

State of New Mexico
Alto Lakes Water and Sanitation District

Basic Financial Statements and
Required Supplementary Information
For the Year Ended June 30, 2010
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, 2010**

Board of Directors

Earl Adamy
Daniel B. Knorr
Gary G. Parker
William B. Pope
Robert G. Decker

Chairman
Vice-Chairman, Treasurer
Secretary
Treasurer
Director



201 E. Main, Suite 500
El Paso, Texas 79901
Tel. (915) 532-2901
Fax (915) 532-0807
www.cpa-sp.com

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, 2010, 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, 2010, 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 22, 2010, 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.

Strickler & Prieto, LLP

November 22, 2010

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

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, 2010. 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 second full fiscal year of operating the water and wastewater systems on June 30, 2010. The District Board and Management are pleased to report significant progress on many fronts since acquiring the assets of the Alto Lakes Water Corporation on April 1, 2008:

- Net Income from Operations which is used to fund system improvements, debt service, interest costs and replacements, was \$477,760.
- Cash, including Replacement Reserves and System Upgrade Fees totaled \$1.15 million at year end.
- Debt, carrying rates between ½% and 2% for 20 years, will increase to approximately \$4.8 million upon completion of the Water Treatment Plant Phase I and Distribution System Upgrades.
- The District completed engineering and bidding for construction of the \$1.5 million Phase I Water Treatment Plant which will permanently remove iron and manganese (red and brown) from the potable water. Construction costs of \$1.5 million are being funded from the District's \$4 million Drinking Water Revolving Loan Fund. There has been no need to increase rates to fund this project.
- The District has been awarded funding of \$1.8 million by the New Mexico Water Trust Board. This will fund replacement of water mains along both High Mesa and Deer Park Drive with 8" lines. These mains feed water to virtually all of Alto Lakes. It will also fund some upgrades to Pressure Regulating Stations and provide for 36 new fire hydrants. Engineering, survey and soil testing will begin this fall. Construction is expected to begin in the spring of 2011.

OPERATIONAL HIGHLIGHTS

- The District's water supply is in excellent shape. Sustainable production exceeds twice our peak sustained usage. The District retains enough cash and borrowing capacity to maintain water supplies in the event of catastrophic well failure.
- The District's water continues to meet all Federal and State primary drinking water standards.
- The new Solid Waste Convenience Station is running smoothly.
- The wastewater treatment plant, which serves the Club house and town homes, continues to operate normally. The District is studying possible improvements to the system.

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		
	2009	2010
Current and other assets	\$ 962,834	\$ 1,368,201
Capital assets (net of depreciation)	<u>2,183,319</u>	<u>2,335,908</u>
Total assets	<u>\$ 3,146,153</u>	<u>\$ 3,704,109</u>
Current liabilities	\$ 239,056	\$ 256,234
Long-term liabilities	<u>2,400,134</u>	<u>2,463,152</u>
Total liabilities	<u>\$ 2,639,190</u>	<u>\$ 2,719,386</u>
Net assets:		
Invested in capital assets, net of related debt	\$ (357,715)	\$ (295,512)
Unrestricted	<u>864,678</u>	<u>1,280,235</u>
Total net assets	<u>\$ 506,963</u>	<u>\$ 984,723</u>

CAPITAL ASSETS AND LONG-TERM LIABILITIES

During FY2010, the District completed projects begun in FY2009 to include the Solid Waste Convenience Station, the Preliminary Engineering for Water Treatment Plant Phase I, and the Scada System. Construction in Progress includes Preliminary Engineering for Storage Tank replacement and Distribution System Upgrades. Capital purchase included a new Fleet Vehicle and new Pumping Equipment for three existing wells.

The District completed Preliminary Engineering of the \$1.5 million Phase I Water Treatment Plant. Payment resulted in addition of \$74,618 to the \$4 million Drinking Water Revolving Loan Fund increasing long term liabilities.

Government-Wide Activities		
	2009	2010
Revenues		
<u>Program revenues</u>		
Charges for services	\$ 1,180,729	\$ 1,387,631
<u>General Revenue</u>		
Property taxes	(80)	-
Miscellaneous income	11,197	15,670
Total revenue	<u>1,191,846</u>	<u>1,403,301</u>
Expenses		
General government	-	-
Water	825,784	787,314
Wastewater	78,888	86,826
Interest	50,317	51,401
Total expenses	<u>954,989</u>	<u>925,541</u>
Change in net assets	<u>236,857</u>	<u>477,760</u>
Net assets - Beginning of year	<u>270,106</u>	<u>506,963</u>
Net assets - End of year	<u>\$ 506,963</u>	<u>\$ 984,723</u>

The District increased revenue during FY2010 by adjusting rate structure effective October 1, 2009 on New Connection Fees and Large & Small Commercial Wastewater Service, and by adding a System Upgrade Fee for future project Water Treatment Plant, Phase II. The Solid Waste Lease revenue was also added.

