

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2011 - JUNE 30, 2012



Albuquerque Bernalillo County  
Water Utility Authority

STATE OF NEW MEXICO

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

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## **INTRODUCTORY SECTION**

March 21, 2013

Board of Directors  
Albuquerque Bernalillo County Water Utility Authority

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Albuquerque Bernalillo County Water Utility Authority (Authority) for the fiscal year ended June 30, 2012. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial affairs of the Authority's records be thoroughly examined and audited each year by independent public accountants.

The Comprehensive Annual Financial Report consists of five major sections:

1. The Introductory Section includes the Transmittal Letter with the Authority's Organizational Chart, and a listing of the Authority's Officials, as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.
2. The Financial Section which includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2012, explanatory footnotes, and supplementary information.
3. The Statistical Information Section contains tables with general information about the Authority and comparative data for prior years.
4. The Single Audit Information Section contains information about expenditures from federal awards, Independent Auditors' Report on Internal Controls and Compliance, and the Schedules of Findings and Questioned Costs.
5. State Compliance includes certain schedules required by the New Mexico State Auditor's Office.

This report was prepared by the City of Albuquerque's Department of Finance and Administrative Services. The Water Authority management assumes full responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. REDW LLC, Certified Public Accountants, has issued an unqualified opinion on the Authority's comprehensive annual financial report for the year ended June 30, 2012. As indicated by the opinion of the Authority's independent auditors, the report fairly presents the financial position and results of operations of the Authority. The report has been set forth in a manner that will give the reader a broad understanding of the Authority's financial affairs, and it includes disclosures necessary for the reader to gain an understanding of the Authority's financial activities. The independent auditor's report is located at the front of the financial statements.

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

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

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City of Albuquerque (City) became effective July 1, 2007 and ran through June 30, 2012. The Authority extended the MOU through June 30, 2013. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Members of the Water Authority Board at June 30, 2012 are as follows:

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

Ex Officio Member at June 30, 2012:

Pablo Rael, Trustee, Village of Los Ranchos

### ***Summary of Local Economy***

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

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

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

(1) Does not include military

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

One of the strengths for the Albuquerque economy is the national labs. Sandia National Laboratories (SNL) has devoted a great deal of research to anti-terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

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

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

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

In order to plan for the future and to ensure financial stability, an amendment to the Authority's Rate Ordinance was approved by the Board which will increase rates by 5% in fiscal year 2014, fiscal year 2016 and again in fiscal year 2018. The Authority has operated since fiscal year 2004 with one rate increase of 6% in fiscal year 2007 and one rate increase of 5% in fiscal year 2012.

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

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

The Authority budgets for operations and capital implementation are driven by the Board approved five year goals and one year objectives.

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

#### **Budgetary Controls**

The fiscal year 2012 budget provided the financial basis of operation for the Authority through June 30, 2012. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City of Albuquerque financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2012, it is at the general ledger fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2012, were not re-appropriated in fiscal year 2013.

#### **Cash Management**

Pursuant to the Memorandum of Understanding, the Authority participates in the pooled cash investment program as outlined in the Fiscal Agent Ordinance of the City. Cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. The City's policy is to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. The City's common investment pool at June 30, 2012 was valued at \$693 million at June 30, 2012. The Authority had an average of \$79 million invested in the City's investment pool in fiscal year 2012. The City portfolio average yield for fiscal year 2012 was 0.607%. Interest earned by the Authority totaled \$408,412 for fiscal year 2012.

#### **Risk Management**

The Authority participates in the City's Risk Management program that is operated as an Internal Service Fund. Managerial control and accountability over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. Payments to the Risk Management fund from the Authority for fiscal year 2012 were \$3.32 million compared to payments in the prior year of \$4.91 million. Total claim reserves (current



and long-term), including the Authority, were \$72.1 million as of June 30, 2012, a \$5.2 million increase from \$66.9 million in the previous year.

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

### ***Major Initiatives***

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

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

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

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

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

In May 2009, the Authority acquired New Mexico Utilities Inc. (NMUI), a for-profit water provider and sewer carrier that served approximately 55,000 residents in a thirty-four square mile service area located in northwest Albuquerque. For fiscal year 2011, the Authority created a Northwest Service Area (NWSA) encompassing the area formerly serviced by NMUI and successfully integrated the NWSA operations into the general operations of the Authority. The NWSA provides services not only to former customers of NMUI but also to other Authority Westside rate payers.

In fiscal year 2012, the Authority continued to look at the expansion of the current NWSA Division from what was the New Mexico Utilities area to an area that will be bounded by Sandoval County on the north, the Rio Grande River on the east, I-40 on the south and the Rio Puerco on the west. Any expenses associated with this expansion would have to be budget neutral. Development of area operations such as this will improve operational efficiency as well as services to customers. Efforts are proceeding to implement the “area operations” concept in fiscal year 2013.

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

The Authority has established an asset management program with a steering committee to oversee the program. The program is an extensive, well thought out ‘Business Model’ that helps utility managers make better acquisition, operations and maintenance, renewal, and replacement decisions. The principles of asset management were developed to address the critical problem of aging public infrastructure and changing utility business environment. The Authority has completed several critical projects including the development of an asset register and hierarchy, an asset management information systems strategy, and a capital project validation process.

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

The fiscal year 2012 operating budget continues non-recurring funding for a safety/performance incentive program. This program will reward employees for cost savings due to increased efficiencies or a decrease in work related losses. Funding for this program is contingent on the Authority generating the same or a greater amount in savings.

#### ***Awards and Acknowledgements***

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

The Authority received the Certificate of Achievement for each annual CAFR it prepared through the fiscal year ended June 30, 2008. While the Authority believed that the CAFRs for the fiscal years ended June 30, 2009, 2010, and 2011 met Certificate requirements, these CAFRs were not submitted to the GFOA for certificate determination because of delays in completing the CAFR. For similar reasons the CAFR for the fiscal year ended June 30, 2012 will not be submitted to the GFOA for certificate determination although the Authority believes the 2012 CAFR meets Certificate requirements.

The Authority has received the GFOA’s Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2011. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

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

Respectfully submitted,

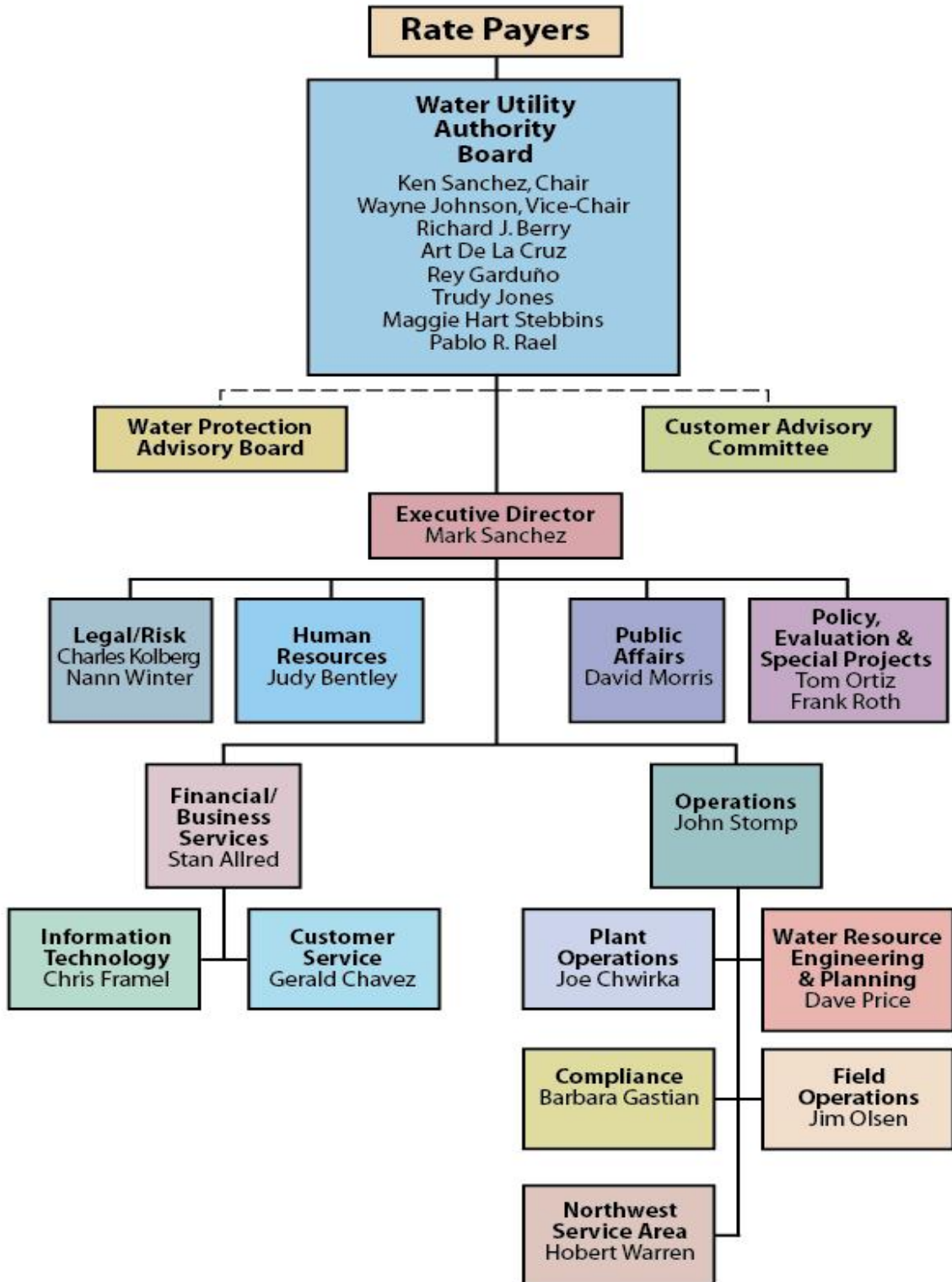


Mark S. Sanchez  
Executive Director



Stanley Allred  
Chief Financial Officer

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



## **FINANCIAL SECTION**

## Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (the "Authority"), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 21, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for Life Insurance Benefit Plan on pages 11 through 23 and page 49, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Additional schedules, which include the Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual, the Schedule of Deposits and Investments By Financial Institution, the Schedule of Pledged Collateral By Financial Institution, and the Joint Power Agreements, Memorandums of Understanding, and Other Agreements are also presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

REDW LLC

Albuquerque, New Mexico  
March 21, 2013

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

As management of the Albuquerque Bernalillo County Water Utility Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2012. Readers are encouraged to consider the information presented here in conjunction with our audited financial statements and additional information that we have furnished in our letter of transmittal.

**FINANCIAL SNAPSHOT**

**From the Statement of Net Assets**

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

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

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

**From the Statement of Cash Flows**

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The Authority for financial statement reporting purposes is considered a business like entity and accounted for similar to an enterprise fund. As such, it does not include in its financial statements financial information for individual general ledger funds that are used for internal accounting purposes.

