

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT

**Financial Statements and
Independent Auditor's Report**

**For the Year Ended
December 31, 2018**



**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
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**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
OFFICIAL ROSTER
DECEMBER 31, 2018**

Board of Directors

<u>Name</u>	<u>Title</u>
Tom Devlin	President
Salvador Nava	Vice-President
Jason Sanchez	Treasurer/Secretary

Administration

Steve A. Petranovich	Certified Public Accountant
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gamerco Water & Sanitation District
and
Brian S. Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of the State of New Mexico Gamerco Water & Sanitation District (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. I have also audited the budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements for the year ended December 31, 2018, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

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accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

I did not audit infrastructure assets because management was unable to provide records to substantiate the original costs of the assets. I was unable to obtain sufficient appropriate audit evidence about the rights or obligations, accuracy or classification, or valuation or allocation assertions.

Qualified Opinion

In my opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the State of New Mexico Garamco Water & Sanitation District as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in my opinion, the financial statement referred to above presents fairly, in all material respects, the budgetary comparison for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 31, 2019, on my consideration of the District's internal control over financial reporting and on my 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 my 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.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico

July 31, 2019

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

ASSETS

Current assets	
Cash and cash equivalents	\$ 179,779
Accounts receivable, net	60,930
Prepaid expenses	<u>-</u>
Total current assets	<u>240,709</u>
Property & equipment	
Infrastructure	226,639
Equipment, buildings and vehicles	238,338
Accumulated depreciation	<u>(200,047)</u>
Property & equipment, net	<u>264,930</u>
Total assets	<u>\$ 505,639</u>

LIABILITIES

Current liabilities	
Accounts payable	\$ -
Accrued payroll taxes	735
Current portion of note payable	<u>7,502</u>
Total current liabilities	<u>8,237</u>
Long-term liabilities	
Note payable - long-term portion	<u>78,502</u>
Total long-term liabilities	<u>78,502</u>
Total liabilities	<u>86,739</u>

NET POSITION

Investment in capital assets, net of related debt	178,926
Restricted	-
Unrestricted	<u>239,974</u>
Total net position	<u>418,900</u>
Total liabilities and net position	<u>\$ 505,639</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018**

OPERATING REVENUES:

Water sales:

Water & sewer fees	\$ 421,355
Cost of sales - water	359,506
Gross profit	<u>61,849</u>

Other operating revenues:

Refuse collection	<u>154,792</u>
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Total operating revenues	<u>216,641</u>
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OPERATING EXPENSES:

Wages	38,324
Road maintenance	29,504
Field supplies	25,560
Field repairs	23,537
Truck expense	18,145
Water samples/operator	13,686
Depreciation	13,673
Accounting	11,280
Insurance	10,232
Audit Tier 6	5,001
Casual labor	4,318
Equipment rental	3,095
Payroll taxes	3,058
Telephone	2,371
Office & supplies	1,979
Other taxes	253
Legal	240
Miscellaneous	5

Total operating expenses	<u>204,261</u>
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Operating income (loss)	12,380
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NONOPERATING REVENUES (EXPENSES)

Loan surcharge - infrastructure	16,416
Interest expense	<u>(2,799)</u>

Total nonoperating revenues (expenses)	<u>13,617</u>
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Change in net position	25,997
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Net position, beginning of year, as originally reported	412,975
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Restatement	<u>(20,072)</u>
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Net position, beginning of year, as restated	<u>392,903</u>
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Net position, end of year	<u>\$ 418,900</u>
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The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Cash flows from operating activities:	
Cash received from customer services and fees	\$ 585,156
Cash payments to employees	(38,324)
Cash paid to suppliers for goods and services	<u>(512,138)</u>
Net cash provided (used) by operating activities	<u>34,694</u>
Cash flows from capital and related financing activities:	
Loan surcharge payments received	16,416
Acquisition of capital assets	(9,277)
Principal payments on notes payable	(7,284)
Interest expense	<u>(2,799)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,944)</u>
Net increase (decrease) in cash and cash equivalents	31,750
Cash and cash equivalents at beginning of year	<u>148,029</u>
Cash and cash equivalents at end of year	<u><u>\$ 179,779</u></u>
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 12,380
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	13,673
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	9,008
Increase (decrease) in accounts payable	-
Increase (decrease) in accrued payroll taxes	<u>(367)</u>
Net cash provided (used) by operating activities	<u><u>\$ 34,694</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 1 - ORGANIZATION

Gamerco Water & Sanitation District (District) is a water and sanitation district organized pursuant to Sections 73-21-1 through 54 of the New Mexico Statutes Annotated, 1978 Edition. The District was created by decree of the District Court of the Eleventh Judicial District on November 30, 1982.

