

STATE OF NEW MEXICO

GAMERCO WATER & SANITATION DISTRICT

**Independent Accountants' Report on
Applying Agreed-Upon Procedures
and
Compilation Report of Independent Accountant and
Compiled Financial Statements**

**For the Year Ended
December 31, 2015**

James L. Hartogenesis, CPA LLC

Certified Public Accountants

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT

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STATE OF NEW MEXICO

GAMERCO WATER & SANITATION DISTRICT

OFFICIAL ROSTER

DECEMBER 31, 2015

Board of Directors

<u>Name</u>	<u>Title</u>
Tom J. Devlin	President
Marian Nunez	Vice-President
Jason Sanchez	Treasurer

Administration

Steve Petranovich	Accountant
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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Board of Directors
Gamerco Water & Sanitation District
and
Honorable Timothy M. Keller
New Mexico State Auditor
Santa Fe, New Mexico

We have performed the procedures enumerated below which were agreed to by State of New Mexico Gamerco Water & Sanitation District (District) and the New Mexico State Auditor (the specified parties), solely to assist users in evaluating the District's financial reporting relating to its Cash, Capital Assets, Revenues, Expenditures, Journal Entries, and Budget information and its compliance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, as of and for the year ended December 31, 2015. Gamerco Water & Sanitation District is responsible for its financial reporting as described above. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In accordance with Tier 6 of the Audit Act – Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC, our procedures and associated findings are as follows:

1. CASH

Procedures

a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand. For purposes of performing our procedures "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the District.

b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to Department of Finance & Administration - Local Government Division (DFA-LGD). For purposes of performing our procedures "accuracy" means that reconciling items agree to deposit slips and subsequent bank or investment statements, and the reconciliations are mathematically correct.

c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Findings

Bank reconciliations were completed timely. Bank reconciliations were accurate, and reconciled balances were agreed to the general ledger without exception. Pledged collateral was not required because the bank accounts were fully insured throughout the fiscal year. However, cash balances were not reported to DFA-LGD as required. See finding 2015-0001.

2. CAPITAL ASSETS

Procedures

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

Findings

The December 31, 2015 capital asset inventory was performed without exception.

3. DEBT

Procedures

If the local public body has any debt, verify that the required payments were made during the year. If the debt requires reserves, verify that the local public body is in compliance with those requirements.

Findings

The District has one outstanding loan from the New Mexico Environment Department. All required payments were made during the year. The loan agreement does not have a reserve requirement, therefore this step is not applicable.

4. REVENUE

Procedures

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue.

Select a sample of revenues based on accountant's judgment and test using the following attributes:

b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement.

c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Findings

The District records revenues on the cash basis of accounting. Revenue was analytically reviewed and met expectations. Variances were adequately supported. Four month's receipts were tested. Receipts were properly recorded in the general ledger, properly classified and were adequately supported.

5. EXPENDITURES

Procedures

Select a sample of cash disbursements based on accountant's judgment and test using the following attributes:

a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor's invoice, purchase order, contract and canceled check, as appropriate.

b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures.

c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-99 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Findings

23 disbursements were tested and we determined that amounts recorded as disbursed agreed to adequate supporting documentation and the amounts, payees, dates and descriptions agreed to the vendor's invoice, purchase order, contract and cancelled check, as appropriate. Disbursements were authorized in compliance with the budget, legal requirements and established policies and procedures. Procurement and travel were not tested because the District did not have any purchases that were subject to the NM Procurement Code or the Regulations Governing the Per Diem and Mileage Act.

6. JOURNAL ENTRIES

Procedures

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Findings

One month's journal entries were tested. The entries were reasonable and adequately supported. The District does not have a process for reviewing journal entries. See finding 2015-002.

7. BUDGET

Procedures

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a) Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.

b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.

c) From the original and final approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual or modified accrual basis) for each individual fund.

Findings

The District's 2015 budget was approved by the Board of Directors and DFA-LGD, without exception. Actual expenses exceeded budgeted expenses at the fund level, which is the legal level of budgetary control. See finding 2015-003. The Schedule of Revenues and Expenses - Budget and Actual (Cash Basis) is presented on page 7 of this report.

8. OTHER

Procedures

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclose in the report as required by Section, 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10 (I) (3) (C) NMAC.

