

**State of New Mexico**  
**Alto Lakes Water and Sanitation District**

*Basic Financial Statements and  
Required Supplementary Information  
For the Year Ended June 30, 2008  
and Independent Auditors' Report*

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT  
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**STATE OF NEW MEXICO**  
**ALTO LAKES WATER AND SANITATION DISTRICT**  
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**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**OFFICIAL ROSTER  
JUNE 30, 2008**

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**Board of Directors**

Earl Adamy  
Dan Knorr  
David Winans  
Gary Parker  
Bill Pope

Chairman  
Vice-Chairman, Treasurer  
Secretary  
Director  
Director



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## INDEPENDENT AUDITORS' REPORT

Hector H. Balderas, State Auditor  
and the Board of Directors of the  
Alto Lakes Water and Sanitation District

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Alto Lakes Water and Sanitation District (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund 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 have also issued our report dated November 26, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The additional schedules listed as Supplemental Schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole

*Fackler & Peto, LLP*

November 26, 2008



**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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This discussion and analysis of the Alto Lakes Water and Sanitation District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2008. The MD&A should be read in conjunction with the basic financial statements and the accompanying notes to those financial statements.

**FINANCIAL HIGHLIGHTS**

The Alto Lakes Water & Sanitation District was created on January 19, 2005 by order of Judge Parsons of the 12th Juridical District. For the next 26 months, the District operated in skeleton form while working to acquire the community's water, wastewater and solid waste assets. During this period, the District had a modest mil levy (most of which was banked as savings) and no staff (all work was performed by District Board members). The District closed on the water, wastewater, and solid waste assets on April 1, 2008 in which it also acquired most of the former staff of the Alto Lakes Water Corporation.

The General Manager elected not to make the transition and the Operations Manager resigned a few weeks following the transition. The District Board moved quickly to hire a new Lead Operator in late May and a new District Manager in early June.

The Office Manager was largely responsible for effecting the transition to government operation, a process which required untold hours and implementation of a broad spectrum of new administrative procedures to comply with State requirements. This process was largely completed within the three month period ending June 30, 2008.

The District Board and Management have made progress in a number of areas:

- Staffing was reduced while benefit programs were adjusted to be competitive with other local governments in the State. The net overall effect is an estimated \$36,265.00 reduction in payroll costs for FY 2009.
- Proposals were solicited for banking services, banking relationships were established, and conservative investment policies were put into place.
- Preparations were completed to restructure employee benefits to provide more robust healthcare and retirement benefits including conversion to new providers.
- Significant progress was made in preparing a Preliminary Engineering Report intended to assess the water system and identify needed system improvements.
- The District has implemented a modern Information Management System which includes Billing, Purchasing, Cash Receipts, and Funding Accounting.
- Purchasing requirements and procedures were adopted and documented in the form of a new Purchasing Manual. Purchasing procedures were put into place in compliance with State requirements.

While many challenges lie ahead, the Board and Management believes they have laid a solid foundation for administratively and operationally managing the District.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis (this section); the basic financial statements; and other required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services were financed in the short term as well as what remains for spending.
  - Proprietary fund statements offer short and long term financial information about the activities the government operates like businesses, such as the water and sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used in private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current fiscal year's revenues and expenses are accounted for in the statement of activities regardless of when cash was received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health, or position.

- Over-time, increase or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

<b>Government-Wide Activities</b>		
	<b>2007</b>	<b>2008</b>
Current and other assets	\$ 75,103	\$ 896,868
Capital assets (net of depreciation)	-	1,987,917
Total assets	<u>\$ 75,103</u>	<u>\$ 2,884,785</u>
Current liabilities	\$ -	\$ 69,974
Long-term liabilities	-	2,544,705
Total liabilities	<u>\$ -</u>	<u>\$ 2,614,679</u>
Net assets:		
Invested in capital assets, net of related debt	\$ -	\$ (553,117)
Unrestricted	75,103	823,223
Total net assets	<u>\$ 75,103</u>	<u>\$ 270,106</u>

During 2008, the District purchased the water and sewer system causing the large increase in capital assets. The purchase was financed with a loan for \$2.5 million dollars.