Expenses decreased due to careful monitoring of operational spending habits and strict budget adherence.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ -	\$ 1,152,870	\$ 1,152,870
Receivables, net of allowance for uncollectibles			
Accounts	-	181,696	181,696
Taxes	18	-	18
Prepaid expenses	-	10,346	10,346
Deferred charges, net of accumulated amortization of \$1,888	-	23,271	23,271
Capital assets			
Land and construction in progress	-	675,513	675,513
Other capital assets, net of accumulated depreciation	-	1,660,395	1,660,395
Total capital assets	-	2,335,908	2,335,908
Total assets	\$ 18	\$ 3,704,091	\$ 3,704,109
LIABILITIES:			
Accounts payable	\$ -	\$ 36,790	\$ 36,790
Accrued liabilities and other expenses	-	40,222	40,222
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	-	10,954	10,954
Notes payable	-	168,268	168,268
Portion due or payable after one year:			
Compensated absences	-	15,768	15,768
Notes payable	-	2,447,384	2,447,384
Total liabilities	-	2,719,386	2,719,386
NET ASSETS:			
Invested in capital assets, net of related debt	-	(295,512)	(295,512)
Unrestricted	18	1,280,217	1,280,235
Total net assets	\$ 18	\$ 984,705	\$ 984,723

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, 2010**

	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
Functions/Programs:							
Primary governmental:							
Governmental activities:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total governmental activities	-	-	-	-	-	-	-
Business-type activities:							
Water	787,314	1,300,767	-	-	-	513,453	513,453
Wastewater	86,826	86,864	-	-	-	38	38
Interest on long-term debt	51,401	-	-	-	-	(51,401)	(51,401)
Total business-type activities	925,541	1,387,631	-	-	-	462,090	462,090
Total primary government	\$ 925,541	\$ 1,387,631	\$ -	\$ -	\$ -	\$ 462,090	\$ 462,090
General revenues:							
Interest income						15,670	15,670
Transfers					(167)	167	-
Total general revenues and transfers					(167)	15,837	15,670
Change in net assets					(167)	477,927	477,760
Net assets, beginning of year					185	506,778	506,963
Net assets, end of year					\$ 18	\$ 984,705	\$ 984,723

See accompanying notes to financial statements.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund
ASSETS:	
Taxes receivable	\$ <u>18</u>
Total assets	<u>\$ 18</u>
 LIABILITIES AND FUND BALANCES:	
LIABILITIES:	
Deferred revenue	\$ <u>18</u>
Total liabilities	<u>18</u>
 FUND BALANCE:	
Unreserved	<u>-</u>
Total liabilities and fund balances	<u>\$ 18</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, 2010**

Total fund balances for governmental funds	\$ -
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>18</u>
Net assets of governmental activities	<u>\$ 18</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, 2010**

	General Fund
REVENUES:	
Local effort taxes	\$ 49
Total revenues	<u>49</u>
EXPENDITURES:	
Current:	
General government	<u>-</u>
Total expenditures	<u>-</u>
Excess of revenues over expenditures	49
OTHER FINANCING USES:	
Transfers out	<u>(167)</u>
Net changes in fund balances	(118)
Fund balances, beginning of year	<u>118</u>
Fund balances, end of year	<u>\$ -</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, 2010**

Net change in fund balances - total governmental funds	\$ (118)
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 (\$67) less current year \$18.	<u>(49)</u>
Change in net assets of governmental activities	<u>\$ (167)</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
BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Local effort taxes	\$ 270	\$ 270	\$ 49	\$ (221)
Total general fund revenues	<u>270</u>	<u>270</u>	<u>49</u>	<u>(221)</u>
EXPENDITURES:				
General government	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	270	270	49	(221)
Fund balance - beginning of year	<u>474</u>	<u>474</u>	<u>474</u>	<u>-</u>
Fund balance - end of year	<u>\$ 744</u>	<u>\$ 744</u>	<u>\$ 523</u>	<u>\$ (221)</u>
Reconciliation of budgetary basis to GAAP basis:				
Net changes in fund balance budgetary basis			\$ 49	
Transfers not budgeted			<u>(167)</u>	
Net changes in fund balance GAAP basis			<u>\$ (118)</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, 2010**

