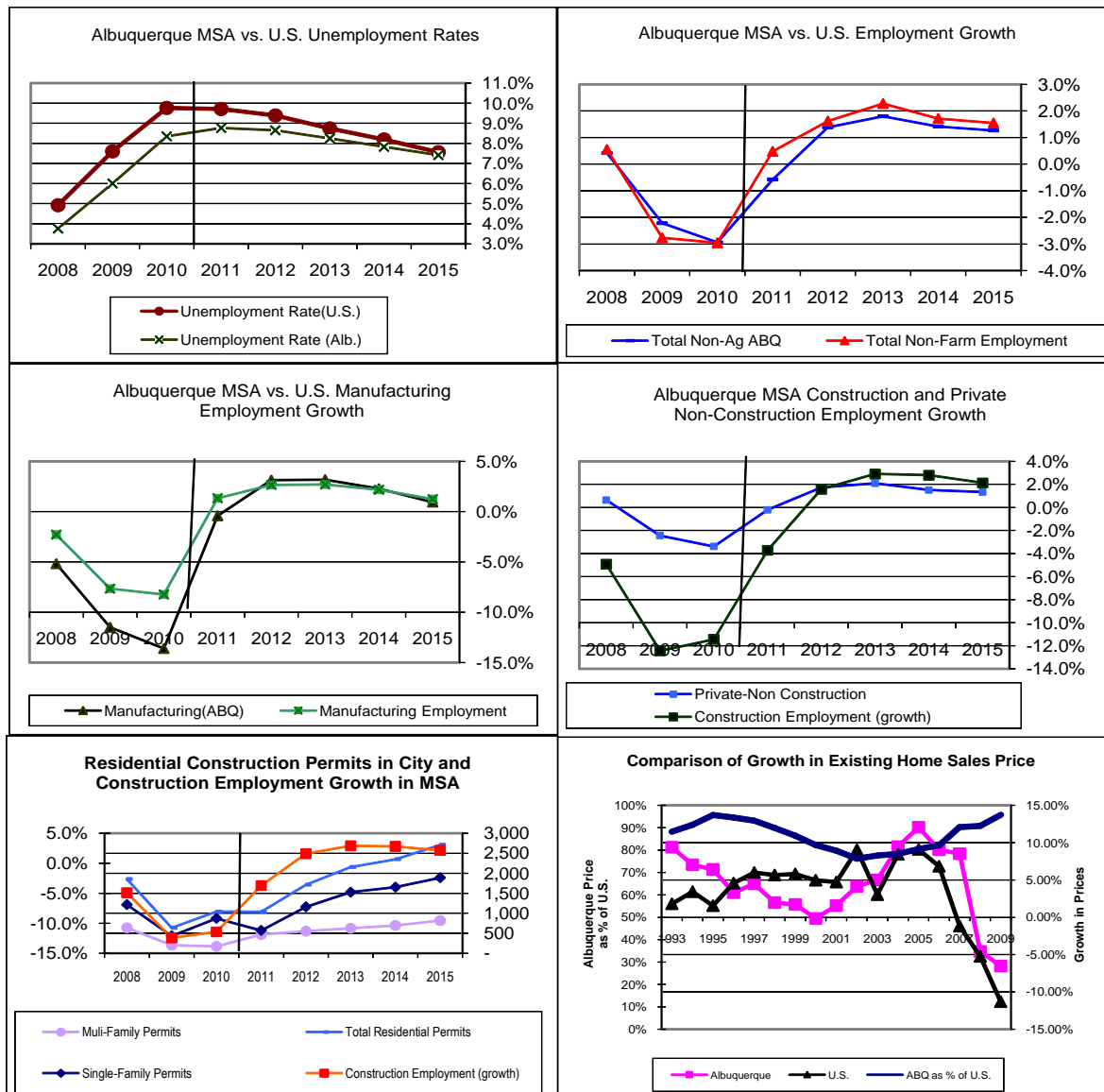
**Construction Values In City of Albuquerque Deflated by CPI
and Construction Employment in the MSA in Thousands**



ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010

Building permits only tell part of the construction story. Non-building construction such as roads and storm drainage are not captured in the permit numbers. Large construction projects for the State, such as University Hospital, are permitted by the State rather than the City. Employment in the construction sector gives a picture of growth in the entire MSA. As shown in the chart above, construction employment moves similarly to permit values, but differences occur. Growth in employment was very strong in 2000-2002, driven in large part by the Intel project and the Big-I reconstruction project. The Big-I was completed ahead of schedule in June 2002, and the Intel project was also finished in June of 2002. As these jobs were lost, the City saw a reduction in employment in FY/02 and some additional losses in FY/03: losses of 3.3% and 2.3% respectively. Employment growth remained strong through FY/07 when it began to slow. In FY/08 employment slowed 5% followed by declines of 12.4% and 11.4% in FY/09 and FY/10. The forecast is for continued declines in FY/11 though slowing to a decline of 3.7%. Employment is expected to grow in FY/12 through FY/15, but with a maximum of only 2.9% in FY/13. Employment in FY/15 is expected to be almost 7,000 below the peak in FY/07.

TABLE 2
LOCAL ECONOMIC VARIABLES HISTORY AND FORECAST
By Fiscal Year BBER FOR UNM
Baseline October 2010



ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010

FY 2011 BUDGET AND RATES

The fiscal year 2011 approved budget did not include a rate increase. Based on the latest ten-year financial plan, the Authority continued to conservatively forecast that a rate increase was not needed through fiscal year 2011. Maintaining the current operations without increasing rates presents many challenges for the Authority. As with other governmental entities, the Authority has seen the current economic decline have a negative effect on revenues. Water conservation measures undertaken by the Authority while successful have also reduced revenues. The costs of providing services continue to increase with much of the increases attributable to the establishment of the Northwest Service Area created by the acquisition of the former New Mexico Utilities and the operational costs of the Surface Water Treatment Plant. Rising costs for fuel, chemicals and electricity adversely impact both the water and water reclamation operations of the Authority. The Authority operates and maintains two water systems, the well / aquifer system and the surface water system. Although the well usage will be reduced as the surface water system increases capacity, the well system has to be fully operational to supplement the surface water system as necessary. There are increased costs with operating dual water delivery systems.

In the preparation of the fiscal year 2011 budget, the Authority reviewed various alternatives to reduce expenditures and balance the budget. A reduction in current staffing and salaries was not determined to be prudent based on ongoing service needs. While there was no reduction in staffing, there was no cost of living adjustment for fiscal year 2011. A 3% shift between the employer/employee split in the other employee benefits from 83%/17% to 80%/20% was approved. This shift in percentage helps offset the increased costs of health, dental and vision insurance rates.

The most significant expense of the Authority continues to be debt service payments which were budgeted at 38% of total operating expenses for fiscal year 2011. The major contributor to the debt service load has been the construction of the Surface Water Treatment Plant and related transmission lines and pump station. The revenues generated from the dedicated revenue source for this project continue to fall far short of the annual debt service and the costs of operations. This presents a long-term financing challenge for the Authority and its Board.

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

Operating revenues were budgeted at \$163.508 million or \$10.363 million higher than fiscal year 2010 actual operating revenues. A portion of the increase is the adjustment of rates for the Northwest Service Area which will include the sustainable water supply charge that was not part of the New Mexico Utilities rate structure and was not imposed in fiscal year 2010,

Operating expenditures other than for debt service and administrative services and for transfers were budgeted at \$92.002 million or \$1.136 million higher than what actual expenditures were in fiscal year 2010 for the same program strategies on a budgetary basis. Cash transfers for capital acquisition were budgeted at \$7 million or \$5.5 million less than in fiscal year 2010. Cash transfers for debt service were budgeted at \$65.337 million or \$2.453 million less than in fiscal year 2010. An additional \$2 million transfer to the Rate Reserve Fund was approved which would bring the balance in the Rate Reserve Fund to \$7 million. Concurrently the Board approved lifting its internally imposed restriction on the Rate Reserve Fund in fiscal year 2011 which will make the \$7 million eligible for inclusion in the year end calculation of the "Working Capital Balance" as defined in the Financial Plan. The Financial Plan calls for the Authority to maintain a \$10 million working capital balance at each year end. With the inclusion of the \$7 million, the projected working capital balance at fiscal 2011 year end was \$10.4 million.

For fiscal year 2011, the Authority again implemented a nonrecurring employee safety / performance incentive to be offset by reduced costs associated with safety and/or performance. This incentive has been an effective tool in the reduction of the Authority's workers compensation expense,

The Authority continues to make adjustments to the organizational structure to better organize functional operations into work units that make more sense for day to day operations, provide more effective customer service and give the Authority better work-related integration for succession planning. In fiscal year 2009, the Authority water and wastewater operations were restructured into two areas,

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010

Plant and Field. The Plant Division is responsible for operations and maintenance for the Drinking Water Project, ground water arsenic treatment, ground water wells, pump stations and reservoirs, wastewater treatment facilities, disposal of solids including composting as well as operating and maintaining the separate water and wastewater systems for the Metropolitan Detention Center and Cordero Mesa. In addition, the Plant Division is responsible for operation and maintenance of the reuse diversion, pump stations and reservoirs. The Field Division is responsible for the operation, maintenance and repair of the existing water distribution system and the wastewater collections system along with the reuse water distribution system. These changes to the organization are budget neutral.

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

REQUESTS FOR INFORMATION

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2010

ASSETS

Current assets:

Cash, investments, and accrued interest	\$ 2,919,291
Cash with fiscal agents held for debt service	34,368,648
Accounts receivable, net of allowance for uncollectible accounts	11,921,552
Notes receivable, current portion	996,841
Due from other governments	<u>3,704,003</u>

Total current assets 53,910,335

Noncurrent assets:

Long-term accounts and notes receivable	<u>5,373,172</u>
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Restricted assets:

Cash, investments, and accrued interest	80,606,014
Investment with fiscal agents	<u>6,703</u>
Total restricted assets	<u>80,612,717</u>

Capital assets:

Land	25,644,811
Buildings and improvements	2,210,836
Improvements other than buildings	1,962,956,597
Machinery and equipment	53,464,211
Purchased water rights	<u>39,962,117</u>

2,084,238,572

Less accumulated depreciation and amortization 772,781,311

Net capital assets 1,311,457,261

Construction work in progress 37,482,194

Total capital assets 1,348,939,455

Other:

Capitalized bond issuance costs	<u>4,096,379</u>
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Total noncurrent assets 1,439,021,723

Total assets 1,492,932,058

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF NET ASSETS, continued
June 30, 2010

LIABILITIES

Current liabilities:

Trade accounts payable	3,804,920
Accrued payroll	1,538,836
Accrued vacation and sick leave pay	3,086,228
Deposits	710,183
Accrued interest payable	377,153
Water rights contract	948,650
Payable from restricted assets:	
Contracts and other payables	9,049,436
Current portion:	
Bonds	22,065,000
Loan agreements	12,414,954
Line of credit	14,769
Accrued interest	<u>13,080,271</u>
Total current liabilities	<u>67,090,400</u>

Noncurrent liabilities:

Long-term payable:	
Bonds, net of current portion, discounts and premiums	481,998,268
Loan agreements, net of current portion	194,226,993
Water rights contract, net of current portion	13,909,663
Line of credit, net of current portion	<u>744,776</u>
Total long-term payable	<u>690,879,700</u>
Other:	
Accrued vacation and sick leave pay	<u>93,260</u>
Total noncurrent liabilities	<u>690,972,960</u>

Total liabilities	<u>758,063,360</u>
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NET ASSETS

Invested in capital assets, net of related debt	728,364,793
Restricted for:	
Construction	11,071,808
Unrestricted, deficit	<u>(4,567,903)</u>
Total net assets	<u>\$ 734,868,698</u>

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year ended June 30, 2010

Operating revenues:	
Charges for services	<u>\$ 153,144,852</u>
Operating expenses:	
Salaries and fringe benefits	40,631,826
Professional services	601,889
Utilities	11,360,534
Supplies	9,010,015
Travel	52,167
Fuels, repairs, and maintenance	11,809,235
Contractual services	8,812,586
Other operating expenses	12,718,153
Depreciation	81,443,032
Amortization	<u>396,555</u>
Total operating expenses	<u>176,835,992</u>
Operating loss	<u>(23,691,140)</u>
Nonoperating revenues (expenses):	
Interest on investments	865,763
Interest expense	(24,977,661)
City water service expansion charges	6,834,261
Bond issue amortization	(516,023)
Other	<u>1,535,045</u>
Total nonoperating revenues (expenses)	<u>(16,258,615)</u>
Loss before capital contributions	<u>(39,949,755)</u>
Capital contributions	<u>18,917,211</u>
Change in fund net assets	<u>(21,032,544)</u>
Net assets, July 1	<u>755,901,242</u>
Net assets, June 30	<u>\$ 734,868,698</u>

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF CASH FLOWS
Year ended June 30, 2010

Cash flows from operating activities:	
Cash received from customers	\$ 154,434,374
Cash payments to employees for services	(40,199,344)
Cash payments to suppliers for goods and services	(53,987,134)
Miscellaneous cash received	<u>1,549,485</u>
Net cash provided by operating activities	<u>61,797,381</u>
Cash flows from capital and related financing activities:	
Proceeds from line of credit	7,714,182
Capitalized bond issuance costs	(95,732)
Principal paid on revenue bond maturities	(26,135,000)
Interest and other expenses paid on revenue bond maturities	(22,271,772)
Principal paid on loan agreements	(13,418,351)
Interest paid on loan agreements	(8,748,875)
Principal paid on line of credit	(2,745)
Principal paid on water rights contract	(920,608)
Interest paid on water rights contract	(480,626)
Purchased water rights	(18,752)
Acquisition and construction of capital assets	(72,112,511)
Capital grants received	9,268,307
City water service expansion charges	<u>6,834,261</u>
Net cash used for capital and related financing activities	<u>(120,388,222)</u>
Cash flows from investing activities:	
Interest received on investments	<u>1,661,561</u>
Net decrease in cash and cash equivalents	(56,929,280)
Cash and cash equivalents, July 1	<u>174,829,936</u>
Cash and cash equivalents, June 30	<u>\$ 117,900,656</u>

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF CASH FLOWS, continued
Year ended June 30, 2010

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

Operating loss	\$ (23,691,140)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	81,443,032
Amortization	396,555
Miscellaneous cash received	1,549,485
Decrease (increase) in assets:	
Receivables	1,436,548
Prepays	65,144
Increase (decrease) in liabilities:	
Accounts payable	165,275
Accrued employee compensation and benefits	<u>432,482</u>
Net cash provided by operating activities	<u><u>\$ 61,797,381</u></u>

Cash and cash equivalents at June 30 consist of:

Current assets:	
Non-restricted - Cash, investments, and accrued interest	\$ 2,919,291
Restricted - Cash with fiscal agents held for debt service	34,368,648
Non-Current Assets:	
Restricted assets:	
Cash, investments, and accrued interest	80,606,014
Investment with fiscal agents	<u>6,703</u>
Total cash and cash equivalents, June 30	<u><u>\$ 117,900,656</u></u>

Noncash transactions:

Capital contributions by developers	12,578,252
Capital contributions by other governments	399,000
Unrealized loss on investments	(45,156)
Conversion of line of credit to loan agreement	10,426,232

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

I. Summary of Significant Accounting Policies

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

A. Reporting entity

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

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

The accompanying financial statements present only the financial position of the Authority at June 30, 2010, and the results of its operations for the year ended June 30, 2010. The Authority is a component unit of the City, and these financial statements are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Authority on a separate Authority basis. Where applicable, the Authority's share of the expense is included (See Notes III A., G., and H.).