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



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

**Measurement Focus / Basis of Accounting:**

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

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

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

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

**Basic Financial Statements**

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

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

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

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

**Notes to the Financial Statements**

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

**Other Information**

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

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**Net Assets**

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

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

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

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

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

Unamortized debt issue costs and deferred amounts from refunding "follow the debt" in calculating net asset components for the statement of net assets. That is, if the debt is capital-related, the deferred amounts would be included in the calculation of "invested in capital assets, net of related debt."

**Restricted Net Assets**

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

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or
- b. Imposed by law through constitutional provisions or enabling legislation.

The basic concept is that restrictions are not unilaterally established by the reporting government itself, and cannot be removed without the consent of those imposing the restrictions. This category of net assets is intended to identify resources that were received or earned by the Authority with an explicit understanding between the Authority and the resource providers that the funds would be used for a specific purpose. For example, grants, contributions, and donations are often given under those kinds of conditions. Bond indentures similarly limit the use of proceeds.

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

**Unrestricted Net Assets**

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

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**FINANCIAL ANALYSIS**

**Net Assets**

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

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

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

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

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

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**Table 2 - Condensed Statement of Changes in Net Assets**

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

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

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

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

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

**Operating Budget**

In the preparation of the fiscal year 2012 budget, certain assumptions were made related to the operations of the Authority, the economic climate and system growth within Bernalillo County and the City of Albuquerque.

- A 5% rate adjustment previously approved by the Board and the implementation of the latest two year rate study as required by Ordinance to maintain rate equity.
- Operating revenues were projected using a 5 year historical trend based upon growth and consumption. The trend was structured by class of customer as well as by the service size of each class. The projected revenues took into account the Authority's continued conservation efforts.
- System growth was based on a 2% growth factor offset in part by an estimated 1% water conservation effect.
- Utility expansion charge revenues were increased slightly for fiscal year 2011
- There was a 2.5% cost of living adjustment for fiscal year 2012 to comply with current labor agreements
- Fringe benefits were calculated at 47.04% of gross wages, an increase of 4.26% from fiscal year 2011 including a 2.5% increase for employee health insurance benefits. The employer/employee split in other employee benefit costs remained at 80%/20%.
- \$2 million was appropriated for addition to the Rate Reserve Fund making the balance in the Rate Reserve Fund equal to \$2 million.

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

*Operating Fund*

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

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

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

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

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

Underlying the Authority's operating costs is its continuing responsibility to operate and maintain two water systems, the well/aquifer system and the surface water treatment system. Although the well/aquifer system usage is being reduced as the surface water system increases capacity, the well/aquifer system will still have to be fully operational to supplement the surface water as necessary. The operation of these systems represents a dual cost for the Authority.

*Debt Service Fund*

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

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

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

**CAPITAL ASSETS**

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

The blueprint for the Authority's Basic Program is its Decade Plan, a ten-year capital plan required to be updated biennially in even numbered fiscal years with two, four, six, eight and ten year planning elements. The Decade Plan includes detailed requirements for program development and project scope, schedule, budget, justification and alternatives. The Decade Plan requires approval by the Authority Board with at least one public hearing and due deliberation. In those fiscal years where the Decade Plan must be updated, the new Decade Plan must be approved by the Authority's Board before that year's Capital program budget can be approved. This policy ensures there is always an approved two-year planning element in place for every approved annual Basic Program budget. Fiscal year 2012 was the first year of the two year planning element included in the FY 2012-2021 decade plan approved by the Authority Board in April, 2011.

Basic Program capital needs are incorporated into the water/sewer rate structure. The Rate Ordinance requires that Basic Program needs are funded at least 50% from cash, with the balance of capital funding obtained through revenue bond or loan financing. The rate structure is designed to provide sufficient revenue to meet the 50% cash requirement and to meet the debt service obligations incurred to finance the

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remainder of the Basic Program. System growth projects are funded through Utility Expansion Charge (UEC) revenues, either by reimbursing capital investments made under the terms of a Developer Agreement, or by direct appropriation to Authority capital projects. UEC revenue is considered cash for purposes of meeting the 50% test. The current Rate Ordinance requires a \$30 million Basic rehabilitation program. The Rate Ordinance does not specify the size of the Basic growth program.

The FY 2010-2019 decade plan was significant for the use of risk analysis techniques combined with an asset management strategy to determine where the Authority's capital resources should be expended in order to maximize the benefit to rate payers. The Authority's asset management plan is intended to provide a business model for managing infrastructure assets to minimize the total costs of owning and operating them at an acceptable level of risk. Rate payers' investment in the infrastructure is maximized as a result. The FY 2012-2021 decade plan continued the use of risk analysis techniques and asset management and represented the funding decisions made by a broad array of staff and managers throughout the Authority. Project prioritization resulted from unprecedented levels of discussions within the Authority and with outside consultants engaged to assist the Authority in charting a path for its capital program.

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

The largest ongoing construction project in fiscal year 2012 was the substantial completion of the Southside Reuse project. The Southside Reuse project is the final reuse and reclamation project called for in the 2007 Water Resource Management Strategy which combined existing policies from the original 1997 Water Resource Management Strategy with several new policies that were developed in cooperation with federal, state and local agencies. The Southside Reuse project will provide about 2,500 acre-feet per year of treated and polished wastewater effluent for irrigation and industrial uses in the Southeast Heights and South Valley of Albuquerque including Mesa del Sol.

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

The coming on-line of the Southside Reuse project is expected to add \$280,000 in annual operating costs.

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

Enterprise Resource Planning System

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

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

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**Infrastructure**

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

**Table 3 - Schedule of Infrastructure and Capital Assets**

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

**Table 4 - Schedule of Fiscal Year 2012 Major Capital Additions**

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

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

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

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



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

**DEBT ADMINISTRATION**

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

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

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

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

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

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

New Debt

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

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

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Three Water Trust Board grant/loans closed on November 23, 2011. Water Trust Board grant/loan numbers 205 and 206 are for the continued planning, design and construction of a regional water conveyance and delivery system for the residents of the community of Carnuel east of Albuquerque in Bernalillo County. Number 205 has a grant amount of \$1,808,000 and a loan amount of \$452,000 for a total of \$2,260,000. Number 206 has a grant amount of \$960,000 and a loan amount of \$640,000 for a total of \$1,600,000. As with the Authority's other agreements with the Water Trust Board, these agreements do not provide forward funding for work but instead will reimburse the Authority as eligible expenditures are made. Water Trust Board grant/loan number 207 is for the planning and design of a large scale aquifer recharge project. Number 207 has a grant amount of \$95,032 and a loan amount of \$63,354 for a total of \$158,386. This funding represents a continuation of state funding for the Authority's aquifer recharge efforts. Phase one of the project was funded in part by an earlier state grant. The interest rate on all three grant/loans is 0% but a fiscal agent fee is charged.

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

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

Prior Debt

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

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

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

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

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

**Baseline Scenario**

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

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

Inflation is one of the few bright spots in the GI forecast. Weak employment growth puts little pressure on wages helping to limit pressure on prices. Oil prices are held in check due to the weakness in the world economy and GI expects declines in oil prices. West Texas intermediate crude decreases from \$89 in FY/13 to \$82 in FY/16. Only in FY/17 are prices expected to be above \$100. GI expects growth in the Consumer Price Index (CPI) to remain muted, around 1.5% in FY/13 and FY/14 increasing slightly in FY/15 and FY/16 then increasing to 2.7% in FY/17. The low inflation expectation also plays into moderate increases in interest rates. GI believes that the Federal Reserve Bank (FRB) will not raise rates until FY/16; reaching 1.6% in FY/16 and 4% in FY/17.

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

#### Pessimistic Scenario

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

#### Optimistic Scenario

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

#### **Albuquerque Economy**

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

#### **FY 2013 Budget and Rates**

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

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

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

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

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

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

**REQUESTS FOR INFORMATION**

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

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

**ASSETS**

**Current assets:**

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

**Noncurrent assets:**

Long-term notes receivable	<u>5,719,123</u>
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**Restricted assets:**

Cash, investments, and accrued interest	<u>27,689,835</u>
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**Capital assets:**

Buildings and improvements	2,210,836
Improvements other than buildings	2,025,226,113
Machinery and equipment	49,877,090
Purchased water rights	<u>43,720,597</u>
	2,121,034,636
Less accumulated depreciation and amortization	<u>845,642,870</u>
Net capital assets	1,275,391,766
Land	25,699,732
Construction work in progress	<u>10,384,658</u>
<b>Total capital assets</b>	<b><u>1,311,476,156</u></b>

**Other:**

Capitalized bond issuance costs	<u>3,537,317</u>
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<b>Total noncurrent assets</b>	<b><u>1,348,422,431</u></b>
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<b>Total assets</b>	<b><u>1,413,242,834</u></b>
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The accompanying notes are an integral part of these financial statements.

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

**LIABILITIES**

**Current liabilities:**

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

**Noncurrent liabilities:**

**Long-term payable:**

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

**Other:**

Accrued vacation and sick leave pay	<u>52,457</u>
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<b>Total noncurrent liabilities</b>	<u><b>661,379,366</b></u>
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<b>Total liabilities</b>	<u><b>730,086,347</b></u>
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**NET ASSETS**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

**I. Summary of Significant Accounting Policies**

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

**A. Reporting entity**

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

Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding (MOU) between the Authority and the City became effective July 1, 2007 and ran through June 30, 2012. The Authority extended the MOU through June 30, 2013. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City.

The accompanying financial statements present only the financial position of the Authority at June 30, 2012, and the results of its operations for the year ended June 30, 2012. The Authority is a related organization of the City, and these financial statements are not intended to present fairly the financial position of the City as of June 30, 2012, and the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. However, certain disclosures are for the City as a whole, since such information is generally not available for the Authority on a separate Authority basis. Where applicable, the Authority's share of the balance/activity is included (See Notes III, A., G., and H.). There are no component units of the Authority.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**2. Accounts receivable**

Accounts receivable include water and sewer billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Consequently, the Authority rarely has an allowance for uncollectible accounts. Any accounts that are subject to bankruptcy are directly written off when the court order is received.

**3. Capital assets**

State of New Mexico Administrative Code requires state and local governmental agencies to capitalize capital assets costing in excess of \$5,000. Currently, the Authority defines capital assets as assets with an initial individual cost of more than \$5,000 and estimated useful life in excess of one year. The Authority implemented the new \$5,000 capitalization threshold in fiscal year 2007 for items purchased during the fiscal year. Such assets are recorded at historical cost or estimated historical cost if historical cost information is not available. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<i>Buildings</i>	<i>50 years</i>
<i>Improvements other than buildings</i>	<i>25 years</i>
<i>Machinery and equipment</i>	<i>5 – 12.5 years</i>

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

**4. Capitalized bond issuance costs**

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

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

Trade accounts payable are recorded as the liability is incurred and represent payables from daily operations. Payment is made from unrestricted assets. Construction contracts payable are liabilities incurred for the acquisition of new capital projects or for rehabilitation of existing water and sewer lines and facilities. These contracts are funded by operational revenues, utility expansion charge revenues, and long-term debt proceeds.