	Water and Wastewater Fund
ASSETS:	
Current assets	
Cash and cash equivalents	\$ 1,152,870
Accounts receivable, net	181,696
Prepaid expenses	<u>10,346</u>
Total current assets	<u>1,344,912</u>
Deferred charges, net of accumulated amortization of \$1,888	23,271
Capital assets	<u>2,335,908</u>
Total assets	<u><u>\$ 3,704,091</u></u>
LIABILITIES:	
Current liabilities	
Accounts payable	\$ 36,790
Accrued liabilities and other expenses	40,222
Accrued compensated absences	10,954
Current portion notes payable	<u>168,268</u>
Total current liabilities	<u>256,234</u>
Non-current liabilities	
Accrued compensated absences	15,768
Notes payable	<u>2,447,384</u>
Total non-current liabilities	<u>2,463,152</u>
Total liabilities	<u>2,719,386</u>
NET ASSETS:	
Invested in capital assets, net of related debt	(295,512)
Unrestricted	<u>1,280,217</u>
Total net assets	<u>984,705</u>
Total liabilities and net assets	<u><u>\$ 3,704,091</u></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, 2010**

	Water and Wastewater Fund
Operating revenues:	
Water revenue	\$ 671,819
Irrigation water revenue	343,786
Wastewater revenue	86,864
Fire protection fees	94,898
Other charges for services	190,264
	<hr/>
Total operating revenues	1,387,631
	<hr/>
Operating expenses:	
Personnel services	410,545
Utilities and fuel	134,342
Other operating expenses	189,428
Depreciation expense	139,824
	<hr/>
Total operating expenses	874,139
	<hr/>
Operating income	513,492
	<hr/>
Nonoperating revenues (expenses)	
Interest income	15,670
Interest expense	(51,402)
	<hr/>
Total nonoperating revenues (expenses)	(35,732)
	<hr/>
Income before transfers	477,760
	<hr/>
Transfers in	167
	<hr/>
Changes in net assets	477,927
	<hr/>
Net assets, beginning of year	506,778
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Net assets, end of year	<u>\$ 984,705</u>

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, 2010**

	Water and Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,366,847
Cash payments to suppliers for good and services	(646,304)
Cash payments to employees for services	(81,594)
	<hr/>
Net cash provided by operating activities	638,949
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating transfers, net	167
	<hr/>
Net cash provided by non-capital financing activities	167
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(217,795)
Interest paid on bonds, notes and lease obligations	(51,402)
	<hr/>
Net cash used in capital and related financing activities	(269,197)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	15,670
	<hr/>
Net cash provided by investing activities	15,670
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	385,589
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	767,281
	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,152,870
	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 513,492
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	140,663
Changes in assets and liabilities	
Accounts receivable	(20,784)
Accounts payable	(7,851)
Accrued expenses	14,075
Compensated absences	(646)
	<hr/>
Total adjustment	125,457
	<hr/>
Net cash used in operating activities	\$ 638,949
	<hr/>
NONCASH TRANSACTIONS	
Financed purchase of equipment	\$ 74,618
	<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, 2010

I. 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 December 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans which is effective for financial statements for periods beginning after June 15, 2011. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans. 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 December 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies which is effective for financial statements for periods beginning after June 15, 2009. This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. 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 June 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 59, Financial Instruments Omnibus GASB which is effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. 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.

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, 2010 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, 2010.

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.

L. Subsequent Events

Management has evaluated subsequent events through November 22, 2010, the date which the financial statements were available to be issued.

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, 2010, the District's bank balance was exposed to custodial credit risk as follows:

	City Bank	Pioneer Bank	First National Bank	Compass Bank
Total deposits	\$ 520,037	\$ 226,230	\$ 231,011	\$ 206,645
FDIC coverage	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Total uninsured public funds	270,037	-	-	-
Collateralized by securities held by the pledging institution	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funds over collateralized	<u>\$ 129,963</u>	<u>\$ 23,770</u>	<u>\$ 18,989</u>	<u>\$ 43,355</u>

4. RECEIVABLES

Governmental activities receivables are as follows at June 30, 2010:

	General Fund
Property taxes	<u>\$ 18</u>

Business-type receivables are as follows at June 30, 2010:

	Water and Wastewater
Water and wastewater	\$ 157,601
Fire protection fees	<u>24,095</u>
Total	<u>\$ 181,696</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, 2010, all uncollected taxes are considered delinquent.

The District did not levy a property tax for fiscal year 2011.

