

State of New Mexico
Alto Lakes Water and Sanitation District

Basic Financial Statements and
Required Supplementary Information
For the Year Ended June 30, 2009
and Independent Auditors' Report

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

**OFFICIAL ROSTER
JUNE 30, 2009**

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, 2009, 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.

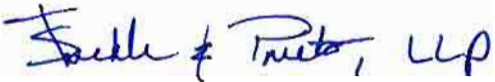
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2009, 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 18, 2009, 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.

A handwritten signature in blue ink that reads "Satchel & Truitt, LLP". The signature is written in a cursive, flowing style.

November 18, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

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, 2009. The MD&A should be read in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

The District completed its first full fiscal year of operating the water and wastewater systems on June 30, 2009. The District Board and Management reports significant progress on many fronts since acquisition of the assets of the Alto Lakes Water Corporation on April 1, 2008:

- Brought additional well capacity online in the Eagle Creek well field and implemented a water audit process which has allowed reduction in leaks and water waste to at or below national standards. While the District depends upon adequate rainfall and snowpack, it has substantial reserve capacity with which to meet peak summer demand.
- Net Income from Operations was \$196,462 higher than posted by the Alto Lakes Water Corporation for its final calendar year ending in 2007, due primarily to increased operating efficiencies and lower staffing costs.
- Researched wastewater re-use regulations and discovered that the District would be responsible for irrigation system changes estimated to cost in excess of \$1 million. Additionally, engineering estimates to complete the required wastewater plant upgrade were in excess of \$250,000. These huge capital costs for a system used by 81 townhomes and the Club would have loaded the District with debt and resulted in a doubling or tripling of wastewater rates. The District met with State representatives and worked out an alternative plan which will reduce the mineral content without the costly upgrades. While the District will adjust wastewater rates, which were covering just 45% of operating costs, rates will not have to be raised to the egregious levels required to fund \$1.25+ million in wastewater treatment upgrades.
- Completed construction of the new Solid Waste Convenience Station which opened on May 15, 2009. The District's costs of approximately \$175,000 will be fully repaid (with 3% interest) through a 42 month lease with the Lincoln County Solid Waste Authority (LCSWA). LCSWA is responsible for operating and managing the facility.
- Preliminary Engineering was completed for a Water Treatment Plant to be constructed behind the Solid Waste Convenience Station. Phase I, which is fully funded, will remove iron and manganese from the water and should be in operation in the Spring of 2010. Debt will increase to approximately \$4 million at 2% for 20 years upon completion of Phase I currently in engineering design. Phase II, which will be partially funded by a \$4.00 per month System Upgrade Fee, will proceed as financing and required land is acquired.

- The most catastrophic possibility faced by the District would be the loss of a major well. New State regulations have pushed the cost of drilling, casing, and completing a new well to approximately \$1 million. Aside from an ample cash position, the District has approximately \$1.3 million in uncommitted borrowing capacity available to meet such a contingency.

The District Board and Management is dedicated to the completion of current and projected system upgrade projects to facilitate improved service to our customers, and to so within the confines of our fiduciary responsibility of public funds.

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, increases 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

	Government-Wide Activities	
	2008	2009
Current and other assets	\$ 896,868	\$ 962,834
Capital assets (net of depreciation)	<u>1,987,917</u>	<u>2,183,319</u>
Total assets	<u>\$ 2,884,785</u>	<u>\$ 3,146,153</u>

Current liabilities	\$ 69,974	\$ 70,788
Long-term liabilities	<u>2,544,705</u>	<u>2,568,402</u>
Total liabilities	\$ <u>2,614,679</u>	\$ <u>2,639,190</u>
Net assets:		
Invested in capital assets, net of related debt	\$ (553,117)	\$ (357,715)
Unrestricted	<u>823,223</u>	<u>864,678</u>
Total net assets	\$ <u>270,106</u>	\$ <u>506,963</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		
	2008	2009
Revenues		
<u>Program revenues</u>		
Charges for services	\$ 465,001	\$ 1,180,729
<u>General Revenue</u>		
Property taxes	43,233	(80)
Miscellaneous income	<u>4,825</u>	<u>11,197</u>
Total revenue	<u>513,059</u>	<u>1,191,846</u>
Expenses		
General government	49,064	-
Water	240,608	825,784
Wastewater	19,998	78,888
Interest	<u>8,386</u>	<u>50,317</u>
Total expenses	<u>318,056</u>	<u>954,989</u>
Change in net assets	<u>195,003</u>	<u>236,857</u>
Net assets - Beginning of year	<u>75,103</u>	<u>270,106</u>
Net assets - End of year	<u>\$ 270,106</u>	<u>\$ 506,963</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 2009.