**Government-Wide Activities**

	2007	2008
<b>Revenues</b>		
<u>Program revenues</u>		
Charges for services	\$ -	\$ 465,001
<u>General Revenue</u>		
Property taxes	43,619	43,233
Miscellaneous income	2,724	4,825
	<u>46,343</u>	<u>513,059</u>
<b>Expenses</b>		
General government	10,926	49,064
Water	-	240,608
Wastewater	-	19,998
Interest	-	8,386
	<u>10,926</u>	<u>318,056</u>
Change in net assets	<u>35,417</u>	<u>195,003</u>
Net assets - Beginning of year	<u>39,686</u>	<u>75,103</u>
Net assets - End of year	<u>\$ 75,103</u>	<u>\$ 270,106</u>

The District began operations for the Water and Wastewater fund in April 2008. As a result, 2008 revenues include charges for services related to the water and wastewater utility. The expenses increased significantly due to the operation of the utility.

There were transfers of \$70,738 from the governmental activities to the business-type activities in 2008.

There were no significant budget variations in the general fund in 2008.

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

At June 30, 2007, the District had no capital assets or long-term liabilities. As a result of the purchase of the water and wastewater utility and construction in progress, the District recorded \$1,987,917 in capital asset additions during 2008. The District also incurred a \$2,541,034 note payable to finance the purchase of the utility.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	Primary Government Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ -	\$ 640,448	\$ 640,448
Receivables, net of allowance for uncollectibles			
Accounts	-	230,850	230,850
Taxes	621	-	621
Deferred charges, net of accumulated amortization of \$210	-	24,949	24,949
Capital assets			
Land and construction in progress	-	574,228	574,228
Other capital assets, net of accumulated depreciation	-	1,413,689	1,413,689
Total capital assets	-	1,987,917	1,987,917
Total assets	\$ 621	\$ 2,884,164	\$ 2,884,785
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 27,955	\$ 27,955
Accrued liabilities and other expenses	-	35,629	35,629
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	-	6,390	6,390
Portion due or payable after one year:			
Notes payable	-	2,541,034	2,541,034
Compensated absences	-	3,671	3,671
Total liabilities	-	2,614,679	2,614,679
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	-	(553,117)	(553,117)
Unrestricted	621	822,602	823,223
Total net assets	\$ 621	\$ 269,485	\$ 270,106

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs:</b>							
Primary government:							
General government	\$ 49,064	\$ -	\$ -	\$ -	\$ (49,064)	\$ -	\$ (49,064)
Total governmental activities	49,064	-	-	-	(49,064)	-	(49,064)
Business-type activities:							
Water	240,608	448,465	-	-	-	207,857	207,857
Wastewater	19,998	16,536	-	-	-	(3,462)	(3,462)
Interest on long-term debt	8,386	-	-	-	-	(8,386)	(8,386)
Total business-type activities	268,992	465,001	-	-	-	196,009	196,009
<b>Total primary government</b>	<b>\$ 318,056</b>	<b>\$ 465,001</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(49,064)</b>	<b>196,009</b>	<b>146,945</b>
<b>General Revenues:</b>							
Property taxes					43,233	-	43,233
Interest income					2,087	2,738	4,825
Transfers					(70,738)	70,738	-
<b>Total general revenues and transfers</b>					<b>(25,418)</b>	<b>73,476</b>	<b>48,058</b>
<b>Change in net assets</b>					<b>(74,482)</b>	<b>269,485</b>	<b>195,003</b>
<b>Net assets, beginning of year</b>					<b>75,103</b>	<b>-</b>	<b>75,103</b>
<b>Net assets, end of year</b>					<b>\$ 621</b>	<b>\$ 269,485</b>	<b>\$ 270,106</b>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2008**

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	<b>General Fund</b>
<b>ASSETS:</b>	
Taxes receivable	\$ 621
Total assets	<u>\$ 621</u>
 <b>LIABILITIES AND FUND BALANCES:</b>	
<b>LIABILITIES:</b>	
Deferred revenue	\$ 545
Total liabilities	<u>545</u>
<b>FUND BALANCE:</b>	
Unreserved	<u>76</u>
Total liabilities and fund balances	<u>\$ 621</u>

See accompanying notes to financial statements.