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

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

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

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

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

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

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

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

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

C. Assets, liabilities, and net assets or equity

1. Cash, investments, and accrued interest

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

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

All investments are valued at quoted market prices. The investment in the State of New Mexico local government investment pool (LGIP) is valued at fair value based on quoted market prices as of the valuation date. The State Treasurer LGIP is not SEC registered. The State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10.1A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. This pool is subject to the standards set forth in the State Treasurer's Local Government Investment Policy document incorporated in and made a part of the State Treasurer's Investment Policy document. The Independent Auditors' Report, together with the Financial Statements, the accompanying Notes to the Financial Statements and the Independent Auditors' Report on Compliance and Internal Controls are available from the State Investment Council, 2055 South Pacheco Street, Suite 100, Santa Fe, New Mexico 87505, upon written request.

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1. Cash, investments, and accrued interest, continued

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

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

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

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

2. Account receivables and unbilled amounts

Account receivables balances do not include an allowance for uncollectible accounts. Water and sewer services are billed on a cycle basis; therefore, amounts for service provided but unbilled as of June 30, 2010, have not been included in accounts receivable or revenue. Such unbilled amounts are not material to the financial position and results of operations of the Authority.

3. Restricted assets

At June 30, 2010, a portion of the Authority's net assets was restricted for revenue bond retirement and debt service and for acquisition and construction of capital assets.

4. Capital assets

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

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

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

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

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

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5. Other assets

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

6. Accrued vacation and sick leave pay

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

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

7. Accounts payable and construction contracts payable

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

8. Long-term obligations

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

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

9. Net assets, restrictions, and designations

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

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

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

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

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10. Statement of cash flows

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

11. Estimated amounts reported in financial statements

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

12. New accounting pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2010.

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.
- GASB Statement No. 59, *Financial Instruments Omnibus*.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AIPCA pronouncements*

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

II. Stewardship, Compliance and Accountability

The budgetary data is prepared consistent with the basis of accounting described in Note I. B. The annual budget is formulated by the Authority's Management and submitted to the Water Authority Board by April 1 for the fiscal year commencing July 1. Public hearings are conducted to obtain citizen comments on the proposed budget. By June 1, the budget is legally adopted through passage of an appropriation resolution by the Water Authority Board. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City's financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2010, expenditures may not exceed appropriations at the fund level.

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III. Detailed Notes

A. Cash and investments

As discussed in Note I.C.1., the Authority participates in the City's pooled investment program. Cash and investments are held by the City and balances are allocated between the City and Authority. The total cash, investments, accrued interest and cash with fiscal agents, net of cash overdrafts of the City at June 30, 2010, consist of the following:

	(In thousands of dollars)				
	<u>Govern- mental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Unit</u>
Cash, investments, accrued interest and cash with fiscal agents, net of unamortized discounts and premiums:					
Repurchase agreements	\$ 85,967	\$ 48,634	\$ 801	\$ 135,402	\$ 20,943
Obligations of federal agencies or instrumentalities	258,918	121,343	2,411	382,672	63,077
State of New Mexico investment council	17,861	-	-	17,861	-
State of New Mexico local government investment pool	619	8,309	6	8,934	151
Held in trust by NMFA in State of New Mexico local government investment pool	-	-	-	-	7
Held in trust by Wells Fargo Bank in U.S. Treasury Fund	111	2,168	-	2,279	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	981	1,583	-	2,564	-
Total investments	<u>364,457</u>	<u>182,037</u>	<u>3,218</u>	<u>549,712</u>	<u>84,178</u>
Certificates of deposit	63,314	29,672	590	93,576	15,424
Bank accounts at book balance	12,366	5,815	1,176	19,357	18,156
Total bank balances	<u>75,680</u>	<u>35,487</u>	<u>1,766</u>	<u>112,933</u>	<u>33,580</u>
Accrued interest receivable	583	274	5	862	143
Imprest cash funds	86	16	-	102	-
Escrow deposits	-	389	-	389	-
Total other	<u>669</u>	<u>679</u>	<u>5</u>	<u>1,353</u>	<u>143</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 440,806</u>	<u>\$ 218,203</u>	<u>\$ 4,989</u>	<u>\$ 663,998</u>	<u>\$ 117,901</u>
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 280,005	\$ 50,321	\$ 3,164	333,490	\$ 2,919
Cash and investments with fiscal agents	85,971	30,301	-	116,272	34,369
Cash held by others	-	277	-	277	-
Total current cash, investments and accrued interest	<u>365,976</u>	<u>80,899</u>	<u>3,164</u>	<u>450,039</u>	<u>37,288</u>
Restricted noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	56,193	136,915	1,825	194,933	80,606
Cash and investments with fiscal agents	18,637	-	-	18,637	7
Escrow deposits	-	389	-	389	-
Total noncurrent cash, investments and accrued interest	<u>74,830</u>	<u>137,304</u>	<u>1,825</u>	<u>213,959</u>	<u>80,613</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 440,806</u>	<u>\$ 218,203</u>	<u>\$ 4,989</u>	<u>\$ 663,998</u>	<u>\$ 117,901</u>

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A. Cash and investments, continued

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's funds may not be returned to it. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2010, none of the City's bank balances of \$147,999,000 was exposed to custodial credit risk.

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

Credit risk. Credit risk is the risk that in the event an issuer or other counterparty to an investment does not fulfill its obligations, the City will not be able to recover the value of its principal. As a home rule city, the City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The City's Investment Committee annually reviews its asset allocation strategies and guidelines for the percentage of its total portfolio that may be invested in securities other than repurchase agreements, U.S. Treasury bills and notes or insured/collateralized certificates of deposit. As part of the City's allocation evaluation, these guidelines are reviewed periodically, considering the probability of market and default risk in various investment sectors. The City's investment policy describes permitted investments as those permitted for municipalities with a population in excess of 65,000 per Section 10-10-10 of the Statutes of the State of New Mexico. Among permitted investments, the investment policy requires that 1) repurchase agreements have a collateralized value of 102% of the par value of the agreement, and 2) certificates of deposit with local banks be fully insured by the FDIC. Investments in direct obligations of the U.S. Treasury are permitted as are securities of the U.S. Government agencies denoted in Section 6-10-10 F (2) of the State Statutes. At June 30, 2010, the City's internal investment pool held investments in fully-collateralized overnight repurchase agreements (repos), fully-insured certificates of deposit and money market accounts, U.S. Treasury Securities, and U.S. Government agency notes.

During the previous fiscal year, the City's internal investment pool liquidated its position in the New Mexico State Treasurers Office (STO) Local Government Investment Pool (LGIP). However, at June 30, 2010 \$1,060,105 of the City's LGIP position was not returned, but held on the STO's ledger in a "Reserve Contingency Fund." This amount represents the City's portion of the LGIP's un-returned investment in the Reserve Primary Money Market Fund (Reserve). The Reserve Contingency Fund balance represents to LGIP investors a loss of principal if no further recoveries are received by the STO from Reserve. At June 30, 2010 the City expects its loss upon full liquidation of Reserve to be approximately \$803,000, and as such has accrued a loss. The City's Housing Authority continued to hold a non-pooled position in the STO LGIP Fund of \$7,987,986 and a balance in the Reserve Contingency Fund of \$30,623.

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, 2010, 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 38%, 33%, 7%, and 22% respectively, of the core segment (excluding core segment Treasury securities). Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. At June 30, 2010, core segment maturities are allocated as follows: 0-12 months – 7%; 1-2 years – 46%; 3-5 years – 47%.

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A. Cash and investments, continued

Summarized information concerning the GSE investments is as follows:

U.S. Agency Investments (summarized by GSE)	Wtd. Avg. Days to Maturity	Weighted Average Days to Call	Standard & Poor's Rating	Moody's Rating
Federal Home Loan Banks	783	174	AAA	Aaa
Federal National Mortgage Association	747	229	AAA	Aaa
Federal Home Loan Mortgage Corporation	737	234	AAA	Aaa
Federal Farm Credit Bank	665	72	AAA	Aaa

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

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

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City's investment policy limits the City's exposure to interest rate risk by requiring that no less than 80% of the funds invested in the core segment of the internal investment pool or in other discretionary funds be in maturities of no more than three years from date of purchase. No more than 20% of the funds may be invested in maturities between three and five years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten years from the date of purchase. The weighted average maturity of the investments in the internal investment pool's core segment at June 30, 2010 was 715 days. The weighted average days to call of the core segment was 178 days.

Pledged Collateral by Bank. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). The U.S. Congress has increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor. In addition, under the Temporary Liquidity Guarantee Program, the FDIC is currently insuring all Negotiable Order of Withdrawal (NOW) accounts in full, if the interest rate does not exceed 0.5 percent. The pledged collateral by bank (in thousands) at June 30, 2010 consists of the following:

	First Community	Bank of America	Bank of the West	Wells Fargo Bank	NM Bank & Trust
Total amount on deposit	\$ 2,363	\$ 33,638	\$ 109,055	\$ 2,030	\$ 914
Less FDIC coverage	<u>2,005</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>
Total uninsured public funds	358	-	108,805	1,780	664
50% collateral requirement	<u>-</u>	<u>16,694</u>	<u>54,402</u>	<u>890</u>	<u>332</u>
Pledged securities, fair value	<u>-</u>	<u>33,123</u>	<u>200,534</u>	<u>1,533</u>	<u>401</u>
Pledged in excess of requirement	<u>\$ -</u>	<u>\$ 16,429</u>	<u>\$ 146,132</u>	<u>\$ 643</u>	<u>\$ 69</u>

B. Accounts and notes receivable

Accounts receivable include water and sewer billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Consequently, the Authority does not have an allowance for doubtful accounts. Due from other governments are primarily Federal and State grants receivable of \$3,673,828 for capital improvements. Also included are miscellaneous receivables of \$30,175. Notes receivable are for utility expansion charges. The borrower is allowed to pay the Authority for the extension of water and sewer lines over a ten year period at 7% interest.

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C. Capital assets

Capital asset activity of the Authority for the year ended June 30, 2010, is as follows:

	Balance July 1	Increases	Decreases	Balance June 30
Assets not being depreciated:				
Land	\$ 23,548,127	\$ 2,096,684	\$ -	\$ 25,644,811
Construction work in progress	34,077,876	36,557,672	33,153,354	37,482,194
Total assets, not being depreciated	<u>57,626,003</u>	<u>38,654,356</u>	<u>33,153,354</u>	<u>63,127,005</u>
Assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improvements other than buildings	2,182,523,178	66,627,105	286,193,686	1,962,956,597
Equipment	59,869,486	6,049,467	12,454,742	53,464,211
Total assets, being depreciated	<u>2,244,603,500</u>	<u>72,676,572</u>	<u>298,648,428</u>	<u>2,018,631,644</u>
Less accumulated depreciation:				
Buildings	1,621,770	44,371	-	1,666,141
Improvements other than buildings	943,656,273	75,815,244	286,193,686	733,277,831
Equipment	33,594,336	5,583,417	12,440,301	26,737,452
Total accumulated depreciation	<u>978,872,379</u>	<u>81,443,032</u>	<u>298,633,987</u>	<u>761,681,424</u>
Capital assets being depreciated, net	<u>1,265,731,121</u>	<u>(8,766,460)</u>	<u>14,441</u>	<u>1,256,950,220</u>
Assets being amortized:				
Purchased water rights	39,943,365	18,752	-	39,962,117
Less amortization	10,703,332	396,555	-	11,099,887
Capital assets being amortized, net	<u>29,240,033</u>	<u>(377,803)</u>	<u>-</u>	<u>28,862,230</u>
Total capital assets, net	<u>\$ 1,352,597,157</u>	<u>\$ 29,510,093</u>	<u>\$ 33,167,795</u>	<u>\$ 1,348,939,455</u>

Changes to capital assets of the Authority for the fiscal year ended June 30, 2010, include the following amounts of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	\$ 29,446,746	\$ 4,469,085	\$ 24,977,661
Interest income	1,661,561	795,798	865,763
Capitalized interest		<u>\$ 3,673,287</u>	

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D. Short-term and long-term obligations

The change in the short-term and long-term obligations of the Authority for the year ended June 30, 2010, are as follows:

	Outstanding			June 30, 2010	Payable in one year
	June 30, 2009	Increases	Decreases		
Parity Obligations:					
Revenue Bonds	\$ 515,345,000	\$ -	\$ 26,135,000	\$ 489,210,000	\$ 22,065,000
Loan Agreements - NMFA	194,938,370	-	11,097,637	183,840,733	11,778,128
Line of Credit - NMFA	-	687,072	-	687,072	-
Subordinate Obligations:					
Loan Agreements - NMED	14,645,696	-	2,319,269	12,326,427	415,377
Loan Agreements - NMFA	-	10,426,232	-	10,426,232	218,951
Line of Credit - NMFA	3,524,340	6,977,110	10,426,232	75,218	-
Junior Obligations:					
Loan Agreements - NMFA	-	50,000	1,445	48,555	2,498
Line of Credit - NMFA	-	-	2,745	(2,745)	14,769
Water rights contract	15,778,921	-	920,608	14,858,313	948,650
Accrued vacation and sick leave pay	3,268,790	2,855,169	2,944,471	3,179,488	3,086,228
Less deferred amounts:					
Unamortized bond premiums	18,105,065	-	2,945,759	15,159,306	-
Bond refunding costs	(708,400)	-	(402,362)	(306,038)	-
	764,897,782	20,995,583	56,390,804	729,502,561	38,529,601
Current portion of long-term obligations	(41,789,765)	-	(3,260,164)	(38,529,601)	-
Total	<u>\$ 723,108,017</u>	<u>\$ 20,995,583</u>	<u>\$ 53,130,640</u>	<u>\$ 690,972,960</u>	<u>\$ 38,529,601</u>

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. The Authority did not meet those requirements at the end of the fiscal year.

