

**STATE OF NEW MEXICO
LAKESHORE CITY SANITATION DISTRICT
Independent Auditors' Report and
Financial Statements
For the Thirteen Months Ended July 31, 2008**

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State of New Mexico
LAKESHORE CITY SANITATION DISTRICT
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July 31, 2008

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State of New Mexico
LAKESHORE CITY SANITATION DISTRICT
FUNCTION OF ENTITY AND OFFICIAL ROSTER
July 31, 2008

Function of the Entity

The Lakeshore City Sanitation District was organized under the New Mexico Statutes 75-18-1 to 75-18-32 to serve a public use and promote the health, safety, prosperity, security and general welfare of the inhabitants of the District. The District was created for the purpose of purchasing, acquiring, establishing or constructing waterworks to supply water for domestic, commercial and industrial purposes by any available means to persons within and without the boundaries of the district and for this purpose the District shall have power to extend its water lines outside of the boundaries of the District for the purpose of securing a source of water supply or for the purpose of supplying such water to any lands of the United States or the State of New Mexico, or Indian reservation for use by any person, firm or corporation. The District serves approximately 800 water customers and has approximately 245 stand by connections available for users.

On July 31, 2008, the Board of Directors elected to terminate operations and transfer all assets and liabilities to the City of Elephant Butte.

BOARD OF DIRECTORS

Ed Sanchez	Chairman
Suzanne Fullmer	Co-Chairman
Tom Case	Director
Dolly Loftus	Director

ADMINISTRATIVE OFFICIALS

Steve Cooke	General Manager
Pauline McDonald	Office Manager
Dean Banks	System Operator

Financial Section

INDEPENDENT AUDITOR'S REPORT

Mr. Hector Balderas, State Auditor
and the Board of Directors
Lakeshore City Sanitation District
Elephant Butte, New Mexico

We have audited the accompanying financial statements of the business type activities of the Lakeshore City Sanitation District as of and for the thirteen months ended July 31, 2008, as listed in the table of contents. We have also audited the budget comparison schedule presented in the supplemental information. These financial statements are the responsibility of the Lakeshore City Sanitation District management. Our responsibility is to express opinions on these financial statements based on our audit.

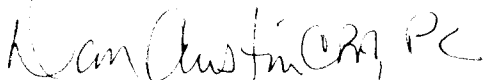
Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lakeshore City Sanitation District's internal control over financial reporting. Accordingly, we express no such opinion. 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 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.

The Lakeshore City Sanitation District Board of Directors elected to sell the assets of the District effective as of the close of business on July 31, 2008 as disclosed in Note 12 of this report. Normal auditing procedures require that the auditor obtain various representations from the management of Lakeshore City Sanitation District. These representations were not obtained. If the auditor had been able to obtain these representations from management, the financial information provided might be different.

In our opinion, except for the effects of not obtaining various management representations as disclosed in the paragraph above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lakeshore City Sanitation District as of July 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison schedules referred to above present fairly, in all material respects, the respective budgetary comparisons of the Lakeshore City Sanitation District for the year ended July 31, 2008 in conformity with the budgetary basis of accounting as described in Note 1 in conformity with accounting principles generally accepted in the United States of America.

The Lakeshore City Sanitation District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2009 on our consideration of the Lakeshore City Sanitation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.



September 15, 2009

State of New Mexico
Lakeshore City Sanitation District
Statement of Net Assets
July 31, 2008

Assets

	Business Type Activities
Current assets:	
Cash-unrestricted	\$ 284,765
Accounts receivable, net of uncollectible	14,384
Inventory	11,879
Total Current Assets	<u>311,028</u>
Noncurrent assets	
Capital Assets	1,057,740
Less: accumulated depreciation	429,258
Total capital assets	<u>628,482</u>
Total Assets	<u>939,510</u>

Liabilities

Liabilities	
Current liabilities:	
Accounts payable	-
Payroll tax payable	6,587
Gross receipts tax payable	620
Deferred revenue	2,484
Total current liabilities	<u>9,691</u>
Total Liabilities	<u>9,691</u>

Net Assets

Net Assets	
Invested in Capital Assets	628,482
Unrestricted	301,337
Total Net Assets	<u>\$ 929,819</u>

See accompanying notes to the financial statements.