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, 2009**

	Primary Government Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ -	\$ 767,281	\$ 767,281
Receivables, net of allowance for uncollectibles			
Accounts	-	160,912	160,912
Taxes	185	-	185
Prepaid Expenses	-	10,346	10,346
Deferred charges, net of accumulated amortization of \$1,049	-	24,110	24,110
Capital assets			
Land and construction in progress	-	817,177	817,177
Other capital assets, net of accumulated depreciation	-	1,366,142	1,366,142
Total capital assets	-	2,183,319	2,183,319
Total assets	\$ 185	\$ 3,145,968	\$ 3,146,153
LIABILITIES:			
Accounts payable	\$ -	\$ 44,641	\$ 44,641
Accrued liabilities and other expenses	-	26,147	26,147
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	-	11,219	11,219
Portion due or payable after one year:			
Notes payable	-	2,541,034	2,541,034
Compensated absences	-	16,149	16,149
Total liabilities	-	2,639,190	2,639,190
NET ASSETS:			
Invested in capital assets, net of related debt	-	(357,715)	(357,715)
Unrestricted	185	864,493	864,678
Total net assets	\$ 185	\$ 506,778	\$ 506,963

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, 2009**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
	\$	\$	\$	\$	Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Primary government:							
Governmental activities:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total governmental activities							
Business-type activities:							
Water	825,784	1,112,974	-	-	-	287,190	287,190
Wastewater	78,888	67,755	-	-	-	(11,133)	(11,133)
Interest on long-term debt	50,317	-	-	-	-	(50,317)	(50,317)
Total business-type activities	954,989	1,180,729	-	-	-	225,740	225,740
Total primary government	\$ 954,989	\$ 1,180,729	\$ -	\$ -	\$ -	\$ 225,740	\$ 225,740
General revenues:							
Interest income					-	11,197	11,197
Property taxes					(80)	-	(80)
Transfers					(356)	356	-
Total general revenues and transfers					(436)	11,553	11,117
Change in net assets					(436)	237,293	236,857
Net assets, beginning of year					621	269,485	270,106
Net assets, end of year					\$ 185	\$ 506,778	\$ 506,963

See accompanying notes to financial statements.

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

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General Fund
ASSETS:	
Taxes receivable	\$ <u>185</u>
Total assets	<u>\$ 185</u>
 LIABILITIES AND FUND BALANCES:	
LIABILITIES:	
Deferred revenue	\$ <u>67</u>
Total liabilities	<u>67</u>
 FUND BALANCE:	
Unreserved	<u>118</u>
Total liabilities and fund balances	<u>\$ 185</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, 2009**

Total fund balances for governmental funds	\$	118
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>67</u>
Net assets of governmental activities	\$	<u>185</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, 2009**

	General Fund
REVENUES:	
Local effort taxes	\$ 398
Total revenues	<u>398</u>
EXPENDITURES:	
Current:	
General government	<u>-</u>
Total expenditures	<u>-</u>
Excess of revenues over expenditures	398
OTHER FINANCING USES:	
Transfers out	<u>(356)</u>
Net changes in fund balances	42
Fund balances, beginning of year	<u>76</u>
Fund balances, end of year	<u>\$ 118</u>

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, 2009**

Net change in fund balances - total governmental funds \$ 42

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 \$545 less current year (\$67). (478)

Change in net assets of governmental activities \$ (436)

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, 2009**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Local effort taxes	\$ -	\$ -	\$ 398	\$ 398
Total general fund revenues	-	-	398	398
EXPENDITURES:				
General government	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	-	-	398	398
Fund balance - beginning of year	-	-	76	76
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 474</u>	<u>\$ 474</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ 398	
Transfers not budgeted			<u>(356)</u>	
Net changes in fund balance GAAP basis			<u>\$ 42</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, 2009**