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

Authority parity obligations outstanding at June 30, 2010, are as follows:

Revenue Bonds Issued	Amount	Interest Rate	Final Maturity	Call Provisions
January 1, 1999A	23,230,000	3.80% to 5.25%	July 1, 2011	Not callable
October 25, 2005	127,840,000	3.50% to 5.00%	July 1, 2025	100% beginning July 1, 2015
July 12, 2006	132,145,000	4.25% to 5.165%	July 1, 2026	100% beginning July 1, 2016
April 9, 2008	55,630,000	5.00%	July 1, 2033	100% beginning July 1, 2018
April 8, 2009	135,990,000	3.00% to 5.50%	July 1, 2029	100% beginning July 1, 2019
April 8, 2009, Refunding	<u>14,375,000</u>	3.00% to 5.00%	July 1, 2013	Not callable
Total outstanding	489,210,000			
Unamortized:				
Premiums	15,159,306			
Deferred refunding costs	<u>(306,038)</u>			
Net outstanding	<u>\$ 504,063,268</u>			

Loan Agreements Issued	Current Loan Balance	Original Loan Amount	Interest Rate	Final Maturity
May 10, 2002	\$ 438,660	\$ 2,450,000	2.75%	July 1, 2012
April 11, 2003	1,907,073	3,600,000	2.00%	January 1, 2016
October 13, 2004	93,995,000	118,415,000	1.32% to 4.16%	May 1, 2024
October 28, 2005	19,000,000	20,000,000	2.93% to 4.01%	May 1, 2025
September 26, 2007	<u>68,500,000</u>	77,005,000	4.00% to 5.0%	May 1, 2025
Total outstanding	<u>\$ 183,840,733</u>			

The Authority entered into a line of credit agreement on January 18, 2010 with the New Mexico Finance Authority (NMFA) whereby the Authority can draw up to \$2,000,000. 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 \$1,000,000 will be subsidized by the grant and therefore not repayable. The purpose of the project is to upgrade and improve the water utility system, including, but not limited to construction of a water line extension to serve the community of Carnuel in Bernalillo County. The Authority must complete the project by January 8, 2012. Upon completion of the project, the line of credit will be resized to a loan for the actual cost incurred. The interest rate is .75%, with an administrative fee of .25%. At June 30, 2010, the Authority had drawn \$1,374,144 (\$687,072 loan and \$687,072 subsidy).

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, 2010, is \$1,606,442.

On June 14, 2000, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$15,000,000 to a long-term note payable with an interest rate of 4% with annual payments of \$1,587,627. Final payment is due on July 1, 2012. The balance due at June 30, 2010, is \$2,994,415.

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

On May 20, 2005, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$12,000,000 line of credit agreement. The note payable of \$9,627,877 (total draws on the line of credit plus accrued interest of \$242,655) has an interest rate of 3%. The note requires annual payments of \$647,145, due on May 20th each year. Final payment is due May 20, 2025. The balance due at June 30, 2010, is \$7,725,570.

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 FY 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, 2010, is \$10,426,232.

The Authority entered into a line of credit agreement on January 22, 2010 with the New Mexico Finance Authority (NMFA) whereby the Authority can draw up to \$200,000. 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 \$140,000 will be subsidized by the grant and therefore not repayable. The purpose of the project is to upgrade and improve the water utility system, including, but not limited to, expansion of the leak detection system to cover an additional 5% of the distribution system. The Authority must complete the project by January 22, 2012. Upon completion, the line of credit will be resized to a loan for the actual cost incurred. The interest rate is .75%, with an administrative fee of .25%. At June 30, 2010, the Authority had drawn \$199,873 (\$59,873 loan and \$140,000 subsidy). Subsequent to FY 2010, this project was completed for a total cost of \$199,873, of which \$140,000 was forgiven and a new loan created for \$59,873. The close occurred August 11, 2010. Payments begin May 1, 2011 and final maturity is May 1, 2030.

The Authority entered into a line of credit agreement on January 22, 2010 with the New Mexico Finance Authority (NMFA) whereby the Authority can draw up to \$156,826. 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 \$109,778 will be subsidized by the grant and therefore not repayable. The purpose of the project is to upgrade and improve the water utility system, including, but not limited to, the replacement of approximately 1,086 high flow urinals with high efficiency fixtures in City of Albuquerque facilities. The Authority must complete the project by January 22, 2012. Upon completion, the line of credit will be resized to a loan for the actual cost incurred. The interest rate is .75%, with an administrative fee of .25%. At June 30, 2010, the Authority had not taken any draws on this credit line.

Also on January 22, 2010, the Authority entered into a line of credit agreement with the New Mexico Finance Authority (NMFA) whereby the Authority can draw up to \$414,036. The agreement is partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complies with the terms of the agreement, then \$289,825 will be subsidized by the grant and therefore not repayable. The purpose of the project is to upgrade and improve the water utility system, including, but not limited to, a water use efficiency retrofit analysis. The Authority must complete the project by January 22, 2012. Upon completion, the line of credit will be resized to a loan for the actual cost incurred. The interest rate is .75%, with an administrative fee of .25%. At June 30, 2010, the Authority had drawn \$51,151 (\$15,345 loan and \$35,806 subsidy).

Junior Obligations – Loan Agreements and Lines of Credit:

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 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. The loan payments began June 1, 2010 and extend until June 1, 2029. The balance due at June 30, 2010 is \$48,555. Drawdowns on the grant at June 30, 2010 were \$343,703.

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

Also on November 13, 2009 the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for \$100,000 with 0% interest and an administrative fee of .25%. The agreement includes a \$400,000 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. The loan payments began June 1, 2010 and extend until June 1, 2029. Since the Authority has not drawn any monies on the loan or grant, the Authority considers it to be a line of credit. On June 1, 2010, the Authority made a \$2,745 prepayment.

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 are to begin June 1, 2011 and extend until June 1, 2030. Since the Authority has not drawn any monies on the loan or grant, the Authority considers it to be a line of credit at June 30, 2010.

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, 2010, is \$14,858,313.

The annual debt service requirements on the revenue bonds, loan agreements, and the water rights contract payable outstanding at June 30, 2010, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 35,443,373	\$ 31,651,234	\$ 67,094,607
2012	41,171,032	30,343,511	71,514,543
2013	40,699,842	28,630,742	69,330,584
2014	40,541,406	26,844,154	67,385,560
2015	39,136,014	25,123,028	64,259,042
2016 - 2020	199,302,124	98,761,257	298,063,381
2021 - 2025	177,021,208	55,049,027	232,070,235
2026 - 2030	79,605,030	23,107,461	102,712,491
2031 - 2035	<u>57,805,000</u>	<u>6,871,828</u>	<u>64,676,828</u>
	<u>\$ 710,725,029</u>	<u>\$ 326,382,242</u>	<u>\$ 1,037,107,271</u>

E. Defined benefit pension plan – Public Employees Retirement Association

Plan Description. Substantially all of the Authority’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement and disability benefits, survivor benefits and cost of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123. The report is also available on PERA’s website at www.pera.state.nm.us.

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

Funding Policy. Plan members are required to contribute 13.15% of their gross salary. The Authority is required to contribute 9.15% of the gross covered salary. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The Authority has elected to make a percentage of the employee's contributions. The Authority's employer contribution to PERA for the fiscal years ending June 30, 2010, 2009, and 2008, were \$2,404,453, \$2,168,754 and \$1,880,834 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 \$140,038 in fiscal year 2010 of which \$106,084 were from employer contributions and \$33,954 was from employee contributions.

G. Post employment benefits

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

Postemployment Life Insurance Benefits.

Plan Description. The City's Life Insurance Benefit Plan (Plan) is a single employer defined benefit plan administered by the City; the plan also includes coverage for the employees of the Albuquerque Bernalillo County Water Authority (a separate legal entity, although a component unit of the City). Insurance benefits are authorized by the City's Merit System Ordinance and Personnel Rules and Regulations. Upon retirement an employee will continue to be covered by the City's plan at no cost to the employee. Coverage will be one-half of the coverage reflected on the most recent annual life insurance adjustment report immediately prior to retirement up to a maximum of \$25,000. Effective July 1, 2008 the minimum amount of coverage per retiree will be \$12,500. The number of retired employees covered under the life insurance benefit was 3,854 at June 30, 2010, and the amount of life insurance coverage for these retired employees was \$80,679,900.

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, 2010, 2009, and 2008 were \$262,030, \$247,265, and \$242,940, respectively. The life insurance and accidental death and dismemberment premium costs for the City's active employees for the years ending June 30, 2010, 2009, and 2008, were \$1,178,243, \$1,170,789, and \$1,074,508, respectively.

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

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G. Post employment benefits, continued

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

Net OPEB Obligation at beginning of year	<u>\$ 3,969,105</u>
<i>Plus</i> Projected Annual OPEB Cost:	
Interest on Net OPEB Obligation at beginning of year	158,764
Annual Required Contribution (ARC) for current fiscal year	3,466,815
ARC Adjustment for current fiscal year	<u>(167,453)</u>
	<u>3,458,126</u>
<i>Less</i> Net Employer Contribution	<u>(1,438,000)</u>
Expected Net OPEB Obligation at end of year	<u><u>\$ 5,989,231</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 3,183,763	37.6%	\$ 1,985,159
6/30/2009	\$ 3,348,091	40.7%	\$ 3,969,105
6/30/2010	\$ 3,458,126	41.6%	\$ 5,989,231

The Authority's portion of the Net OPEB Obligation is \$251,901 and is carried on the City's books at this time because a significant portion of the obligation for retirees of the Authority was incurred when the Authority was a department of the City.

Funding Status and Funding Progress. As of June 30, 2010, the most recent actuarial valuation date, the plan was 0% percent funded using the criteria established by GASBS 45. The total actuarial accrued liability (AAL) for benefits was \$55,613,436 (\$15,740,818 for active employees and \$39,872,618 for retired employees). There are no plan assets; however, the City has earmarked \$4,762,233 in the City's Internal Service Employee Insurance Fund for future plan costs. The covered payroll for the Authority (annual payroll of active employees covered by the plan) was \$27,047,218 and the ratio of the UAAL to the covered payroll was 4.79%. The Authority's ARC as a percent of payroll is 0.54% of which .4% is the normal cost as a percent of payroll. The ARC per active employee is \$250. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events of events far into the future. Examples include assumptions about future employment, mortality, and changes in life expectancies. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress is presented as required supplementary information following the notes to the financial statements.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the Life Insurance Benefit plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the City's historical pattern of paying for the plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2010, actuarial valuation, the Entry Age Normal (EAN) funding method was used where, for each plan member, the actuarial present value of benefits is levelly spread over the plan member's earnings or service from entry age to assumed exit age. The EAN cost method is generally regarded by actuaries as the most stable of the funding methods. The goal of GASBS 45 is to match recognition of retiree life expense with the periods during which the benefit is earned and the City's actuary believe that EAN funding method effectively meets that goal in most circumstances. Another important issue in these calculations is the treatment of implicit subsidies where retiree coverage is subsidized by active employee costs. The City pays the same insurance premium rates

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G. Post employment benefits, continued

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, 2010, 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, 2010, was 28 years. The ARC was based on a 4.0 percent discount rate, funding will be based on an 8.0 percent discount rate.

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. Through fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee was required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

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

Fiscal <u>Year</u>	Employer Contribution <u>Rate</u>	Employee Contribution <u>Rate</u>
2011	1.666%	0.833%
2012	1.834%	0.917%
2013	2.000%	1.000%

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G. Post employment benefits, continued

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
2011	2.084%	1.042%
2012	2.292%	1.146%
2013	2.500%	1.250%

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

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

The Authority's contributions (employer and employee) to the RHCA for the years ended June 30, 2010, 2009, and 2008 were \$501,380, \$464,425 and \$417,796, respectively, which equal the required contributions for each year.