As a political subdivision of the State of New Mexico, exercising substantial governmental functions, such as the power to tax, the power of eminent domain and the power to impose and enforce regulations, it is, therefore, exempt from Federal Income Tax pursuant to Section 115 of the Code.

The purpose of the District is to provide water, wastewater, and garbage services to the subdivision of Gamerco, located in McKinley County, New Mexico.

The District operates under a Board of Directors consisting of three members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. Following is a summary of the District's significant accounting policies.

A. Financial Reporting Entity

The financial reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based upon this criteria, the District does not have any component units, and is not a component unit of another government agency.

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The District's proprietary (enterprise) fund is accounted for on the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. All assets and liabilities associated with operations are included on the statement of net position. Net position is segregated into net investment in capital assets, restricted, and unrestricted components.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation, continued

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses result from providing services in connection to the fund's principle ongoing operations. The main operating revenues of the District's enterprise fund are charges for water delivery and refuse collection. Operating expenses for the enterprise fund includes the cost of services, administrative expenses and depreciation on capital assets. Any revenues or expenses not meeting this definition are reported as non-operating.

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

The District reports the following major proprietary fund:

General Fund – the General Fund is the District's primary operating fund and accounts for all activities of the District.

C. Assets, Liabilities and Net Position

Cash – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less at time of acquisition.

Accounts receivable – Accounts receivable are reported at their net realizable value and consist of accounts receivable associated with water sales and refuse collections. The allowance for doubtful accounts is determined by the collection agent.

Accounts payable – Accounts payable are comprised of unpaid vendor and supplier invoices and are recognized when the liability is incurred.

Capital assets - Capital assets include equipment, buildings, vehicles, and infrastructure assets (water lines and associated items). Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Assets, Liabilities and Net Position, continued

Capital assets, continued – Capital assets are depreciated using the double declining balance method over the following estimated useful lives:

Equipment	3-7 years
Buildings	15-39 years
Vehicles	5 years

Infrastructure associated with the water delivery system is not depreciated.

Net position – Net position is classified into the following components:

- 1) Invested in capital assets, net of related debt. Consists of net position invested in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction or improvement of capital assets.
- 2) Restricted net position. Consists of net position with constraints placed on the use by either a) external parties, or b) enabling legislation.
- 3) Unrestricted net position. All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Stewardship, Compliance and Accountability

The District follows defined procedures in establishing their annual budget. Each year the District determines amounts required for construction, maintenance, operations and debt service expenditures. Budget amounts are as originally adopted and as amended by the Board of Directors and approved by the Local Government Division of the State of New Mexico Department of Finance and Administration (DFA) and are prepared on a non-GAAP budgetary cash basis of accounting. The District is required to submit their budget to DFA by December 1 for the following calendar year. DFA must approve the budget prior to its legal enactment.

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Stewardship, Compliance and Accountability, continued

To meet legal compliance, actual expenses cannot exceed the total budgeted expenses for the fund. Adjustments to the budget must be submitted to and approved by DFA in the form of a “budget adjustment request”. The District does not use encumbrances. The legal level of budgetary control is at the fund level. In 2018, the District’s actual expenses exceeded budgeted expenses by \$35,344, a violation of New Mexico statute.

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash and cash equivalents include cash on hand, amounts in demand deposits and certificates of deposit. As of December 31, 2018, the District did not own any certificates of deposit. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations. The District follows the investment policy described in state statute (Section 6-10-1 to 6-10-63, NMSA 1978). The District did not own any investments at December 31, 2018.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more financial institutions within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or they are collateralized as required by statute. The financial institution holding the deposit must pledge collateral with a fair market value of at least 50% of any uninsured balance.