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

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

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

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

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

**7. Long-term obligations**

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

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

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

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

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

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

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

**9. Statement of cash flows**

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

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

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

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

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

**11. New accounting pronouncements**

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2012.

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

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

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

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

**II. Stewardship, Compliance and Accountability**

The budgetary data is prepared consistent with the basis of accounting described in Note I, B with the exception of accounting for debt service, which includes debt service principal payments, certain cash transfers, capital contributions, capital outlay, and capitalized interest costs. The annual budget is formulated by the Authority’s Management and submitted to the Water Authority Board by April 1 for the fiscal year commencing July 1. Public hearings are conducted to obtain citizen comments on the proposed budget. By June 1, the budget is legally adopted through passage of an appropriation resolution by the Water Authority Board. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City’s financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority’s budget by program. For fiscal year 2012, expenditures may not exceed budgetary appropriations at the general ledger fund level. The Authority uses general ledger funds for internal accounting purposes. However, since the Authority is accounted for similar to an enterprise fund, it does not include in its financial statements financial information for individual general ledger funds.

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

**III. Detailed Notes**

**A. Cash and investments**

As discussed in Note I, C.1., the Authority participates in the City's pooled investment program. Cash and investments are held by the City and balances are allocated between the City and Authority. The total cash, investments, accrued interest and cash held for debt service of the Authority at June 30, 2012, which represents approximately 9.5% of the City's pooled investment program in which the Authority is a participant, consist of the following:

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

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the funds of the participants in the pool may not be returned to them. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2012, \$41,298 of the City's bank balances of \$363,085,914 was exposed to custodial credit risk.

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

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

**A. Cash and investments, continued**

Credit risk. Credit risk is the risk that in the event an issuer or other counterparty to an investment does not fulfill its obligations, the participants in the pool will not be able to recover the value of their principal. As a home rule city, the City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The City's Investment Committee annually reviews its asset allocation strategies and guidelines for the percentage of its total portfolio that may be invested in securities other than repurchase agreements, U.S. Treasury bills and notes, or insured/collateralized certificates of deposit. As part of the City's allocation evaluation, these guidelines are reviewed periodically, considering the probability of market and default risk in various investment sectors. The City's investment policy describes permitted investments as those allowed for municipalities with a population in excess of 65,000 per Section 10-10-10 of the Statutes of the State of New Mexico. Among permitted investments, the investment policy requires that 1) repurchase agreements have a collateralized value of 102% of the par value of the agreement, and 2) certificates of deposit with local banks be fully insured by the FDIC. Investments in direct obligations of the U.S. Treasury are permitted as are securities of the U.S. Government agencies denoted in Section 6-10-10 F (2) of the State Statutes. At June 30, 2012, the City's internal investment pool held investments in fully-collateralized overnight repurchase agreements (repos), a fully-insured money market account, U.S. Treasury Securities, and U.S. Government agency notes.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy states the City will develop diversification strategies to avoid incurring concentration risk. The following general policies and constraints shall apply: With the exception of collateralized repos, U.S. Treasury securities, and authorized pools (comprising the "liquidity segment" of the portfolio), no more than 50% of the residual investment portfolio (the "core segment") will be invested in a single issue or at a single maturity. At June 30, 2012, the City's core segment is invested in debt securities issued by four Government Sponsored Entities (GSEs): the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Federal Home Loan Mortgage Corporation. These investments comprise 18%, 39%, 3%, and 40% respectively, of the core segment residual. Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. At June 30, 2012, liquidity and core segment maturities are allocated as follows: 0-12 months – 7%; 1-2 years – 0%; 3-5 years – 93%.

Summarized information concerning the GSE investments is as follows:

U.S. Agency Investments (summarized by GSE)	Wtd. Avg. Days to Maturity	Weighted Average Days to Call	Standard & Poor's Rating	Moody's Rating
Federal Home Loan Bank	978	141	AA+	Aaa
Federal National Mortgage Association	1,000	270	AA+	Aaa
Federal Home Loan Mortgage Corporation	1,037	314	AA+	Aaa
Federal Farm Credit Bank	824	19	AA+	Aaa

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



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

**A. Cash and investments, continued**

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The City's investment policy limits the City's exposure to interest rate risk by requiring that no less than 80% of the funds invested in the core segment of the internal investment pool or in other discretionary funds be in maturities of no more than three years from date of purchase. No more than 20% of the funds may be invested in maturities between three and five years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten years from the date of purchase. The weighted average maturity of the investments in the internal investment pool's core segment at June 30, 2012 was 1,005 days. The weighted average days to call of the core segment was 256 days.

Pledged Collateral by Bank. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides standard insurance of \$250,000 per depositor, per insured bank. Effective December 31, 2010 through December 31, 2012, at all FDIC-insured institutions, deposits held in noninterest bearing transaction accounts are fully insured regardless of the amount in the account, according to the Dodd-Frank Wall Street Reform and Consumer Protection Act. FDIC deposit insurance and pledged collateral by bank (in thousands) at June 30, 2012 consists of the following:

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

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

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

Notes receivable are for utility expansion charges. The borrower is allowed to pay the Authority for the extension of water and sewer lines over a ten year period at 7% interest. Notes receivable at June 30, 2012 were \$6,708,482.

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

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

**C. Capital assets**

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

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

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

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

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

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

The change in the short-term and long-term obligations of the Authority for the year ended June 30, 2012, are as follows:

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

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

Authority parity obligations are secured by a pledge of net revenues derived from the operations of the Authority's water and sewer system. In ordinances pursuant to the issuance of these bonds, the Authority has agreed to charge all users of the system such reasonable rates as are sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all outstanding system obligations. If the annual net revenues are less than 133% of the annual debt service requirements, the Authority shall either promptly increase rates in order to produce sufficient net revenues or employ a consultant or manager to make recommendations to revise the Authority's rate structure and other charges in order to satisfy the rate covenant as soon as practicable. For the year ended June 30, 2012, the net revenues were 133% of the annual debt service.

On December 15, 2011, the Authority entered into a parity loan agreement with New Mexico Finance Authority for \$53,400,000. The loan requires annual principal payments and semi-annual interest payments commencing on June 1, 2012, and maturing on June 1, 2036. Interest rates are between 3.0% and 5.0%. The purpose of the loan is to improve the Authority's water and sewer system. At June 30, 2012, the balance due was \$52,055,000.

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

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

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

Revenue Bonds Issued	Amount	Interest Rate	Final Maturity	Call Provisions
October 25, 2005	124,045,000	3.50% to 5.00%	July 1, 2025	100% beginning July 1, 2015
July 12, 2006	121,435,000	4.25% to 5.165%	July 1, 2026	100% beginning July 1, 2016
April 9, 2008	55,630,000	5.00%	July 1, 2033	100% beginning July 1, 2018
April 8, 2009	134,295,000	3.00% to 5.50%	July 1, 2029	100% beginning July 1, 2019
April 8, 2009, Refunding	<u>7,610,000</u>	3.00% to 5.00%	July 1, 2013	Not callable
Total outstanding	443,015,000			
Unamortized:				
Premiums	8,569,393			
Deferred refunding costs	<u>(31,669)</u>			
Net outstanding	<u>\$ 451,552,724</u>			

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

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

On October 1, 1994, the Authority executed a promissory note with the New Mexico Environment Department (NMED) that converted an existing line of credit agreement of \$7,907,582 to a long-term notes payable with an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Annual payments are \$567,926, with a final payment due on July 1, 2013. The balance due at June 30, 2012, is \$551,385.

On May 20, 2005, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$12,000,000 line of credit agreement. The note payable of \$9,627,877 (total draws on the line of credit plus accrued interest of \$242,655) has an interest rate of 3%. The note requires annual payments of \$647,145, due on May 20<sup>th</sup> each year. Final payment is due May 20, 2025. The balance due at June 30, 2012, is \$6,882,353.

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

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

On November 17, 2008, the Authority entered into a line of credit agreement with the New Mexico Finance Authority. The agreement provided that the Authority could draw a total of \$12,000,000. Construction of the project was completed in fiscal year 2010 for a total cost of \$10,426,232. This credit line was converted to a long-term subordinate loan agreement on November 11, 2010 at an interest rate of 1.75% with annual payments due beginning May 1, 2011 and maturing on May 1, 2030. The balance due at June 30, 2012, is \$9,760,600.

The Authority entered into a line of credit agreement on January 22, 2010, with the New Mexico Finance Authority (NMFA) whereby the Authority could draw up to \$200,000. The agreement was partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complied with the terms of the agreement, then \$140,000 would be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to, expansion of the leak detection system to cover an additional 5% of the distribution system. This project was completed in fiscal year 2011 for a total cost of \$199,873, of which \$140,000 was forgiven and a new long-term subordinate loan created for \$59,873. The interest rate is .75%, with an administrative fee of .25%. The close occurred August 11, 2010. The loan requires annual principal payments and semi-annual interest payments beginning November 1, 2010 and maturing on May 1, 2030. The balance due at June 30, 2012, is \$54,879.

The Authority entered into a line of credit agreement on January 22, 2010, with the New Mexico Finance Authority (NMFA) whereby the Authority could draw up to \$156,826. The agreement was partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complied with the terms of the agreement, then \$109,778 would be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to, the replacement of approximately 1,086 high flow urinals with high efficiency fixtures in City of Albuquerque facilities. The Authority completed the project in fiscal year 2011, for a total cost of \$150,207, of which \$109,778 was forgiven and a new long-term subordinate loan created for \$40,429. The interest rate is .75%, with an administrative fee of .25%. The close occurred May 1, 2011. The loan requires annual principal payments and semi-annual interest payments beginning July 1, 2012 and maturing on July 1, 2031. The balance due at June 30, 2012, is \$40,429.

Also on January 22, 2010, the Authority entered into a line of credit agreement with the New Mexico Finance Authority (NMFA) whereby the Authority can draw up to \$414,036. The agreement is partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complies with the terms of the agreement, then \$289,825 will be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to, a water use efficiency retrofit analysis. The Authority completed the project in fiscal year 2012 for a total cost of \$413,969, of which \$289,797 was forgiven and a new long-term subordinate loan created for \$124,172. The interest rate is .75%, with an administrative fee of .25%. The close occurred March 5, 2012. The loan requires annual principal payments and semi-annual interest payments beginning July 1, 2012 and maturing on July 1, 2031. The balance due at June 30, 2012, is \$124,172.

Junior Obligations – Loan Agreements:

The Authority entered into three loan and grant agreements with the New Mexico Finance Authority (NMFA) and the Water Trust Board on November 23, 2011. The general term for each agreement is a repayable loan amount at 0% interest and a .25% administrative fee. The loans require 20 annual installments beginning July 1, 2012, and ending July 1, 2031. The grant amount is not repayable. The agreements with the New Mexico Finance Authority/New Mexico Water Trust Board (which provide for reimbursement to the Authority upon submission of eligible expenditures) are considered lines of credit for financial statement purposes until the final amount of the agreement is known at project completion. Upon completion the amount to be repaid will be resized and converted to a junior loan agreement.