State of New Mexico
Lakeshore City Sanitation District
Statement of Revenues, Expenses and
Changes in Net Assets-Proprietary Funds
For the Thirteen Months Ended July 31, 2008

Operating Revenues	<u>Total</u>
Charges for services	\$ 145,259
Connection charges	2,568
Miscellaneous income	134
Standby fees	5,663
Gross receipts	<u>7,222</u>
Total Operating Revenues	160,846
Operating Expenses	
Salaries and payroll tax	80,862
Maintenance	8,931
Office supplies	2,088
Telephone	2,627
Utilities	15,107
Postage	2,038
Taxes	9,612
Insurance	21,771
Travel	1,877
Miscellaneous	1,830
Professional fees	10,426
Directors fees	1,320
Depreciation expense	<u>22,311</u>
Total Operating Expenses	<u>180,800</u>
Operating Income	(19,954)
Non-Operating Revenues (Expenses)	
Interest income	<u>2,170</u>
Total Non-Operating Revenue (Expense)	<u>2,170</u>
Increase (Decrease) in Net Assets	(17,784)
Net Assets, Beginning	<u>947,603</u>
Net Assets, Ending	<u>\$ 929,819</u>

See accompanying notes to the financial statements.

State of New Mexico
Lakeshore City Sanitation District
Statement of Cash Flows-Proprietary Funds
For the Thirteen Months Ended July 31, 2008

Cash Flows From Operating Activities

Cash received from customers	\$ 160,348
Interest received	2,170
Cash paid to suppliers and employees	<u>(155,549)</u>
Net Cash Provided by Operating Activities	6,969

Cash Flows From Investing Activities

Capital outlay	<u>(3,778)</u>
Net Cash Provided (Used) For Investing Activities	<u>(3,778)</u>
Net Increase (Decrease) in Cash	3,191
 Cash, July 1, 2007	 <u>281,574</u>
Cash, July 31, 2008	<u>\$ 284,765</u>

**Reconciliation of Net Income to Net Cash
Provided by Operating Activities**

Net income (loss)	\$ (19,784)
Adjustment to reconcile net income to net cash provided by operating activities:	
Depreciation	22,311
(Increase) decrease in receivables	(580)
(Increase) decrease in prepaid expense	1,246
(Increase) decrease in inventory	(800)
Increase (decrease) in accounts payables	(2,223)
Increase (decrease) in deferred revenue	20
Increase (decrease) in other payables	<u>6,779</u>
Net cash provided by operating activities	<u>\$ 6,969</u>

See accompanying notes to the financial statements.

State of New Mexico
Lakeshore City Sanitation District
Notes to the Financial Statements
July 31, 2008

Note 1. Summary of Significant Accounting Policies

Overview

The Lakeshore City Sanitation District (District) is located near Elephant Butte, New Mexico and operates under a Director-Manager form of District with three elected Directors and an appointed manager. The purpose of the District is to provide water service for the users within and without the boundaries of the District.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below:

A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within 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 District, 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 entities is the existence of special financing relations, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, no potential component units were included in the District's reporting entity.

B. Government-wide Fund Financial Statements

Because the District is a special-purpose government, with only a single fund, business-type activity, the basic financial statements do not include both government-wide (based on the District as a whole) and fund financial statements. The new reporting model focus is on either the District as a whole or major individual funds (within the fund financial statements). The District is a single-program government that engages in only business-type activities and has no component units.