**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS  
JUNE 30, 2008**

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Total fund balances for governmental funds	\$	76
Total net assets reported for governmental activities in the statement of net assets is different because:		
Recognition of property tax revenue is reflected on full accrual basis within the statement of net assets. Governmental funds recognize property tax on the modified accrual basis.		<u>545</u>
Net assets of governmental activities	\$	<u>621</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

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	<b>General Fund</b>
REVENUES:	
Local effort taxes	\$ 43,392
Interest income	2,087
	<hr/>
Total revenues	45,479
	<hr/>
EXPENDITURES:	
Current:	
General government	49,064
	<hr/>
Total expenditures	49,064
	<hr/>
Excess of revenues over expenditures	(3,585)
OTHER FINANCING USES:	
Transfers out	(70,738)
	<hr/>
Net changes in fund balances	(74,323)
Fund balances, beginning of year	74,399
	<hr/>
Fund balances, end of year	\$ 76
	<hr/>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

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Net change in fund balances - total governmental funds \$ 74,323

The changes in net assets reported for governmental activities in the statement of activities are different because:

Uncollected property tax revenue is reported as deferred revenue on the governmental funds, but is current revenue on the governmental activities statement. This is prior year deferred revenue \$704 less current year (\$545). 159

Change in net assets of governmental activities \$ 74,482

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Local effort taxes	\$ 43,583	\$ 43,392	\$ 43,392	\$ -
Intergovernmental	37,500	25,000	-	(25,000)
Interest income	-	-	2,087	2,087
Total general fund revenues	<u>81,083</u>	<u>68,392</u>	<u>45,479</u>	<u>(22,913)</u>
<b>EXPENDITURES:</b>				
General government	<u>100,636</u>	<u>71,576</u>	<u>49,064</u>	<u>22,512</u>
Total expenditures	<u>100,636</u>	<u>71,576</u>	<u>49,064</u>	<u>22,512</u>
Other financing uses:				
Transfers out	<u>-</u>	<u>-</u>	<u>70,738</u>	<u>(70,738)</u>
Total expenditures and transfers out	<u>100,636</u>	<u>71,576</u>	<u>119,802</u>	<u>(48,226)</u>
Deficiency of revenues and other sources over expenditures and other uses	(19,553)	(3,184)	<u>\$ (74,323)</u>	<u>\$ (71,139)</u>
Beginning cash available to absorb budget deficiency	<u>73,937</u>	<u>73,937</u>		
Excess of revenues and other financing sources over expenditures and other uses	<u>\$ 54,384</u>	<u>\$ 70,753</u>		

See accompanying notes to financial statements.



