

State of New Mexico
Alto Lakes Water and Sanitation District

Basic Financial Statements and
Required Supplementary Information
For the Year Ended June 30, 2011
and Independent Auditors' Report

**STATE OF NEW MEXICO
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, 2011**

Board of Directors

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

Chairman
Vice-Chairman, Treasurer
Secretary
Treasurer
Director



Strickler & Prieto, LLP

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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, each major fund, and the budgetary comparison for the general fund of the Alto Lakes Water and Sanitation District (the "District"), as of and for the year ended June 30, 2011, 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, 2011, 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 October 26, 2011, 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional schedules listed as "other supplemental information" 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 basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Strickland & Pizeto, LLP

October 26, 2011

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011. 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 third full fiscal year of operating the water and wastewater systems on June 30, 2011. 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 replacement reserves, increased to \$496,768.
- Cash totaled \$1.53 million at June 30, 2011. This includes \$192,930 in Reserves for Replacement and \$194,357 in accrued System Upgrade Fees set aside for Water Treatment Phase II.
- The District put Water Treatment (Phase I) into operation in April of this year. Phase I water treatment removes iron and manganese (red and brown). The project, which was funded with a \$1.5 million loan from the NM Drinking Water Revolving Loan Fund included much of the infrastructure (building, tankage, and pipelines) which will be required for Phase II. Phase II, which will be funded by the System Upgrade Fee (currently \$4.19 month), will provide "city" quality water through advanced treatment.
- The District will begin construction of Distribution System Upgrade Phase A in October. This project will replace all existing 3" to 6" water mains along High Mesa, French Drive, and Deer Park Drive with 8" lines and new fire hydrants. These lines form the "backbone" of the distribution system. Replacement of the lines, together with Pressure Regulating Valves, will improve line pressure and fire flows through much of the system.
- Debt, carrying rates between ½% and 2% for 20 years, will increase from \$4.0 million to approximately \$4.4 million upon completion of Distribution System Upgrade Phase A.

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 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 do 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		
	2010	2011
Current and other assets	\$ 1,368,201	\$ 1,745,082
Capital assets (net of depreciation)	<u>2,335,908</u>	<u>3,943,346</u>
Total assets	<u>\$ 3,704,109</u>	<u>\$ 5,688,428</u>
Current liabilities	\$ 256,234	\$ 292,725
Long-term liabilities	<u>2,463,152</u>	<u>3,914,212</u>
Total liabilities	<u>\$ 2,719,386</u>	<u>\$ 4,206,937</u>
Net assets:		
Invested in capital assets, net of related debt	\$ (295,512)	\$ (124,831)
Unrestricted	<u>1,280,235</u>	<u>1,606,322</u>
Total net assets	<u>\$ 984,723</u>	<u>\$ 1,481,491</u>

CAPITAL ASSETS AND LONG-TERM LIABILITIES

During FY2011, the District completed projects begun in FY2010 to include the Water Treatment Plant Phase I. Construction in Progress includes ongoing Storage Tank replacement and Distribution System Upgrades. Capital purchase included new Pumping Equipment for two existing wells.

The District completed construction of the \$1.5 million Phase I Water Treatment Plant. Payment resulted in addition of \$1,425,304 to the \$4 million Drinking Water Revolving Loan Fund increasing long term liabilities.

Government-Wide Activities		
	2010	2011
Revenues		
<u>Program revenues</u>		
Charges for services	\$ 1,387,631	\$ 1,521,064
<u>General Revenue</u>		
Property taxes	-	-
Miscellaneous income	15,670	34,017
Total revenue	<u>1,403,301</u>	<u>1,555,081</u>
Expenses		
General government	-	-
Water	787,314	905,840
Wastewater	86,826	98,373
Interest	51,401	54,100
Total expenses	<u>925,541</u>	<u>1,058,313</u>
Change in net assets	<u>477,760</u>	<u>496,768</u>
Net assets - Beginning of year	<u>506,963</u>	<u>984,723</u>
Net assets - End of year	<u>\$ 984,723</u>	<u>\$ 1,481,491</u>

The District increased revenue during FY2011 by adjusting rate structure, effective September 1, 2010, based on Cost of Living Index increases. An additional water treatment adjustment of \$.25/1000 gallons became Effective April 1, 2011.

