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CERTIFIED PUBLIC ACCOUNTANTS
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STATE OF NEW MEXICO

ALTO LAKES WATER AND SANITATION DISTRICT

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2019

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
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STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
OFFICIAL ROSTER
JUNE 30, 2019

Board of Directors

<u>Name</u>	<u>Title</u>
<i>Daniel B. Knorr</i>	<i>Chairman</i>
<i>George Holmes</i>	<i>Vice-Chairman</i>
<i>Gary G. Parker</i>	<i>Secretary</i>
<i>Roy Webb</i>	<i>Treasurer</i>
<i>Anne (Nicki) Foreman</i>	<i>Director</i>

Administrative Officials

<i>David A. Edington</i>	<i>District Manager</i>
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INDEPENDENT AUDITORS' REPORT

Mr. Brian S. Colón, State Auditor and
The Board of Directors
Alto Lakes Water and Sanitation District
Alto, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Alto Lakes Water and Sanitation District, as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Mr. Brian S. Colón, State Auditor and
The Board of Directors
Alto Lakes Water and Sanitation District
Alto, New Mexico
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities the Alto Lakes Water and Sanitation District, as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's financial statements. The other schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mr. Brian S. Colón, State Auditor and
The Board of Directors
Alto Lakes Water and Sanitation District
Alto, New Mexico
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2019 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* in considering the District's internal control over financial reporting and compliance.

Kriegel/Gray/Shaw & Co., P.C.

Kriegel/Gray/Shaw & Co., P.C.
Las Cruces, New Mexico

September 29, 2019

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

Introduction

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, 2019. 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 eighth full fiscal year of operating the water and wastewater systems on June 30, 2019. 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, is \$211,580.

Cash and investments totaled \$2,429,770 at June 30, 2019. This includes Reserves & accrued System Upgrade Fees.

OPERATIONAL HIGHLIGHTS

The District's water supply is in excellent shape with sustainable production exceeding twice our peak sustained usage. The District has sufficient water rights to meet the needs of District customers through build out; however, we have become concerned by the increasing demands from the Village of Ruidoso on ground water resources in Eagle Creek. The Board retained a hydrology consultant who has developed extensive water resource modeling capabilities for the District's well fields. The District is working closely with its hydrologist and water rights counsel to take proactive steps to insure that the District's water supply is not compromised by the Village's well drilling program in Eagle Creek.

- 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 applied for and received a new operating permit which requires the facility to be upgraded. The District has completed leach field upgrades. The installation of two ground water monitoring wells and in partnership with the Country Club has installed a liner in pond #18. Construction has begun on wastewater treatment facility upgrades with completion scheduled for October 2019.
- Our small staff of four system operators not only keeps the system running but has been productive in upgrading the system. They have also installed numerous additional valves which allow us to limit water outages to fewer customers when system repairs are required. Staff has also overseen 3 major water system upgrades.
- District assumed solid waste operations December 1, 2012 to better control costs and provide desired level of service to customers. District recently renewed operational permit for Collection Center, and continues to look for ways to improve service.

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.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements contain two components: 1) financial statements, and 2) notes to those financial statements. This annual financial report also contains other supplementary information in addition to the basic financial statements.

The District for financial statement reporting purposes is considered a business like entity and accounted for similar to an enterprise fund. As such, it does not include in its financial statements financial information for individual general ledger funds that are used for internal accounting purposes.

The District distinguishes operating revenues and expenses from non operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations which are the provision of water and sewer services to customers within the District's service area. The principal operating revenues result from exchange transactions in which each party receives and gives up essentially equal values.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Condensed Statement of Net Position

	2019	2018
Assets		
Current assets	\$2,687,263	\$2,581,366
Capital assets (net of depreciation)	8,098,068	7,795,288
Note receivable	153,903	175,787
<i>Total assets</i>	10,939,234	10,552,441
 Liabilities		
Current liabilities	572,112	356,542
Long-term liabilities	3,116,070	3,362,658
<i>Total liabilities</i>	3,688,182	3,719,200
 Net Position		
Net investment in capital assets	4,775,546	4,230,536
Unrestricted	2,475,506	2,602,705
<i>Total net position</i>	\$7,251,052	\$6,833,241