**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2008**

	<b>Water and Wastewater Fund</b>
<b>ASSETS:</b>	
Current assets	
Cash and cash equivalents	\$ 640,448
Accounts receivable, net	230,850
	<hr/>
Total current assets	871,298
	<hr/>
Deferred charges, net of accumulated amortization of \$210	24,949
	<hr/>
Capital assets	1,987,917
	<hr/>
Total assets	<u>\$ 2,884,164</u>
 <b>LIABILITIES:</b>	
Current liabilities	
Accounts payable	\$ 27,955
Accrued liabilities and other expenses	35,629
Accrued compensated absences	6,390
	<hr/>
Total current liabilities	69,974
	<hr/>
Non-current liabilities	
Notes payable	2,541,034
Accrued compensated absences	3,671
	<hr/>
Total non-current liabilities	2,544,705
	<hr/>
Total liabilities	2,614,679
	<hr/>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	(553,117)
Unrestricted	822,602
	<hr/>
Total net assets	269,485
	<hr/>
Total liabilities and net assets	<u>\$ 2,884,164</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Water and Wastewater Fund</b>
Operating revenues	
Water revenue	\$ 196,078
Irrigation water revenue	217,554
Wastewater revenue	16,536
Fire protection fees	23,031
Other charges for services	11,802
	<hr/>
Total operating revenues	465,001
	<hr/>
Operating expenses	
Personnel services	97,010
Utilities and fuel	47,816
Other operating expenses	86,377
Depreciation expense	29,403
	<hr/>
Total operating expenses	260,606
	<hr/>
Operating income	204,395
	<hr/>
Nonoperating revenues (expenses)	
Interest income	2,738
Interest expense	(8,386)
	<hr/>
Total nonoperating revenues (expenses)	(5,648)
	<hr/>
Income before transfers	198,747
	<hr/>
Transfers in	70,738
	<hr/>
Total transfers, net	70,738
	<hr/>
Changes in net assets	269,485
	<hr/>
Net assets, beginning of year	-
	<hr/>
Net assets, end of year	\$ 269,485
	<hr/> <hr/>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Water and Wastewater Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 250,917
Cash payments to suppliers for good and services	(112,859)
Cash payments to employees for services	(61,255)
	<hr/>
Net cash provided by operating activities	76,803
	<hr/>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Operating transfers, net	70,738
	<hr/>
Net cash provided by non-capital financing activities	70,738
	<hr/>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(2,017,320)
Proceeds from notes payable	2,541,034
Payment for debt issuance costs	(25,159)
Interest paid on bonds, notes and lease obligations	(8,386)
	<hr/>
Net cash provided by capital and related financing activities	490,169
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<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	2,738
	<hr/>
Net cash provided by investing activities	2,738
	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>640,448</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>-</b>
	<hr/>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 640,448</b>
	<hr/>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 204,395
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	29,613
Changes in assets and liabilities	
Accounts receivable	(230,850)
Accounts payable	27,955
Accrued expenses	35,629
Compensated absences	10,061
	<hr/>
Total adjustment	(127,592)
	<hr/>
Net cash used in operating activities	\$ 76,803
	<hr/>

See accompanying notes to financial statements.



STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Alto Lakes Water and Sanitation District (the "District"), is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who is responsible for their integrity and objectivity.

The Alto Lakes Water and Sanitation District was created in 2005 under the authority of the Water and Sanitation District Act of New Mexico, NMSA 1978, Sections 73-21-1 through 73-21-5. The District operates under a Board of Directors consisting of five elected members. The purpose of the District is to provide water, wastewater, and other services in the subdivisions of Alto Lakes and adjacent areas of Lincoln County, New Mexico.

On April 1, 2008, the District purchased all the assets of the Alto Lakes Water Corporation, including a water and wastewater utility, wastewater treatment plant, land and other assets for \$2,505,265. Effective April 1, 2008 the District began operating the water and wastewater utility.

The following is a summary of the District's accounting policies.

**A. Reporting Entity**

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including or excluding a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

**B. Basis of Presentation, Basis of Accounting**

**Basis of Presentation**

**Government-Wide Financial Statements**—The statement of net assets and the statement of activities report information about the primary government (the District). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between



the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specially associated with a program or function and, therefore, are clearly identifiable to a particular function.

The net assets of the District are reported in three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Restricted net assets result from constraints placed on the use of net assets when externally imposed by creditors, grantors, laws and regulations of other governments and imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as needed.

Program revenues include fees, fines, and charges paid by the recipients of good and services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements***—The fund financial statements provide information about the District's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental fund:

***General Fund***—The General Fund is the general operating fund of the District prior to the purchase of the water utility. It is used to account for all financial resources, except those accounted for in another fund.