Expenses increased during FY2011 due to salary increases with related benefit costs, increased electric rates for well pumps, operational supplies and increased repairs and maintenance on aging equipment, increased general engineering fees for wastewater plant compliance, and increased vehicle fuel rates for fleet vehicles.

BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ -	\$ 1,528,792	\$ 1,528,792
Receivables, net of allowance for uncollectibles			
Accounts	-	193,840	193,840
Taxes	18	-	18
Deferred charges, net of accumulated amortization of \$2,727	-	22,432	22,432
Capital assets			
Land and construction in progress	-	781,981	781,981
Other capital assets, net of accumulated depreciation	-	3,161,365	3,161,365
Total capital assets	-	3,943,346	3,943,346
Total assets	\$ 18	\$ 5,688,410	\$ 5,688,428
LIABILITIES:			
Accounts payable	\$ -	\$ 87,401	\$ 87,401
Accrued liabilities and other expenses	-	25,549	25,549
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	-	10,580	10,580
Notes payable	-	169,195	169,195
Portion due or payable after one year:			
Compensated absences	-	15,230	15,230
Notes payable	-	3,898,982	3,898,982
Total liabilities	-	4,206,937	4,206,937
NET ASSETS:			
Invested in capital assets, net of related debt	-	(124,831)	(124,831)
Unrestricted	18	1,606,304	1,606,322
Total net assets	\$ 18	\$ 1,481,473	\$ 1,481,491

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, 2011**

	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 government:							
Governmental activities:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total governmental activities							
Business-type activities:							
Water	905,840	1,427,073				521,233	521,233
Wastewater	98,373	93,991				(4,382)	(4,382)
Interest on long-term debt	54,100					(54,100)	(54,100)
Total business-type activities	1,058,313	1,521,064				462,751	462,751
Total primary government	\$ 1,058,313	\$ 1,521,064	\$ -	\$ -	\$ -	462,751	462,751
General revenues:							
Interest income					-	15,267	15,267
Other income					-	18,750	18,750
Total general revenues					-	34,017	34,017
Change in net assets					-	496,768	496,768
Net assets, beginning of year					18	984,705	984,723
Net assets, end of year					\$ 18	\$ 1,481,473	\$ 1,481,491

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund
ASSETS:	
Taxes receivable	\$ <u>18</u>
Total assets	\$ <u><u>18</u></u>
 LIABILITIES AND FUND BALANCES:	
LIABILITIES:	
Deferred revenue	\$ <u>7</u>
Total liabilities	<u>7</u>
FUND BALANCE:	
Unassigned	<u>11</u>
Total liabilities and fund balances	\$ <u><u>18</u></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, 2011**

Total fund balances for governmental funds	\$	11
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>7</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, 2011**

	General Fund
REVENUES:	
Local effort taxes	\$ 11
Total revenues	<u>11</u>
EXPENDITURES:	
Current:	
General government	<u>-</u>
Total expenditures	<u>-</u>
Net changes in fund balances	11
Fund balances, beginning of year	<u>-</u>
Fund balances, end of year	<u>\$ 11</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, 2011**

Net change in fund balances - total governmental funds	\$	11
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 (\$18) less current year \$7.		(11)
Change in net assets of governmental activities	\$	<u>-</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, 2011**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Local effort taxes	\$ 60	\$ 60	\$ 11	\$ (49)
Total general fund revenues	<u>60</u>	<u>60</u>	<u>11</u>	<u>(49)</u>
EXPENDITURES:				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	60	60	11	(49)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ 60</u>	<u>\$ 60</u>	<u>\$ 11</u>	<u>\$ (49)</u>

See accompanying notes to financial statements.

