

**State of New Mexico**  
**Alto Lakes Water and**  
**Sanitation District**

Basic Financial Statements and  
Required Supplementary Information  
For the Year Ended June 30, 2014  
and Independent Auditor's Report

# 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, 2014**

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**Board of Directors**

Daniel B. Knorr  
David Winans  
Gary G. Parker  
Phillip Bishop  
George Holmes

Chairman  
Vice-Chairman  
Secretary  
Treasurer  
Director



## **Strickler & Prieto, LLP**

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### **INDEPENDENT AUDITOR'S REPORT**

Hector H. Balderas, New Mexico State Auditor  
and the Board of Directors of the  
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 the Alto Lakes Water and Sanitation District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budget comparisons presented as other supplemental information in the financial statements as of and for the year ended June 30, 2014, 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 misstatement, 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons 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 4-6 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 opinions on the District's financial statements and the budgetary comparisons. The accompanying schedules required by Section 2.2.2 NMAC 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. The other schedules required by Section 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by Section 2.2.2 NMAC are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014, 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 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.

*Strickland & Pinto, LLP*

October 29, 2014

# STATE OF NEW MEXICO ALTO LAKES WATER AND SANITATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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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, 2014. 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 sixth full fiscal year of operating the water and wastewater systems on June 30, 2014. 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 \$420,452.
- Cash totaled \$1.4 million at June 30, 2014. This includes \$452,030 in Reserves for Replacement, \$83,469 in accrued System Upgrade Fees and \$869,193 in unencumbered cash.
- The District has been successful in securing another grant and low interest loan package from the New Mexico Water Trust Board totaling \$1,502,000 for Distribution System Upgrade Phase B. The District has completed design of the project with the help of a \$30,000 Legislative Capital Outlay Grant, and is awaiting release of funds from the Water Trust Board to bid for construction. It is anticipated that construction will begin in late winter or early spring 2015. This portion of the system upgrade will replace 4,000 lineal feet of pipe with 6 inch PVC pipe and all the appurtenances, 34 new fire hydrants and 2 new pressure reducing stations will also be installed.
- Debt, carrying rates between ½% and 2% for 20 years, increased to \$4.4 million upon completion of Distribution System Upgrade Phase A.
- In December 2012, the District conducted an advisory referendum to get customers' opinion on continuing system upgrades. By overwhelming majority customers responded to continue upgrades as fast as possible by approving an \$8.00 monthly System Upgrade Fee for infrastructure improvements.

### 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 is studying possible improvements to the system.
- Our small staff of four system operators not only keeps the system running but has been productive in upgrading the system. Pressure Regulating Valves (PRV's) are critical to maintaining consistent household water pressure; especially within a system that includes so many changes in elevation. When the District acquired the water system in the spring of 2008, only 4 of the 21 PRV's were fully operational. District Staff has repaired or replaced 16 of the system PRV's. They have also installed numerous additional valves which allow us to limit water outages to fewer customers when system repairs are required. Staff also managed to rehabilitate one of the two sewage lift stations in the past year with new electrical panels, pumps, and plumbing.
- District assumed solid waste operations December 1, 2012 to better control costs and provide desired level of service to customers. As of September 1, 2013, district will have lowered solid waste rates \$2.50 per month and made mulch available to customers free of charge. Numerous customers have reported excellent service provided by our solid waste staff

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 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**

	<b>2013</b>	<b>2014</b>
Current and other assets	\$ 1,426,681	\$ 1,673,762
Capital assets (net of depreciation)	<u>6,582,808</u>	<u>6,624,747</u>
Total assets	<u>\$ 8,009,489</u>	<u>\$ 8,298,509</u>
Current liabilities	\$ 293,248	\$ 353,402
Long-term liabilities	<u>3,913,327</u>	<u>3,721,741</u>
Total liabilities	<u>\$ 4,206,575</u>	<u>\$ 4,075,143</u>
Net position:		
Net investment in capital assets	\$ 2,495,844	\$ 2,731,539
Unrestricted	<u>1,307,070</u>	<u>1,491,827</u>
Total net position	<u>\$ 3,802,914</u>	<u>\$ 4,223,366</u>

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

During FY2014, the District completed projects to include an Addendum to Water Distribution Upgrade A, Solid Waste Compost Enclosure & Gates, ongoing Pump & Meter Replacement.