H. Risk management

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

The Risk Management Fund tracks claims on a fund by fund basis and assesses charges to each fund based on historical claims experience and the need to establish a reserve for unanticipated catastrophic losses. That reserve was \$1,000,000 at June 30, 2010, and is included in the unrestricted net assets (deficit) of the Risk Management Fund. The claims liabilities reported in the Risk Management Fund are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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

Based on historical data, the City believes the Risk Management Fund is adequately funded. During Fiscal Year 2007, a comprehensive actuarial review was done to gauge the adequacy of the reserves for both the Workers' Compensation and Tort Liability programs. The actuarial review validated that the current reserves are adequate for reserves in anticipation of adverse developments in reported cases and for claims which may have occurred but have not yet been reported. The cash balance decreased by \$9,291,908 during Fiscal Year 2010.

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H. Risk management, continued

Moreover, pursuant to Section 41-4-25(B) NMSA 1978, in the event of a judgment against the City in excess of \$1,000,000 the City, with Council approval, may levy a tax on real property to provide for the payment of catastrophic losses. In addition, the City started Fiscal Year 2010 with \$5,731,166 available in the General Fund balance. Finally, the City has reserve amounts created by the City's policy to reserve one-twelfth of the General Fund budgeted amount.

The amounts and change in the Fund's claims liability in fiscal year 2010 and 2009 were:

	2010	2009
Claims liability at July 1	\$ 67,372,880	\$ 60,096,704
Current year claims and change in estimates	27,977,251	29,676,042
Claims liquidated	(34,386,820)	(23,399,866)
Claims liability at June 30	\$ 60,963,311	\$ 66,372,880
The components of the claims liability at June 30 are:		
Current portion	\$ 20,440,000	\$ 40,654,800
Noncurrent portion	40,523,311	26,718,080
Total claims liability	\$ 60,963,311	\$ 67,372,880

The Authority paid \$4,149,164 for its share of the risk management charges for the year.

I. Transactions with other government agencies

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

Franchise fees	\$ 5,141,465
Administrative indirect overhead, including accounting and other central services	2,036,584
Warehouse supplies	3,210,931
Fleet management services	1,292,963
Barricading and street sweeping	545,710
Total	\$ 12,227,653

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

J. Commitments and contingencies

Construction Commitments. At June 30, 2010, the uncompleted construction and other commitments in the Authority was \$42,343,551. This amount will be paid from assets restricted for construction, improvements and replacements, or from operating revenues.

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

In March 2008, the Authority and the Pajarito Mesa Mutual Domestic Water Consumer Association (PMMDWCA) entered into an agreement to extend water infrastructure improvements and provide water service to the Pajarito Mesa community. This agreement was amended in January 2010 to provide for the construction of a drinking water fill station and booster station along Pajarito Road

In the amended agreement, PMMDWCA agreed to own and operate the drinking water fill station and assume responsibility for billing its customers for water withdrawn from the water fill station, collecting the amounts due from its customers and remitting those funds to the Authority. The Authority will own, operate and maintain all other components of the water system which supplies and distributes water to the PMMDWCA. Reimbursement for costs associated with operation and maintenance of the system, including reserves, shall be collected by the Authority through collection of payments based on approved rates as established in the Rate Ordinance.

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

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

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

K. Significant effects of subsequent events

Rate Increase. At its June 2011 meeting, the Authority Board approved changes to the Rate Ordinance designed to increase system revenues by five percent in fiscal year 2012.

The Authority rate structure is based upon Cost of Service Principles. It is one that maintains equity amongst classes of customers and equity within classes of customers. The rate structure is one that also promotes conservation. Customers pay fixed rates for water and sewer services as well as additional charges based on the volume of water used or discharged. The Authority's rate structure is a matrix

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

K. Significant effects of subsequent events, continued

based on meter sizes, classes of users, high consumption surcharges, low consumption credits and extra strength discharges. Given this complex structure there were options for amending the rate structure in order to meet the five percent revenue goal. Proposed changes to the rates were modeled and revenue forecasts were derived. The Board chose a rate structure based on a cost of service approach intended to encourage conservation and maintain equity among customer classes.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR LIFE INSURANCE BENEFIT PLAN
Year ended June 30, 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age Normal</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL Percentage of Covered Payroll</u>
6/30/2008	0	1,328,431	1,328,431	0.00%	33,434,911	3.97%
6/30/2009	0	1,328,431	1,328,431	0.00%	33,434,911	3.97%
6/30/2010	0	1,296,421	1,296,421	0.00%	27,047,218	4.79%

Note: This schedule represents the funding progress for the Albuquerque Bernalillo County Water Utility Authority portion of the City of Albuquerque's total unfunded actuarial accrued liability of \$55,613,436.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
Year ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Charges for services	\$ 135,474,000	\$ 135,474,000	\$ 129,661,692	\$ (5,812,308)
City water service expansion charges	7,000,000	7,000,000	6,834,261	(165,739)
Sustainable water supply	25,150,000	25,150,000	23,483,160	(1,666,840)
Interest on investments	1,800,000	1,800,000	556,834	(1,243,166)
Valley system connection charges	75,000	75,000	17,004	(57,996)
City system connection charges	200,000	200,000	368,425	168,425
Other miscellaneous	1,873,000	1,873,000	1,304,363	(568,637)
Transfer from non-restricted cash to cash restricted for debt service	<u>67,790,000</u>	<u>67,790,000</u>	<u>67,790,000</u>	<u>-</u>
Total revenues	<u>239,362,000</u>	<u>239,362,000</u>	<u>230,015,739</u>	<u>(9,346,261)</u>
Expenses:				
Water plant facility production	10,193,000	10,193,000	10,659,937	(466,937)
Water plant facility distribution	11,109,000	11,109,000	13,002,599	(1,893,599)
Water distribution facilitation	3,390,000	3,390,000	3,468,153	(78,153)
Wastewater treatment	12,940,000	12,940,000	14,430,076	(1,490,076)
Compliance	3,381,000	3,381,000	2,833,507	547,493
Wastewater collection	7,218,000	7,218,000	7,858,467	(640,467)
Sustainable water supply	10,022,000	10,022,000	7,985,026	2,036,974
North I-25 reuse	449,000	449,000	472,530	(23,530)
Customer services	4,888,000	4,888,000	4,694,277	193,723
Finance	7,073,000	7,073,000	6,647,019	425,981
Human resources	1,497,000	1,497,000	1,354,292	142,708
NW service area	3,244,000	3,244,000	2,389,503	854,497
San Juan-Chama	2,246,000	2,246,000	2,005,522	240,478
Water resources, engineering and planning	5,758,000	5,758,000	6,013,316	(255,316)
Information systems	3,326,000	3,326,000	3,640,489	(314,489)
Low income utility credit	250,000	250,000	229,612	20,388
Water Authority	2,869,000	2,869,000	3,181,924	(312,924)
Debt service	69,627,000	69,627,000	67,029,472	2,597,528
Transfer to cash restricted for debt service	67,790,000	67,790,000	67,790,000	-
Transfer from cash restricted for debt service to cash restricted for capital acquisition	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>-</u>
Transfer to cash restricted for capital acquisition	12,500,000	12,500,000	12,500,000	-
Administrative services	<u>7,248,000</u>	<u>7,248,000</u>	<u>6,946,465</u>	<u>301,535</u>
Total expenses	<u>252,018,000</u>	<u>252,018,000</u>	<u>250,132,186</u>	<u>1,885,814</u>
Excess of revenues over (under) expenses	<u>\$ (12,656,000)</u>	<u>\$ (12,656,000)</u>	<u>(20,116,447)</u>	<u>\$ (7,460,447)</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET TO ACTUAL, continued
Year ended June 30, 2010

	<u>Actual</u>
Revenues (expenses) not budgeted:	
Interest on investments of restricted assets	1,149,884
Gain (loss) on disposition of property and equipment	7,450
Depreciation	(81,443,032)
Amortization of deferred bond costs	(516,023)
Amortization on water rights contract	(396,556)
Amortization on premium and discounts	2,945,759
Amortization of deferred amounts on refundings	(402,362)
Unrealized gain (loss) on investments	(45,156)
Miscellaneous expenses	(857,557)
Lease of water rights	<u>1,192,826</u>
Net expenses over revenues not budgeted	<u>(78,364,767)</u>
Changes to conform to generally accepted accounting principles:	
Principal payments on bonds and loan agreements	36,417,195
Transfer to cash restricted for capital acquisition	17,500,000
Capital contributions	18,917,211
Capital outlay	940,979
Capitalized interest on long-term debt	<u>3,673,285</u>
Net changes to conform to generally accepted accounting principles	<u>77,448,670</u>
Change in net assets	<u>\$ (21,032,544)</u>

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating revenues:			
Charges for services	\$ <u>107,771</u>	\$ <u>113,781</u>	\$ <u>117,681</u>
Operating expenses:			
Salaries and fringe benefits	25,062	25,433	24,760
Professional services	1,065	754	236
Utilities	8,244	7,581	7,924
Supplies	1,957	1,307	1,529
Travel	25	13	5
Fuels, repairs, and maintenance	7,875	7,169	7,524
Contractual services	3,313	3,145	2,637
Other operating expenses	10,152	10,743	10,786
Depreciation	37,070	39,355	40,843
Amortization - water rights	332	348	359
Bad debt expense	-	-	-
Total operating expenses	<u>95,095</u>	<u>95,848</u>	<u>96,603</u>
Operating income (loss)	<u>12,676</u>	<u>17,933</u>	<u>21,078</u>
Nonoperating revenues (expenses):			
Interest on investments	2,502	2,032	1,073
Gain (loss) on disposition of capital assets	102	66	19
Interest expense	(14,046)	(12,206)	(12,278)
City water service expansion charges	10,909	11,909	14,433
Bond issue costs incurred ⁽²⁾	-	-	-
Bond issue amortization ⁽²⁾	(93)	(35)	(97)
Equipment purchased for outside agency or fund	-	-	(332)
Expenses incurred for outside agency or fund	-	-	-
Other	3,649	544	4,938
Total nonoperating revenues (expenses)	<u>3,023</u>	<u>2,310</u>	<u>7,756</u>
Income (loss) before capital contributions and transfers	15,699	20,243	28,834
Capital contributions	12,182	14,995	22,178
Change in net assets	27,881	35,238	51,012
Net assets, July 1	<u>424,614</u>	<u>452,495</u>	<u>487,733</u>
Net assets, June 30	\$ <u>452,495</u>	\$ <u>487,733</u>	\$ <u>538,745</u>

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

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

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>\$ 130,420</u>	<u>\$ 126,622</u>	<u>\$ 138,202</u>	<u>\$ 141,034</u>	<u>\$ 152,232</u>	<u>\$ 147,146</u>	<u>\$ 153,145</u>
25,479	26,796	27,200	30,151	33,435	37,383	40,632
388	1,139	522	572	706	859	602
8,306	7,935	8,575	7,844	9,218	12,203	11,361
2,425	2,939	3,567	4,493	5,249	6,092	9,010
26	24	19	36	47	28	52
7,387	7,252	7,322	9,494	10,441	10,873	11,809
3,886	4,422	2,907	3,937	6,334	8,890	8,813
12,498	12,909	14,058	14,058	14,111	13,401	12,718
42,877	46,410	51,934	55,926	60,906	72,295	81,443
370	374	383	392	393	396	396
-	-	-	-	339	93	-
<u>103,642</u>	<u>110,200</u>	<u>116,487</u>	<u>126,903</u>	<u>141,179</u>	<u>162,513</u>	<u>176,836</u>
<u>26,778</u>	<u>16,422</u>	<u>21,715</u>	<u>14,131</u>	<u>11,053</u>	<u>(15,367)</u>	<u>(23,691)</u>
419	1,549	5,019	8,936	6,443	2,648	866
10	(356)	7	(51)	(2)	-	-
(10,428)	(8,406)	(8,619)	(15,889)	(21,782)	(21,682)	(24,977)
15,112	12,404	17,255	12,516	11,075	6,346	6,834
-	-	-	-	-	-	-
(130)	(143)	(313)	(305)	(405)	(360)	(516)
(242)	-	-	-	-	-	-
(296)	(161)	(278)	(118)	-	-	-
<u>203</u>	<u>1,390</u>	<u>570</u>	<u>70</u>	<u>1,359</u>	<u>7,870</u>	<u>1,535</u>
<u>4,648</u>	<u>6,277</u>	<u>13,641</u>	<u>5,159</u>	<u>(3,312)</u>	<u>(5,178)</u>	<u>(16,258)</u>
31,426	22,699	35,356	19,290	7,741	(20,545)	(39,949)
<u>28,288</u>	<u>20,849</u>	<u>16,854</u>	<u>15,448</u>	<u>11,939</u>	<u>27,811</u>	<u>18,917</u>
59,714	43,548	52,210	34,738	19,680	7,266	(21,032)
<u>538,745</u>	<u>598,459</u>	<u>642,007</u>	<u>694,217</u>	<u>728,955</u>	<u>748,635</u>	<u>755,901</u>
<u>\$ 598,459</u>	<u>\$ 642,007</u>	<u>\$ 694,217</u>	<u>\$ 728,955</u>	<u>\$ 748,635</u>	<u>\$ 755,901</u>	<u>\$ 734,869</u>

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

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

⁽¹⁾ Estimated

Source: City of Albuquerque, Water Utility Department.