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2019	2018
Revenues		
Program Revenues:		
Charges for services	\$1,718,028	\$1,852,435
General Revenue:		
Miscellaneous income	0	0
Total revenue	1,718,028	1,852,435
Expenses		
Personnel services	625,531	594,221
Utilities and fuel	165,877	187,811
Other operating expenses	347,648	333,394
Depreciation expense	367,392	414,624
Total expenses	1,506,448	1,530,050
<i>Operating income</i>	211,580	322,385
Non-operating revenues (expenses)		
System upgrade fee	237,925	232,406
Interest income	26,817	17,664
Interest expense	(58,511)	(62,517)
Grant revenue	0	0
Capital contributions	0	175,787
Total nonoperating revenues (expenses)	206,231	363,340
<i>Change in net position</i>	417,811	685,725
Net position – beginning of year	6,833,241	6,147,516
Net position – End of year	\$7,251,052	\$6,833,241

The District had decreased revenue during FY2019 due to a decrease in water usage which is tracked monthly.

Expenses decreased during FY2019 due to decreased utilities for well pumps due to lower water usage and a decrease in depreciation expense.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

Lower change in net position due to decreased revenue (as discussed above) and no capital contributions for the year (in 2018 Alto Lakes Golf and Country Club contributed their half of the pond lines to the District to be maintained by the District).

CAPITAL ASSETS AND LONG-TERM LIABILITIES

During FY2019, the District completed projects to include Wastewater leach field upgrade, monitoring well installation, lining of pond #18 on golf course.

The District continued to pay on long-term debt during the year making principal payments of \$242,230.

BUDGET

The District maintained their expenses within their budget for the year ended June 30, 2019. No budget adjustments were necessary.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Alto Lakes Water and Sanitation District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alto Lakes Water and Sanitation District, 214 Lake Shore Drive, Alto, New Mexico 88312.

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

STATEMENT OF NET POSITION

JUNE 30, 2019

**Business-Type
Activities**

ASSETS

Current Assets:

Cash and cash equivalents	\$288,252
Investments	2,141,518
Accounts receivable - customers - metered water and trash (net of allowance of \$62,842)	257,493
<i>Total current assets</i>	2,687,263

Note receivable	153,903
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Capital Assets:

Land	511,235
Construction in process	1,122,048
Infrastructure - water system	8,222,728
Buildings and improvements	764,833
Furniture, equipment, and vehicles	553,995
Accumulated for depreciation	(3,076,771)
<i>Total capital assets, net</i>	8,098,068

Total assets

\$10,939,234

LIABILITIES AND NET POSITION

Current Liabilities:

Accounts payable	\$288,238
Accrued salaries	12,669
Other accrued payroll liabilities	5,170
Accrued interest payable	7,995
Customer pre-payments	11,656
Current portion of long-term debt	246,384
<i>Total current liabilities</i>	572,112

Noncurrent Liabilities:

Accrued compensated absences	39,848
Notes payable - NMFA	3,064,400
Note payable - Deer Park Valley assessment	11,822
<i>Total noncurrent liabilities</i>	3,116,070

Total liabilities

3,688,182

Deferred inflows of resources - pension plan

0

Net Position:

Net investment in capital assets	4,775,546
Unrestricted	2,475,506
<i>Total net position</i>	7,251,052

Total liabilities, deferred inflows of resources, and net position

\$10,939,234

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Business-Type Activities
OPERATING REVENUES	
Water services and fees	\$797,542
Irrigation water revenue	360,117
Wastewater revenue	104,572
Fire protection fees	101,306
Solid waste revenue	276,456
Other charges for services	78,035
<i>Total operating revenues</i>	1,718,028
OPERATING EXPENSES	
Personnel services	625,531
Utilities and fuel	165,877
Other operation expense	347,648
Depreciation	367,392
<i>Total operating expenses</i>	1,506,448
<i>Operating income (loss)</i>	211,580
NON-OPERATING REVENUE AND (EXPENSES)	
System upgrade fees	237,925
Interest revenue	26,817
Interest expense	(58,511)
<i>Total non-operating revenue and (expenses)</i>	206,231
<i>Change in net position</i>	417,811
Net position, beginning of year	6,833,241
<i>Total net position, end of year</i>	\$7,251,052