Capital purchases included two new vehicles, 2013 Nissan Xterra and 2014 Ford F250, an upgrade in our software with a new server and office copier.

**Condensed Statement of Changes in Net Position**

	<b>2013</b>	<b>2014</b>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 1,829,597	\$ 1,932,291
General Revenue		
Miscellaneous income	<u>1,347,231</u>	<u>9,530</u>
Total revenue	<u>3,176,828</u>	<u>1,941,821</u>
<b>Expenses</b>		
General government	-	-
Water	1,228,327	1,361,620
Wastewater	75,553	83,051
Interest	<u>76,968</u>	<u>76,698</u>
Total expenses	<u>1,380,848</u>	<u>1,521,369</u>
Change in net position	<u>1,795,980</u>	<u>420,452</u>
Net position - Beginning of year	<u>2,006,934</u>	<u>3,802,914</u>
Net position - End of year	<u>\$ 3,802,914</u>	<u>\$ 4,223,366</u>

The District increased revenue during FY2013 by adjusting rate structure, effective September 1, 2013, based on Cost of Living Index increases.

Expenses increased during FY2013 due to salary increases with related benefit costs, increased electric rates for well pumps, operational supplies and increased repairs and maintenance on aging equipment.



## **BASIC FINANCIAL STATEMENTS**

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

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
JUNE 30, 2014**

	<b>Water and Wastewater Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 1,404,692
Accounts receivable, net	<u>235,106</u>
Total current assets	<u>1,639,798</u>
Deferred financing costs, net of accumulated amortization of \$6,804	33,964
Capital assets	<u>6,624,747</u>
Total assets	<u><u>\$ 8,298,509</u></u>
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities:	
Accounts payable	\$ 80,307
Accrued liabilities and other expenses	57,704
Accrued compensated absences	18,006
Current portion notes payable	<u>197,385</u>
Total current liabilities	<u>353,402</u>
NON-CURRENT LIABILITIES	
Accrued compensated absences	25,918
Notes payable	<u>3,695,823</u>
Total non-current liabilities	<u>3,721,741</u>
Total liabilities	<u>4,075,143</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,731,539
Unrestricted	<u>1,491,827</u>
Total net position	<u>4,223,366</u>
Total liabilities and net position	<u><u>\$ 8,298,509</u></u>

See accompanying notes to financial statements.

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

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	<b>Water and Wastewater Fund</b>
Operating revenues:	
Water revenue	\$ 734,467
Irrigation water revenue	443,925
Wastewater revenue	97,743
Fire protection fees	98,685
System upgrade fees	221,002
Solid waste charges	293,895
Other charges for services	42,574
	<hr/>
Total operating revenues	1,932,291
	<hr/>
Operating expenses:	
Personnel services	590,740
Utilities and fuel	177,382
Other operating expenses	376,555
Depreciation expense	299,994
	<hr/>
Total operating expenses	1,444,671
	<hr/>
Operating income	487,620
	<hr/>
Nonoperating revenues (expenses)	
Interest income	9,530
Interest expense	(76,698)
	<hr/>
Total nonoperating revenues (expenses)	(67,168)
	<hr/>
Changes in net position	420,452
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Net position, beginning of year	3,802,914
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Net position, end of year	\$ 4,223,366
	<hr/>

See accompanying notes to financial statements.