The District reports the following major enterprise fund:

***Water and Wastewater Fund***—The fund accounts for the activities of the District's water and wastewater utility, which provides service to the residents of the subdivisions of Alto Lakes and adjacent areas of Lincoln County, New Mexico.

### **Measurement Focus, Basis of Accounting**

**Government-Wide and Proprietary Financial Statements**—The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Derived tax revenues such as property taxes are recognized in the period when the underlying exchange transaction has occurred and the resources are available.

**Governmental Fund Financial Statements**—Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

All governmental and business-type activities of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District elected not to apply FASB Statement and Interpretations issued after November 30, 1989.

**New Governmental Accounting Standards**—In June 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets which is effective for financial statements for periods beginning after June 15, 2009. The Statement establishes uniform financial reporting standards for intangible assets. The County incorporated this statement for the current fiscal year, and believes it had no significant effect on the financial statements for the year.

In November 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 52, Land Held as Investments by Endowments, which is effective for financial statements for periods beginning after June 15, 2008, with earlier application encouraged. This Statement establishes standards for the reporting of land and other real estate by endowment. The County is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In June, 2008 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which is effective for all periods beginning after June 15, 2009. The statement is intended to improve how governments report information about derivative instruments. The County is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements on the upcoming year.



Management has not yet determined the impact of the above statements on the financial statements.

**C. Cash and Cash Equivalents and Restricted Cash**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and other short-term investments with original maturities of three months or less from the date of acquisition.

State statute authorize the District to invest in interest bearing accounts with local financial institutions, direct obligations of the U.S. Treasury or New Mexico political subdivision, and the State Treasurer's Investment Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50% of the uninsured public monies held on deposit. Collateral pledge is held in safekeeping by other financial institutions, with safekeeping receipts held by the District. The pledge securities remain in the name of the financial institution.

**D. Receivables**

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts, the aging of the accounts receivable, historical experience, and other currently available evidence. The District believes it will collect all of its receivables, and accordingly has not recorded an allowance for doubtful accounts.

**E. Capital Assets**

All purchased capital assets are valued at cost where historical records are available and at an estimated cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Capital assets, which include property, plant, equipment, software, and infrastructure assets are reported in the applicable columns in the government-wide financial statements.

The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

	<b>Business-type Activities</b>
Buildings and improvements	5-40
Water and sewer system	10
Office furniture, equipment and software	3 - 10
Vehicles	5 - 10

**F. Compensated Absences**

The District permits its employees to accumulate a limited amount of earned but unused vacation, which will be paid if not used, upon termination. Accumulated sick leave benefits vest with each employee in accordance with District policy and will be paid at 50% of the employee's pay rate, if not used, upon termination. All vacation pay and applicable accumulated sick leave is accrued when incurred in the government-wide financial statements.

**G. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets.

**H. Concentration of Credit Risk**

Financial instruments that potentially subject the District to a concentration of credit risk consist primarily of cash, investments, and taxes receivable. The District places its cash in federally insured financial institutions which collateralize 50% of the District's deposits with an irrevocable standby letter of credit issued by a branch of the Federal Home Loan Bank. Concentration of credit risk with respect to taxes receivable is limited due to the amounts being primarily government related.

**I. Deferred Charges**

Deferred charges consist of financing costs related to the District's long-term debt and are amortized over the term of the debt using a method that approximates the effective interest method. Amortization expense for the year ended June 30, 2008 was \$210.

**J. Analysis for Impairment**

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon a comparison of future cash flows to the recorded value of the assets. Impairment losses are measures based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2008.