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District’s policy for deposit custodial credit risk is set forth in state statute, Section 6-10-1 to 6-10-63, NMSA 1978. As of December 31, 2018, none of the Districts deposits were exposed to custodial credit risk, and all of the District’s deposits were fully insured.

<u>Depository</u>	<u>Account Name</u>	<u>Type of Account</u>	<u>Bank Balance</u>
Wells Fargo	Operating	Checking	\$ 96,696
	Less: FDIC coverage		(250,000)
	Total federally (insured) uninsured		<u>(153,304)</u>
Washington Federal	Infrastructure	Checking	83,583
	Less: FDIC coverage		(250,000)
	Total federally (insured) uninsured		<u>(166,417)</u>
Total cash in bank			180,279
Add: outstanding deposits			-
Less: outstanding checks			<u>(500)</u>
Reconciled cash balance			<u>\$ 179,779</u>

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2018 are as follows:

Water and refuse billings receivable	\$ 89,378
Allowance for uncollectible accounts	<u>(28,448)</u>
Accounts receivable, net	<u><u>\$ 60,930</u></u>

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital assets as of December 31, 2018 and changes in capital assets for the year then ended:

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018
Assets not depreciated:				
Infrastructure	\$ 226,639	\$ -	\$ -	\$ 226,639
Assets being depreciated:				
Equipment, buildings and vehicles	<u>229,061</u>	<u>9,277</u>	<u>-</u>	<u>238,338</u>
Total capital assets	<u>455,700</u>	<u>9,277</u>	<u>-</u>	<u>464,977</u>
Accumulated depreciation				
Equipment, buildings and vehicles	<u>(186,374)</u>	<u>(13,673)</u>	<u>-</u>	<u>(200,047)</u>
Total accumulated depreciation	<u>(186,374)</u>	<u>(13,673)</u>	<u>-</u>	<u>(200,047)</u>
Net capital assets	<u><u>\$ 269,326</u></u>	<u><u>\$ (4,396)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 264,930</u></u>

Depreciation expense was \$13,673 for the year ended December 31, 2018.

NOTE 6 – LONG-TERM DEBT

On March 27, 2007, the District entered into a loan agreement with the New Mexico Environment Department under the New Mexico Rural Infrastructure Act, for improvements to the District's water system. The original loan amount was \$150,000, and is payable in annual installments of \$10,082. The loan carries an interest rate of 3% and matures on March 27, 2027. The note requires a surcharge of \$3 be added to all monthly customer bills solely for repayment of the loan.

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 6 – LONG-TERM DEBT – CONTINUED

The following is a summary of changes in long-term debt for the year ended December 31, 2018:

	Balance <u>December 31, 2017</u>	Additions	Deletions	Balance <u>December 31, 2018</u>	Current <u>Portion</u>
Note payable	<u>\$ 93,288</u>	<u>\$ -</u>	<u>\$ (7,284)</u>	<u>\$ 86,004</u>	<u>\$ 7,502</u>

Debt service requirements as of December 31, 2018 are as follows:

Year ended December 31:

2019	\$ 7,502
2020	7,727
2021	7,959
2022	8,198
2023	8,444
Thereafter	<u>46,174</u>
	<u>\$ 86,004</u>

NOTE 7 – RISK MANAGEMENT, COMMITMENTS AND CONTINGENCIES

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. The District carries a commercial insurance policy to limit exposure to these types of risks.

As of December 31, 2018, the District had no construction in progress or other significant commitments that would require disclosure in the financial statements.

As of December 31, 2018, there is no pending litigation or any other contingencies that would require disclosure or recognition in the financial statements.

NOTE 8 – NET POSITION RESTATEMENT

The District restated net position as of January 1, 2019 as follows:

Write down of prior year prepaid expenses	\$ (45,000)
Write down of prior year accounts payable	<u>24,928</u>
Net adjustment to beginning net position	<u>\$ (20,072)</u>

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – GASBS 77

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, is effective for reporting periods beginning after December 15, 2015. The statement requires disclosure of tax abatement information about (1) reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The District has not entered into any tax abatement agreements therefore disclosure is not required.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued. Transactions or events occurring after year-end may be disclosed if significant.