PROPRIETARY FUNDS

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

	Water and Wastewater Fund
ASSETS:	
Current assets	
Cash and cash equivalents	\$ 1,528,792
Accounts receivable, net	<u>193,840</u>
Total current assets	<u>1,722,632</u>
Deferred charges, net of accumulated amortization of \$2,727	22,432
Capital assets	<u>3,943,346</u>
Total assets	<u>\$ 5,688,410</u>
LIABILITIES:	
Current liabilities	
Accounts payable	\$ 87,401
Accrued liabilities and other expenses	25,549
Accrued compensated absences	10,580
Current portion notes payable	<u>169,195</u>
Total current liabilities	<u>292,725</u>
Non-current liabilities	
Accrued compensated absences	15,230
Notes payable	<u>3,898,982</u>
Total non-current liabilities	<u>3,914,212</u>
Total liabilities	<u>4,206,937</u>
NET ASSETS:	
Invested in capital assets, net of related debt	(124,831)
Unrestricted	<u>1,606,304</u>
Total net assets	<u>1,481,473</u>
Total liabilities and net assets	<u>\$ 5,688,410</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, 2011**

	Water and Wastewater Fund
Operating revenues:	
Water revenue	\$ 720,089
Irrigation water revenue	385,644
Wastewater revenue	93,991
Fire protection fees	94,041
System upgrade fees	111,891
Solid waste charges	53,098
Other charges for services	62,310
	<hr/>
Total operating revenues	1,521,064
	<hr/>
Operating expenses:	
Personnel services	417,473
Utilities and fuel	166,639
Other operating expenses	260,923
Depreciation expense	159,178
	<hr/>
Total operating expenses	1,004,213
	<hr/>
Operating income	516,851
	<hr/>
Nonoperating revenues (expenses)	
Interest income	15,267
Interest expense	(54,100)
Other income	18,750
	<hr/>
Total nonoperating revenues (expenses)	(20,083)
	<hr/>
Changes in net assets	496,768
	<hr/>
Net assets, beginning of year	984,705
	<hr/>
Net assets, end of year	<u>\$ 1,481,473</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, 2011**

	Water and Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,508,920
Cash payments to suppliers for good and services	(477,591)
Cash payments to employees for services	(321,233)
	<hr/>
Net cash provided by operating activities	710,096
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Proceeds from grants	18,750
	<hr/>
Net cash provided by non-capital financing activities	18,750
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,766,616)
Proceeds from notes payable	1,453,289
Principal payments on notes payable	(764)
Interest paid on notes payable	(54,100)
	<hr/>
Net cash used in capital and related financing activities	(368,191)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	15,267
	<hr/>
Net cash provided by investing activities	15,267
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	375,922
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,152,870
	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,528,792
	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 516,851
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	160,017
Changes in assets and liabilities	
Accounts receivable	(12,144)
Prepaid Expenses	10,346
Accounts payable	50,611
Accrued expenses	(14,673)
Compensated absences	(912)
	<hr/>
Total adjustment	193,245
	<hr/>
Net cash provided by operating activities	\$ 710,096
	<hr/>
NONCASH TRANSACTIONS	
Financed purchase of equipment	\$ 1,425,304
	<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, 2011**

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.

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. 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, 2011 was \$839.

I. 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, 2011.

J. 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.

K. Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable Fund Balance—Represents amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted Fund Balance—Represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance—Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the District's highest level of decision-making authority removes or changes the specified use by taking the same action it employed to previously commit those amounts.