6. CAPITAL ASSETS

Changes in Capital Assets—Capital asset activity for the District's primary government for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land and rights of way	\$ 552,470	\$ -	\$ -	\$ 552,470
Construction in progress	264,707	123,043	(264,707)	123,043
Total capital assets not being depreciated	817,177	123,043	(264,707)	675,513
Capital assets being depreciated:				
Building and improvements	220,545	356,064	-	576,609
Office furniture and equipment	45,244	-	-	45,244
Water and sewer systems	1,127,283	56,087	-	1,183,370
Vehicles	56,309	21,926	-	78,235
Equipment	63,700	-	-	63,700
Total capital assets being depreciated	1,513,081	434,077	-	1,947,158
Less accumulated depreciation	146,939	139,824	-	286,763
Total capital assets being depreciated, net	1,366,142	294,253	-	1,660,395
Business-type activities capital assets, net	<u>\$ 2,183,319</u>	<u>\$ 417,296</u>	<u>\$ (264,707)</u>	<u>\$ 2,335,908</u>

Depreciation Expense—Depreciation expense was \$139,824 and was charged to the water activity for the year ended June 30, 2010.

7. ACCRUED LIABILITIES AND OTHER EXPENSES

Business-type accrued liabilities and other expenses are as follows at June 30, 2010:

	Water and Wastewater
Accrued salaries	\$ 14,304
Insurance payable	5,909
Customer deposits	13,162
Gross receipts tax payable	6,847
Total	<u>\$ 40,222</u>

8. 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, 2010 employees had approximately 834 hours of accumulated vacation leave, totaling \$18,983, and approximately 667 hours of accumulated sick leave, totaling \$7,739.

9. LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2010, were as follows:

	Balance			Balance	Due Within
	June 30, 2009	Increase	Decreases	June 30, 2010	One Year
Business-type activities:					
New Mexico Finance Authority loan	\$ 2,541,034	\$ 74,618	\$ -	\$ 2,615,652	\$ 168,268
Compensated absences	27,368	22,601	(23,247)	26,722	10,954
	<u>\$ 2,568,402</u>	<u>\$ 97,219</u>	<u>\$ (23,247)</u>	<u>\$ 2,642,374</u>	<u>\$ 179,222</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, 2010, \$2,615,651 has been borrowed under the agreement. The loan bears interest at 2%, semi-annual interest only payments are due until May 2011, 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
2011	\$ 168,268	\$ 52,313	\$ 220,581
2012	171,641	48,948	220,589
2013	175,083	45,515	220,598
2014	178,593	42,013	220,606
2015	182,174	38,441	220,615
2016-2020	967,146	136,071	1,103,217
2021-2024	772,747	36,863	809,610
Totals	<u>\$ 2,615,652</u>	<u>\$ 400,164</u>	<u>\$ 3,015,816</u>

10. TRANSFERS

The District's general fund transferred \$167 to the water and wastewater fund during the year ended June 30, 2010 to pay for operating costs and improvements.

11. 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.

12. SUBSEQUENT EVENT

On September 23, 2010, the Water Trust Board approved a funding structure, for the District's Water Project, that requires a 20% loan component in the amount of \$360,002 with a 20 year term at a net effective interest rate of .25% and 80% grant in the amount of \$1,440,006. The loan and grant agreement is to be used by the District for the purpose of re-zoning of 24% of the existing water distribution system to meet national standards for household water pressure.

STATE OF NEW MEXICO
 ALTO LAKES WATER AND SANITATION DISTRICT

SUPPLEMENTAL SCHEDULE OF DEPOSITS
 JUNE 30, 2010

	City Bank	Compass Bank	Pioneer Bank	First National Bank	Total
Account type					
Checking	\$ 416,298	\$ -	\$ -	\$ -	\$ 416,298
Certificate of Deposit	103,738	206,645	226,230	231,011	767,624
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Amounts on deposit	520,036	206,645	226,230	231,011	1,183,922
Reconciling items	(31,202)	-	-	-	(31,202)
Cash on hand	-	-	-	-	150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 488,834	\$ 206,645	\$ 226,230	\$ 231,011	\$ 1,152,870

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

**SUPPLEMENTAL SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2010**

Name of Depository	Pledged Collateral	Maturity	Letter of Credit Number	Name and Location of Custodian	Fair Market Value June 30, 2010
City Bank	Irrevocable standby letter of credit	November 15, 2010	9224000008	FHLB Bank, Dallas, Texas	\$ 400,000

REQUIRED SUPPLEMENTARY INFORMATION



Strickler & Prieto, LLP

201 E. Main, Suite 500
El Paso, Texas 79901
Tel. (915) 532-2901
Fax (915) 532-0807
www.cpa-sp.com

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, 2010, and have issued our report thereon dated November 22, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material 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 applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

Strickland & Trieto, LLP

November 22, 2010

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

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

CURRENT YEAR:

None

PRIOR YEAR:

None

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

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2010**

An exit conference was conducted on November 29, 2010 at the District's offices with the following individuals in attendance:

Alto Lakes Water and Sanitation District

Earl Adamy
Daniel B. Knorr
David Edington
Delores Brewington

Chairman
Vice-Chairman, Treasurer
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.