The District has evaluated subsequent events through July 31, 2019, which is the date the financial statements were available to be issued. No matters were identified for recognition in the accounts.

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original Budget	Final Budget		
REVENUES:				
Water & sewer fees	\$ 319,944	\$ 319,944	\$ 421,355	\$ 101,411
Cost of sales - water	277,607	277,607	359,506	(81,899)
Gross profit	42,337	42,337	61,849	19,512
Other revenues:				
Refuse collection	142,480	142,480	154,792	12,312
Loan surcharge - infrastructure	16,416	16,416	16,416	-
Total revenues	<u>201,233</u>	<u>201,233</u>	<u>233,057</u>	<u>31,824</u>
EXPENSES:				
Wages	48,500	48,500	38,324	10,176
Road maintenance	16,000	16,000	29,504	(13,504)
Field supplies	6,155	6,155	25,560	(19,405)
Field repairs	23,072	23,072	23,537	(465)
Truck expense	15,500	15,500	18,145	(2,645)
Water samples/operator	12,000	12,000	13,686	(1,686)
Dues and subscriptions	300	300	-	300
Accounting	13,200	13,200	11,280	1,920
Insurance	16,000	16,000	10,232	5,768
Audit Tier 6	5,265	5,265	5,001	264
Casual labor	2,600	2,600	4,318	(1,718)
Equipment rental	2,219	2,219	3,095	(876)
Payroll taxes	3,926	3,926	3,058	868
Telephone	2,700	2,700	2,371	329
Office & supplies	1,960	1,960	1,979	(19)
Other taxes	325	325	253	72
Legal	500	500	240	260
Travel	500	500	-	500
Training	870	870	-	870
Miscellaneous	-	-	5	(5)
Debt service				
Principal payments on note payable	-	-	7,283	(7,283)
Interest payments on note payable	3,011	3,011	2,799	212
Capital outlay	-	-	9,277	(9,277)
Total expenses	<u>174,603</u>	<u>174,603</u>	<u>209,947</u>	<u>(35,344)</u>
Excess (deficiency) of revenues over expenses	<u>\$ 26,630</u>	<u>\$ 26,630</u>	23,110	<u>\$ (3,520)</u>
RECONCILIATION TO GAAP:				
Depreciation			(13,673)	
Principal payments on note payable			7,283	
Capital outlay			9,277	
Change in net position (Page 5)			<u>\$ 25,997</u>	



**INDEPENDENT AUDITORS' 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***

Board of Directors
Gamerco Water & Sanitation District
and
Brian S. Colón, Esq.
New Mexico State Auditor
Santa Fe, New Mexico

I 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 State of New Mexico Gamerco Water and Sanitation District (District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the related budgetary comparison of the District, presented as supplementary information, and have issued my report thereon dated July 31, 2019. My opinion was qualified because management was unable to provide records to substantiate the original costs of the infrastructure assets.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

My consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying schedule of findings and responses, I did identify certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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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. I consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

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. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-002 and 2018-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1978 and which are described in the accompanying schedule of findings and responses as items 2018-002, 2018-003 and 2018-004.

District's Response to Findings

The District's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico

July 31, 2019

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Current Year Findings

2018-001 – Unable to Substantiate Balances (Material Weakness)

Condition: The District was unable to provide documentation to support the infrastructure balance of \$226,639 on the statement of net position.

Criteria: Internal controls over the financial reporting process should include well-designed and implemented controls to ensure accurate, reconciled balances are reported.

Cause: The District has been carrying these balances for many years, and 2018 is the first time that the District has been audited.

Effect: The Board of Directors and other interested parties are not receiving accurate financial information, which could affect decision-making, and future grant awards.

Recommendation: The District should prepare a comprehensive inventory of all infrastructure, through District records and observation. An engineering firm would be able to help. The condition of the infrastructure should also be evaluated. The District should then estimate the historical cost for each asset, remaining life of each asset, and depreciation-to-date. The result of these calculations should be put on the District's books and depreciated going forward.