	Water and Wastewater Fund
ASSETS:	
Current assets	
Cash and cash equivalents	\$ 767,281
Accounts receivable, net	160,912
Prepaid expenses	10,346
	<hr/>
Total current assets	938,539
Deferred charges, net of accumulated amortization of \$1,049	24,110
Capital assets	2,183,319
	<hr/>
Total assets	<u>\$ 3,145,968</u>
 LIABILITIES:	
Current liabilities	
Accounts payable	\$ 44,641
Accrued liabilities and other expenses	26,147
Accrued compensated absences	11,219
	<hr/>
Total current liabilities	82,007
Non-current liabilities	
Notes payable	2,541,034
Accrued compensated absences	16,149
	<hr/>
Total non-current liabilities	2,557,183
	<hr/>
Total liabilities	2,639,190
 NET ASSETS:	
Invested in capital assets, net of related debt	(357,715)
Unrestricted	864,493
	<hr/>
Total net assets	506,778
	<hr/>
Total liabilities and net assets	<u>\$ 3,145,968</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, 2009**

	Water and Wastewater Fund
Operating revenues:	
Water revenue	\$ 666,261
Irrigation water revenue	306,712
Wastewater revenue	67,755
Fire protection fees	95,375
Other charges for services	44,626
	<hr/>
Total operating revenues	1,180,729
Operating expenses:	
Personnel services	410,403
Utilities and fuel	125,428
Other operating expenses	251,305
Depreciation expense	117,536
	<hr/>
Total operating expenses	904,672
Operating income	<hr/> 276,057
Nonoperating revenues (expenses)	
Interest income	11,197
Interest expense	(50,317)
	<hr/>
Total nonoperating revenues (expenses)	(39,120)
Income before transfers	236,937
Transfers in	<hr/> 356
Total transfers, net	<hr/> 356
Changes in net assets	<hr/> 237,293
Net assets, beginning of year	<hr/> 269,485
Net assets, end of year	<hr/> \$ 506,778

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, 2009**

	Water and Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,250,667
Cash payments to suppliers for good and services	(708,491)
Cash payments to employees for services	(63,641)
	<hr/>
Net cash provided by operating activities	478,535
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating transfers, net	356
	<hr/>
Net cash provided by non-capital financing activities	356
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(312,938)
Interest paid on bonds, notes and lease obligations	(50,317)
	<hr/>
Net cash used in capital and related financing activities	(363,255)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	11,197
	<hr/>
Net cash provided by investing activities	11,197
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	126,833
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	640,448
	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 767,281
	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 276,057
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	118,375
Changes in assets and liabilities	
Accounts receivable	69,938
Prepaid Expenses	(10,346)
Accounts payable	16,686
Accrued expenses	(9,482)
Compensated absences	17,307
	<hr/>
Total adjustment	202,478
	<hr/>
Net cash used in operating activities	\$ 478,535
	<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, 2009

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 Statements and Interpretations issued after November 30, 1989.

New Governmental Accounting Standards—In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions which is effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged. The Statement establishes the fund balance classifications for governmental funds. The District 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 March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is effective upon its issuance. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The District incorporated this statement for the current fiscal year, and believes it had no significant effect on the financial statements for the year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, which is effective upon its issuance. This Statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. The District incorporated this statement for the current fiscal year, and believes it had no significant effect on the financial statements for the year.

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 statutes 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 pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the District. The pledged 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:

	Business-type Activities
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, 2009 was \$839.

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 measured based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2009.

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 \$250,000, 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 National 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, 2009, the District's bank balance was exposed to custodial credit risk as follows:

	City Bank	Pioneer Bank	First National Bank	Compass Bank
Total deposits	\$ 391,978	\$ 99,384	\$ 99,963	\$ 200,675
FDIC coverage	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Total uninsured public funds	141,978	-	-	-
Collateralized by securities held by the pledging institution	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funds over collateralized	<u>\$ 258,022</u>	<u>\$ 150,616</u>	<u>\$ 150,037</u>	<u>\$ 49,325</u>

4. RECEIVABLES

Governmental activities receivables as follows at June 30, 2009:

	General Fund
Property taxes	<u>\$ 185</u>

Business-type receivables are as follows at June 30, 2009:

	Water and Wastewater
Water and wastewater	\$ 150,380
Fire protection fees	<u>10,532</u>
Total	<u>\$ 160,912</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, 2009, all uncollected taxes are considered delinquent.