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$1,702,711
Payments to suppliers and contractors	(276,948)
Payments to and benefits provided for employees	(639,350)
<i>Net cash provided by operating activities</i>	786,413
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net property taxes received	0
<i>Net cash provided by noncapital financing activities</i>	0
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Advances - note receivable	21,884
System upgrade fees	237,925
Principal and interest payments	(301,336)
Loan proceeds	0
Purchase of capital assets	(670,172)
Disposal of capital assets	0
<i>Net cash used by capital financing activities</i>	(711,699)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	26,817
Purchase of investments	101,200
<i>Net cash provided by investing activities</i>	128,017
<i>Net increase in cash and cash equivalents</i>	202,731
Cash and cash equivalents - beginning of year	85,521
<i>Cash and cash equivalents - end of year</i>	\$288,252
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES	
Operating Income (loss)	\$211,580
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	367,392
Bad debt expense	8,091
Change in assets and liabilities:	
(Increase) in accounts receivable	(12,316)
(Decrease) in accrued comp	(205)
Increase in accounts payable	225,485
(Decrease) in accrued payroll liabilities	(13,614)
<i>Total adjustments</i>	574,833
<i>Net cash provided (used) by operating activities</i>	\$786,413

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 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 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.

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.

Measurement Focus. Basis of Accounting and Financial Statement Presentation

The proprietary financial statements are reported using the economic resources measurement focus and uses 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.

The net position of the District is segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. When both restricted and unrestricted resources are available for use, is the District’s policy to use restricted resources first, and then unrestricted resources as needed.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 District reports as a special purpose government and therefore has only one proprietary fund.

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 enterprise fund:

Water, Wastewater and Solid Waste Fund – The fund accounts for the activities of the District’s water, wastewater and solid waste utilities, which provide service to the residents of the subdivisions of Alto Lakes and adjacent areas of Lincoln County, New Mexico.

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.

Investments

The District maintains various certificates of deposit (CD’s) at local banking institutions. The CD’s have varying maturity dates all of which are at least one year or greater.

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 collectability of specific customer accounts, the aging of the accounts receivable, historical experience, and other currently available evidence. At June 30, 2019 the allowance for doubtful accounts was \$62,843.

On 6/30/2018, the District loaned \$175,787 to Alto Lakes Golf and Country Club for completion of the lining of pond #18. The note receivable terms require monthly payments of \$2,100 including interest at 2%. The note receivable matures on November 1, 2025. The cost of the pond liner was 50% paid by the District and 50% paid by Alto Lakes Golf and Country Club by the loan. The repayment by Alto Lakes Golf and Country Club shall be added to the monthly water bill and shall be due and enforceable as is the water bill.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The balance of the note receivable as of June 30, 2019 is \$153,903.

The loan to Alto Lakes Golf and Country Club was made pursuant to the Reclaimed Wastewater Reuse Agreement 2018. The reuse agreement was entered into to document the arrangement and responsibilities necessary to use reclaimed wastewater from the District’s wastewater treatment facility to irrigate the Club’s Alto Lakes Golf Course and to contractually bind the parties to a public-private partnership under which obligations are assigned to each party.

The pond liner will be maintained by the District as part of the wastewater treatment facility and therefore, has been recorded as an asset of the District with corresponding capital contribution by Alto Lakes Golf and Country Club of their 50% portion.

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
Office furniture, equipment and software	3-10
Water and sewer system	10
Vehicles	5-10
Equipment	5-10

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.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position.

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, 2019.

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.

Components or Net Position

Components of net position include the following:

- *Net Investment in Capital Assets* – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.
- *Restricted Net Position* – Consists of assets and deferred outflows less related liabilities and deferred inflows reported in the statement of net position that are subject to restraints on their use.
- *Unrestricted Net Position* – Consists of assets and deferred outflows less related liabilities and deferred inflows reported in the statement of net position that are not subject to restraints on their use.

Subsequent Events

Management has evaluated subsequent events through September 29, 2019, the date which the financial statements were available to be issued.

NOTE 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:

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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.

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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.