2005	2006	2007	2008	2009	2010
525,347	530,600	533,253	538,586	543,971	549,411
167,737	171,130	172,394	174,005	194,087	200,498
3.13	3.10	3.09	3.10	2.80	2.74
32,469,000	31,384,000	32,598,000	31,940,000	33,098,373	33,830,964
29,551,899	27,942,376	28,573,691	27,816,110	28,844,216	29,949,844
89,860,274	85,983,561	89,284,930	87,506,849	90,680,474	92,687,573
179,876,700	165,478,800	174,986,400	155,329,700	186,819,804	226,902,542
150,459,000	149,879,000	147,670,000	149,870,000	144,030,800	160,000,000
536	502	518	503	467	462
294,000,000	294,000,000	294,000,000	294,000,000	314,250,000	282,000,000
211,000,000	211,000,000	211,000,000	211,000,000	228,700,000	249,000,000
-	-	-	-	140,000,000	140,000,000
-	-	-	-	20,000,000	20,000,000
13,435	14,093	14,093	14,577	14,778	14,879
76,000,000	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
2,520	2,520	2,520	2,599	2,626	2,636
1,820	1,820	1,820	1,846	1,858	1,863
-	-	-	-	37	37

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

Population

US Census		Bernalillo County	% Inc/Dec from Prev. Yr.	City of Albuquerque	% Inc/Dec from Prev. Yr.	State of New Mexico	% Inc/Dec from Prev. Yr.
2009	**	640,567	1.10%	529,219	1.14%	2,007,315	1.17%
2008	**	633,611	1.01%	523,240	1.18%	1,984,179	0.91%
2007	**	627,259	1.46%	517,162	1.71%	1,966,357	1.33%
2006	**	618,226	1.89%	508,486	2.20%	1,940,631	1.35%
2005	**	606,779	4.20%	497,543	4.63%	1,914,699	2.49%
2004	**	593,866	1.98%	486,319	2.27%	1,890,215	1.18%
2003	**	582,349	1.35%	475,511	1.72%	1,868,121	1.05%
2002	**	573,489	1.94%	466,455	2.15%	1,849,187	1.32%
2001	**	562,635	0.92%	455,961	1.03%	1,828,437	0.50%
2000	*	557,432	0.84%	450,557	6.87%	1,820,802	0.76%
1999	**	551,298	0.31%	420,578	-0.19%	1,808,082	0.81%
1990	*	100,244	-76.15%	386,988	16.24%	1,515,069	16.26%
1980	*	420,262	33.09%	332,920	36.16%	1,303,143	28.13%

* Source: Bureau of the Census

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

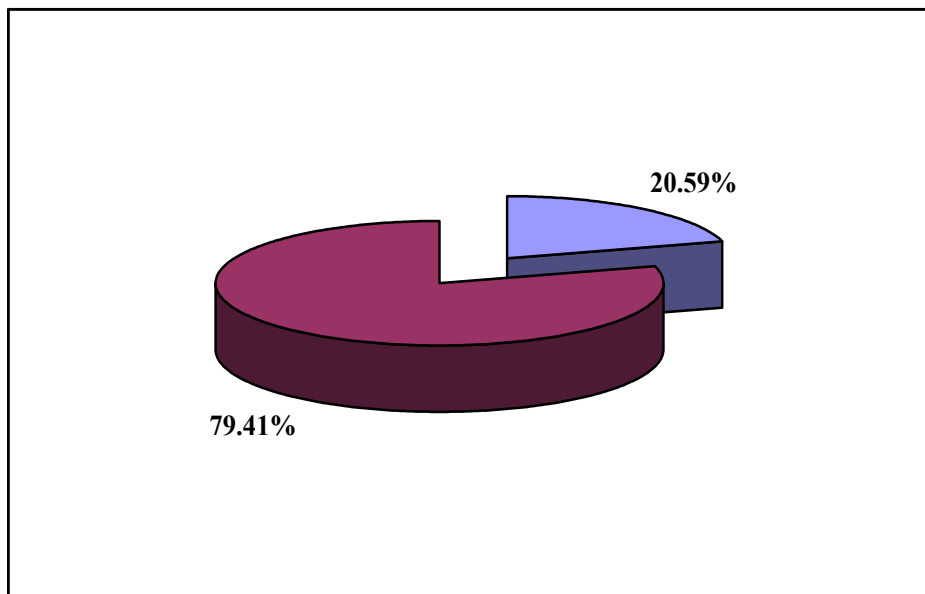
Unemployment

Calendar Year	-----Bernalillo County-----			-----Unemployment Rates-----		
	Civilian Labor Force	Number Employed	Number Unemployed	Bernalillo County	New Mexico	United States
2010	314,600	287,419	27,181	8.60%	8.90%	9.70%
2009	315,392	292,867	22,525	7.10%	7.20%	9.30%
2008	318,065	304,023	14,042	4.40%	4.50%	5.80%
2007	314,180	303,692	10,488	3.30%	3.20%	4.80%
2006	313,406	301,179	12,227	3.90%	4.20%	4.60%
2005	316,477	304,008	12,469	3.90%	4.40%	4.90%
2004	312,140	279,810	14,330	4.60%	5.60%	5.40%
2003	315,152	299,843	15,309	4.90%	5.70%	6.10%
2002	308,907	294,946	13,961	4.52%	5.40%	5.80%
2001	305,169	293,339	10,947	3.59%	4.80%	4.80%
2000	303,158	275,575	9,819	3.24%	5.00%	4.00%
1999	286,588	280,785	11,013	3.84%	5.60%	4.20%

Source: New Mexico Department of Labor

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

2010				
	<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>	<u>% of County Employment</u>
1.	Kirtland AFB (Civilian) includes Sandia National Labs, DOE, and contractors on or off of base.	Defense	16,200	3.96%
2.	University of New Mexico	Education	15,890	3.89%
3.	Albuquerque Public Schools	Education	14,000	3.42%
4.	Presbyterian	Hospital/ Medical Services	7,369	1.80%
5.	Lovelace	Hospital/ Medical Services	7,000	1.71%
6.	UNM Hospital	Hospital/ Medical Services	5,950	1.46%
7.	City of Albuquerque	Government	5,940	1.45%
8.	State of New Mexico	Government	5,910	1.45%
9.	Intel Corporation	Semiconductor Manufacturer	3,300	0.81%
10.	Bernalillo County	Government	<u>2,618</u>	<u>0.64%</u>
	Total		<u>84,177</u>	<u>20.59%</u>
	Total Non-Ag Civil and Military Employees		<u>408,800</u>	<u>100.00%</u>



Source: Albuquerque Economic Development, Inc.

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

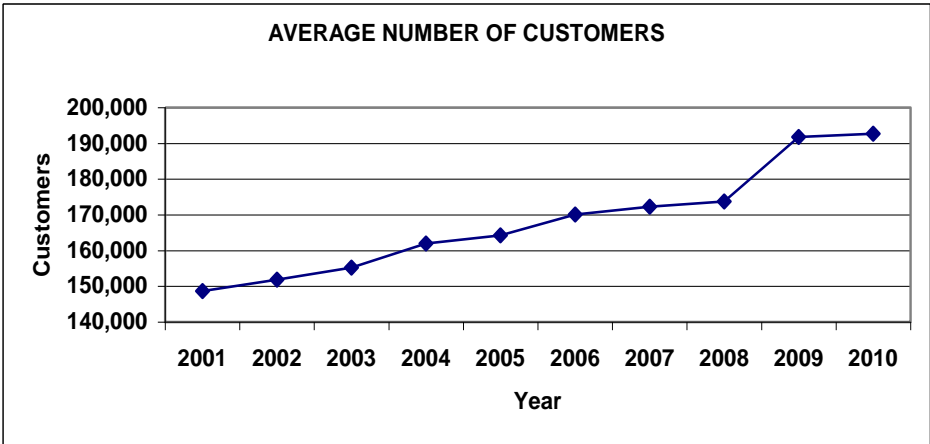
History of Water Users by Class

<u>Class</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	134,014	137,081	140,347	146,656	148,974	151,089	152,563	153,959	171,983	172,787
Multi-Family ⁽¹⁾	-	-	-	-	-	6,812	7,565	7,644	6,231	6,349
Commercial	12,871	12,952	13,033	13,388	13,304	10,065	10,049	9,998	11,367	11,272
Institutional	1,660	1,683	1,712	1,836	1,853	1,981	1,983	2,013	2,119	2,223
Industrial	<u>125</u>	<u>124</u>	<u>121</u>	<u>122</u>	<u>114</u>	<u>113</u>	<u>110</u>	<u>110</u>	<u>113</u>	<u>106</u>
Total	<u>148,670</u>	<u>151,840</u>	<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>

History of Water Users by Meter Sizes

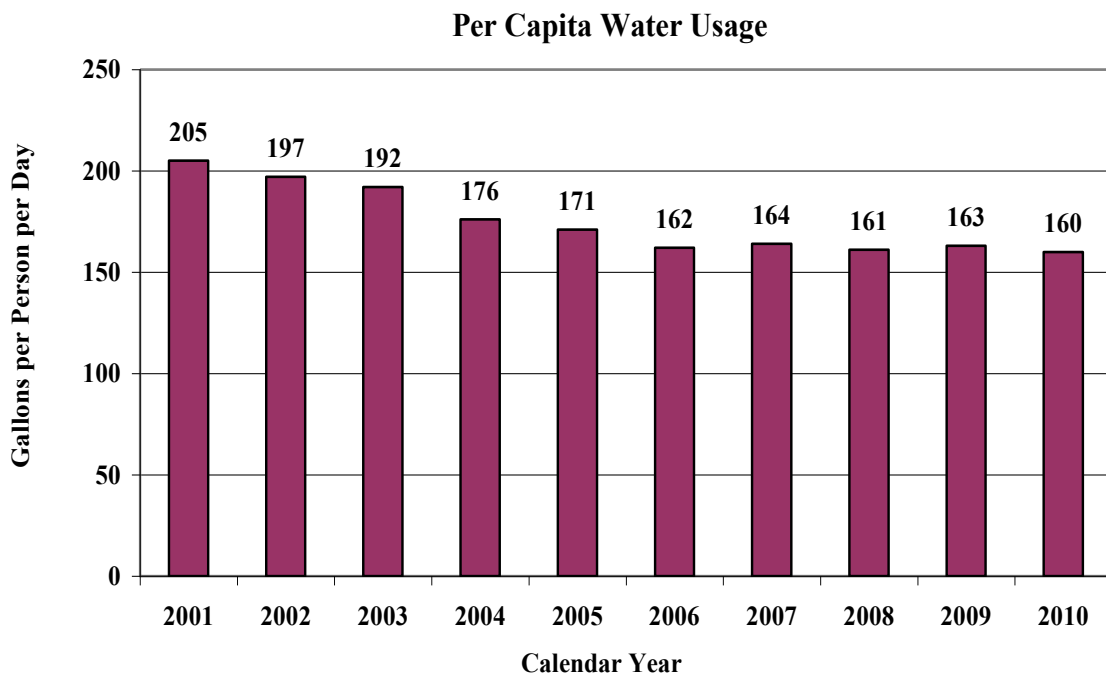
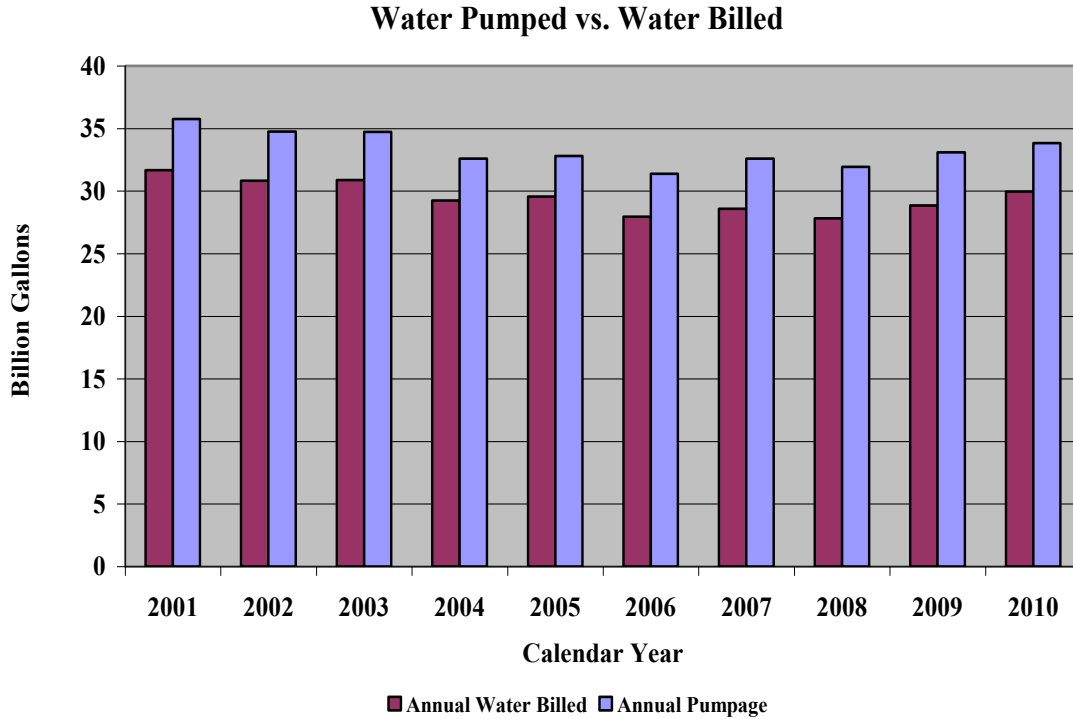
<u>Meter Size</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
¾"	124,523	128,192	132,387	139,351	142,018	146,842	149,846	151,172	168,632	169,414
1" and 1 ¼ "	19,692	19,153	18,321	17,863	17,588	17,773	17,581	17,621	17,611	17,820
1 ½ "	1,846	1,854	1,847	1,854	1,879	1,945	1,955	1,968	2,169	2,195
2"	1,868	1,892	1,905	1,958	1,997	2,509	1,816	1,839	2,179	2,228
3"	406	410	412	524	419	654	733	766	834	714
4"	242	246	247	311	251	244	246	264	275	268
6"	55	55	55	73	52	52	53	53	67	58
8" and over	<u>38</u>	<u>38</u>	<u>39</u>	<u>68</u>	<u>41</u>	<u>41</u>	<u>40</u>	<u>41</u>	<u>46</u>	<u>40</u>
Total	<u>148,670</u>	<u>151,840</u>	<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>