In the Statements of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets, the business-type activities are presented on the full accrual basis, flow of economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, restricted net assets and unrestricted net assets. Business-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Operating revenues and expenses are presented separately from non-operating items. The principal operating revenues reflect charges to customers for solid waste services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Grant revenues are recognized when all of the eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted sources first, the unrestricted resources as they are needed.

State of New Mexico
Lakeshore City Sanitation District
Notes to the Financial Statements
July 31, 2008

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments. Certain significant changes in the statement include a change in the financial statements to focus on major funds. This and other changes in the accompanying financial statements including the notes were implemented by the Lakeshore City Sanitation District.

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principal Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating income reported in the financial statements includes revenues and expenses related to the primary and continuing operation of the fund. Principal operating revenues are charges to customers for sales and services. Principal operating expenses are the cost of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted sources first, the unrestricted resources as they are needed.

The District reports the following major proprietary funds:

The **Water Fund** is used to account for the activities of water to the citizens of the District.

D. Budgets

The District, pursuant to section 6-6-2, NMSA 1978 Compilation, submits to the Local Government Division of the New Mexico Department of Finance and Administration. Budgets are adopted on cash basis. The level of budgetary control is by fund total. Budgetary information is presented as originally adopted and amended, the amendments being adopted in a legally prescribed manner. All appropriations lapse at year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to June 1, the District's administration submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

Prior to July 1, the budget is legally enacted through formal adoption by the Board and then must be approved by Local Government Division of the State Department of Finance and Administration.

The District's treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors and the State Department of Finance and Administration.

Formal budgetary integration is employed as a management control device during the year for the Proprietary Funds.

E. Cash

The District maintains cash resources in demand accounts and certificates of deposit at local banks. The District does not currently have cash in excess of FDIC insured amounts or current security pledging requirements. Cash

State of New Mexico
Lakeshore City Sanitation District
Notes to the Financial Statements
July 31, 2008

in excess of current requirements may legally be invested in various certificates of deposits and disclosed as a part of cash. All cash of the district is considered cash equivalents for cash flow purposes.

F. Accounts Receivable

All accounts receivable are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. All receivables are due from customers for services provided.

G. Inventory

Inventories of various operational supplies are valued at cost using the first in – first out method of accounting.

H. Prepaid Expenses

Payments to vendors for goods and services that will benefit future periods beyond year end are recorded as prepaid expense.

I. Capital Assets

All purchased capital assets are valued at cost. All assets in excess of \$5,000 are capitalized and depreciated. Donated fixed assets, if received, will be valued at their historical value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of buildings, improvements, equipment and furnishings in the proprietary fund types is computed using the straight-line method over the estimated useful lives as follows:

Distribution system	40 years
Buildings	40 years
Equipment	5-20 years

The District is required to capitalize construction interest in all business type funds. The capitalized interest is depreciated over the useful life of the constructed asset.

The District policy requires capitalization and depreciation of the cost of software over its estimated useful life. The District currently has no software.

J. Encumbrances

The District, at its option, chooses not to utilize a formal encumbrance system for the purpose of reserving fund balances for open purchase orders.

K. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The District had no current year liability.

L. Long-term Obligations

Notes payable from cash advances and purchase agreements are reflected as a liability of the fund. On purchase agreements which reflect no interest, the interest was imputed and the liability reflects the net amount. Long-term financing lease purchases are recorded as a fund liability.

State of New Mexico
Lakeshore City Sanitation District
Notes to the Financial Statements
July 31, 2008

M. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from other government entities, customers or other funds. Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. The District does have reserved funds as of the date of these statements for landfill closure costs.