**K. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results may differ from those estimates.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a government unit, the District is subject to various laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

**Budgets and Budgetary Accounting**

Special Districts follow procedures that are promulgated by the Department of Finance and Administration, Local Government Division. Those procedures are as follows:

1. Prior to July 1, the District Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. After the Board of Directors approves the proposed budget, it is then submitted to the Local Government Division for review and certification.
3. Upon certification the budget becomes a legally binding document which does not allow total expenditures in any fund to exceed the amount budgeted. Appropriations lapse at year-end.
4. The Board of Directors is authorized to make budget revisions with the Local Government Division's approval.
5. Formal budgetary integration is employed as a management control device during the year.

**3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

**Cash and deposits**—The District maintains cash in four financial institutions. The District's deposits are carried at cost.

New Mexico State Statutes authorize the District to deposit cash with a bank, savings and loan association, or credit union whose deposits are insured by an agency of the United States. All cash deposits that exceed the Federal Deposit Insurance Corporation (FDIC) amount of \$100,000, are required to be collateralized with eligible securities, as described by New Mexico State Statutes, in amounts equal to at least 50% of the deposits.

The District maintains cash in four financial institutions, City Bank, Compass Bank, First Federal Bank and Pioneer Bank, all located in Ruidoso, New Mexico. Collateral is held in safekeeping at the Federal Home Loan Bank of Dallas ("Bank") in the form of an Irrevocable Standby Letter of Credit ("LOC"). The LOC was offered in favor of the District for a sum not exceeding \$400,000 on the account of City Bank.

**Custodial Credit Risk—Deposits**—Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial risk requires all deposits in excess of \$100,000 to be 102% collateralized by obligations of the United States.

As of June 30, 2008, the District's bank balance was exposed to custodial credit risk as follows:

	<b>City Bank</b>	<b>Pioneer Bank</b>	<b>First Federal Bank</b>	<b>Compass Bank</b>
Total deposits	\$ 458,514	\$ 98,000	\$ 98,000	\$ 8,686
FDIC coverage	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total uninsured public funds	358,514	-	-	-
Collateralized by securities held by the pledging institution	400,000	-	-	-
Funds over collateralized	<u>\$ 41,486</u>	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 91,314</u>

#### 4. RECEIVABLES

Governmental activities receivables are the following at June 30, 2008:

	<b>General Fund</b>
Property taxes	<u>\$ 621</u>

Business-type receivables are as follows at June 30, 2008:

	<b>Water and Wastewater</b>
Water and wastewater	\$ 218,249
Fire protection fees	<u>12,601</u>
Total	<u>\$ 230,850</u>

The District uses the cycle method of billing customers for services. Under this method, customer billings are made by specified cycles established for the service area and each cycle billed on a specific day each month. For financial reporting purposes, billings made in July which related to services provided in the month of June are included in accounts receivable as unbilled charges. These amounts are summarized as follows for the year ended June 30, 2008:

Water	\$ 28,986
Irrigation	<u>36,482</u>
Total unbilled accounts receivable	<u>\$ 65,468</u>

## 5. PROPERTY TAX

**Property Tax**—A tax is imposed upon all property located within the District limits subject to valuation for property taxation purposes under Article 36, Chapter 7, NMSA 1978. Property tax rates for the calendar year are set no later than September 1 each calendar year by the New Mexico Secretary of Finance and administration. The Lincoln County Treasurer bills and collects the District's tax levy, which is payable in equal semiannual installments by November 10th and April 10th. Property taxes are attached as an enforceable lien on property as of the first day of each calendar year. No allowance for uncollectible taxes has been recorded since all taxes are considered collectible by the County Treasurer. As of June 30, 2008, all uncollected taxes are considered delinquent.

The District did not levy a property tax for fiscal year 2009.