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



Source: Albuquerque Bernalillo County Water Utility Authority

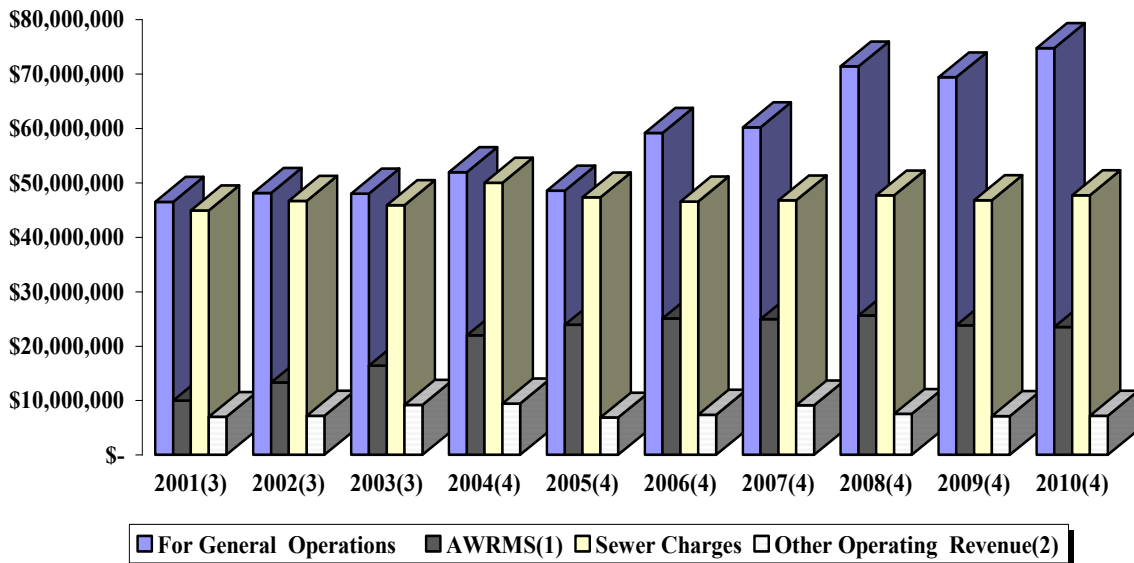
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER CONSUMPTION
LAST TEN CALENDAR YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

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

Fiscal Year	Revenue from Water Charges		Revenue From Sewer Charges	Other Operating Revenue ⁽²⁾	Total Operating Revenue
	For General Operations	For AWRMS ⁽¹⁾			
2001 ⁽³⁾	\$ 46,504,223	\$ 9,954,245	\$ 44,898,231	\$ 6,966,656	\$ 108,323,355
2002 ⁽³⁾	48,115,849	13,276,044	46,691,595	7,188,885	115,272,373
2003 ⁽³⁾	48,027,213	16,410,278	45,893,219	9,185,099	119,515,809
2004 ⁽⁴⁾	51,968,803	21,950,195	50,012,413	9,437,552	133,368,963
2005 ⁽⁴⁾	48,560,930	23,904,227	47,310,366	6,846,660	126,622,183
2006 ⁽⁴⁾	59,172,344	25,095,852	46,563,188	7,371,006	138,202,390
2007 ⁽⁴⁾	60,186,959	24,975,068	46,771,690	9,100,112	141,033,829
2008 ⁽⁴⁾	71,398,950	25,630,246	47,683,918	7,519,231	152,232,345
2009 ⁽⁴⁾	69,395,141	23,803,266	46,805,468	7,141,714	147,145,589
2010 ⁽⁴⁾	74,773,904	23,483,160	47,685,066	7,202,722	153,144,852



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

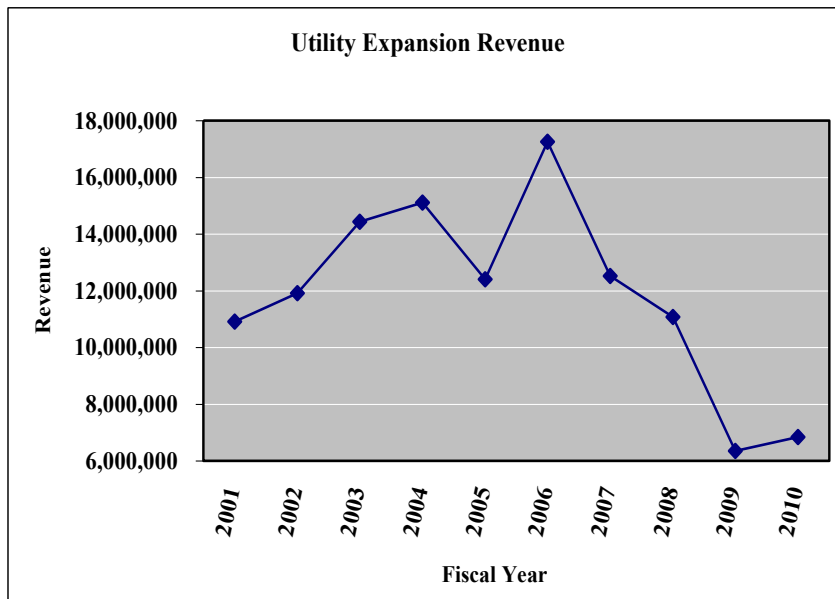
(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

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

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

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

<u>Fiscal Year</u>	<u>Total Utility Expansion Charge Revenues</u>
2001 ⁽¹⁾	\$ 10,908,556
2002 ⁽¹⁾	11,908,616
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



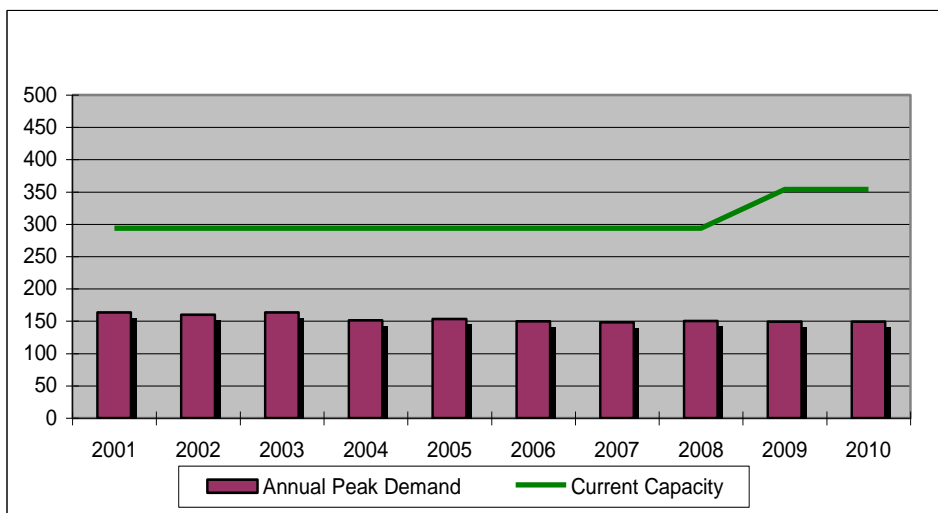
Source: (1) City of Albuquerque Comprehensive Annual Financial Report.

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

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

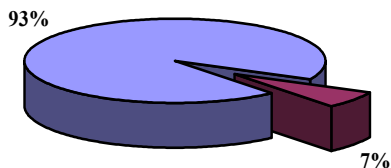
WATER SYSTEM ANNUAL PEAK DEMAND
(calendar year)

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



WATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2010 Revenue</u>	<u>% of Total Revenue</u>
1. City of Albuquerque	1,723,216	\$ 3,583,840	3.65%
2. Albuquerque Public Schools	448,339	1,389,671	1.41%
3. University of New Mexico	228,298	563,694	0.57%
4. Kirtland Air Force Base	142,324	307,914	0.31%
5. Bernalillo County	133,921	314,333	0.32%
6. Lovelace Health	98,651	186,691	0.19%
7. Albuquerque Water Authority	67,617	188,884	0.19%
8. Albuquerque Academy	65,649	121,616	0.12%
9. Sumitomo Sitix Silicon, Inc.	59,839	105,997	0.11%
10. Central New Mexico Community College	46,952	151,924	0.15%
Total		\$ 6,914,564	7.04%
Total Revenue for System		\$ 98,257,064	

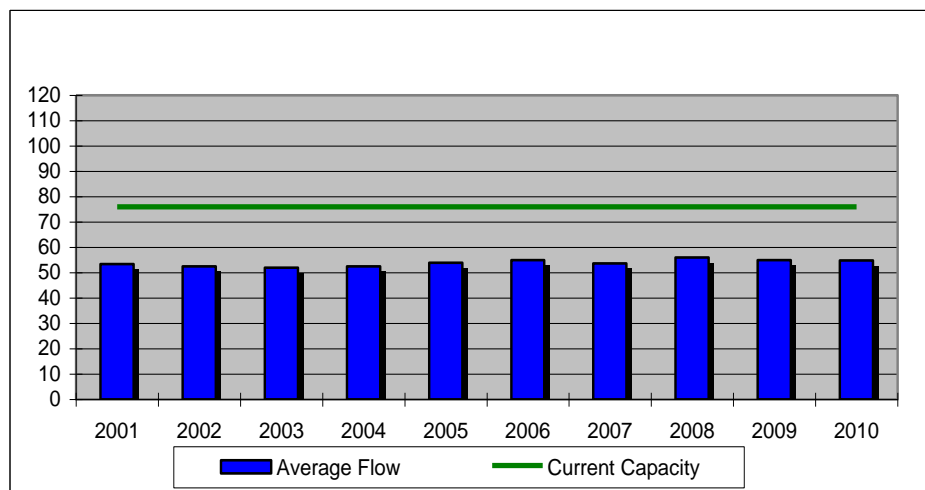


Source: Albuquerque Bernalillo County Water Utility Authority

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

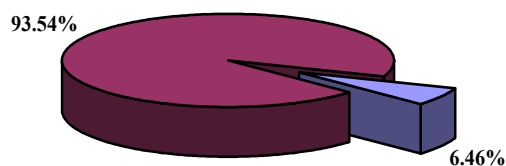
WASTEWATER SYSTEM ANNUAL AVERAGE FLOW
(calendar year)

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



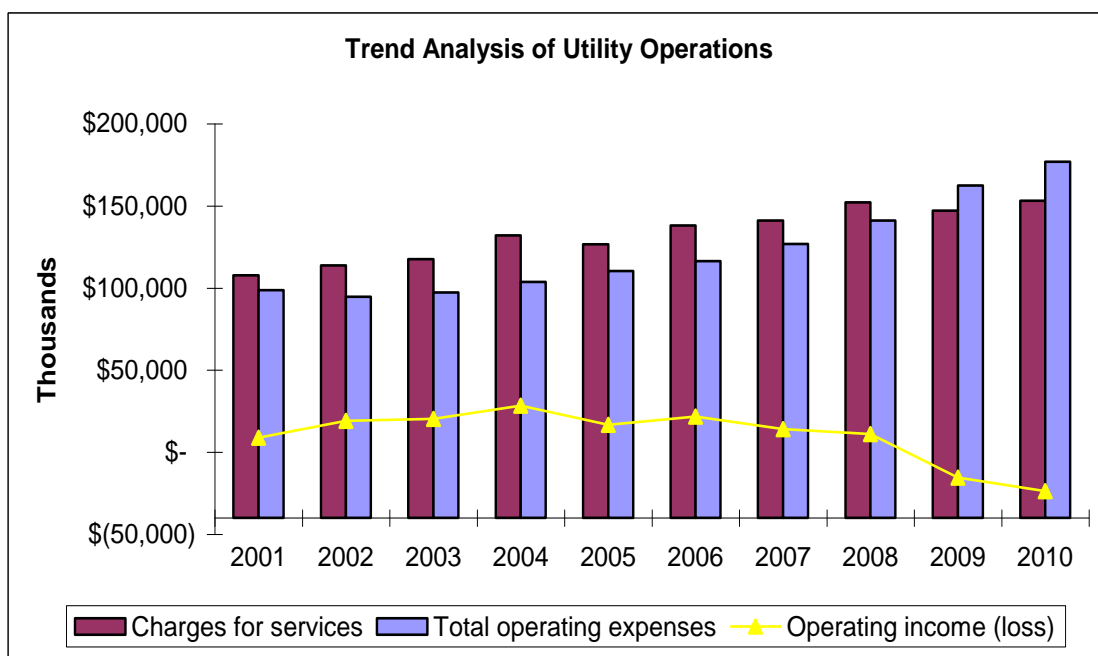
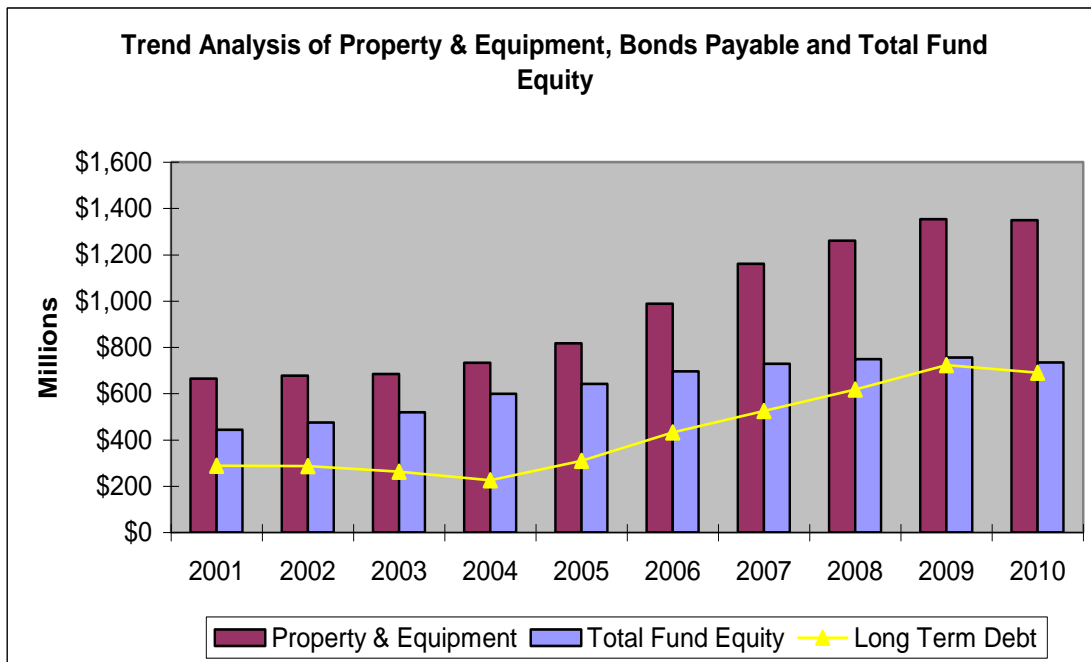
WASTEWATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2010 Revenue</u>	<u>% of Total Revenue</u>
1. Kirtland Air Force Base	554,046	\$ 947,437	1.99%
2. University of New Mexico	327,411	543,532	1.14%
3. City of Albuquerque	138,188	375,335	0.79%
4. Albuquerque Public Schools	123,612	548,263	1.15%
5. Lovelace Health	84,250	132,809	0.28%
6. Sandia Peak Services	63,843	68,181	0.14%
7. Bernalillo County	44,389	106,259	0.22%
8. General Electric	26,644	60,942	0.13%
9. Creamland Dairies	25,511	261,126	0.55%
10. Towne Park Home Owners Association	21,746	36,875	0.08%
Total		\$ 3,080,759	6.46%
Total Revenue for System		\$ 47,685,066	