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

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

The three agreements and purpose are as follows:

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

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

On November 13, 2009, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for \$50,000 with 0% interest and an administrative fee of .25%. The agreement includes a \$450,000 grant funded through the State of New Mexico. The grant amount was not repayable. The project was for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It extended water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. The loan payments began June 1, 2010, and extend until June 1, 2029. The project was completed in November, 2010 with all drawdowns on the grant received. The balance due on the loan at June 30, 2012, is \$43,552.

Also on November 13, 2009, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for \$100,000 with 0% interest and an administrative fee of .25%. The agreement included a \$400,000 grant funded through the State of New Mexico. The grant amount was not repayable. The project was for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It extended water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. The loan payments began June 1, 2010, and extend until June 1, 2029. The project was started and completed in fiscal year 2011. All drawdowns on the grant were received. The balance due on the loan at June 30, 2012, is \$87,234.

On May 28, 2010, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for \$200,000 with 0% interest and an administrative fee of .25%. The agreement includes an \$800,000 grant funded through the State of New Mexico. The grant amount is not repayable. The project is for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It will extend water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. Loan payments began June 1, 2011, and extend until June 1, 2030. The balance due on the loan at June 30, 2012, is \$180,446. Drawdowns on the grant at June 30, 2012, were \$652,595. The project is not complete at June 30, 2012.

Water Rights Contract

A Water Rights Contract with the United States Government was entered into by the Authority during the fiscal year ended June 30, 1963, to pay a portion of the construction, operation, and maintenance costs of the San Juan Chama diversion project in return for a portion of the water rights resulting from the project. The contract provides for payment in fifty annual installments with final maturity in 2022, and has an interest rate of 3.046%. The amount of the contract outstanding at June 30, 2012, is \$12,932,117.

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 41,664,413	\$ 31,061,688	\$ 72,726,101
2014	43,744,089	29,247,951	72,992,040
2015	42,489,437	27,372,067	69,861,504
2016	45,702,861	25,494,397	71,197,258
2017	41,372,512	23,502,936	64,875,448
2018 - 2022	218,469,393	87,543,999	306,013,392
2023 - 2027	152,536,345	41,947,151	194,483,496
2028 - 2032	63,635,795	17,626,548	81,262,343
2033 - 2036	<u>37,075,000</u>	<u>2,612,214</u>	<u>39,687,214</u>
Total	<u>\$ 686,689,845</u>	<u>\$ 286,408,951</u>	<u>\$ 973,098,796</u>

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

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

*Funding Policy.* Plan members are required to contribute 13.15% of their gross salary. The Authority is required to contribute 9.15% of the gross covered salary. The Authority has elected to pay a percentage of the employee’s contributions. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Authority’s employer contribution to PERA for the fiscal years ending June 30, 2012, 2011, and 2010, were \$2,668,261, \$2,477,629 and \$2,404,453 respectively, which equal the amount of the required contributions for each fiscal year.

**F. Defined contribution retirement plan**

On March 31, 2004, the Authority Board approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Authority employees. Under this defined contribution plan, an employee’s eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory. Under the plan the employer contributes 19.01% of earnings for full time employees and 7% for part time employees. A mandatory employee participation contribution is required with employees to make a one-time election to contribute one of 3.29%, 5%, 7%, 10% for full time employees and 7% for part time employees. Total contributions to the plan were \$164,691 in fiscal year 2012 of which \$123,124 were from employer contributions and \$41,567 was from employee contributions.

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

**G. Post employment benefits**

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

Postemployment Life Insurance Benefits.

*Plan Description.* The City's Life Insurance Benefit Plan (Plan) is a single employer defined benefit plan administered by the City; the plan also includes coverage for the employees of the Authority. Insurance benefits are authorized by the City's Merit System Ordinance and Personnel Rules and Regulations. Upon retirement an employee will continue to be covered by the City's plan at no cost to the employee. Coverage will be one-half of the coverage reflected on the most recent annual life insurance adjustment report immediately prior to retirement up to a maximum of \$25,000. Effective July 1, 2008 the minimum amount of coverage per retiree will be \$12,500. The number of retired employees covered under the life insurance benefit was 4,280 at June 30, 2012, and the amount of life insurance coverage for these retired employees was \$91,602,150.

*Funding Policy.* The City recognizes the cost of providing the life insurance benefits by charging the insurance premiums to expenditures. Life insurance benefits are paid through premiums to an insurance company under an indemnity plan. The insurance company has the right to adjust the premiums based on claims paid. Historically, the claims paid in any one year have not exceeded the premiums. The required contribution is based on projected pay-as-you-go financing requirements. The current rate is \$.28 per \$1,000 face value of life insurance for actives and retirees. The life insurance premium costs for the City's retirees for the years ending June 30, 2012, 2011, and 2010, were \$310,637, \$275,971, and \$262,030, respectively. The life insurance and accidental death and dismemberment premium costs for the City's active employees for the years ending June 30, 2012, 2011, and 2010, were \$1,148,553, \$1,149,148, and \$1,178,243 respectively.

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

Net OPEB Obligation at beginning of year	\$ <u>8,372,486</u>
<i>Plus</i> Projected Annual OPEB Cost:	
Interest on Net OPEB Obligation at beginning of year	334,900
Annual Required Contribution (ARC) for current fiscal year	3,951,642
ARC Adjustment for current fiscal year	<u>(376,900)</u>
	<u>3,909,642</u>
<i>Less</i> Net Employer Contribution	<u>(892,000)</u>
Expected Net OPEB Obligation at end of year	<u>\$ 11,390,128</u>



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

**G. Post employment benefits, continued**

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

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

The Authority's portion of the Net OPEB Obligation is \$490,837 and is carried on the City's books at this time because a significant portion of the obligation for retirees of the Authority was incurred when the Authority was a department of the City.

*Funding Status and Funding Progress.* As of June 30, 2012, the most recent actuarial valuation date, the plan was 0% percent funded using the criteria established by GASBS 45. The actuarial accrued liability (AAL) for benefits was \$60,846,100 (\$16,711,769 for active employees and \$44,134,331 for retired employees). There are no plan assets; however, the City has earmarked \$7,200,000 in the City's Internal Service Employee Insurance Fund for future plan costs. The covered payroll for the Authority (annual payroll of active employees covered by the plan) was \$33,131,853 and the ratio of the UAAL to the covered payroll was 4.27%. The Authority's ARC as a percent of payroll is 0.51% of which .33% is the normal cost as a percent of payroll. The ARC per active employee is \$272. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and changes in life expectancies. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress is presented as required supplementary information following the notes to the financial statements.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the Life Insurance Benefit plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the City's historical pattern of paying for the plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2012 actuarial valuation, the Entry Age Normal (EAN) funding method was used where, for each plan member, the actuarial present value of benefits is levelly spread over the plan member's earnings or service from entry age to assumed exit age. The EAN cost method is generally regarded by actuaries as the most stable of the funding methods. The goal of GASBS 45 is to match recognition of retiree life expense with the periods during which the benefit is earned, and the City's actuary believes that EAN funding method effectively meets that goal in most circumstances. Another important issue in these calculations is the treatment of implicit subsidies where retiree coverage is subsidized by active employee costs. The City pays the same insurance premium rates for both active and retired employees, because the retired employees are on average older than active employees, there is an implicit subsidy of retiree coverage by active employee costs, which GASBS 45 generally requires be attributed to the retiree liability. The actuarial assumptions included a 4.0 percent investment rate of return on expected long-term returns on the City's own investments calculated on the funded level of the plan at the valuation date. As of June 30, 2012, the plan has not been funded and no interest was earned on the plan assets during the year. The City intends to amortize the UAAL over a thirty-year period under the level percentage of pay method, beginning in the next fiscal year. The remaining amortization period at June 30, 2012, was 26 years. The ARC was based on a 4.0 percent discount rate, funding will be based on a 6.0 percent discount rate.

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

**G. Post employment benefits, continued**

Retiree Health Care Act Contributions

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

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

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

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

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

**G. Post employment benefits, continued**

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4, and 5; municipal fire member coverage plan 3, 4, and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.292% of each participating employee’s annual salary, and each participating employee was required to contribute 1.146% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for both employees and employers will rise as follows:

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

Also, employers joining the program after January 1, 1998, are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Authority’s contributions (employer and employee) to the RHCA for the years ended June 30, 2012, 2011, and 2010, were \$819,943, \$677,304 and \$501,380, respectively, which equal the required contributions for each year.

**H. Risk management**

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

The Risk Management Fund tracks claims on a fund by fund basis and assesses charges to each fund based on historical claims experience and the need to establish a reserve for unanticipated catastrophic losses. That reserve was \$1,000,000 at June 30, 2012, and is included in the unrestricted net assets of the Risk Management Fund. The claims liabilities reported in the Risk Management Fund are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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

Based on historical data, management believes the Risk Management Fund is adequately funded. During fiscal year 2012, a comprehensive actuarial review was done to gauge the adequacy of the reserves for both the Workers' Compensation and Tort Liability programs. The actuarial review validated that the current reserves are adequate for reserves in anticipation of adverse developments in

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

**H. Risk management, continued**

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

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

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

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

**I. Transactions with City of Albuquerque**

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

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

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

**J. Commitments and contingencies**

Construction Commitments. At June 30, 2012, the uncompleted construction and other commitments in the Authority was \$24,672,006. This amount will be paid from unspent bond proceeds used for construction, improvements and replacements, or from operating revenues.

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

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

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

**J. Commitments and contingencies, continued**

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

The Authority received permit SP-4830 from the Office of the State Engineer in 2004 for diverting and fully consuming imported Colorado River water (San Juan-Chama water) in the amount of 96,200 acre-feet per annum. A group of environmentalists and farming activists filed an appeal of the surface diversion permit in State District Court. The District Court upheld the Office of the State Engineer decision including the permit conditions imposed by the State Engineer and ruled in favor of the Authority on all counts. The decision of the District Court granting the surface diversion permit was appealed by the same group of protestants to the New Mexico Court of Appeals.

In fall of 2011, the decision of the Court of Appeals affirmed the previous decisions by the State Engineer and District Court that the San Juan-Chama Drinking Water Project is not contrary to conservation, is not detrimental to the public welfare, does not impair the water rights of downstream users, and does not adversely affect New Mexico's obligation under the Rio Grande Compact. The Court of Appeals noted that these issues had been exhaustively addressed and disposed of and need not be raised or litigated again. The Court of Appeals then announced that a non-consumptive appropriation permit should be introduced as a new process under the law. The Court of Appeals was careful to emphasize that this process would not threaten the already established fact that the Drinking Water Project does not impair downstream users. To the contrary, the Court emphasized that a new non-consumptive 'appropriation' process would provide permanent protection to water users such as the Authority. Because this decision was adverse to the protestants and announces a new permitting process, the protestants requested rehearing. Their rehearing request resulted first in the issuance of a substitute decision which was then later found to be procedurally defective and withdrawn. At this point, rehearing is pending in the Court of Appeals and whatever decision is ultimately issued may be appealed to the State Supreme Court by the non-prevailing party(s).