Note 2. Cash and Deposit Collateral

The following is a summary of the cash held by the Lakeshore City Sanitation District. In accordance with Section 6-10-17, NMSA, 1978 all public entities are required to secure collateralization of deposits in excess of the FDIC insurance amounts. The statute requires that deposits of public monies are to be collateralized in an aggregate amount equal to 50% of deposits in excess of Federal Deposit Insurance Corporation insurance coverage. At June 30, 2008, the District had the following deposits at three banks. The following is a summary of the Lakeshore City Sanitation District deposits at July 31, 2008:

<u>Depository</u>	<u>Acct Type</u>	<u>Fund Type</u>	<u>Balance Per Depository</u>	<u>Reconciling Items</u>		<u>Balance Financial Statements</u>
				<u>Checks</u>	<u>Deposits</u>	
Unrestricted Cash:						
First Savings Bank	Checking	Operations	\$ 53,727	\$ (50,191)	\$ 992	\$ 4,528
Petty Cash			40	-	-	40
Cash on Hand			<u>280,197</u>	<u>-</u>	<u>-</u>	<u>280,197</u>
			<u>\$ 333,964</u>	<u>\$ (50,191)</u>	<u>\$ 992</u>	<u>\$ 284,765</u>

The District converted all time deposits to cashier's checks on July 31, 2008 which were transfer to the City of Elephant Butte as disclosed in Note 12.

District's bank balances were uninsured and uncollateralized were exposed to custodial credit risk as follows:

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 does not have deposit policy for custodial credit risk.

	<u>First Savings</u>	<u>Total</u>
Total Deposits	\$ 53,727	\$ 53,727
FDIC Insurance	(53,727)	(53,727)
Collateral held by in the District's name	<u>-</u>	<u>-</u>
Deposits uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>

State of New Mexico
Lakeshore City Sanitation District
Notes to the Financial Statements
July 31, 2008

Note 3. PERA Pension Plan

Plan Description. The Lakeshore City Sanitation District full time employees do not participate in a public employees retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978).

Note 4. Retiree Health Care Act Contributions

The Retiree Health Care Act (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive care group health insurance for persons who have retired from certain public service in New Mexico. As authorized under Section 9D. of Chapter 6, Laws of 1990, the District has elected not to participate in the program.

Note 5. Risk Coverage

The District is exposed to various risk of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained insurance through a commercial carrier to insure against potential losses and claims. The premiums are based on payroll and other expenditures, and are not directly related to claims filed. The policies are retrospectively rated and premiums may be adjusted after year end, based on the ultimate level of expenditures.

Note 6. Accounts Receivable

Accounts receivable represent unpaid billings to service recipients. The receivables from the service recipients are provided an allowance for uncollectible accounts based on the status of the receivable. Accounts receivable consisted of the following at July 31, 2008:

Accounts Receivable-Services	\$	13,082
Accounts Receivable-Standy By		4,336
Less: Allowance for Uncollectible Accounts		<u>(3,034)</u>
Net Receivables	\$	<u>14,384</u>

Note 7. Line Extension Agreements

As distribution lines are added to the system at the request of owners, the District returns 20% of the annual revenues from these customers until such time as cost is recovered by the owner. Up to 90% of the extension cost could be refunded to the original customer over five years and then the balance of any un-refunded repayment is forfeited to the District. The balance of the customer prepayment of line extension represents the un-refunded and non-forfeited portion of prepaid line extensions. There were no customer prepayments held or received during this fiscal year.

State of New Mexico
Lakeshore City Sanitation District
Notes to the Financial Statements
July 31, 2008

Note 8. Changes in Capital Assets

	Balance 6/30/2007	Additions	Deletions	Balance 7/31/2008
Business Type Activities:				
Capital assets being depreciated:				
Land	\$ 3,657	\$ -	\$ -	\$ 3,657
Water rights	194,205	-	-	194,205
Equipment	68,482	3,777	-	72,259
Buildings	41,919	-	-	41,919
Distribution system	745,699	-	-	745,699
Total	1,053,962	3,777	-	1,057,739
Less accumulated depreciation:				
Equipment	(42,342)	(5,304)	-	(47,646)
Buildings	(15,299)	(1,646)	-	(16,945)
Distribution system	(349,306)	(15,361)	-	(364,667)
Total	(406,947)	(22,311)	-	(429,258)
Total Capital Assets	\$ 647,015	\$ (18,534)	\$ -	\$ 628,481

Note 9. Investments

The District has not authorized by ordinance or other method the investment of District funds other than disclosed in Note 1-E.