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 approved bank collateral as described in the District's investment policy.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

**NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS
(CONTINUED)**

As of June 30, 2019, the District's bank balance was exposed to custodial credit risk as follows:

	City Bank	Washington Federal	Pioneer Bank
Total deposits	\$1,945,552	\$357,124	\$152,482
FDIC coverage	(500,000)	(250,000)	(152,482)
<i>Total uninsured public funds</i>	1,445,552	107,124	0
Collateralized by securities held by the pledging institution	2,350,542	299,902	0
Funds (over) collateralized	(\$904,990)	(\$192,778)	\$0

NOTE 4. RECEIVABLES

Accounts receivable at June 30, 2019 consisted of the following:

Water and wastewater	\$307,222
Fire protection fees	13,113
<i>Total</i>	320,335
Less Allowance for doubtful accounts	(62,842)
	\$257,493

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance June 30, 2018	Additions	Transfers	Balance June 30, 2019
Capital assets, not depreciated:				
Land and rights of way	\$511,235	\$0	\$0	\$511,235
Construction in process	608,577	550,307	(36,836)	1,122,048
<i>Total capital assets, not depreciated</i>	1,119,812	550,307	(36,836)	1,633,283
Capital assets, depreciated:				
Buildings and improvements	688,564	39,433	36,836	764,833
Office furniture and equipment	123,885	0	0	123,885
Water and sewer systems	8,169,103	53,625	0	8,222,728
Vehicles	185,988	26,807	0	212,795
Equipment	217,315	0	0	217,315
<i>Total capital assets, depreciated</i>	9,384,855	119,865	36,836	9,541,556
<i>Total accumulated depreciation</i>	(2,709,379)	(367,392)	0	(3,076,771)
Net book value	\$7,795,288	\$302,780	\$0	\$8,098,068

Depreciation Expense-Depreciation expense was \$367,392 and was charged to the water activity for the year ended June 30, 2019.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6. 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, 2019 employees had approximately 1,032 hours of accumulated vacation leave, totaling \$27,423, and approximately 741 hours of accumulated sick leave, totaling \$12,509 (50% portion).

NOTE 7. LONG- TERM DEBT

Changes in long-term debt during the year ended June 30, 2019, were as follows:

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019	Due Within One Year
Business-type Activities:					
New Mexico Finance Authority					
WTB-0181	\$236,041	\$0	(\$17,886)	\$218,155	\$17,931
WTB-0301	483,502	0	(29,656)	453,846	29,731
DWRLF	2,829,382	0	(192,733)	2,636,649	196,588
DPV Assessment	15,827	0	(1,955)	13,872	2,050
Compensated absences	40,137	27,126	(27,331)	39,932	84
	<u>\$3,604,889</u>	<u>\$27,126</u>	<u>(\$269,561)</u>	<u>\$3,362,454</u>	<u>\$246,384</u>

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, 2019, \$4,090,500 has been borrowed under the agreement. The loan bears interest at 2% and is payable in forty semi- annual installments of principal and interest pursuant to the final loan agreement payment schedule, beginning November 2, 2011 and ending May 2, 2031. The loan is secured by the revenues of the utility system and contains several loan covenants. The loan balance at June 30, 2019 was \$2,636,649.

On September 1, 2010, Deer Park Valley started charging an assessment fee for paving work done. As of June 30, 2016, 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 are payable in two installments per year, in April and October over the term of the loan. The loan bears interest at 2.375%. The loan balance at June 30, 2019 was \$1,387,166.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7. LONG- TERM DEBT (CONTINUED)

On June 17, 2011, the District entered into a loan/grant agreement with the New Mexico Finance Authority to finance the costs of rezoning 24% of their existing water distribution system to meet national standards. Under the agreement, the District will borrow \$360,002 and will accept a grant in the amount of \$1,440,006. As of June 30, 2019, \$360,002 has been borrowed under the agreement. The loan is payable in twenty annual installments of principal pursuant to the debt service schedule, beginning June 1, 2012 and ending June 1, 2031, without interest and with an administrative fee equal to 0.25% per annum of the unpaid principal balance of the loan amount. The loan is secured by the revenues of the utility system. The loan balance at June 30, 2019 was \$218,155.

On January 9, 2015, the District entered into a loan/grant agreement with the New Mexico Finance Authority to finance the costs of the design and construction of upgrades to the existing water distribution system Phase B to meet national standards. Under the agreement, the District will borrow \$600,800 and will accept a grant in the amount of \$901,200. As of June 30, 2019, \$600,800 has been borrowed under the agreement. The loan is payable in twenty annual installments of principal pursuant to the debt service schedule, beginning June 1, 2015 and ending June 1, 2034, without interest and with an administrative fee equal to 0.25% per annum of the unpaid principal balance of the loan amount. The loan is secured by the revenues of the utility system. The loan balance at June 30, 2019 was \$453,846.