In a related environmental permitting process, the Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004, and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion concludes that the effects of the San Juan-Chama Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat. The Authority has completed the design of the environmental mitigation and will be starting construction in September 2013 and continuing until the winter months until April 2014. If the construction cannot be completed in one season (September to April), then the Authority will complete the work in the following year.

On May 17, 2011, the United States Environmental Protection Agency (EPA) issued Administrative Order CWA-06-2012-1777 to the Authority for violations of its permit to discharge effluent into the Rio Grande River at its Southside Water Reclamation Plant. The permit is obtained under the National Pollutant Discharge Elimination System (NPDES) program. The Administrative Order (AO) listed NPDES violations that occurred between 2006 and 2010. The majority of the violations related to Sanitary Sewer Overflows (SSO's). The Authority responded to the AO and provided supplemental information regarding the violations and also presented a draft Corrective Action Plan (CAP) that included rehabilitation and new construction totaling \$250 million over the next ten years. The Authority's management is awaiting comments from EPA on the draft CAP that was submitted in October 2011 and revised and resubmitted in April 2012.

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

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age Normal</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL Percentage of Covered Payroll</u>
6/30/2010	0	1,296,421	1,296,421	0.00%	27,047,218	4.79%
6/30/2011	0	1,296,421	1,296,421	0.00%	27,047,218	4.79%
6/30/2012	0	1,416,172	1,416,172	0.00%	33,131,853	4.27%

**Note:** This schedule represents the funding progress for the Albuquerque Bernalillo County Water Utility Authority portion of the City of Albuquerque's total unfunded actuarial accrued liability of \$60,846,100.

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

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

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

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



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**STATISTICAL SECTION – UNAUDITED**

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

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

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

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

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

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

<sup>(1)</sup> Estimated

Source: Albuquerque Bernalillo County Water Utility Authority

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

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
DEMOGRAPHIC STATISTICS**

**Population**

<b>US Census</b>		<b>Bernalillo County</b>	<b>% Inc/Dec from Prev. Yr.</b>	<b>City of Albuquerque</b>	<b>% Inc/Dec from Prev. Yr.</b>	<b>State of New Mexico</b>	<b>% Inc/Dec from Prev. Yr.</b>
2011	**	670,968	1.27%	552,804	1.27%	2,082,224	1.12%
2010	*	662,564	3.43%	545,852	3.14%	2,059,179	2.58%
2009	**	640,567	1.10%	529,219	1.14%	2,007,315	1.17%
2008	**	633,611	1.01%	523,240	1.18%	1,984,179	0.91%
2007	**	627,259	1.46%	517,162	1.71%	1,966,357	1.33%
2006	**	618,226	1.89%	508,486	2.20%	1,940,631	1.35%
2005	**	606,779	4.20%	497,543	4.63%	1,914,699	2.49%
2004	**	593,866	1.98%	486,319	2.27%	1,890,215	1.18%
2003	**	582,349	1.35%	475,511	1.72%	1,868,121	1.05%
2002	**	573,489	1.94%	466,455	2.15%	1,849,187	1.32%
2001	**	562,635	0.92%	455,961	1.03%	1,828,437	0.50%
2000	*	557,432	0.84%	450,557	6.87%	1,820,802	0.76%

\* Source: Bureau of the Census

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

**Unemployment**

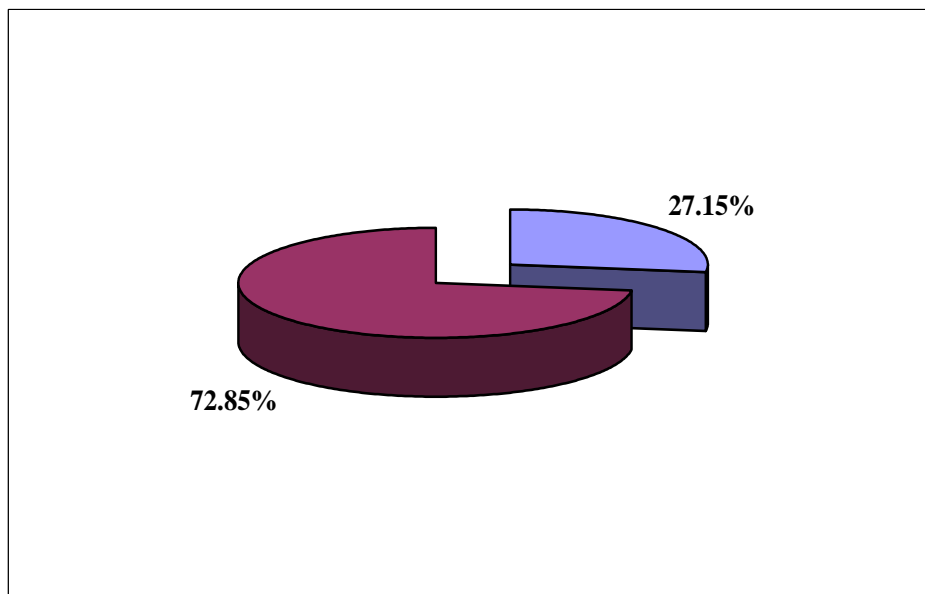
<b>Calendar Year</b>	<b>-----Bernalillo County-----</b>			<b>-----Unemployment Rates-----</b>		
	<b>Civilian Labor Force</b>	<b>Number Employed</b>	<b>Number Unemployed</b>	<b>Bernalillo County</b>	<b>New Mexico</b>	<b>United States</b>
2012	304,994	285,978	19,016	6.20%	6.00%	7.60%
2011	305,122	284,802	20,320	6.70%	6.40%	8.80%
2010	314,600	287,419	27,181	8.60%	8.90%	9.70%
2009	315,392	292,867	22,525	7.10%	7.20%	9.30%
2008	318,065	304,023	14,042	4.40%	4.50%	5.80%
2007	314,180	303,692	10,488	3.30%	3.20%	4.80%
2006	313,406	301,179	12,227	3.90%	4.20%	4.60%
2005	316,477	304,008	12,469	3.90%	4.40%	4.90%
2004	312,140	279,810	14,330	4.60%	5.60%	5.40%
2003	315,152	299,843	15,309	4.90%	5.70%	6.10%
2002	308,907	294,946	13,961	4.52%	5.40%	5.80%
2001	305,169	293,339	10,947	3.59%	4.80%	4.80%

Source: New Mexico Department of Labor



ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
TOP TEN MAJOR EMPLOYERS

2012				
	<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>	<u>% of County Employment</u>
1.	Kirtland AFB (Civilian) includes Sandia National Labs, DOE, and contractors on or off of base.	Defense	44,090	11.07%
2.	Albuquerque Public Schools	Education	14,480	3.64%
3.	University of New Mexico	Education	14,300	3.59%
4.	Presbyterian	Hospital/ Medical Services	7,369	1.85%
5.	City of Albuquerque	Government	6,680	1.68%
6.	UNM Hospital	Hospital/ Medical Services	5,950	1.49%
7.	State of New Mexico	Government	5,910	1.48%
8.	Lovelace	Hospital/ Medical Services	3,700	0.93%
9.	Intel Corporation	Semiconductor Manufacturer	3,300	0.83%
10.	Bernalillo County	Government	<u>2,300</u>	<u>0.58%</u>
	<b>Total</b>		<b><u>108,079</u></b>	<b><u>27.15%</u></b>
	<b>Total Non-Ag Civil and Military Employees</b>		<b><u>398,152</u></b>	<b><u>100.00%</u></b>



Source: Albuquerque Economic Development, Inc.