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

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



Source: Albuquerque Bernalillo County Water Utility Authority

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

	<u>2001</u>		<u>2002</u>		<u>2003</u>		<u>2004</u>
Water Utility Authority Revenue Bonds ⁽¹⁾							
Revenues	\$ 125,002	\$	129,425	\$	139,937	\$	150,224
Expenses ⁽²⁾	57,815		55,356		57,315		55,892
Available for debt service	67,187		74,069		82,622		94,332
Debt service	44,703		45,919		47,516		49,179
Debt service coverage ratio	1.5		1.6		1.7		1.9

⁽¹⁾ 2000 - 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, payments in lieu of taxes, and bad debt expense.

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

	<u>2005</u>	<u>2006</u>	<u>2007⁽³⁾</u>	<u>2008⁽³⁾</u>	<u>2009</u>	<u>2010</u>	Ratio Required <u>2010</u>
\$	144,074	163,278	162,390	166,580	160,800	158,528	
	59,005	61,932	65,336	72,541	83,177	87,768	
	85,069	101,346	97,054	94,039	77,623	70,760	
	52,279	55,641	62,027	61,785	65,144	70,983	
	1.6	1.8	1.6	1.5	1.2	1.0	1.3

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

Components of Net Assets:	Fiscal Years						
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Invested in capital assets, net of related debt	\$ 517,181	\$ 566,451	\$ 609,955	\$ 666,487	\$ 698,063	\$ 725,767	\$ 728,365
Restricted for debt service	10,393	11,491	12,919	6,003	-	-	-
Restricted for construction	17,576	26,621	5,539	-	10,553	13,672	11,072
Unrestricted	54,949	37,444	65,804	56,465	40,019	16,462	(4,568)
Total Net Assets	<u>\$ 600,099</u>	<u>\$ 642,007</u>	<u>\$ 694,217</u>	<u>\$ 728,955</u>	<u>\$ 748,635</u>	<u>\$ 755,901</u>	<u>\$ 734,869</u>

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

<u>Outstanding Obligations (in 000's)</u>	Fiscal Years						
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenue bonds, net	\$ 213,188	\$ 182,194	\$ 289,213	\$ 389,871	\$ 418,114	\$ 532,742	\$ 504,063
Loan agreements	26,029	147,928	159,712	152,529	219,780	209,584	206,642
Water rights contract	19,990	19,197	18,381	17,539	16,672	15,779	14,858
Lines of credit	-	-	-	-	-	3,524	760
Total outstanding obligations	<u>\$ 259,207</u>	<u>\$ 349,319</u>	<u>\$ 467,306</u>	<u>\$ 559,939</u>	<u>\$ 654,566</u>	<u>\$ 761,629</u>	<u>\$ 726,323</u>
Number of Customers ⁽²⁾⁽³⁾	162,536	167,737	171,130	172,394	174,005	194,087	200,498
Average debt per customer	\$ 1,595	\$ 2,083	\$ 2,731	\$ 3,248	\$ 3,762	\$ 3,924	\$ 3,623
Estimated population ⁽²⁾	512,288	525,347	530,600	533,253	538,586	543,971	549,411
Per capita debt	\$ 506	\$ 665	\$ 881	\$ 1,050	\$ 1,215	\$ 1,400	\$ 1,322
Per capita income ⁽¹⁾	\$ 31,434	\$ 29,988	\$ 31,434	\$ 33,161	\$ 34,032	\$ 32,992	\$ 32,992

⁽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
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE RATE COMPARISONS

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

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

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

We have audited the basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the Authority of Albuquerque, New Mexico, as of and for the year ended June 30, 2010, as listed in the table of contents and have issued our report thereon dated July 26, 2011. We have also audited the budgetary comparison for the year ended June 30, 2010, as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items

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

08-13, 08-16, 09-02, 09-04, 09-05, 09-14, and 09-15. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 10-01, 10-02, 10-03, 10-04, 10-05, and 10-06.

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

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

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

Moss Adams LLP

Albuquerque, New Mexico
July 26, 2011

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2010

05-13 AUDIT REPORT DUE DATE (REPEATED AND MODIFIED)

Condition. The report was not submitted by the due date. It was received by the New Mexico Office of the State Auditor on 7/29/11.

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

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

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

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

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

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08-13 CAPITAL ASSETS ADDITIONS (MODIFIED and REPEATED)

Condition. During our test work of 25 capital asset additions we noted the following::

Two capitalized assets, with a historical cost of \$6,251.26 and \$12,882 were found not to be tagged with a City issued tag or some identifying traceable characteristics.

One capitalized asset, with a historical cost of \$9,998 was found not to be tagged with a City issued tag or some identifying traceable characteristics. It was also noted, that the serial number on the asset was inconsistent with the information on the City's capital asset list.

Three capitalized assets, two with a historical cost of \$20,420 and one with a historical cost of \$75,159 had an asset tag number on the vehicle which was inconsistent with the information on the City's capital asset list.

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

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

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

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

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

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08-16 BANK RECONCILIATION PROCESS (MODIFIED and REPEATED)

Condition. The City's bank reconciliations, while very complex, fail to produce reconciled bank amounts which tie in readily to the general ledger. Also, the bank reconciliations are cluttered with reconciling items that should have been resolved in previous years. The Accounts Payables reconciliation involves eleven large spreadsheets to perform the reconciliation, the Payroll account reconciliation involves twenty-four spreadsheets and the Common Fund reconciliations involve 26 spreadsheets. For example, the reconciliation for the accounts payable bank account as of June 30, 2010 still has five reconciling items in the amount of \$52,166 that are at least three years old. While the City has significantly reduced reconciling item transactions from the prior year (\$5,060,297), more clean-up needs to be made.

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

Effect. The City has a bank reconciliation process that is unnecessarily complex and which takes more time than it should to reconcile the bank accounts each month. Further, the current process requires City staff to develop a supplemental document at fiscal year end to "reconcile" the bank reconciliation to the general ledger. This supplemental document helps to bridge the gap between the bank reconciliation and the general ledger. When a change in staffing requires someone else to take over the reconciliation process it has taken several months for the individual to perform the reconciliation without assistance.

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

Recommendation. The City needs to simplify the bank reconciliation process and redesign the bank reconciliations so that it will not be necessary to create a supplemental document to "reconcile" the bank reconciliations to the general ledger produced by the City's PeopleSoft accounting software. The redesigned bank reconciliations should derive as much information as possible from the software. The City also needs to ensure that items in the reconciliation are being cleared timely.

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

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09-02 PREMATURE PURCHASE OF AIRLINE TICKETS (MODIFIED and REPEATED)

Condition. There was one instance of a \$484 airline ticket being booked without prior authorization and completion of the T-01 form.

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

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

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

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

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

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9-04 PAYROLL- LACK OF APPROVAL (MODIFIED and REPEATED)

Condition. We reviewed a sample of 25 payroll transactions totaling \$45,972 and noted the following:

One employee's timesheet was not turned in.

One transaction in the amount of \$1,963 required adjustments to an employee's time due to the way the payroll department is processing APD payroll. A series of entries were miscoded in the People Soft system causing an additional eight hours of regular time and reducing eight hours of holiday time.

Criteria. Section 301.17 of the City's Personnel Rules and Regulations states that timesheets are to be signed by the employee and their supervisor indicating their review and approval.

Effect. Employees may be paid for time not worked. Due to the way APD is processing payroll, adjustments were made to an employee's time in the PeopleSoft system, which caused an overpayment of \$3.

Cause. Lack of adherence to the City's policies and inadequate management oversight. APD is unable to submit the employee's actual time worked to payroll department by the deadline, causing the payroll department to estimate employee hours worked for the 2nd week of the payroll cycle and adjusting through journal entries after the payroll has been processed.

Recommendation. We recommend the City enforce their internal policies to ensure compliance by sending electronic memorandums to employees of the City's policies. Also, we recommend the City ensure that the amount paid to the employee, reflects actual time worked and agrees to the employee's timesheet.

Management Response. The City concurs with this finding. The City is in the process of simplifying the time keeping process which will decrease the time it takes to pay an employee. In addition, the Personnel Rules and Regulations regarding approvals will be reviewed with City department Directors and timekeepers through Payroll User Group meetings and email communications

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09-05 PURCHASE & TRAVEL CARD REQUEST/CARDHOLDER AGREEMENTS- NO AUTHORIZATION (MODIFIED and REPEATED)

Condition. The City recorded 12,662 purchase card (P-Card) and 341 travel card (T-Card) transactions during this fiscal year. We reviewed a sample of 25 P-Card transactions totaling \$4,008 and 25 T-Card transactions totaling \$8,875. There were 9 Travel Cardholders and 23 Purchase Cardholders.

The following was noted for Travel Cards: 3 out of 9 T-Cardholders did not have an updated Training form in their file and 1 out of 9 T-Cardholders did not have a Purchasing Department representative's signature authorizing the issuance of the card to the Cardholder.

The following was noted for Travel Cards: 3 out of 9 Card Request/Employee Agreement forms for Travel Cards did not have a Card/Program Administrator's signature for authorization. The resulting purchases that the cardholders procured in our sample totaled \$853.

The following was noted for Purchase Cards: 1 out of 23 P-Cardholders did not have a file in existence, 3 out of the 23 P-Cardholders did not have an existing Training form in their file and 4 out of 23 P-Cardholders did not have an existing Card Distribution form in their file.

The following was noted for Purchase Cards: 15 of 23 Card Request/Employee Agreement forms did not have a Card/Program Administrator's signature for authorization. The resulting purchases that the cardholders procured in our sample totaled \$4,819.

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

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

Cause. It appears files are not being properly maintained to determine if a cardholder has attended the mandatory training and understands the policies and procedures governing Purchase Cards. However, the City was aware of the Purchase Card policies but failed to authorize the Purchase and Travel Card Request/Employee Agreements.

Recommendation. We recommend that records are maintained on an individual basis for each employee and have a representative from Purchasing authorize that the cardholder has attended the mandatory training in conjunction with the cardholder's signature to accept responsibility of the agreed to terms. Employees should not be able to attend the mandatory training and receive a Purchase Card until their request for card is authorized.

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

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09-14 ACCURATE AND TIMELY BUDGET TO ACTUAL INFORMATION (MODIFIED and REPEATED)

Condition. Due to the untimely closing of the general ledger and reconciling of subsidiary ledgers, accurate budget to actual reports are not available timely to departments to ensure that expenditures did not exceed amounts budgeted.

Criteria. Per ordinances Section 2-11-12 ROA 1994, the City can't overspend their budget.

Effect. There is an increased risk of overspending budgets.

Cause. The City converted to their general ledger system to PeopleSoft in January 2009. Certain aspects of the new software did not function as needed; which created a backlog of information in the system 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.

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

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

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09-15 TIMELY CLOSING OF GENERAL LEDGER AND RECONCILIATION OF SUBSIDIARY LEDGERS (MODIFIED and REPEATED)

Condition. The general ledger for fiscal year ending June 30, 2010, was not closed until June 2011. We also noted that various subsidiary ledgers were not timely reconciled to the general ledger on a monthly or year-end basis.

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

Effect. Reporting of the City's Comprehensive Annual Financial Report (CAFR) is late, which could affect the City's bond ratings and federal funding. Other important deadlines are missed, which places the City out of compliance with various regulations, such as the 2010 New Mexico State Auditor Rule and the Single Audit Act. When subsidiary ledgers are not timely reconciled to general ledger, there is an increased risk of errors in the general ledger not being detected and corrected in a timely manner.

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

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

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

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

There are a few subsidiary systems within the City that are specific to the operations of the respective departments, such as Aviation and Housing, which cannot be interfaced to the Peoplesoft system without additional monetary and staff resources. At this time, the transactions in these systems are recorded in Peoplesoft general ledger through journal entries.

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10-01 DISASTER RECOVERY PLAN

Condition. During our review, we noted that the City does not have a comprehensive written disaster recovery plan. Without a written disaster recovery plan to provide guidance, the City may be unable to effectively manage the recovery effort. A written disaster recovery plan should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations.