The District did not levy a property tax for fiscal year 2010.

6. CAPITAL ASSETS

Changes in Capital Assets—Capital asset activity for the District's primary government for the year ended June 30, 2009, 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	242,949	-	264,707
Total capital assets not being depreciated	<u>574,228</u>	<u>242,949</u>	<u>-</u>	<u>817,177</u>
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	36,680	-	1,127,283
Vehicles	23,000	33,309	-	56,309
Equipment	63,700	-	-	63,700
Total capital assets being depreciated	1,443,092	69,989	-	1,513,081
Less accumulated depreciation	29,403	117,536	-	146,939
Total capital assets being depreciated, net	<u>1,413,689</u>	<u>(47,547)</u>	<u>-</u>	<u>1,366,142</u>
Business-type activities capital assets, net	<u>\$ 1,987,917</u>	<u>\$ 195,402</u>	<u>\$ -</u>	<u>\$ 2,183,319</u>

Depreciation Expense—Depreciation expense was \$117,536 and was charged to the water activity for the year ended June 30, 2009.

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, 2009 employees had approximately 944 hours of accumulated vacation leave, totaling \$20,161, and approximately 681 hours of accumulated sick leave, totaling \$7,207.

8. LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2009, were as follows:

	Balance June 30, 2008	Increase	Decreases	Balance June 30, 2009	Due Within One Year
Business-type activities:					
New Mexico Finance Authority loan					
	\$ 2,541,034	\$ -	\$ -	\$ 2,541,034	\$ 168,268
Compensated absences	10,061	28,526	(11,219)	27,368	11,219
	<u>\$ 2,551,095</u>	<u>\$ 28,526</u>	<u>\$ (11,219)</u>	<u>\$ 2,568,402</u>	<u>\$ 179,487</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, 2009, \$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:

Year Ending June 30:	Principal	Interest	Total
2010	\$ 168,268	\$ 50,821	\$ 219,089
2011	171,641	47,455	219,096
2012	175,083	44,023	219,106
2013	178,593	40,521	219,114
2014	182,174	36,949	219,123
2015-2019	967,146	128,610	1,095,756
2020-2023	698,129	30,893	729,022
Totals	<u>\$ 2,541,034</u>	<u>\$ 379,272</u>	<u>\$ 2,920,306</u>

9. TRANSFERS

The District's general fund transferred \$356 to the water and wastewater fund during the year ended June 30, 2009 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.

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

**SUPPLEMENTAL SCHEDULE OF DEPOSITS
JUNE 30, 2009**

	City Bank	Compass Bank	Pioneer Bank	First National Bank	Total
Account type					
Checking	\$ 290,499	\$ -	\$ -	\$ -	\$ 290,499
Certificate of Deposit	101,479	200,675	99,384	99,618	501,156
Amounts on deposit	391,978	200,675	99,384	99,963	791,655
Reconciling items	(24,660)	-	-	-	(24,660)
Cash on hand	-	-	-	-	286
	<u>\$ 367,318</u>	<u>\$ 200,675</u>	<u>\$ 99,384</u>	<u>\$ 99,963</u>	<u>\$ 767,281</u>

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

**SUPPLEMENTAL SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2009**

Name of Depository	Pledged Collateral	Maturity	Letter of Credit Number	Name and Location of Custodian	Fair Market Value June 30, 2009
City Bank	Irrevocable standby letter of credit	May 18, 2010	9224000001	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, 2009, and have issued our report thereon dated November 18, 2009. 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*.

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.

A handwritten signature in blue ink that reads "Fredrick J. Tucker, CPA". The signature is written in a cursive style.

November 18, 2009

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

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009**

CURRENT YEAR:

None

PRIOR YEAR:

08-01 Pledged Collateral Was Less Than State Requirements. This finding is resolved.

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

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2009**

An exit conference was conducted on November 20, 2009 at the District's offices with the following individuals in attendance:

Alto Lakes Water and Sanitation District

Earl Adamy
David Edington
Delores Brewington

Chairman
District Manager
Office Manager

Strickler & Prieto, LLP

Phillip Strickler

Audit Partner

Financial Statement Preparation

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