Findings

No other findings were noted.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Gamerco Water & Sanitation District's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Gamerco Water & Sanitation District, New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico
May 12, 2016

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (Cash Basis)
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget		Favorable (Unfavorable)
OPERATING REVENUES:				
Water & sewer fees	\$ 260,000	\$ 260,000	\$ 261,834	\$ 1,834
Cost of sales - water	<u>210,800</u>	<u>210,800</u>	<u>287,611</u>	<u>(76,811)</u>
Gross profit	49,200	49,200	(25,777)	(74,977)
Other operating revenues:				
Refuse collection	136,000	136,000	155,175	19,175
Loan surcharge - infrastructure	<u>16,400</u>	<u>16,400</u>	<u>16,416</u>	<u>16</u>
Total operating revenues	<u>201,600</u>	<u>201,600</u>	<u>145,814</u>	<u>(55,786)</u>
OPERATING EXPENSES:				
Wages	36,000	36,000	48,764	(12,764)
Payroll taxes	3,100	3,100	3,891	(791)
Other taxes	250	250	265	(15)
Office & supplies	3,000	3,000	1,450	1,550
Water samples	2,700	2,700	5,077	(2,377)
Insurance	18,000	18,000	15,086	2,914
Field repairs	31,000	31,000	47,777	(16,777)
Field supplies	5,000	5,000	2,525	2,475
Interest expense	3,611	3,611	3,417	194
Accounting	12,000	12,000	9,778	2,222
Legal	12,000	12,000	278	11,722
Truck expense	30,000	30,000	15,327	14,673
Telephone	2,500	2,500	2,215	285
Casual labor	30,000	30,000	15,819	14,181
Equipment rental	1,500	1,500	1,822	(322)
Training expense	1,000	1,000	672	328
Dues & subscriptions	300	300	-	300
Agreed-upon procedures	5,000	5,000	-	5,000
Travel	<u>700</u>	<u>700</u>	<u>-</u>	<u>700</u>
Total operating expenses	<u>197,661</u>	<u>197,661</u>	<u>174,163</u>	<u>23,498</u>
Excess (deficiency) of revenues over expenses	<u>\$ 3,939</u>	<u>\$ 3,939</u>	<u>\$ (28,349)</u>	<u>\$ (32,288)</u>

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
YEAR-END FINANCIAL REPORT SUBMITTED TO DFA
FOR THE YEAR ENDED DECEMBER 31, 2015

Gamerco Water & Sanitation
Budgeted Statement
For the period ended December 31, 2015

	Period 12/31/15	Budgeted	Variance-Fav/(Unfav)
Water & Sewer Fees	\$ 261,834.	\$ 260,000.	\$ 1,834.
Cost of Sales-Water	<u>287,611.</u>	<u>210,800.</u>	<u>(76,811.)</u>
Gross Profit	(25,777.)	49,200.	(74,977.)
Other Income			
Refuse Collection	155,175.	136,000.	19,175.
Loan Surcharge Infra	<u>16,416.</u>	<u>16,400.</u>	<u>16.</u>
Total Other Income	<u>171,591.</u>	<u>152,400.</u>	<u>19,191.</u>
TOTAL GROSS INCOME	145,814.	201,600.	(55,786.)
Operating Expenses			
Wages	48,764.	36,000.	(12,764.)
Payroll Taxes	3,891.	3,100.	(791.)
Other Taxes	265.	250.	(15.)
Office & Supplies	1,450.	3,000.	1,550.
Water Samples	5,077.	2,700.	(2,377.)
Insurance	15,086.	18,000.	2,914.
Field Repairs	47,777.	31,000.	(16,777.)
Field Supplies	2,525.	5,000.	2,475.
Interest Expense	3,117.	3,611.	194.
Accounting	9,778.	12,000.	2,222.
Legal	278.	17,000.	11,722.
Truck Expense	15,327.	30,000.	14,673.
Telephone	2,215.	2,500.	285.
Casual Labor	15,819.	30,000.	14,181.
Equipment Rental	1,822.	1,500.	(322.)
Training Expense	672.	1,000.	328.
Dues & Subscriptions	0.	300.	300.
Agreed Upon Procedures	0.	5,000.	5,000.
Travel	<u>0.</u>	<u>700.</u>	<u>700.</u>
TOTAL EXPENSES	<u>174,163.</u>	<u>197,661.</u>	<u>23,498.</u>
REVENUES OVER EXP.	(28,349.)	3,939.	(32,288.) Unfav

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

Current Year Findings

2015-001 **Cash Balances Not Reported to DFA (noncompliance)**

Condition: Cash balances were not reported to DFA as part of the quarterly report filed by the District.