Note 10. Income Taxes

As a local government entity, the District is not subject to federal or state income tax.

Note 11. Deferred Revenue

The District receives payments in advance for water services. These receipts are considered deferred until such time as the customer utilizes water services. Receipts considered deferred as of July 31, 2008 amounted to \$2,484.

Note 12. District Sale

The Board of Directors approved resolution 7-10-001 on July 10, 2008 voted to sell the operations and all assets to the City of Elephant Butte for the amount of \$1.00. The City of Elephant Butte approved Resolution 196 on July 16, 2008 agreeing to purchase the District. With approval of the New Mexico Public Regulatory Commission the District transferred all assets and liabilities to the City of Elephant Butte at the close of business on July 31, 2008.

Supplemental Section

State of New Mexico
Lakeshore City Sanitation District
Statement of Revenues, Expenses and Changes in Cash Balance
Budget (Budgetary Basis) and Actual-Proprietary Fund
For the Year Ended July 31, 2008

	Original Approved Budget	Final Approved Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues				
Charges for services	\$ 147,767	\$ 147,767	\$ 145,677	\$ (2,090)
Connection fees	1,141	1,141	2,568	1,427
Interest income	-	-	2,170	2,170
Miscellaneous	-	-	134	134
Gross receipts tax	4,914	4,914	7,284	2,370
Standby fees	7,368	7,368	4,685	(2,683)
Total Revenues	<u>161,190</u>	<u>161,190</u>	<u>162,518</u>	<u>1,328</u>
Operating Expenses				
Salaries and payroll tax	58,880	58,880	76,145	(17,265)
Maintenance	16,133	16,133	9,743	6,390
Office supplies	2,708	2,708	2,088	620
Telephone	4,333	4,333	2,809	1,524
Utilities	17,167	17,167	16,627	540
Postage	2,383	2,383	2,038	345
Taxes	9,708	9,708	9,612	96
Insurance	23,833	23,833	20,525	3,308
Travel	1,900	1,900	1,877	23
Miscellaneous	1,900	1,900	1,830	70
Professional fees	13,000	13,000	10,935	2,065
Directors fees	1,350	1,350	1,320	30
Capital outlay	27,083	27,083	3,778	23,305
Total Operating Expense	<u>180,378</u>	<u>180,378</u>	<u>159,327</u>	<u>21,051</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(19,188)</u>	<u>(19,188)</u>	3,191	<u>\$ 22,379</u>
Cash, Beginning			<u>281,574</u>	
Cash, Ending			<u>\$ 284,765</u>	
Reconciliation Budgetary Basis to GAAP				
Revenues Budgetary Basis	\$ 162,518			
Change in Accounts Receivable	518			
Change in Deferred Revenue	(20)			
Revenues GAAP	<u>163,016</u>			
Expenditures Budgetary Basis	159,327			
Change in Accounts Payable	(2,223)			
Change in Prepaid Expense	1,246			
Change in Inventory	(800)			
Reclass capital outlay	(3,778)			
Depreciation	22,311			
Change in Accrued expenses	4,717			
Expenditures GAAP	<u>180,800</u>			
Change in Net Assets - GAAP	<u>\$ (17,784)</u>			

See accompanying notes to the financial statements.

Compliance Section

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Hector H. Balderas, State Auditor
and the Board of Directors
Lakeshore City Sanitation District
Estancia, New Mexico

We have audited the financial statements of the business type activities and the supplemental information of the Lakeshore City Sanitation District, as of and for the year ended July 31, 2008, which collectively comprise Lakeshore City Sanitation District Valley Public School's basic financial statements and have issued our report thereon dated September 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lakeshore City Sanitation 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 Lakeshore City Sanitation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lakeshore City Sanitation District's internal control over financial reporting.

