

State of New Mexico
Alto Lakes Water and
Sanitation District

Basic Financial Statements and
Required Supplementary Information
For the Year Ended June 30, 2016
and Independent Auditor's Report

STATE OF NEW MEXICO ALTO LAKES WATER AND SANITATION DISTRICT

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
TABLE OF CONTENTS	i
OFFICIAL ROSTER	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position - Proprietary Funds	7
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	8
Statement of Cash Flows - Proprietary Funds	9
NOTES TO BASIC FINANCIAL STATEMENTS	10
OTHER SUPPLEMENTAL INFORMATION	
Statement of Revenues, Expenditures and Changes in Net Position - Budget and Actual on Budgetary Basis - Proprietary Fund	19
Supplemental Schedule of Deposits	20
Supplemental Schedule of Pledged Collateral	21
Schedule of Vendor Information for Purchases Exceeding \$60,000	22
COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	23
Schedule of Findings and Responses	25
EXIT CONFERENCE	26

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

**OFFICIAL ROSTER
JUNE 30, 2016**

Board of Directors

Daniel B. Knorr
George Holmes
Gary G. Parker
Phillip Bishop
Anne (Nicki) Foreman

Chairman
Vice-Chairman
Secretary
Treasurer
Director



Strickler & Prieto, LLP

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

INDEPENDENT AUDITOR'S REPORT

Timothy Keller, 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, 2016, 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, 2016, 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, 2016, 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.

The Schedule of Vendor Information required by Section 2.2.2 NMAC has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, 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.

Strickler & Prieto, LLP

November 18, 2016

STATE OF NEW MEXICO ALTO LAKES WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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, 2016. 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 seventh full fiscal year of operating the water and wastewater systems on June 30, 2016. 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 \$411,881 for the year ended June 30, 2016.
- Cash totaled \$2 million at June 30, 2016. This includes \$550,000 in Reserves and accrued System Upgrade Fees.
- Debt, carrying rates between ½% and 2% for 20 years, increased by \$600,800 upon completion of the Distribution B Upgrade, totaling over \$4 million in outstanding debt as of June 30, 2016.
- 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 is currently updating the System Master Plan, which includes conservation plans, water system, wastewater system, and solid waste collections and disposal. Once updated, the Master Plan will be a 40-year plan that will guide the District's course into the future.
- The District's water continues to meet all Federal and State primary drinking water standards.
- The wastewater treatment plant, which serves the Club house and town homes, continues to

operate normally. The District is studying possible improvements to the system.

- The District's 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 allows for the District to limit water outages to fewer customers when system repairs are required.
- District assumed solid waste operations on December 1, 2012 to better control costs and provide desired level of service to customers. As of September 1, 2013, the District will have lowered solid waste rates \$2.50 per month and made much 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		
	2015	2016
Current and other assets	\$ 1,957,059	\$ 2,233,873
Capital assets (net of depreciation)	<u>7,036,900</u>	<u>7,764,125</u>
Total assets	<u>\$ 8,993,959</u>	<u>\$ 9,997,998</u>
Current liabilities	\$ 367,539	\$ 377,970
Long-term liabilities	<u>4,021,102</u>	<u>3,824,276</u>
Total liabilities	<u>\$ 4,388,641</u>	<u>\$ 4,202,246</u>
Net position:		
Net investment in capital assets	\$ 2,805,202	\$ 3,726,738
Unrestricted	<u>1,800,116</u>	<u>2,069,014</u>
Total net position	<u>\$ 4,605,318</u>	<u>\$ 5,795,752</u>

CAPITAL ASSETS AND LONG-TERM LIABILITIES

During FY2016, the District completed projects to include a Distribution B Upgrade, the continuing projects of Scada, Wastewater PER, Amend Water, Master Plan, and Asset Mgt, plus ongoing Pump & Meter Replacements.