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Water and Wastewater Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 1,920,508
Cash payments to suppliers for good and services	(708,227)
Cash payments to employees for services	(372,768)
	<u>839,513</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(341,932)
Principal payments on notes payable	(193,756)
Interest paid on notes payable	(76,698)
	<u>(612,386)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	<u>9,530</u>
	<u>9,530</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>236,657</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>1,168,035</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 1,404,692</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 487,620
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	301,352
Changes in assets and liabilities	
Accounts receivable	(11,783)
Accounts payable	39,147
Accrued liabilities and other expenses	13,379
Compensated absences	9,798
	<u>351,893</u>
Total adjustment	<u>351,893</u>
Net cash provided by operating activities	<u>\$ 839,513</u>

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, 2014

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### 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.

#### **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. 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, 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 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.

***New Governmental Accounting Standards***—In June 2012, Statement No. 67 Financial Reporting for Pension Plans, an amendment of GASB Statements No. 25, which is effective for financial statements for periods beginning after June 15, 2013. The District has reviewed the statement and has determined that this does not apply to the District.

In June 2012, Statement No. 68 Accounting and Financial Reporting for Pensions, an amendment of GASB Statements No. 27, which is effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In January 2013, Statement No. 69 Government Combinations and Disposals of Government Operations, which is effective for financial statements for periods beginning after December 15, 2013. The District has reviewed the statement and has determined that this does not apply to the District.

In April 2013, Statement No. 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees, which is effective for financial statements for periods beginning after June 15, 2013. The District has reviewed the statement and has determined that this does not apply to the District.

In November 2013, Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68, which is effective for financial statements for periods beginning after June 15, 2014. The standard is expected to have no effect on the District in upcoming years.

**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. At June 30, 2014 the allowance for doubtful accounts was \$4,100.

**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:

	<b>Business-type Activities</b>
Buildings and improvements	5-40
Office furniture, equipment and software	3-10
Water and sewer system	10
Vehicles	5-10
Equipment	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 position.

**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, 2014 was \$1,359.

**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, 2014.

**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. Components of 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.

**L. Subsequent Events**

Management has evaluated subsequent events through October 29, 2014, 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

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

As of June 30, 2014, the District's bank balance was exposed to custodial credit risk as follows:

	<b>City Bank</b>	<b>Pioneer Bank</b>	<b>First National Bank</b>	<b>Compass Bank</b>	<b>Washington Federal</b>
Total deposits	\$ 420,781	\$ 236,052	\$ 208,305	\$ 215,563	\$ 325,659
FDIC coverage	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Total uninsured public funds	170,781	-	-	-	75,659
Collateralized by securities held by the pledging institution	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,213</u>
Funds over collateralized	<u>\$ 229,219</u>	<u>\$ 13,948</u>	<u>\$ 41,695</u>	<u>\$ 34,437</u>	<u>\$ 86,554</u>

### 4. RECEIVABLES

Accounts receivable at June 30, 2014 consisted of the following:

	<b>Water and Wastewater</b>
Water and wastewater	\$ 227,547
Fire protection fees	<u>7,559</u>
Total	<u>\$ 235,106</u>

## 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	\$ 511,235	\$ -	\$ -	\$ 511,235
Construction in progress	<u>79,292</u>	<u>190,433</u>	<u>(25,276)</u>	<u>244,449</u>
Total capital assets not being depreciated	<u>590,527</u>	<u>190,433</u>	<u>(25,276)</u>	<u>755,684</u>
Capital assets being depreciated:				
Building and improvements	682,196	20,784	-	702,980
Office furniture and equipment	93,432	22,953	-	116,385
Water and sewer systems	5,840,360	85,112	-	5,925,472
Vehicles	78,235	47,927	-	126,162
Equipment	<u>188,615</u>	<u>-</u>	<u>-</u>	<u>188,615</u>
Total capital assets being depreciated	6,882,838	176,776	-	7,059,614
Less accumulated depreciation	<u>890,557</u>	<u>299,994</u>	<u>-</u>	<u>1,190,551</u>
Total capital assets being depreciated, net	<u>5,992,281</u>	<u>(123,218)</u>	<u>-</u>	<u>5,869,063</u>
Capital assets, net	<u>\$ 6,582,808</u>	<u>\$ 67,215</u>	<u>\$ (25,276)</u>	<u>\$ 6,624,747</u>

**Depreciation Expense**—Depreciation expense was \$299,994 and was charged to the water activity for the year ended June 30, 2014.