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

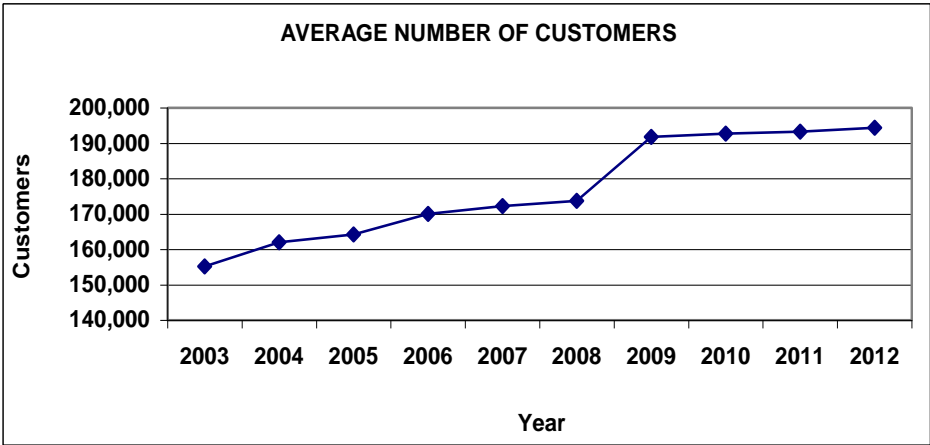
**History of Water Users by Class**

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

**History of Water Users by Meter Sizes**

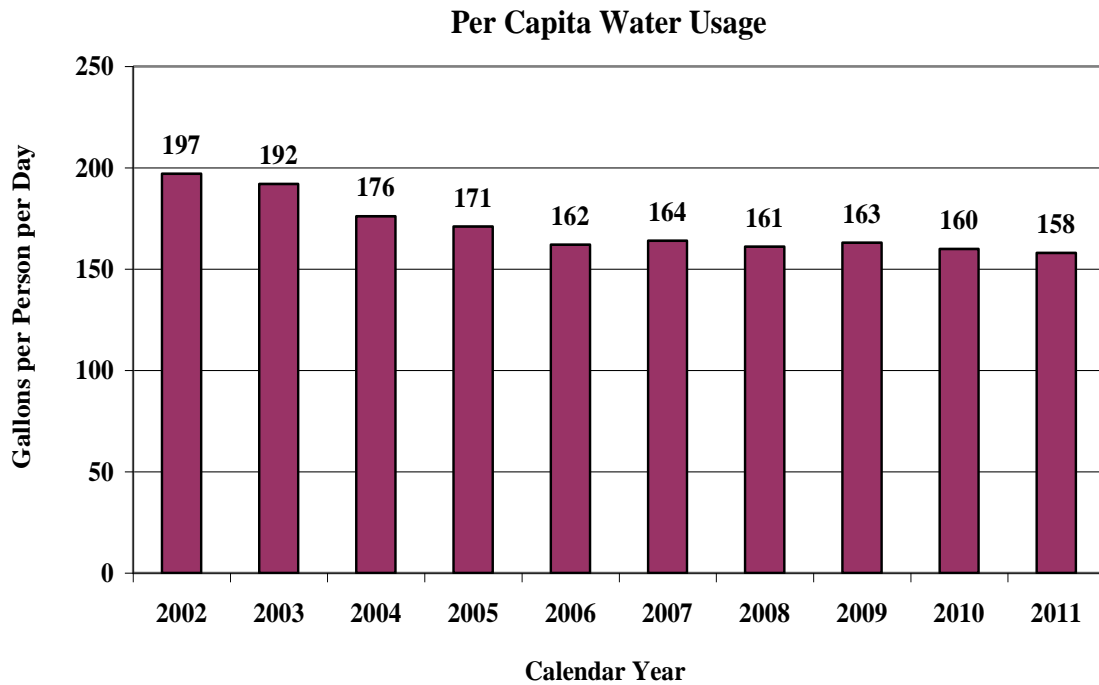
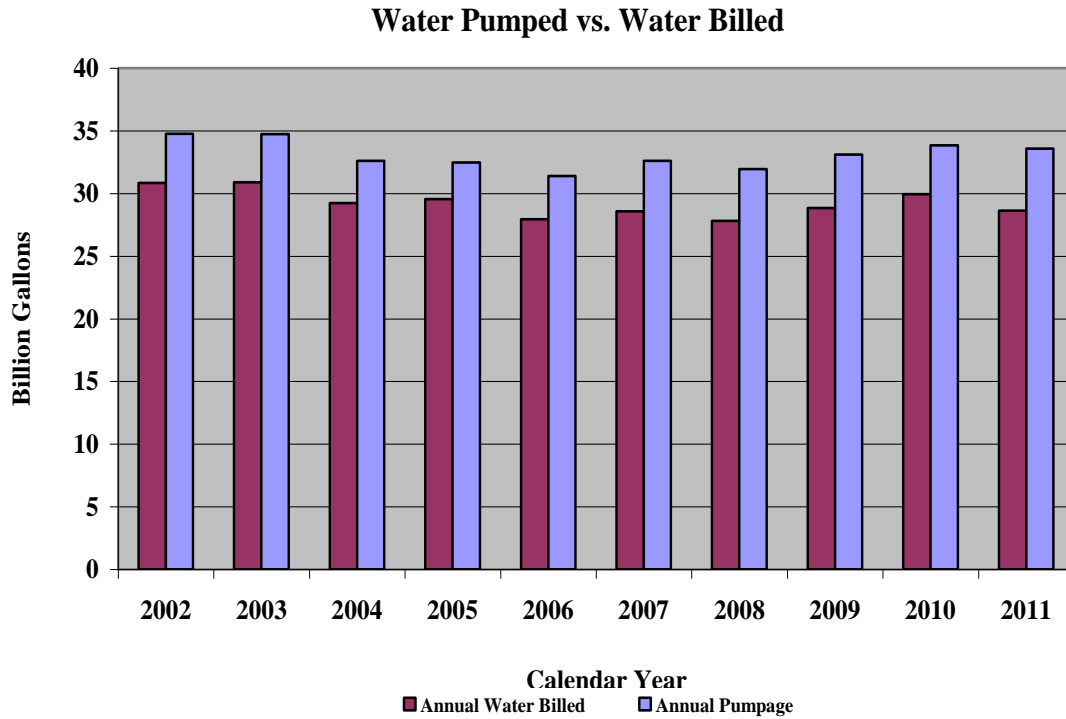
<u>Meter Size</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
¾"	132,387	139,351	142,018	146,842	149,846	151,172	168,632	169,414	169,984	171,103
1" and 1 ¼ "	18,321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

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



Source: Albuquerque Bernalillo County Water Utility Authority

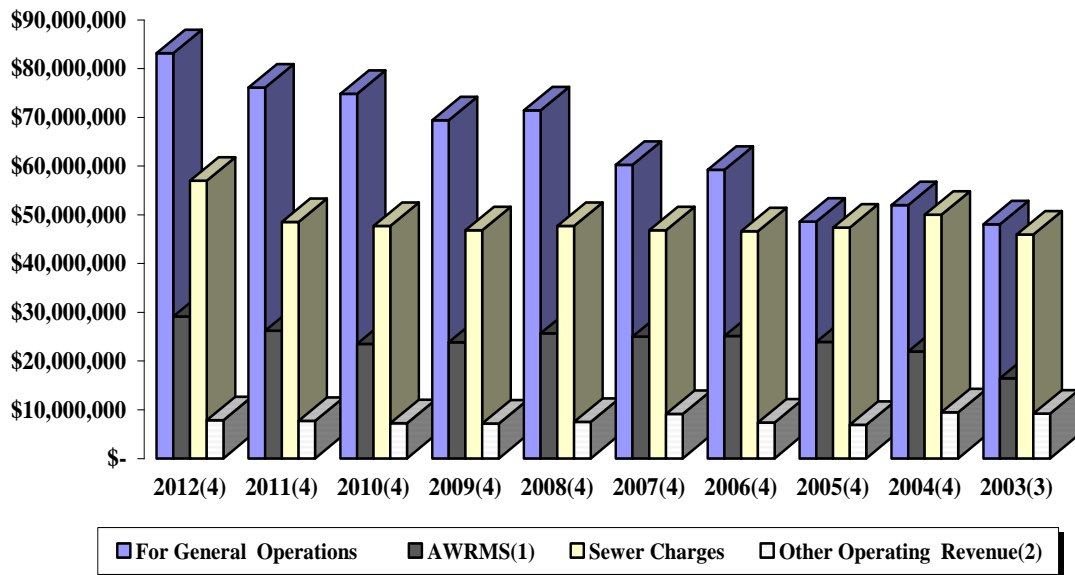
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
WATER CONSUMPTION  
LAST TEN CALENDAR YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

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

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



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

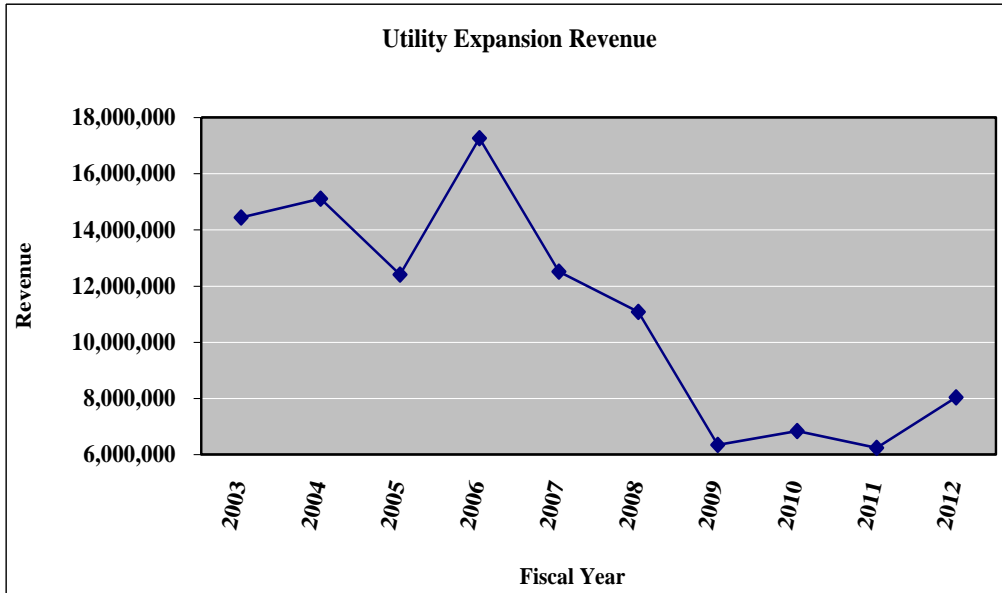
(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

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

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
REVENUE FROM UTILITY EXPANSION CHARGES  
LAST TEN FISCAL YEARS

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

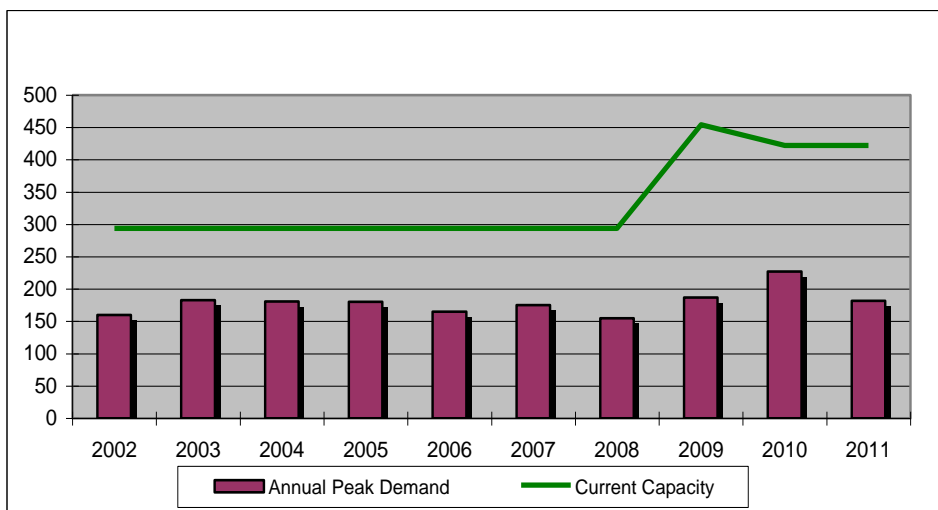


Source: (1) City of Albuquerque Comprehensive Annual Financial Report.  
(2) Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

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

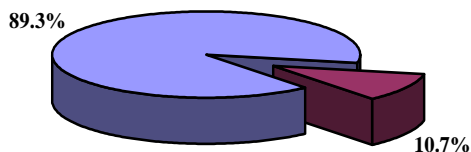
**WATER SYSTEM ANNUAL PEAK DEMAND**  
(calendar year)

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



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

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

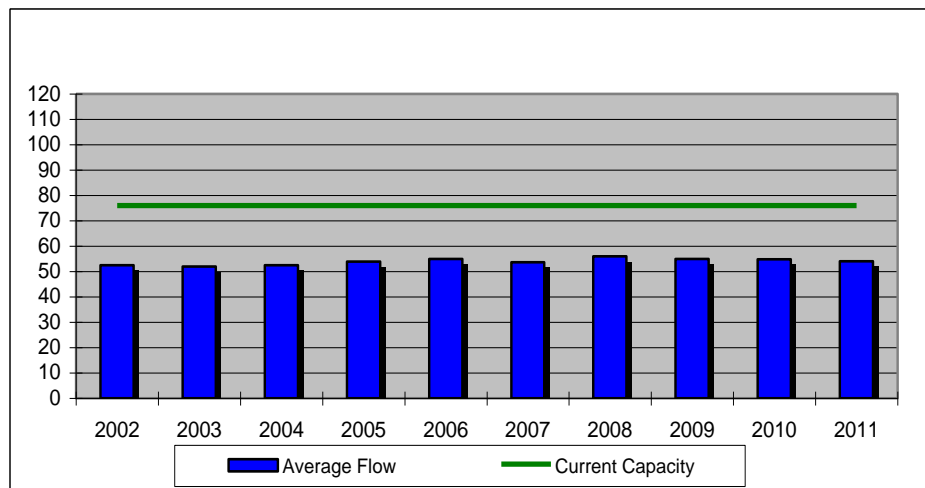


Source: Albuquerque Bernalillo County Water Utility Authority

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

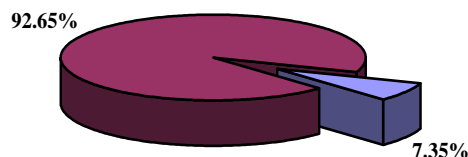
**WASTEWATER SYSTEM ANNUAL AVERAGE FLOW**  
(calendar year)