Assigned Fund Balance—Represents amounts that are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance—Represents the residual classification for the general fund or deficit balance in other funds.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

L. Subsequent Events

Management has evaluated subsequent events through October 26, 2011, 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. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America.
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 five financial institutions, City Bank, Compass Bank, First National Bank, Pioneer Bank and Washington Federal, all located in Ruidoso, New Mexico. Collateral is held in safekeeping at the Federal Home Loan Bank of Dallas ("Bank") in the form of designated securities and 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, 2011, the District's bank balance was exposed to custodial credit risk as follows:

	City Bank	Pioneer Bank	First National Bank	Compass Bank	Washington Federal
Total deposits	\$ 564,355	\$ 228,118	\$ 101,670	\$ 209,640	\$ 433,546
FDIC coverage	250,000	250,000	250,000	250,000	250,000
Total uninsured public funds Collateralized by securities held by the pledging institution	314,355	-	-	-	183,546
	400,000	-	-	-	294,200
Funds over collateralized	<u>\$ 85,645</u>	<u>\$ 21,882</u>	<u>\$ 148,330</u>	<u>\$ 40,360</u>	<u>\$ 110,654</u>

4. RECEIVABLES

Governmental activities receivables are as follows at June 30, 2011:

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

Business-type receivables are as follows at June 30, 2011:

	Water and Wastewater
Water and wastewater	\$ 189,738
Fire protection fees	<u>4,102</u>
Total	<u>\$ 193,840</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, 2011, all uncollected taxes are considered delinquent.

The District did not levy a property tax for fiscal year 2012.

6. **CAPITAL ASSETS**

Changes in Capital Assets—Capital asset activity for the District's primary government for the year ended June 30, 2011, 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	123,043	1,686,203	(1,579,735)	229,511
Total capital assets not being depreciated	675,513	1,686,203	(1,579,735)	781,981
Capital assets being depreciated:				
Building and improvements	576,609	55,971	-	632,580
Office furniture and equipment	45,244	-	-	45,244
Water and sewer systems	1,183,370	1,604,177	-	2,787,547
Vehicles	78,235	-	-	78,235
Equipment	63,700	-	-	63,700
Total capital assets being depreciated	1,947,158	1,660,148	-	3,607,306
Less accumulated depreciation	286,763	159,178	-	445,941
Total capital assets being depreciated, net	1,660,395	1,500,970	-	3,161,365
Business-type activities capital assets, net	\$ 2,335,908	\$ 3,187,173	\$ (1,579,735)	\$ 3,943,346

Depreciation Expense—Depreciation expense was \$159,178 and was charged to the water activity for the year ended June 30, 2011.

7. **ACCRUED LIABILITIES AND OTHER EXPENSES**

Business-type accrued liabilities and other expenses are as follows at June 30, 2011:

	Water and Wastewater
Accrued salaries	\$ 3,425
Insurance payable	6,052
Customer deposits	2,490
Gross receipts tax payable	8,480
Accrued interest payable	5,102
Total	\$ 25,549

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, 2011 employees had approximately 930 hours of accumulated vacation leave, totaling \$18,776, and approximately 592 hours of accumulated sick leave, totaling \$7,034.

9. LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2011, were as follows:

	Balance June 30, 2010	Increase	Decreases	Balance June 30, 2011	Due Within One Year
Business-type activities:					
New Mexico Finance Authority loan					
	\$ 2,615,652	\$ 1,425,304	\$ -	\$ 4,040,956	\$ 167,787
DPV Assessment	-	27,985	(764)	27,221	1,408
Compensated absences	26,722	23,420	(24,332)	25,810	10,580
	<u>\$ 2,642,374</u>	<u>\$ 1,476,709</u>	<u>\$ (25,096)</u>	<u>\$ 4,093,987</u>	<u>\$ 179,775</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, 2011, \$4,040,956 has been borrowed under the agreement. The loan bears interest at 2%, semi-annual interest only payments are due until November 2011, when principal and interest payments will be required. The loan is secured by the revenues of the utility system.

On September 1, 2010, Deer Park Valley started charging an assessment fee for paving work done. As of June 30, 2011, the District is paying the fee for two lots in Deer Park Valley. The assessment fee is payable in installments of \$671 per lot for the next 15 years starting April 2011. Installments will be payable in two installments per year, in April and October over the term of the loan. The loan bears interest at 2.375%.