## 6. ACCRUED LIABILITIES AND OTHER EXPENSES

Accrued liabilities and other expenses are as follows at June 30, 2014:

	<b>Water and Wastewater</b>
Accrued salaries	\$ 10,023
Insurance payable	10,981
Customer deposits	14,521
Gross receipts tax payable	9,681
Accrued interest payable	<u>12,498</u>
Total	<u>\$ 57,704</u>

**7. ACCRUED COMPENSATED ABSENCES**

The District's leave policy allows employees to accumulate sick leave and vacation leave. Vacation leave accrues monthly and is available to use after an employee's anniversary date. All vacation leave earned in the prior year must be used prior to the employee's next anniversary date. Upon termination, any accumulated vacation will be paid to the employee. Fifty percent of the accumulated sick leave is paid upon termination. As of June 30, 2014 employees had approximately 1,300 hours of accumulated vacation leave, totaling \$29,454, and approximately 1,049 hours of accumulated sick leave, totaling \$14,470.

**8. LONG-TERM DEBT**

Changes in long-term debt during the year ended June 30, 2014, were as follows:

	<b>Balance June 30, 2013</b>	<b>Increase</b>	<b>Decreases</b>	<b>Balance June 30, 2014</b>	<b>Due Within One Year</b>
Business-type activities:					
New Mexico Finance					
Authority loan	\$ 4,062,626	\$ -	\$ (192,228)	\$ 3,870,398	\$ 195,764
DPV Assessment	24,338	-	(1,528)	22,810	1,621
Compensated absences	34,126	28,529	(18,731)	43,924	18,006
	<u>\$ 4,121,090</u>	<u>\$ 28,529</u>	<u>\$ (212,487)</u>	<u>\$ 3,937,132</u>	<u>\$ 215,391</u>

Compensated absences typically have been liquidated in the fund to which the employees are assigned.

**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, 2014, \$4,076,884 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, 2014 was \$3,563,256.

On September 1, 2010, Deer Park Valley started charging an assessment fee for paving work done. As of June 30, 2014, 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, 2014 was \$22,810.

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, 2014, \$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, 2014 was \$307,142.

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

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 197,385	\$ 64,189	\$ 261,574
2016	201,068	60,951	262,019
2017	204,826	57,646	262,472
2018	208,662	54,272	262,934
2019	221,382	52,762	274,144
2020-2024	1,118,236	198,191	1,316,427
2025-2029	1,220,766	103,585	1,324,351
2030-2032	<u>520,883</u>	<u>12,887</u>	<u>533,770</u>
Totals	<u>\$ 3,893,208</u>	<u>\$ 604,483</u>	<u>\$ 4,497,691</u>