Condensed Statement of Changes in Net Position		
	2015	2016
Program Revenues		
Charges for services	\$ 1,802,138	\$ 1,828,002
Total revenue	1,802,138	1,828,002
Expenses		
Personnel services	589,000	585,463
Utilities and fuel	142,632	146,415
Other operating expenses	297,154	314,618
Depreciation expense	324,792	369,625
Total expenses	1,353,578	1,416,121
Operating income	448,560	411,881
Nonoperating revenues (expenses)		
Interest income	8,124	9,289
Interest expense	(70,768)	(70,831)
Grant revenue	30,000	840,095
Total nonoperating revenues (expenses)	(32,644)	778,553
Change in net position	415,916	1,190,434
Net position - Beginning of year	4,189,402	4,605,318
Net position - End of year	<u>\$ 4,605,318</u>	<u>\$ 5,795,752</u>

The District increased revenue during FY2016 by adjusting the rate structure, effective September 1, 2015, based on Cost of Living Index increases.

Expenses increased during FY2016 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, 2016**

	Water and Wastewater Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,023,546
Accounts receivable, net	<u>210,327</u>
Total current assets	<u>2,233,873</u>
Capital assets	<u>7,764,125</u>
Total assets	<u>\$ 9,997,998</u>
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	\$ 72,567
Accrued liabilities and other expenses	56,323
Accrued compensated absences	14,745
Current portion notes payable	<u>234,335</u>
Total current liabilities	<u>377,970</u>
NON-CURRENT LIABILITIES	
Accrued compensated absences	21,224
Notes payable	<u>3,803,052</u>
Total non-current liabilities	<u>3,824,276</u>
Total liabilities	<u>4,202,246</u>
NET POSITION	
Net investment in capital assets	3,726,738
Unrestricted	<u>2,069,014</u>
Total net position	<u>5,795,752</u>
Total liabilities and net position	<u>\$ 9,997,998</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, 2016**

	Water and Wastewater Fund
Operating revenues:	
Water revenue	\$ 738,953
Irrigation water revenue	360,939
Wastewater revenue	97,787
Fire protection fees	96,649
System upgrade fees	225,820
Solid waste charges	264,980
Other charges for services	42,874
	<hr/>
Total operating revenues	1,828,002
	<hr/>
Operating expenses:	
Personnel services	585,463
Utilities and fuel	146,415
Other operating expenses	314,618
Depreciation expense	369,625
	<hr/>
Total operating expenses	1,416,121
	<hr/>
Operating income	411,881
	<hr/>
Nonoperating revenues (expenses):	
Interest income	9,289
Interest expense	(70,831)
Grant revenue	840,095
	<hr/>
Total nonoperating revenues (expenses)	778,553
	<hr/>
Changes in net position	1,190,434
	<hr/>
Net position, beginning of year	4,605,318
	<hr/>
Net position, end of year	\$ 5,795,752
	<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, 2016**

	Water and Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,824,598
Cash payments to suppliers for good and services	(601,678)
Cash payments to employees for services	(436,901)
	<hr/>
Net cash provided by operating activities	786,019
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Proceeds from grants	840,095
	<hr/>
Net cash provided by non-capital financing activities	840,095
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from loan	64,963
Acquisition of capital assets	(1,096,850)
Principal payments on notes payable	(259,274)
Interest paid on notes payable	(70,832)
	<hr/>
Net cash used in capital and related financing activities	(1,361,993)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	9,289
	<hr/>
Net cash provided by investing activities	9,289
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	273,410
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,750,136
	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,023,546
	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 411,881
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	369,625
Changes in assets and liabilities	
Accounts receivable	(3,404)
Accounts payable	9,792
Accrued liabilities and other expenses	(4,107)
Compensated absences	2,232
	<hr/>
Total adjustment	374,138
	<hr/>
Net cash provided by operating activities	\$ 786,019
	<hr/>

See accompanying notes to financial statements.

STATE OF NEW MEXICO ALTO LAKES WATER AND SANITATION DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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, 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.

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, 2016 the allowance for doubtful accounts was \$6,761.

E. Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Capital assets, which include property, plant, equipment, software, and infrastructure assets are reported in the applicable columns in the government-wide financial statements.

The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

	Business-type Activities
Buildings and improvements	5-40
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. 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, 2016.