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

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

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

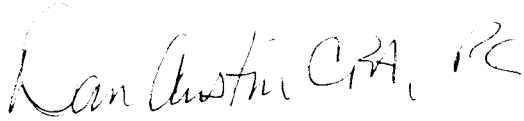
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lakeshore City Sanitation 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision paragraphs 5.14 and 5.16*; and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 04-1, 8-01,8-02 and 8-03.

The agency's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings, Other Disclosures and Exit Conference. We did not audit Lakeshore City Sanitation District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Directors and the State Auditor, the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Ron Austin CPA, PC". The signature is written in a cursive style.

September 15, 2009

State of New Mexico
Lakeshore City Sanitation District
Schedule of Audit Findings and Exit Conference
July 31, 2008

RESOLUTION OF PRIOR YEAR FINDINGS

04-1 Segregation of Accounting Duties - Repeated

CURRENT YEAR FINDINGS

04-1 Segregation of Accounting Duties

Condition: Lakeshore City Sanitation District has only one part-time office employee. Therefore this employee is involved in all aspects of the financial transactions of the district; collecting and depositing money; ordering and receiving goods; preparing payment vouchers and distributing checks to vendors; preparing payroll time and leave records and distributing payroll check; reporting and reviewing financial information.

Criteria: Internal control is best achieved when there is a segregation of accounting duties between personnel that receive and report financial transactions.

Effect: Because of the lack of segregation of accounting duties, transactions and reporting could be circumvented and errors and irregularities may occur and go undetected.

Cause: With only one office employee, a segregation of duties is not possible and the directors cannot oversee every action of the employee.

Recommendation: I recommend the directors continue to review the fiscal records on a routine basis and sign and review all checks. The District should also continue to use and independent service for monthly posting of the accounting records and customer billing and receivables.

Response: No Comment.

08-1 Late Audit Report

Condition: The audit report was not delivered to the Office of the State Auditor by the December 1, 2008 deadline. The report was delivered on September 23, 2009.

Criteria: State Audit Rule requires submission of the audit by December 1, 2008

Effect: Noncompliance with the State Audit Rule.

Cause: The audit contract was not approved until December 10, 2008. The parties requested a change in the contract to adjust the period audited to thirteen months ended July 31, 2008 corresponding to the sale of the District. This amendment to the contract was not approved until August 26, 2009.

Recommendation: The District is dissolved and audits will no longer be required.

Response: No Comment.

08-2 Budget Compliance

Condition: The Water Fund Salaries and Payroll Tax account was over expended in the amount of \$17,265.

Criteria: Budget reports in compliance with (6-3-1 to 6-3-25 NMSA 1978) should be prepared to monitor revenues and expenditures to determine compliance with budget statutes.

Effect: Non-compliance with Budget Compliance Statutes resulting inability to calculate budget variances from the approved budget by NM Department of Finance and Administration.

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Cause: Lack of year end procedures to insure budget adjustments are requested.

Recommendation: Monitor budget expenditures and amended budgets to assure compliance with budget statutes.

Response: No comment.

08-3 Management Attendance at Exit Conference

Condition: No member of management or the board attended the exit conference on September 22, 2009

Criteria: Audit rule 2.2.2.10 requires attendance at the exit conference by a member of the governing body.

Effect: Non-compliance with Audit Rule.

Cause: Undetermined.

Recommendation: None.

Response: No comment.

Other Disclosures – The Lakeshore City Sanitation District is responsible for the contents. However the financial statements and notes to the financial statements were prepared by the independent certified public accountant performing the audit.

An exit conference was held in the offices of the City of Butte in Elephant Butte, New Mexico on September 22, 2009. Those attending were City of Elephant Butte Mayor Eunice Kent, City Manager Alan Briley, and Dan Austin CPA. The financial statements prepared by the Contract Auditor, the audit report, and findings were discussed.