**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.

## **OTHER SUPPLEMENTAL INFORMATION**

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION -  
BUDGET AND ACTUAL ON BUDGETARY BASIS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES:</b>				
Water revenue	\$ 721,381	\$ 721,381	\$ 734,467	\$ 13,086
Irrigation water revenue	367,704	367,704	443,925	76,221
Wastewater revenue	101,052	101,052	97,743	(3,309)
Fire protection fees	100,250	100,250	98,685	(1,565)
System upgrade fees	225,144	225,144	221,002	(4,142)
Solid waste charges	262,650	262,650	293,895	31,245
Other charges for services	48,572	48,572	42,574	(5,998)
	<u>1,826,753</u>	<u>1,826,753</u>	<u>1,932,291</u>	<u>105,538</u>
<b>EXPENDITURES:</b>				
Operating expenses				
Personnel services	569,699	569,699	590,740	(21,041)
Utilities and fuel	178,338	178,338	177,382	956
Other operating expenses	412,513	412,513	376,555	35,958
Depreciation expense	299,994	299,994	299,994	-
	<u>1,460,544</u>	<u>1,460,544</u>	<u>1,444,671</u>	<u>15,873</u>
Nonoperating revenues (expenses):				
Interest income	11,300	11,300	9,530	(1,770)
Interest expense	(56,494)	(56,494)	(76,698)	(20,204)
	<u>(45,194)</u>	<u>(45,194)</u>	<u>(67,168)</u>	<u>(21,974)</u>
Changes in net position	321,015	321,015	420,452	99,437
Fund balance - beginning of year	<u>3,802,914</u>	<u>3,802,914</u>	<u>3,802,914</u>	<u>-</u>
Fund balance - end of year	<u>\$ 4,123,929</u>	<u>\$ 4,123,929</u>	<u>\$ 4,223,366</u>	<u>\$ 99,437</u>

See accompanying notes to financial statements.

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

**SUPPLEMENTAL SCHEDULE OF DEPOSITS  
JUNE 30, 2014**

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	<b>City Bank</b>	<b>Compass Bank</b>	<b>Pioneer Bank</b>	<b>First National Bank</b>	<b>Washington Federal</b>	<b>Total</b>
<b>Account type</b>						
Checking	\$ 420,781	\$ -	\$ -	\$ -	\$ -	\$ 420,781
Certificate of deposit	<u>-</u>	<u>215,563</u>	<u>236,052</u>	<u>208,305</u>	<u>325,659</u>	<u>985,579</u>
Amounts on deposit	420,781	215,563	236,052	208,305	325,659	1,406,360
Reconciling items	(2,333)	-	-	-	-	(2,333)
Cash on hand	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>665</u>
	<u>\$ 418,448</u>	<u>\$ 215,563</u>	<u>\$ 236,052</u>	<u>\$ 208,305</u>	<u>\$ 325,659</u>	<u>\$ 1,404,692</u>



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

**SUPPLEMENTAL SCHEDULE OF PLEDGED COLLATERAL  
JUNE 30, 2014**

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<b>Name of Depository</b>	<b>Pledged Collateral</b>	<b>Maturity</b>	<b>Letter of Credit/ CUSIP Number</b>	<b>Name and Location of Custodian</b>	<b>Fair Market Value June 30, 2014</b>
City Bank	Irrevocable standby letter of credit	July 3, 2014	464000002	FHLB Bank, Dallas, Texas	\$ 400,000
Washington Federal	FHLMC Gold PC A94288	August 20, 2061	3620E0NW2	First Federal Savings Bank	\$ 162,213

**COMPLIANCE SECTION**



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**INDEPENDENT AUDITOR'S 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, New Mexico State Auditor  
and the Board of Directors of the  
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 (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and related budgetary comparisons of the District, presented as other supplemental information, and have issued our report thereon dated October 29, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2013-002 and 2014-001.

### **The District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

### **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 results 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Strickler & Prieto, LLP

October 29, 2014

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

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2014**

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**2013-002 [2013-2] Capitalization of Work in Progress (Repeated/Revised) - Findings that do not rise to the level of a significant deficiency**

**Condition**

While performing capital asset testwork, we observed capital assets that were not being transferred from construction work in progress to the appropriate capital asset category in the proper fiscal period.

The following capital assets were adjusted as a result of audit testwork:

1. The District did not transfer from construction in progress to the appropriate asset category a server that was installed on July 30, 2013 with a cost of \$10,529.
2. The District did not properly capitalize a construction in progress project with a cost of \$7,237 although the work was performed during June 2014.

**Criteria**

Accounting policies and procedures require that the District implement a systematic and well documented system for the accounting of capital assets. The accounting system must be capable of generating lists of capital assets in sequences useful for managing them.

**Effect**

The ongoing construction projects are not always capitalized at the appropriate time.