Criteria: DFA requires all public bodies to submit quarterly reports, including all cash and investment balances.

Cause: The District submitted quarterly reports to DFA that included revenues and expenses, but no cash balances were reported.

Effect: DFA may have lacked the necessary information to perform their oversight duties that are required by state statute.

Recommendation: We recommend that the District use the prescribed forms from DFA for quarterly reporting. Assets and liabilities should be included in the report.

Management's Response: Effective, 1/1/16, the District will provide to DFA the beginning and ending Cash in Bank balances.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2015-002 Journal Entries Not Reviewed or Approved (significant deficiency)

Condition: Journal entries are prepared and posted to the general ledger by the District's accountant without review and approval from a board member.

Criteria: Because journal entries are a way to override the accounting system, organizations should always implement strong internal controls to mitigate the risk of material misstatements from journal entries. Section 12-6-3 B(6) requires the independent public accountant to determine whether the local public body has procedures in place that requires journal entries to be reviewed, and that evidence of the review is documented.

Cause: The District does not have a policy or procedure in place that requires board review and approval of journal entries prior to posting to the District's books.

Effect: Without a policy for reviewing and approving journal entries in place, there is an increased risk that a material misstatement in the District's financial statements will not be prevented, detected or corrected.

Recommendation: We recommend the District adopt a policy for reviewing and approving journal entries prior to recording them in the general ledger. We also recommend the District review other existing accounting policies and procedures to ensure all transactions that are recorded in the financial statements are properly authorized.

Management's Response: Effective 1/1/16, a Board member will review and approve each monthly journal entry with the Certified Public Accountant. After the review, the Board member will initial each journal entry for proof.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
YEAR ENDED DECEMBER 31, 2015

Current Year Findings - continued

2015-003 **Actual Expenses Exceeded Budgeted Expenses (noncompliance)**

Condition: Actual expenses exceeded budgeted expenses at the fund level in the amount of \$53,313.

Criteria: 2.2.2.10 P(1)(a) NMAC requires reporting a finding if actual expenditures exceed budgeted expenditures at the legal level of budgetary control, which is at the fund level for the District.

Cause: The District did not authorize any budget amendments during the year for the cost of sales, which are direct costs associated with providing water. This line item was \$76,811 over budget.

Effect: There is increased risk that unallowed expenses may occur and not be detected in a timely manner by management.

Recommendation: We recommend that the District review their budgeted and actual expenses on a monthly basis, including cost of sales. If excess expenses are necessary, The District should prepare and approve budget adjustments in a timely manner. If required, DFA approval should also be obtained for any adjustments to the budget.

Management's Response: Effective 1/1/16, the District will review budgeted and actual expenses. If excess expenses are proved to be necessary, the District will make timely budget adjustments and send the adjusted budget to DFA for approval, if necessary.

STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2015

Prior Year Findings

None.

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
EXIT CONFERENCE
YEAR ENDED DECEMBER 31, 2015**

The report contents were discussed at an exit conference held on May 12, 2016 with the following in attendance:

Gamerco Water & Sanitation District

Tom J. Devlin	President
Marian Nunez	Vice-President
Jason Sanchez	Treasurer
Steve Petranovich	Contract CPA

James L. Hartogenesis, CPA LLC

James Hartogenesis, CPA, CGFM	Principal
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COMPILATION REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

Board of Directors
Gamerco Water & Sanitation District
and
Honorable Timothy M. Keller
New Mexico State Auditor
Santa Fe, New Mexico

Management is responsible for the accompanying financial statements of the business-type activities of State of New Mexico Gamerco Water & Sanitation District (District), which comprise the statement of net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position for the year then ended, and the related notes to the financial statements included in the accompanying prescribed form. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements included in the accompanying prescribed form nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements included in the accompanying prescribed form.

The financial statements included in the accompanying prescribed form are presented in accordance with the requirements of Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC, and are not intended to be a complete presentation of the District's assets and liabilities.