Agency Response: The Board Treasurer will immediately start the process of evaluating and taking inventory of all infrastructure assets owned by the District. Once an inventory is documented the District will attempt to estimate the cost and accumulated depreciation in order to put infrastructure on our books.

Gamerco Water and Sanitation District was in Receivership from approximately 2007 to 2015 when most of the infrastructure improvements were completed for the system. During that time McKinley County acted as the systems fiscal agent and DePauli Engineering handled the design and coordination for the completion of these projects. These entities have advised our Board of Directors that they no longer have required documentation such as invoices, cancelled checks, project cost assessments, etc. that would have helped remedy this finding. The only information available is the Historical Capital Outlay records that this independent auditor has obtained, and states are insufficient to correct the finding.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Current Year Findings, continued

2018-002 – Actual Expenses in Excess of Budgeted Expenses (Significant Deficiency, Noncompliance)

Condition: The District's expenditures exceeded the authorized budget in the amount of \$35,344.

Criteria: Section 6-6-6, NMSA 1978 requires the District to keep expenditures within budgeted amounts. 2.2.2.10 R(1)(a) NMAC requires reporting a finding if actual expenditures exceed budgeted expenditure at the legal level of budgetary control, which is at the fund level for the District.

Cause: The District did not monitor their expenditures or make any budget adjustments during the year.

Effect: The District spent funds that were not authorized by the Board of Directors for 2018.

Recommendation: The District should monitor their budget throughout the year and have procedures in place for emergency budget amendments when necessary.

Agency Response: The Board President will monitor the budget throughout the year, effective immediately, and there are procedures in place when the budget is exceeded. Budget amendments will be made by the Board of Directors when necessary.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Current Year Findings, continued

2018-003 – Capitalization Policy (Noncompliance)

Condition: The District has been capitalizing and depreciating assets that cost less than \$5,000, which is the state threshold for capitalizing assets.

Criteria: The District does not have a capital asset policy that complies with Chapter 12 Article 6 Section 10 NMSA 1978.

Cause: The District's depreciation schedule includes assets which do not meet the state's definition of a capital asset.

Effect: Depreciation expense may not be accurate. Purchases that are capitalized instead of expensed are not necessarily being reported as a budgeted item, therefore not subject to budget restrictions.

Recommendation: The District should establish a policy to comply with state law. Assets that were purchased after 2005 and cost less than \$5,000 should be removed from the depreciation schedule. Purchases that do not meet the state's threshold of \$5,000 should be expensed in the year of acquisition and charged to that year's budget.

Agency Response: Effective immediately, assets that are purchased and cost less than \$5,000 will be removed from the depreciation schedule and purchases that do not meet this threshold in the future will be expensed and charged to the budget in the current year. A policy will be established to comply with state law. This will be done by our outside accountant.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Current Year Findings, continued

2018-004 - Late Audit Report (Significant Deficiency, Noncompliance)

Criteria: 2.2.2 NMAC (State Audit Rule) requires submission of audit reports within five months after year-end, or May 31, 2019.

Condition: The District did not submit their 2018 audit report to the Office of the State Auditor by May 31, 2019, the due date of the report.

Cause: The District extended their audit in order to research historical costs of infrastructure that was installed many years ago. 2019 was the first time that the District was audited.

Effect: The District was not in compliance with the State Audit Rule, which could impact its ability to receive grants from federal and state sources.

Recommendation: The District should determine whether an audit is required earlier in the process so that audits are completed by the statutory deadline.

Agency Response: The District is aware of current audit requirements and the outside accountant will make sure the auditor receives information needed for the 2019 audit earlier in order that all is completed by the statutory deadline.

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2018**

Prior Year Finding

Disposition

None.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2018

The financial statements were prepared by James L. Hartogenesis, CPA LLC, with the assistance of the District. The contents of this report are the responsibility of Gamerco Water & Sanitation District.

The report contents were discussed at an exit conference held on May 30, 2019 with the following in attendance:

Gamerco Water & Sanitation District

Kenny Carabajal	President
Jason Sanchez	Treasurer
Art Burrola	District Manager
Steve Petranovich	Contract Accountant

James L. Hartogenesis, CPA LLC

James Hartogenesis, CPA, CGFM	Principal
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