**Cause**

The staff of the District has made progress in this area; however, the capital asset listing was still not complete due to employee turnover and lack of controls to ensure the capital asset listing is complete and accurate.

**Recommendation**

A construction in progress listing should be maintained which then should be monitored for completion at the project level. Individual projects that meet the capitalization threshold should be capitalized in the fiscal year that the criteria is met.

**Management Response**

Management acknowledges there has been a deficiency in monitoring project level capitalization at completion. As stated by auditor the District's long tenured Office/Finance Manager retired, prior to retirement training of new Office/Finance Manager was taking place. District has developed a monthly financial checklist to track changes in projects status and ensure items listed are properly capitalized. Additionally, the District has entered into an agreement (July 2014) with a local CPA to review accounting procedures and practices on a regular basis.

## **2014-001 Capital Asset Records - Findings that do not rise to the level of a significant deficiency**

### **Condition**

Capital asset records should be maintained to accurately report the capital assets of the District. There should be processes in place to ensure that all capital assets are identified and capitalized in accordance with the District's capitalization policy and the State of New Mexico Administrative Code.

The following items, for which we either were not able to identify controls or controls were not being followed, were identified during audit testing of the capital asset balances:

1. The District expensed \$26,148 in capital asset additions verses capitalizing these costs.
2. The District's capital asset records show an in-service date of August 1, 2014 for a software upgrade with a cost of \$12,425 although the update was completed on June 1, 2014.
3. The District's capital asset spreadsheet had to be adjusted by \$7,622 due to additions not being recorded for the correct amount.
4. The District's capital asset spreadsheet did not accurately calculate current year depreciation or accumulated depreciation due to the issues identified above.

### **Criteria**

Accounting policies and procedures require that the District implement a systematic and well documented system for the accounting of capital assets. The accounting system must be capable of generating lists of capital assets in sequences useful for managing them.

### **Effect**

The amounts for capital assets, accumulated depreciation, depreciation expense, and repairs and maintenance expense were not accurately reported prior to audit adjustments. The failure to maintain adequate capital asset records results in the inability of the District to maintain control over the capital assets.

### **Cause**

The capital asset listing was not complete due to employee turnover and lack of controls to ensure the capital asset listing is complete and accurate.

### **Recommendation**

We recommend that the District implement a process to review repairs and maintenance accounts throughout the year for evidence of unrecorded capital assets. If any assets are identified through this review, the District should ensure that the asset is correctly capitalized, that the asset is added to the capital asset spreadsheet and that the correct amount is entered in the spreadsheet. The capital asset spreadsheet should be reconciled to the trial balance on a monthly basis.

We also recommend that management performs the necessary due diligence to ensure that capital asset records are accurate and complete. Management should ensure that all assets are correctly being capitalized, that the cost and in-service date of assets is correctly recorded on the spreadsheet and that no assets that should be on the capital asset listing are omitted.

**Management Response**

Management acknowledges there has been a deficiency in capital asset records. As stated by auditor the District's long tenured Office/Finance Manager retired, prior to retirement training of new Office/Finance Manager was taking place. District will institute regular reviews of operation and maintenance accounts for evidence of capitalized assets, and if any assets are identified through this review, the District will ensure that the asset is correctly capitalized. Additionally, the District has entered into an agreement (July 2014) with a local CPA to review accounting procedures and practices on a regular basis.

**STATUS OF PRIOR YEAR FINDINGS**

2013-1 Significant Deficiencies Relating to Controls over Financial Reporting - Revenues	Resolved
2013-2 Capitalization of Work in Progress - Other Finding	Revised and Repeated

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

**EXIT CONFERENCE  
FOR THE YEAR ENDED JUNE 30, 2014**

An exit conference was conducted on November 20, 2014 at the District's offices with the following individuals in attendance:

**Alto Lakes Water and Sanitation District**

Daniel B. Knorr  
Phillip Bishop  
David Edington  
Rachel Muldowney

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.