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



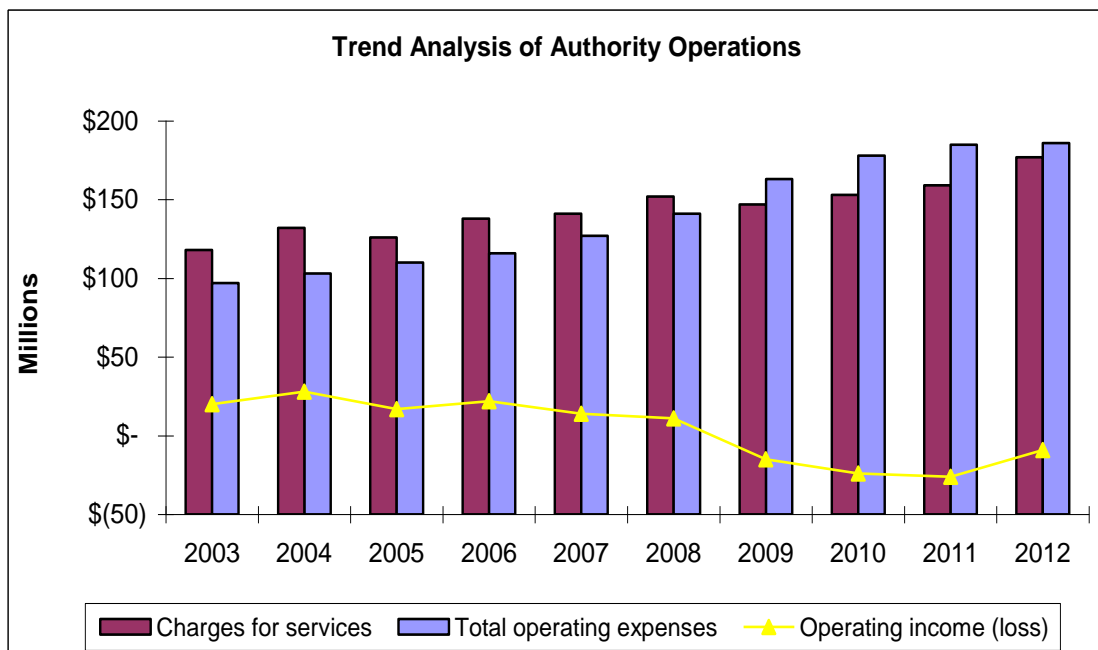
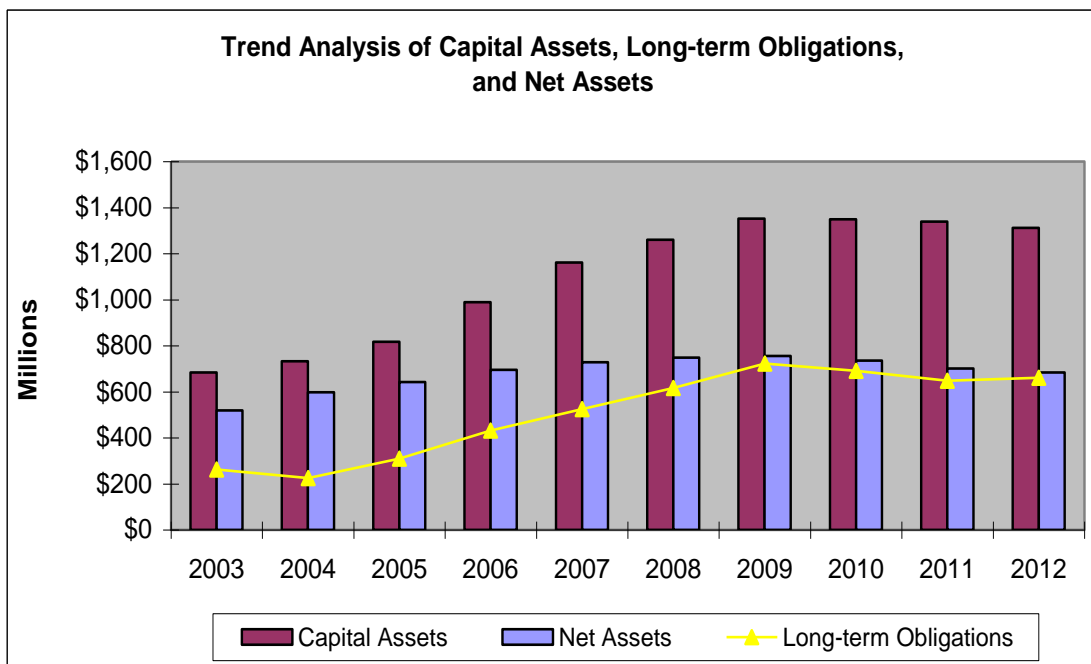
**WASTEWATER SYSTEM TOP 10 CUSTOMERS**  
(fiscal year)

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



Source: Albuquerque Bernalillo County Water Utility Authority

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



Source: Albuquerque Bernalillo County Water Utility Authority



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

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

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

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

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

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

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

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

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

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

<sup>(2)</sup> Based on calendar year, from Table 2

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
REVENUE RATE COMPARISONS

Monthly Wastewater Charges

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

Monthly Water Charges

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

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

## **SINGLE AUDIT INFORMATION**

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

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

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

**NOTE A. SIGNIFICANT ACCOUNTING POLICY**

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

**NOTE B. SUBRECIPIENTS OF GRANT AWARDS**

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

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

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

Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the Albuquerque Bernalillo County Water Utility Authority (the "Authority") as of and for the year ended June 30, 2012 and have issued our report thereon dated March 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-16 and 09-15 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-02 and 11-01 to be significant deficiencies.

*Compliance and Other Matters*

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



We noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16 and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 05-13, 08-13, 09-14, 10-01, 10-03, 11-04, 11-05, 11-06, 11-07 and 12-02.

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

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

REDW LLC

Albuquerque, New Mexico  
March 21, 2013

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

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

*Compliance*

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

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

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

*Internal Control Over Compliance*

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

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

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

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

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

REDW LLC

Albuquerque, New Mexico  
March 21, 2013

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

**A — Summary of Auditors' Results**

***Financial Statements***

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

***Federal Awards***

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

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

**A — Summary of Auditors' Results — continued**

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

15.504

Water Reclamation and Reuse Program

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

\$300,000

Auditee qualified as low-risk auditee?

No

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

**B — Financial Statement Findings**

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

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

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

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

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

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

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

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

**B — Financial Statement Findings — continued**

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

*Criteria:* Bank reconciliations are an important element of internal control, facilitating timely detection of book/bank differences so they can be investigated and resolved. Such reconciliations are consistent with New Mexico statutes, Section 6-6-3 A NMSA 1978, which require that the City “keep all the books, records, and accounts in their respective offices in a form as prescribed by the Local Government Division.” The Local Government Division of the Department of Finance and Administration has, pursuant to this statute, published the Budgeting and Accounting Manual and other guidance for New Mexico municipalities to follow.

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

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

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

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

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



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

**B — Financial Statement Findings — continued**

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

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

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

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

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

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

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

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

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

**B — Financial Statement Findings — continued**

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

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

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

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

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

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

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

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

**C — Federal Award Findings and Questioned Costs**

**12-01 Davis-Bacon Act (Significant Deficiency)**

*Federal program information:*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Cause:* Control procedures have not been implemented to ensure that all machinery and equipment additions meeting the criteria for capitalization are tagged with an asset number or other identifying characteristic.

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

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

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

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

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

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

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

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

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

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

*Cause:* The Authority converted their accounting system to PeopleSoft in January 2009. Certain aspects of the new software did not function as needed, which created a backlog of information in the system that has caused a delay in timely closing and reconciliation of subsidiary ledgers. Thus, budget to actual reports had to be generated during the trial balance close and preparation process.

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

*Auditors' Recommendations:* The Authority should continue to work diligently to catch up the information in the new accounting system so that timely budget to actual reports can be obtained for the Authority.

*Management's Response:* The Authority concurs with this finding. The Authority is sufficiently concerned with the ability of the City's financial system to post general ledger transactions in a timely and thorough fashion and to produce meaningful budget to actual reports. Due to these concerns the Authority is in process of implementing its own financial reporting system that will go live on July 1, 2013. This system will generate budget to actual reports real time and will also include encumbrances as well, which the City's system cannot currently do. Payroll data will also tie into these reports.

The Authority is very much aware of the operational budget overspending in fiscal year 2012. The lack of timely financial results being posted to the general ledger and the inability to effectively track the accounts payable accruals at year end were key elements in the Authority overspending its operational budget. A more efficient financial system would have certainly aided the Authority's efforts to stay within budget. For fiscal year 2013, the Authority is continuing its best efforts to track actual versus budget result, make reasonable projections of the year's spending including accruals and take appropriate and timely actions to prevent overspending by year end. Keeping spending within the operation budget is one facet of budget management. The other facet is managing expenditures with projected revenue levels. The Authority will continue to do both tasks.

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

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

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

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

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

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

*Effect:* The lack of an approved and tested BCP/DRP poses a risk to the City and Authority's ability to maintain continuity of operations and recover critical data and applications in the event of a disaster.