## 6. CAPITAL ASSETS

**Changes in Capital Assets**—Capital asset activity for the District's primary government for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land and rights of way	\$ -	\$ 552,470	\$ -	\$ 552,470
Construction in progress	-	21,758	-	21,758
Total capital assets not being depreciated	-	574,228	-	574,228
Capital assets being depreciated:				
Building and improvements	-	220,545	-	220,545
Office Furniture and equipment	-	45,244	-	45,244
Water and sewer systems	-	1,090,603	-	1,090,603
Vehicles	-	23,000	-	23,000
Equipment	-	63,700	-	63,700
Total capital assets being depreciated	-	1,443,092	-	1,443,092
Less accumulated depreciation	-	29,403	-	29,403
Total capital assets being depreciated, net	-	1,413,689	-	1,413,689
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ 1,987,917</u>	<u>\$ -</u>	<u>\$ 1,987,917</u>

**Depreciation Expense**—Depreciation expense was \$29,403 and was charged to the water activity for the year ended June 30, 2008.

## 7. ACCRUED COMPENSATED ABSENCES

The District's leave policy allows employees to accumulate sick leave and vacation leave. Vacation leave accrues monthly and is available to use after an employee's anniversary date. All vacation leave earned in the prior year must be used prior to the employee's next anniversary date. Upon termination, any accumulated vacation will be paid to the employee. Fifty percent of the accumulated sick leave is paid upon termination. As of June 30, 2008 employees had approximately 422 hours of accumulated vacation leave, totaling \$4,359, and approximately 562 hours of accumulated sick leave, totaling \$5,702.



**8. LONG-TERM DEBT**

Changes in long-term debt during the year ended June 30, 2008, were as follows:

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>June 30, 2007</b>	<b>Increase</b>	<b>Decreases</b>	<b>June 30, 2008</b>	<b>One Year</b>
Business-type activities:					
New Mexico Finance Authority loan	\$ -	\$ 2,541,034	\$ -	\$ 2,541,034	\$ -
Compensated absences	-	15,365	(5,304)	10,061	6,390
	<u>\$ -</u>	<u>\$ 2,556,399</u>	<u>\$ (5,304)</u>	<u>\$ 2,551,095</u>	<u>\$ 6,390</u>

Compensated absences typically have been liquidated in the fund to which the employees are assigned.

**Business-Type Activities Long-Term Debt**

**New Mexico Finance Authority Loan**

On March 31, 2008, the District entered into a \$4,090,500 drinking water revolving fund loan agreement with the New Mexico Finance Authority to finance the purchase of the water and wastewater utility and for future capital improvements. As of June 30, 2008, \$2,541,034 has been borrowed under the agreement. The loan bears interest at 2%, semi-annual interest only payments are due until May 2010, when principal and interest payments will be required. The loan is secured by the revenues of the utility system.

Loan principal and interest payments for each of the next five years and thereafter are as follows:

<b>Year Ending</b>			
<b>June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ -	\$ 50,821	\$ 50,821
2010	-	50,821	50,821
2011	115,402	48,513	163,915
2012	116,556	46,182	162,738
2013	117,721	43,827	161,548
2014-2018	731,465	182,987	914,452
2019-2023	643,814	120,493	764,307
2024-2028	676,655	54,811	731,466
2029	139,421	2,788	142,209
Totals	<u>\$ 2,541,034</u>	<u>\$ 601,243</u>	<u>\$ 3,142,277</u>

**9. TRANSFERS**

The District's general fund transferred \$70,738 to the water and wastewater fund during the year ended June 30, 2008 to pay for operating costs and improvements.

**10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, crime coverage, personal property and general liability.

**11. SUBSEQUENT EVENTS**

Effective July 1, 2008, the District began participating in the post employment health care plan with the State of New Mexico under the New Mexico Retiree Health Care Act.

Effective July 1, 2008, the District began offering its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k).