Criteria. The City's Security Policies (dated 3/8/2006) provides that the City is responsible to protect against disruption of the operation of its technology assets and thereby help to protect the citizens, economy, essential human and government services, and public safety of the City. 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. To ensure that City business objectives are met and the confidence of our citizens, customers, taxpayers, ratepayers and bondholders is maintained, all employees have a responsibility to protect information from unauthorized access, modification, disclosure, and destruction, whether accidental or intentional.

Effect. The lack of a written Disaster Recovery Plan and absence of testing may pose question as to the City's ability to respond and recover its critical data and applications in the event of an unforeseen disaster.

Cause. The City is still working on updating its Disaster Recovery Plan.

Recommendation. We recommend that the City develop its Disaster Recovery Plan. It would be prudent for the City to test the disaster recovery plan to ensure the viability of the plan and the timeliness of its execution. The City has an obligation to its residents and the people it serves to ensure that it has a plan for continued business operations. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with the City's overall business continuity planning. Doing so will prepare the City for continuing operations in the event of an unforeseen disaster.

Management's Response. The City has written documentation defining a disaster recovery strategy for PeopleSoft ERP which details the specific steps to perform a disaster recovery. Components of this plan have been successfully executed. The City regularly reviews the plan to ensure currency and as noted in the cause of this finding, we are currently updating the plan. We are in agreement with the recommendation that the plan needs to be fully tested.

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10-02 ACCESS ADMINISTRATION

Condition. Our review of the users' roles in PeopleSoft revealed that there were 18 and 20 with administrative right (super user) in the HRMPROG and FINPROG modules, respectively. A user with administrative right can basically perform any functions in the PeopleSoft without restriction.

Criteria. The City's Security Policies (dated 3/8/2006) states that the City is responsible to protect against disruption of the operation of its technology assets and thereby help to protect the citizens, economy, essential human and government services, and public safety of the City. 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. To ensure that City business objectives are met and the confidence of citizens, customers, taxpayers, ratepayers and bondholders is maintained, all employees have a responsibility to protect information from unauthorized access, modification, disclosure, and destruction, whether accidental or intentional.

Effect. The current systems access security settings pose increased risk of unauthorized entry and modification in the PeopleSoft.

Cause. User access controls are not reviewed on a regular basis.

Recommendation. We recommend that the City perform a comprehensive review of the users' access listing to ensure that each user's access is appropriate based on his/her responsibilities and functions. Administrative rights should be restricted only to employees that need them to execute their responsibilities.

Management's Response All administrative users are members within the ERP Division or work closely with Division staff to support administrative functions. The City agrees with the recommendation to review user access and roles to ensure alignment with appropriate need. The City will perform this review.

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

Condition. The City processed 12,662 purchase card (P-Card) and 341 travel card (T-Card) transactions during this fiscal year. We reviewed a sample of 25 P-Card transactions totaling \$4,008 and the following was noted: 11 transactions totaling \$1,982 did not have a log purchase log/reconciliation that were reviewed and signed off by the department director or designee. We reviewed a sample of 25 T-Card transactions totaling \$8,875 and the following was noted: 14 transactions totaling \$5,567 did not have a purchase log/reconciliation that was reviewed and/or signed off by the department director or designee.

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

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

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

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

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

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

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OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE, SECTION 12-6-5, NMSA 1978, continued

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

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

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

Effect. There is an increased risk of theft.

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

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

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

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09-18 ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY BOND COVENANTS (MODIFIED and REPEATED)

Condition. The Albuquerque Bernalillo County Water Utility Authority (Authority) was not in compliance with the rate covenant ratio as of June 30, 2010.

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

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

Cause. Net revenues in 2010 were less than 133% of annual debt service requirements.

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

Management Response. The Authority concurs with this finding. Due to the drastic decline in the economy the Authority's revenue declined, including the Utility Expansion Charge Revenues. Growth in the service area declined to a level to where there was no growth at all. The Authority then reduced CIP spending dramatically and has continued to do so until such time this revenue sees an upturn. Also the Authority has kept expenses down with very minimal increases in fiscal 2010 and fiscal 2011. The Authority also has approved rate increases of 5% each that are effective July 1, 2011 and July 1, 2013. During the first quarter of fiscal 2011 the Authority's revenue has shown significant increases over the 1st quarter of fiscal 2010. The Authority will continue to monitor our Net Revenues and make appropriate adjustments if needed.

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OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE, SECTION 12-6-5, NMSA 1978, continued

10-03 REPORTING UNCLAIMED PROPERTY

Condition. The City does not report unclaimed property to the State on a regular basis.

Criteria. The Uniform Unclaimed Property Act (1995) Article 8A states that property held by a court, government, governmental subdivision, or agency is assumed abandoned if it is unclaimed by the apparent owner one year after the property becomes distributable. Such funds must be escheated to the State of New Mexico.

Effect. Noncompliance with the Uniform Unclaimed Property Act (1995) Article 8A.

Cause. Lack of evidence that unclaimed property has been reported to the State on a yearly basis.

Recommendation. We recommend policies and procedures be implemented to ensure compliance. The City should evaluate all unclaimed property and exercise due diligence in reporting unclaimed property to the State.

Management Response. The City concurs with this finding. The Accounting department has reviewed the policy regarding reporting unclaimed property with accounting staff.

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OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE, SECTION 12-6-5, NMSA 1978, continued

10-04 Schedule of Expenditures of Federal Awards (SEFA)

Questioned Costs: None

Condition. During our test work of the SEFA, it was revealed that the City does not have a process in place to reconcile the general ledger to the drawdown requests. As a result, the amounts reported on the SEFA had to be adjusted.

During testwork, it was also revealed that the City does not have a process in place to ensure that reimbursement requests are being completed on a timely basis, and federal expenditures being posted to incorrect project codes in the system.

In addition, we noted that some grants had deferred revenue on expense reimbursement grants. Upon testing, it was noted that some grants have a performance based measure where additional revenues would be received above the grant award. We believe that this revenue should not be included in the SEFA rollforward and deferred revenue should not be recorded. The other expense reimbursement grants with deferred revenue require further research to determine the cause.

Criteria. Good internal control procedures should include processes to verify and review the accuracy and completeness of financial information reported in the SEFA.

Effect. The City may not have drawn down on federal awards that were available causing the City to cover current year expenditures and the City could lose federal funding if reimbursement is not requested timely within the funding period.

Cause. Federal grant reporting is de-centralized. DFAS accountants rely upon the information provided by the departments and there is no process in place for DFAS to verify the accuracy of the information provided. In addition, federal and non-federal expenditures are not separately tracked in the general ledger system. There is no process in place to identify and recognize non-cash awards.

Recommendation. Processes should be in place that will ensure the accuracy and completeness of the reporting of federal expenditures. These processes should include utilizing the general ledger system as intended to allow for the separate recording and tracking of federal and non-federal expenditures, revenues, grants receivable and deferred revenues. Ideally, the grant accounting function should be centralized; meaning DFAS Accounting should be provided with accurate and timely support for federal award transactions including non-cash awards such as equipment or commodities. Each department should have a life-to-date tracking of each grant to ensure expenditures are posted to the correct project ID and reimbursement requests are made timely.

Management Response. The City concurs with this finding. The new Grant Administration Section of the Accounting Division has focused their efforts in assisting City departments in the accurate recording and tracking of federal expenditures, including grants receivable and deferred revenue. The City Grant Administrator is also currently working with ERP consultants to develop processes and procedures within the new ERP system that will assist in properly identifying and monitoring grant expenditures and receipts that are managed by departments at the program level. Additional resources are needed to reconcile the grants on a life to date basis. The City is working on a plan to provide additional resources.

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OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE, SECTION 12-6-5, NMSA 1978, continued

10-05 PROCUREMENT FINDING

U.S. Department of the Interior – Water Reclamation and Reuse Program CFDA #15.504 and Environmental Protection Agency – Capitalization Grants For Drinking Water State Revolving Funds CFDA #66.468

Questioned Costs. Unknown

Condition. During our internal control assessment of Water Reclamation and Reuse Program (CFDA#15.504), we were unable to obtain the “Certification Regarding Debarment, Suspension, and Other Responsibility Matters – Primary Covered Transactions” form that is signed by a certain contractor. We were also unable to determine if the Water Utility Authority personnel conducted a search on the Excluded Parties List System (EPLS) website to determine if the vendor was excluded by Federal government agencies from receiving federally funded contracts before the contract was executed.

In addition, during our testing of procurement we noted that the contract with a vendor had expired in May 2008, however services have been rendered and paid in fiscal years 2009 and 2010, without contract in place.

During our test work over Capitalization Grants for Drinking Water State Revolving Funds (CFDA#66.468), we noted that in two out of two procurements tested, the Water Utility Authority did not obtain debarment or suspension certification or verify on the Excluded Parties List System (EPLS) if the vendors were suspended or debarred.

Criteria. According to OMB Circular A-102 Section 1.d., Debarment and Suspension, Federal agencies shall not award assistance to applicants that are debarred or suspended; or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Non-procurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order.

Effect. Contracts may be awarded to persons or organizations that are suspended or debarred.

Cause. The Water Utility Authority does not have a process in place to use the EPLS website to determine if a vendor is suspended or debarred.

Recommendation. We recommend that the Water Utility Authority establish and implement a procedure to check all vendors against the EPLS to determine if any are suspended or debarred before services are performed and will be paid with federal funds. In addition, the Authority should also ensure that all contracts are up-to-date

Management Response: The Authority concurs with this finding. The Authority will ensure that both the Excluded Parties List and the New Mexico website are searched prior to the recommendation of award.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2010

OTHER FINDINGS, AS REQUIRED BY NEW MEXICO STATE STATUTE, SECTION 12-6-5, NMSA 1978, continued

10-06 REPORTING - U.S. DEPARTMENT OF THE INTERIOR WATER RECLAMATION AND REUSE PROGRAM (ARRA) CFDA 15.504

Condition. During our reporting test work we noted that the SF-425 was not properly completed for the quarters ending March 31, 2010 and June 30, 2010. We noted the following discrepancies;

- The SF-425 report for quarter ending March 31, 2010 did not include a reporting period end date in line item #9.
- Line 10i of the SF-425 report for quarter ending June 30, 2010 reported the total recipient share required as \$7,050,000, which is the total amount of the recipient share required for the entire project period and not for the period ending June 30, 2010. The amount that should have been reported on line 10i was \$6,699,474.96. Based on the corrected amount for line 10i, the amount that should have been reported on line 10k was \$1,865,660.82.

The total Federal expenditures reported on the SF-425 reports for quarters ending March 31, 2010 and June 30, 2010 were correct.

In addition, during our test work over the June 30, 2010 1512 report, we noted that the amount reported in the "Total Federal Amount ARRA Funds received/Invoiced" box of \$195,552 did not agree to the accounting records. Based on review of the accounting records, it appears that a total of \$1,000,929 should have been reported.

Criteria. A-133 compliance requirements for reporting state that the SF-425 reports should be completed in full and accurate. Also, A-133 reporting compliance requirements indicate that financial data reflected in the SF-425 and 1512 ARRA reports should agree to the underlying accounting records.

Effect. The Federal government is not properly informed of the actual ARRA funds that the Water Utility Authority has received.

Cause. The Water Utility Authority used an amount on a vendor memo and not its own accounting records.

Recommendation. We recommend that the Water Utility Authority use the accounting records in their accounting system to report amounts on the 1512 report.

Management Response. The Water Utility Authority agrees with this finding. There were errors on the SF-425 reports. The reports were accepted by the Federal government. Management will review the instructions for filling out the report.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATUS OF PRIOR YEAR AUDIT RECOMMENDATIONS
Year Ended June 30, 2010

FINDINGS FROM YEAR ENDED JUNE 30, 2009: CURRENT STATUS:

2002-21 Capital Asset Inventory Deletions	Resolved
2005-13 Audit Report Due Date	Repeated
2007-08 Uncollateralized Bank Deposits	Resolved
2007-10 Purchase Cards	Repeated
2008-02 Manual Payroll Checks Handling	Repeated
2008-05 Financial Reporting	Resolved
2008-09 Environmental Liabilities	Resolved
2008-13 Capital Asset Additions	Repeated
2008-16 Bank Reconciliation Process	Repeated
2009-02 Premature Purchase of Airline Tickets	Repeated
2009-03 Incorrect Account Classification	Resolved
2009-04 Payroll Lack of Approval	Repeated
2009-05 Purchase & Travel Card Request/Cardholder Agreements	Repeated
2009-06 Purchase Card - Technical Review Committee	Resolved
2009-08 Cash Disbursements Process	Resolved
2009-09 Travel and Per Diem	Resolved
2009-10 Cash Disbursements	Resolved
2009-11 Inability to Produce Unmatched Invoice Report	Resolved
2009-13 Vacation and Sick Leave Accrual Rates	Resolved
2009-14 Accurate and Timely Budget to Actual Information	Repeated
2009-15 Timely Closing of General Ledger	Repeated
2009-18 ABCWUA Bond Covenant Violation	Repeated
2009-22 ABCWUA Capital Assets	Resolved

ALBUQUERQUE BERNALILLO COUNT WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
EXIT CONFERENCE
June 30, 2010

An exit conference was held on June 20, 2011, and attended by the following:

AUTHORITY PERSONNEL:

Art De La Cruz
Chair, Water Authority Board

Mark Sanchez
Executive Director

Tom Ortiz
Senior Financial Officer

Stanley Allred
Chief Financial Officer

Cliff Wintrode
Budget Analyst II

MOSS ADAMS PERSONNEL:

Wayne Brown
Managing Partner

Chris Garner
Audit Senior Manager

OFFICE OF THE STATE AUDITOR:

Carla Martinez
Deputy State Auditor

Blanca Sena
Audit Supervisor

CITY PERSONNEL:

Pamela Berry
Accounting Officer

Nela Wilkinson
Accounting Systems Coordinator