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

	Principal	Interest	Total
2020	\$246,300	\$55,049	\$301,349
2021	250,448	50,899	301,347
2022	254,680	46,665	301,345
2023	259,000	42,347	301,347
2024	263,406	37,941	301,347
2025 - 2029	1,374,631	121,366	1,495,997
2030 - 2034	674,057	28,443	702,500
Totals	\$3,322,522	\$382,710	\$3,705,232

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. PROFIT SHARING PLAN

In 2008, the District entered into a noncontributory profit sharing plan under Section 401(k) of the Internal Revenue Code which covers full time employees age 18 and over which have been employed for ninety days. In accordance with the provisions of the plan, the District's matching contributions are 100% up to the first 6% of the employee's salary. The contributions made to the plan and charged to expenses totaled \$56,610 for the year ended June 30, 2019.

NOTE 9. 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.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS
JUNE 30, 2019

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Value June 30, 2019
City Bank	SBAP2017 20I-1 S/A - 1st	9/1/1937	83162CYW7	\$2,350,542
Washington Federal	FNMA BC2636	11/1/2046	3140EW4W2	299,902
				\$2,650,444

The Notes to Financial Statements are an integral part of these statements.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT

SCHEDULE OF DEPOSIT ACCOUNTS

JUNE 30, 2019

Bank Account Type/Name	Cash on Hand	City Bank	Washington Federal	Pioneer Bank	Totals
Checking	\$0	\$305,361	\$0	\$0	\$305,361
Checking	0	8,282	0	0	8,282
Certificate of Deposit	0	154,787	153,701	152,482	460,970
Certificate of Deposit	0	155,616	102,326	0	257,942
Certificate of Deposit	0	107,608	101,097	0	208,705
Certificate of Deposit	0	225,623	0	0	225,623
Certificate of Deposit	0	205,096	0	0	205,096
Certificate of Deposit	0	216,696	0	0	216,696
Certificate of Deposit	0	310,499	0	0	310,499
Certificate of Deposit	0	255,984	0	0	255,984
<i>Total on deposit</i>	0	1,945,552	357,124	152,482	2,455,158
Reconciling items	0	(26,149)	0	0	(26,149)
Reconciled balance	\$0	\$1,919,403	\$357,124	\$152,482	\$2,429,009
Cash and cash equivalents	\$761	\$287,491	\$0	\$0	\$288,252
Investments	0	1,631,912	357,124	152,482	2,141,518
	\$761	\$1,919,403	\$357,124	\$152,482	\$2,429,770

The Notes to Financial Statements are an integral part of these statements.

**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***

Independent Auditor's Report

Mr. Brian S. Colón, State Auditor and
The Board of Directors
Alto Lakes Water and Sanitation District
Alto, New Mexico

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Alto Lakes Water and Sanitation District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements of the District, presented as supplemental information, and have issued our report thereon dated September 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alto Lakes Water and Sanitation District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Alto Lakes Water and Sanitation District's internal control.

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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these instructions, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Mr. Brian S. Colón, State Auditor and
The Board of Directors
Alto Lakes Water and Sanitation District
Alto, New Mexico
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alto Lakes Water and 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alto Lakes Water and Sanitation District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kriegel/Gray/Shaw & Co., P.C.

Kriegel/Gray/Shaw & Co., P.C.
Las Cruces, New Mexico

September 29, 2019

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

CURRENT YEAR FINDINGS:

None.

CURRENT STATUS ON PRIOR YEAR FINDINGS:

None.

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
EXIT CONFERENCE
JUNE 30, 2019

EXIT CONFERENCE:

The exit conference was held August 21, 2019 and was attended by the following:

Representing Alto Lakes Water and Sanitation District:

Daniel B. Knorr, Chairman
David A. Edington, District Manager
Rachel Muldowney, Office Manager/Finance Manager

Representing Kriegel/Gray/Shaw & Co., P.C.:

Debbie A. Gray, CPA/Shareholder
Jesus Cortez, Staff Auditor

FINANCIAL STATEMENTS PREPARATION

Preparation of financial statements is the responsibility of management. Although, Alto Lakes Water and Sanitation District's personnel provided significant assistance in the preparation; the statements and related footnotes were prepared by Kriegel/Gray/Shaw & Co., P.C.