**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**SUPPLEMENTAL SCHEDULE OF DEPOSITS  
YEAR ENDED JUNE 30, 2008**

<b>Account type</b>	<b>City Bank</b>	<b>Compass Bank</b>	<b>Pioneer Bank</b>	<b>First Federal Bank</b>	<b>Total</b>
Checking	\$ 458,514	\$ -	\$ -	\$ -	\$ 458,514
Checking	-	8,686	-	-	8,686
Certificate of Deposit	-	-	98,000	-	98,000
Certificate of Deposit	-	-	-	98,000	98,000
Amounts on deposit	458,514	8,686	98,000	98,000	663,200
Reconciling items	(22,560)	(361)	-	-	(22,921)
Cash on hand	-	-	-	-	169
	<u>\$ 435,954</u>	<u>\$ 8,325</u>	<u>\$ 98,000</u>	<u>\$ 98,000</u>	<u>\$ 640,448</u>

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**SUPPLEMENTAL SCHEDULE OF PLEDGED COLLATERAL  
YEAR ENDED JUNE 30, 2008**

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<b>Name of Depository</b>	<b>Pledged Collateral</b>	<b>Maturity</b>	<b>Letter of Credit Number</b>	<b>Name and Location of Custodian</b>	<b>Fair Market Value June 30, 2008</b>
City Bank	Irrevocable standby letter of credit	May 18, 2009	8339000972	FHLB Bank, Dallas, Texas	\$ 400,000

**REQUIRED SUPPLEMENTARY INFORMATION**



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### **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***

Hector H. Balderas, State Auditor  
and the Board of Directors of the  
Alto Lakes Water and Sanitation District

We have audited the financial statements of the governmental activities, the business-type activities and the budgetary comparison for the general fund of Alto Lakes Water and Sanitation District (the "District") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

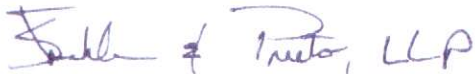
Compliance and Other Matters

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

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as finding 08-01.

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

This report is intended solely for the information and use of management, others within the District, the District's Board of Directors, the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration, and is not intended to be and should not be used by anyone other than these specified parties.



November 26, 2008



**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008**

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**CURRENT YEAR:**

**08-01 Pledged Collateral Was Less Than State Requirements**

**Condition**

As of April 30, 2008, the District's bank balance at District Bank exceeded the state requirements for pledged collateral as follows:

Bank balance, District Bank	\$ 481,026
FDIC Insurance	<u>100,000</u>
Uninsured public funds	381,026
50% pledged collateral requirement per statute	190,513
Pledged collateral	<u>-</u>
Pledged collateral under the requirement	<u>\$ 190,513</u>

**Criteria**

Per Section 6-10-16, NMSA 1978, pledged collateral is required to be 50% of deposits in banks.

**Cause**

The District was aware of the requirement and was in the banking RFP process at the time of the finding.

**Effect**

Noncompliance with state law.

**Recommendation**

Closely monitor bank deposits and maintain required pledged collateral.

**Management's Response**

The District issued an RFP for Banking Services on 03/27/08 which included a requirement that 100% of funds on deposit be secured by a combination of Federal deposit insurance and surety for 100% of deposits in excess of Federal insurance limits. The closing date for the RFP was 04/11/08, a services contract with City Bank New Mexico was executed on 05/12/08, and the District received a Letter of Credit from the Federal Home Loan Bank in the amount of \$400,000 on behalf of City Bank on 05/16/08. The District subsequently adopted an Investment Policy which requires that 102% of funds on deposit be fully secured. The District has moved funds into additional Federally insured institutions to meet deposit limitations at City Bank.

**PRIOR YEAR:**

07-A State Auditor Approval on IPA Bookkeeping Contract. This finding is resolved.

**STATE OF NEW MEXICO  
ALTO LAKES WATER AND SANITATION DISTRICT**

**EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2008**

An exit conference was conducted on November 14, 2008 at the District's offices with the following individuals in attendance:

**Alto Lakes Water and Sanitation District**

Earl Adamy  
David Winans  
David Edington  
Delores Brewington

Chairman  
Secretary  
District Manager  
Office Manager

**Strickler & Prieto, LLP**

Brad Watts, CPA  
Adriana Sanabria

Manager  
Senior Accountant

**Financial Statement Preparation**

The District's independent public accountants prepared the accompanying financial statements; however, the District is responsible for the financial statement content.