I. 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.

J. 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.

K. Subsequent Events

Management has evaluated subsequent events through November 18, 2016, 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.

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, 2016, the District's bank balance was exposed to custodial credit risk as follows:

	City Bank	Washington Federal
Total deposits	\$ 1,908,444	\$ 122,019
FDIC coverage	<u>250,000</u>	<u>250,000</u>
Total uninsured public funds	1,658,444	-
Collateralized by securities held by the pledging institution	<u>1,997,554</u>	<u>6,376</u>
Funds over collateralized	<u>\$ 339,110</u>	<u>\$ 6,376</u>

4. RECEIVABLES

Accounts receivable at June 30, 2016 consisted of the following:

	Water and Wastewater
Water and wastewater	\$ 183,200
Fire protection fees	<u>27,127</u>
Total	<u>\$ 210,327</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 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>825,187</u>	<u>100,609</u>	<u>(825,187)</u>	<u>100,609</u>
Total capital assets not being depreciated	<u>1,336,422</u>	<u>100,609</u>	<u>(825,187)</u>	<u>611,844</u>
Capital assets being depreciated:				
Building and improvements	702,980	7,367	(21,783)	688,564
Office furniture and equipment	123,885	-	-	123,885
Water and sewer systems	6,047,173	988,874	851,523	7,887,570
Vehicles	153,168	-	(25,277)	127,891
Equipment	<u>188,615</u>	<u>-</u>	<u>20,724</u>	<u>209,339</u>
Total capital assets being depreciated	7,215,821	996,241	825,187	9,037,249
Less accumulated depreciation	<u>1,515,343</u>	<u>369,625</u>	<u>-</u>	<u>1,884,968</u>
Total capital assets being depreciated, net	<u>5,700,478</u>	<u>626,616</u>	<u>825,187</u>	<u>7,152,281</u>
Capital assets, net	<u>\$ 7,036,900</u>	<u>\$ 727,225</u>	<u>\$ -</u>	<u>\$ 7,764,125</u>

Depreciation Expense—Depreciation expense was \$369,625 and was charged to the water activity for the year ended June 30, 2016.

6. ACCRUED LIABILITIES AND OTHER EXPENSES

Accrued liabilities and other expenses are as follows at June 30, 2016:

	Water and Wastewater
Accrued salaries	\$ 9,522
Insurance payable	11,115
Customer deposits	13,722
Gross receipts tax payable	12,497
Accrued interest payable	<u>9,467</u>
 Total	 <u>\$ 56,323</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, 2016 employees had approximately 1,134 hours of accumulated vacation leave, totaling \$24,375, and approximately 856 hours of accumulated sick leave, totaling \$11,594 (50% portion).

8. LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2016, were as follows:

	Balance June 30, 2015	Increase	Decreases	Balance June 30, 2016	Due Within One Year
Business-type activities:					
New Mexico Finance					
Authority loan 4	\$ 535,838	\$ 64,963	\$ (58,206)	\$ 542,595	\$ 29,509
Authority loan	3,674,634	-	(199,369)	3,475,265	203,046
DPV Assessment	21,226	-	(1,699)	19,527	1,780
Compensated absences	<u>33,737</u>	<u>30,294</u>	<u>(28,062)</u>	<u>35,969</u>	<u>14,745</u>
	<u>\$ 4,265,435</u>	<u>\$ 95,257</u>	<u>\$ (287,336)</u>	<u>\$ 4,073,356</u>	<u>\$ 249,080</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, 2016, \$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, 2016 was \$3,203,585.

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, 2016 was \$19,527.

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, 2016, \$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, 2016 was \$271,680.

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, 2016, \$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, 2016 was \$542,595.

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

Year Ending June 30:	Principal	Interest	Total
2017	\$ 234,335	\$ 59,002	\$ 293,337
2018	238,245	55,558	293,803
2019	242,230	52,042	294,272
2020	246,299	48,456	294,755
2021	250,448	44,797	295,245
2022-2026	1,314,812	166,513	1,481,325
2027-2031	1,418,883	65,493	1,484,376
2032-2034	92,135	461	92,596
Totals	\$ 4,037,387	\$ 492,322	\$ 4,529,709

9. 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 \$24,236 for the year ended June 30, 2016.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, crime coverage, personal property and general liability.