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

Year Ending June 30:	Principal	Interest	Total
2012	\$ 169,195	\$ 54,784	\$ 223,979
2013	172,616	69,616	242,232
2014	176,110	66,550	242,660
2015	179,676	63,421	243,097
2016	183,315	60,227	243,542
2017-2021	973,842	250,863	1,224,705
2022-2026	1,074,056	160,506	1,234,562
2027-2031	1,139,367	62,510	1,201,877
Totals	<u>\$ 4,068,177</u>	<u>\$ 788,477</u>	<u>\$ 4,856,654</u>

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.

OTHER SUPPLEMENTARY INFORMATION

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

**SUPPLEMENTAL SCHEDULE OF DEPOSITS
JUNE 30, 2011**

Account type	City Bank	Compass Bank	Pioneer Bank	First National Bank	Washington Federal	Total
Checking	\$ 564,355	\$ -	\$ -	\$ -	\$ -	\$ 564,355
Certificate of Deposit	-	209,640	228,118	101,670	433,546	972,974
Amounts on deposit	564,355	209,640	228,118	101,670	433,546	1,537,329
Reconciling items	(8,687)	-	-	-	-	(8,687)
Cash on hand	-	-	-	-	-	150
	<u>\$ 555,668</u>	<u>\$ 209,640</u>	<u>\$ 228,118</u>	<u>\$ 101,670</u>	<u>\$ 433,546</u>	<u>\$ 1,528,792</u>

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

**SUPPLEMENTAL SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2011**

Name of Depository	Pledged Collateral	Maturity	Letter of Credit/ CUSIP Number	Name and Location of Custodian	Fair Market Value June 30, 2010
City Bank	Irrevocable standby letter of credit	November 14, 2011	9224000019	FHLB Bank, Dallas, Texas	\$ 400,000
Washington Federal	FHLB Bond EI3474174	August 26, 2025	313370L63	State Street Bank, Boston, MA	\$ 294,200

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

**SUPPLEMENTAL SCHEDULE OF CAPITAL OUTLAY APPROPRIATIONS
JUNE 30, 2011**

Capital Project	Project Appropriation	Expenditures to Date	Outstanding Balance	Appropriation Period
New Mexico Finance Authority Loan	\$4,090,500	\$4,040,955	\$49,545	June 30, 2011

COMPLIANCE SECTION



Strickler & Prieto, LLP

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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, each major fund, 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, 2011, and have issued our report thereon dated October 26, 2011. 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.

SPICKLER & PRISTO, LLP

October 26, 2011



Strickler & Prieto, LLP

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Alto Lakes Water and Sanitation District (the "District"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB

Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The report is intended solely for the information and use of the Districts management, others within the District, the Office of the New Mexico 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.

STRICKLER & PRIETO, LLP

October 26, 2011

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>State ID No.</u>	<u>Federal Expenditures</u>
United States Environmental Protection Agency Pass-Through the New Mexico Finance Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	None	\$ 1,104,971
Total Expenditures of Federal Awards			\$ 1,104,971
Non-cash assistance			\$ 0

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the Alto Lakes Water and Sanitation District (the "District"). The District is defined in Note 1 of the District's financial Statements. All federal awards received, including those received through other agencies are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 of the District's financial statements.

3. INSURANCE REQUIREMENTS

There are no insurance requirements on the federal awards disclosed on the Schedule of Expenditures of Federal Awards.

4. LOANS OR LOAN GUARANTEES

There were loans of \$4,040,956, related to the federal awards disclosed on the Schedule of Expenditures of Federal Awards, outstanding at year end. The loan is described in Note 9 of the District's financial statements. There were no loan guarantees outstanding at year end.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

CURRENT YEAR

II. FINANCIAL STATEMENT FINDINGS

NONE NOTED

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE NOTED

PRIOR YEAR

IV. FINANCIAL STATEMENT FINDINGS

NONE NOTED

V. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE NOTED

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

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2011**

An exit conference was conducted on November 21, 2011 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.