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

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

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

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

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

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

*Condition:* The Authority did not report unclaimed property to the State as required by the Uniform Unclaimed Property Act (1995). This unclaimed property includes outstanding checks over one year old as well as unclaimed customer deposits, which amounted to \$14,259 and \$45,198, respectively, as of June 30, 2012.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

**11-05 PeopleSoft Implementation**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**11-07 Capital Assets Inventory**

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

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

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

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

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

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

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

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

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

**12-02 P-Card Transactions**

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

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

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

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

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

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

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

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

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

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

## **STATE COMPLIANCE**



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

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

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

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

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

The collateral for deposit accounts is as follows:

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

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

New Mexico Bank and Trust

GNMA Pool 658185 SF CRA Qualified	<u>\$ 400,000</u>	<u>\$ 266,468</u>	<u>\$ 292,534</u>	06/15/2040	4.50%
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Location of collateral: Heartland Financial USA, Dubuque, IA

Total all banks \$ 264,232,429

The collateral for repurchase agreements is as follows:

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

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

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

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

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

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

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

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

**Memorandums of  
Understanding & Other  
Agreements**

<b><u>Memorandums of Understanding &amp; Other Agreements</u></b>	<b><u>Participants other than Water Authority</u></b>	<b><u>Responsible Party</u></b>	<b><u>Description</u></b>
Original Agreement	City of Albuquerque	All Participants	Full scope of the understanding between the Authority and the City, including the services to be provided by each party upon the Authority acquiring all the powers necessary to operate a public water and wastewater utility
First Amendment 2008-0045	City of Albuquerque	All Participants	Provides the City's Solid Waste Department or other City agency with the use of the Authority's billing and collection system based upon a mutually agreed cost
Third Amendment 2008-0045	City of Albuquerque	All Participants	Provide a practical mechanism for the review and identification of real property transferred to the Authority by operation of law so that the City can convey record title to the Authority
Extension of Time 2008-0045	City of Albuquerque	All Participants	Extension of time only, no change in scope of services
2008-0046	City of Albuquerque Fire Department	All Participants	The City will paint up to 3,187 fire hydrants per year at a cost of \$8 per hydrant for an annual cost to the Authority not to exceed \$25,500

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

October 5, 2001	Indefinite	Not specified	\$ 165,000	All Parties
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<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
July 1, 2007	June 30, 2012	NA	NA	All Parties

July 1, 2007	June 30, 2012	NA	NA	All Parties
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September 16, 2008	June 30, 2012	NA	NA	All Parties
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July 1, 2012	June 30, 2013	NA	NA	All Parties
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August 10, 2007	Terminated by either party with a six month written notice	\$25,500 per year	Unknown	All Parties
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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**JOINT POWERS AGREEMENTS, MEMORANDUMS OF UNDERSTANDING,**  
**AND OTHER AGREEMENTS**  
**JUNE 30, 2012**

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2008-0076	City of Albuquerque Parks and Recreation Department	All Participants	Landscaping and irrigation system improvements to be made by the Authority along Campbell Road and the Rio Grande Compound made necessary by damages from the San Juan Chama drinking water project and the Parks and Recreation Department agreement to provide yearly maintenance of such improvements
2008-0151	City of Albuquerque Office of Emergency Management	All Participants	Allows the use of the Authority's facilities at Pino Yards on a no notice basis as an alternate emergency operations facility in the event the primary emergency operations facility is unavailable
2009-0132	City of Albuquerque	All Participants	The Authority agrees to reimburse the City for low flow toilets and urinals purchased, retrofitted and installed by the City in City facilities
2010-0117	City of Albuquerque Parks and Recreation Department, Black Cattle Ranch LLC, Quail Ranch	All Participants	Biosolids assisted sustainable grazing study on City of Albuquerque Open Space land and on land leased by Black Cattle Ranch LLC from Quail Ranch
2011-0137	City of Albuquerque	All Participants	Conditions and terms for the Authority requesting barricade and excavation permits and the fees to be charged for such permits by the City
2012-0020	City of Albuquerque	All Participants	Requires the City Fire Department and the Authority to perform various inspection and maintenance services on public fire hydrants and the Authority will map in its GIS system all public and private fire hydrants

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
December 6, 2007	December 31, 2050	\$103,530	Unknown	All Parties
April 30, 2008	December 31, 2050	NA	NA	All Parties
April 1, 2009	April 1, 2013	\$156,825	Unknown	All Parties
March 16, 2010	February 28, 2013	NA	NA	All Parties
April 12, 2011	June 30, 2012	NA	NA	All Parties
August 10, 2011	August 10, 2016	NA	NA	All Parties

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

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2011-0111	City of Albuquerque Solid Waste Department	All Participants	Use of non-potable water from storage tank at the Metropolitan Detention Center for dust control at the Cerro Colorado landfill operated by the City Solid Waste Department
2012-0020	City of Albuquerque	All Participants	Requires the City Fire Department and the Authority to perform various inspection and maintenance services on public fire hydrants and the Authority will map in its GIS system all public and private fire hydrants
2011-0111	City of Albuquerque Solid Waste Department	All Participants	Use of non-potable water from storage tank at the Metropolitan Detention Center for dust control at the Cerro Colorado landfill operated by the City Solid Waste Department
2009-0018	City of Rio Rancho	All Participants	Authority agrees to provide water and wastewater services to the 11,000 acres within Bernalillo County annexed by the City of Rio Rancho and the City of Rio Rancho agrees not to extend its own water and wastewater services to this area, which was done in contemplation of a successful condemnation of New Mexico Utilities Inc. (NMUI) by the Authority which in fact was accomplished by the Authority's acquisition of NMUI
2008-0105	Bernalillo County	All Participants	the Authority agrees to accept and the County agrees to provide yard trimmings, brush and tree trimmings and horse stable bedding for the purpose of beneficial reuse of these materials at the Authority's Soil Amendment Facility
2008-0105	Bernalillo County	All Participants	County agrees to provide the services of its grinder to pulverize brush and tree trimmings in accordance with an equipment lease agreement



<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
May 2, 2011	December 31, 2060	NA	NA	All Parties
August 10, 2011	August 10, 2016	NA	NA	All Parties
May 2, 2011	December 31, 2060	NA	NA	All Parties
September 5, 2008	In Perpetuity	NA	NA	All Parties
August 29, 2007	August 29, 2015	NA	NA	All Parties
January 22, 2008	August 29, 2015	\$10,000	Unknown	All Parties

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

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2009-0111	Bernalillo County	All Participants	Long term extension of the jointly funded Partners in Improving and Protecting the Environment (PIPE) program which provides low and moderate income water and sewer connection assistance within the Authority service area
2010-0090	Bernalillo County	All Participants	Expansion of water capacity in Cordero Mesa Business Park through County managed and paid for facility construction and for which the Authority agrees to extend the water system to the project area and connect to the system
2010-0090.1	Bernalillo County	All Participants	Allows for the design and construction of an additional water transmission line from the new Cordero reservoir to the existing reservoir serving the Metropolitan Detention Center for which the County agrees to pay all costs and stipulates this new line shall not be used to provide service for existing or future development
2011-0065	Bernalillo County	All Participants	Joint funding of a staff person (to be hired as an Authority employee) and operating budget to support the Water Protection Advisory Board
2009-0169	Kirtland AFB (KAFB)	All Participants	KAFB agrees to pay the Authority for water quality lab analyses of monthly groundwater samples for the purpose of monitoring fuel related contamination in Authority drinking water production wells in response to the KAFB bulk fuels release with a maximum reimbursement of \$41,000
First Amendment 2009-0169.1	Kirtland AFB	All Participants	Extended term of original agreement by one year and set a maximum reimbursement of \$41,000

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

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

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
Second Amendment 2009-0169.2	Kirtland AFB	All Participants	Extended term of original agreement by one year and set a maximum reimbursement of \$53,000
2012-0064	Kirtland AFB	All Participants	In substance, extended term of original agreement by one year, provided for a review of the status of the investigation by July 31, 2012 for the purpose of determining whether to renew the agreement and set a maximum reimbursement of \$53,000
2013-0069	Kirtland AFB	All Participants	Replaces and expands the terms and conditions of 2012-0064. The Authority and KAFB will jointly support the development of contingency plans for maintaining the safety of drinking water supplies potentially placed at risk by groundwater contamination associated with the Kirtland Bulk Fuels site.
2012-0055	Mid Region Council of Governments	All Participants	Cooperative effort for acquisition and production of high resolution natural color digital orthophotography for several counties in New Mexico
2009-0106	NMWARN members	All Participants	Participation in the New Mexico Mutual Aid and Assistance Agreement Water/Wastewater Agency Response Network (NMWARN) whereby mutual aid and assistance activities are conducted under the New Mexico Intrastate Mutual Aid and Assistance Program and the Interstate Emergency Management Assistance Compact
2009-0043	United States Geological Survey of the United States Department of the Interior	All Participants	Joint funding of continuing geohydrologic investigations in the Albuquerque Basin

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
October 1, 2010	September 30, 2011	NA	NA	All Parties
October 1, 2011	September 30, 2012	NA	NA	All Parties
December 1, 2012	November 30, 2013	NA	NA	All Parties
December 1, 2011	November 30, 2013	\$10,000	\$0	All Parties
March 10, 2009	December 31, 2050	NA	NA	All Parties
July 1, 2008	June 30, 2013	\$1,250,000	Unknown	All Parties

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

<u>Memorandums of Understanding &amp; Other Agreements</u>	<u>Participants other than Water Authority</u>	<u>Responsible Party</u>	<u>Description</u>
2011-0060	Village of Tijeras	All Participants	The Authority may at its sole discretion grant return flow credits approved by the State Engineer to the Village and the Village agrees to undertake efforts to ensure that there are no unauthorized connections to the Authority's wastewater collection system by Village water customers
2012-0006	Kirtland AFB	All Participants	Kirtland agrees to provide chipped clean green waste to the Soil Amendment Facility in exchange for screened biosolids compost material. The rate will be 3 tons of green waste from Kirtland for 1 ton of compost material from the Authority
2013-0030	Bernalillo County	All Participants	Pilot loan program to connect County residents to available water services. The loan based program is called CONNECT. This program will be run parallel and in conjunction with the PIPE program with the County
2013-0070	Bernalillo County	All Participants	Bernalillo County owns and maintains Rio Bravo Park at 3902 Isleta Blvd SW adjacent to a pump station operated by the Authority. The Authority and Bernalillo County agree to place a transportable mural on the block wall separating the two properties. The County and the Authority share maintenance.
None	Albuquerque Public Schools, University of New Mexico, City of Albuquerque Parks and Recreation Department, City of Albuquerque Zoo, City of Albuquerque Solid Waste Department, Village of Los Ranchos, Ciudad Soil and Conservation District	All Participants	Each participating agency provides shredded green waste and discarded animal bedding to the Authority's Soil Amendment Facility where the materials are blended with the solids from the Authority's water reclamation facility to provide an enhanced compost material. The enhanced compost is then returned to the participating agencies for beneficial re-use on green and open space areas.

<u>Beginning Date</u>	<u>Ending Date</u>	<u>Project Amount</u>	<u>Current Year Contributions</u>	<u>Audit Responsibility</u>
December 13, 2010	By the Authority at the end of any fiscal year with 90 days advance written notice to the Village	NA	NA	All Parties
September 7, 2011	July 31, 2016	NA	NA	All Parties
September 4, 2012	September 4, 2016	NA	None as of June 30, 2012	All Parties
December 17, 2012	Indefinite until either party decides to remove the mural	NA	None as of June 30, 2012	All Parties
Fiscal year 1992	Indefinite	NA	NA	All Parties

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

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

AUTHORITY PERSONNEL:

Rey Garduno,  
Vice-Chair, Water Authority Board

Mark Sanchez  
Executive Director

Stanley Allred  
Chief Financial Officer

Ken Sanchez  
Board member and City Councilor

REDW LLC:

James Montoya  
Principal

Joshua Trujillo  
Senior Manager

CITY PERSONNEL:

Nela Wilkinson  
Accounting Systems Coordinator