OTHER 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, 2016**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Water revenue	\$ 743,455	\$ 743,455	\$ 738,953	\$ (4,502)
Irrigation water revenue	398,148	398,148	360,939	(37,209)
Wastewater revenue	98,450	98,450	97,787	(663)
Fire protection fees	99,895	99,895	96,649	(3,246)
System upgrade fees	227,234	227,234	225,820	(1,414)
Solid waste charges	262,236	262,236	264,980	2,744
Other charges for services	35,243	35,243	42,874	7,631
	<u>1,864,661</u>	<u>1,864,661</u>	<u>1,828,002</u>	<u>(36,659)</u>
EXPENDITURES:				
Operating expenses				
Personnel services	612,360	612,360	585,463	26,897
Utilities and fuel	175,410	175,410	146,415	28,995
Other operating expenses	410,479	410,479	314,618	95,861
Depreciation expense	369,625	369,625	369,625	-
	<u>1,567,874</u>	<u>1,567,874</u>	<u>1,416,121</u>	<u>151,753</u>
Nonoperating revenues (expenses):				
Interest income	8,520	8,520	9,289	769
Interest expense	(39,090)	(39,090)	(70,831)	(31,741)
Grant revenue	-	-	840,095	840,095
	<u>(30,570)</u>	<u>(30,570)</u>	<u>778,553</u>	<u>809,123</u>
Changes in net position	266,217	266,217	1,190,434	924,217
Fund balance - beginning of year	4,605,318	4,605,318	4,605,318	-
Fund balance - end of year	<u>\$ 4,871,535</u>	<u>\$ 4,871,535</u>	<u>\$ 5,795,752</u>	<u>\$ 924,217</u>

See accompanying notes to financial statements.

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

**SUPPLEMENTAL SCHEDULE OF DEPOSITS
JUNE 30, 2016**

Account type	City Bank	Washington Federal	Total
Checking	\$ 566,711	\$ -	\$ 566,711
Certificate of deposit	<u>1,341,733</u>	<u>122,019</u>	<u>1,463,752</u>
Amounts on deposit	1,908,444	122,019	2,030,463
Reconciling items	(7,573)	-	(7,573)
Cash on hand	<u>-</u>	<u>-</u>	<u>656</u>
	<u>\$ 1,900,871</u>	<u>\$ 122,019</u>	<u>\$ 2,023,546</u>

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

**SUPPLEMENTAL SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2016**

Name of Depository	Pledged Collateral	Maturity	Letter of Credit/ CUSIP Number	Fair Market Value June 30, 2016
City Bank	Capitan NM Muni Bond	April 15, 2019	140552DA5	\$ 422,037
	FHLB Bond	March 18, 2020	31337I4II6	\$ 1,068,730
	FNMA Bond	October 18, 2021	31359MZ22	\$ 506,787
Washington Federal	GNMA2 G2895800	August 20, 2061	3620E0NW2	\$ 5,013
	FNMA AL3899	October 1, 2042	3138ELKM4	\$ 1,363

COMPLIANCE SECTION



Strickler & Prieto, LLP

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

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*

Timothy Keller, 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, 2016, 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 November 18, 2016.

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. Given these limitations, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 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 & Pisto, LLP

November 18, 2016

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

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016**

STATUS OF PRIOR YEAR FINDINGS

2014-001 Capital Asset Records- Other Finding

Resolved

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

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2016**

An exit conference was conducted on November 18, 2016 at the District's offices with the following individuals in attendance:

Alto Lakes Water and Sanitation District

Daniel B. Knorr
David Edington
Rachel Muldowney

Chairman
District Manager
Office Manager

Strickler & Prieto, LLP

Brad Voge
Nancy Escobar

Audit Manager
Audit Staff

Financial Statement Preparation

The District's independent public accountants prepared the accompanying financial statements; however, the District is responsible for the financial statement content.