This report is intended solely for the information and use of the Gamerco Water & Sanitation District, New Mexico Office of the State Auditor, the New Mexico Legislature, and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

James L. Hartogensis, CPA LLC

Albuquerque, New Mexico
May 12, 2016

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

ASSETS

Current assets

Cash and cash equivalents	\$ 208,759
Accounts receivable	41,033
Prepaid expenses	<u>45,000</u>
Total current assets	<u>294,792</u>

Property & equipment

Infrastructure	226,639
Equipment, buildings and vehicles	221,797
Accumulated depreciation	<u>(155,244)</u>
Property & equipment, net	<u>293,192</u>

Total assets	<u><u>\$ 587,984</u></u>
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LIABILITIES

Current liabilities

Accounts payable	\$ 24,928
Accrued payroll taxes	1,135
Current portion of note payable	<u>6,866</u>
Total current liabilities	<u>32,929</u>

Long-term liabilities

Note payable - long-term portion	<u>100,359</u>
Total long-term liabilities	<u>100,359</u>

Total liabilities	<u>133,288</u>
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NET POSITION

Investment in capital assets, net of related debt	185,967
Restricted	45,000
Unrestricted	<u>223,729</u>
Total net position	<u>454,696</u>

Total liabilities and net position	<u><u>\$ 587,984</u></u>
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See Independent Accountant's Compilation Report and Accompanying Notes

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

OPERATING REVENUES:

Water sales:

Water & sewer fees	\$ 261,834
Cost of sales - water	<u>287,611</u>
Gross profit	<u>(25,777)</u>

Other operating revenues:

Refuse collection	155,175
Loan surcharge - infrastructure	<u>16,416</u>

Total operating revenues 145,814

OPERATING EXPENSES:

Wages	48,764
Field repairs	47,777
Depreciation	22,449
Casual labor	15,819
Truck expense	15,327
Insurance	15,086
Accounting	9,778
Water samples	5,077
Payroll taxes	3,891
Interest expense	3,417
Field supplies	2,525
Telephone	2,215
Equipment rental	1,822
Office & supplies	1,450
Training expense	672
Legal	278
Other taxes	<u>265</u>

Total operating expenses 196,612

Change in net position (50,798)

Net position, beginning of year 505,494

Net position, end of year \$ 454,696

See Independent Accountant's Compilation Report and Accompanying Notes

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO COMPILED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 - ORGANIZATION

The 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 COMPILED FINANCIAL STATEMENTS
DECEMBER 31, 2015

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.

Prepaid expenses – Prepaid expenses consists of monies set aside to comply with a required grant match with McKinley County.

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 COMPILED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 COMPILED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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.

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, 2015, 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, 2015.

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, 2015, none of the Districts deposits were exposed to custodial credit risk, and all of the District’s deposits were fully insured.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2015 are as follows:

Water and refuse billings	<u>\$ 41,033</u>
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All of the above accounts receivable are deemed by the District to be fully collectible.

**STATE OF NEW MEXICO
GAMERCO WATER & SANITATION DISTRICT
NOTES TO COMPILED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital assets as of December 31, 2015 and changes in capital assets for the year then ended:

	Balance <u>December 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2015</u>
Assets not depreciated:				
Infrastructure	\$ 226,639	\$ -	\$ -	\$ 226,639
Assets being depreciated:				
Equipment, buildings and vehicles	<u>219,356</u>	<u>2,441</u>	<u>-</u>	<u>221,797</u>
Total capital assets	<u>445,995</u>	<u>2,441</u>	<u>-</u>	<u>448,436</u>
Accumulated depreciation				
Equipment, buildings and vehicles	<u>(132,795)</u>	<u>(22,449)</u>	<u>-</u>	<u>(155,244)</u>
Total accumulated depreciation	<u>(132,795)</u>	<u>(22,449)</u>	<u>-</u>	<u>(155,244)</u>
Net capital assets	<u>\$ 313,200</u>	<u>\$(20,008)</u>	<u>\$ -</u>	<u>\$ 293,192</u>

Depreciation expense was \$22,449 for the year ended December 31, 2015.

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.

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Balance <u>December 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2015</u>
Note payable	<u>\$ 113,891</u>	<u>\$ -</u>	<u>\$ (6,666)</u>	<u>\$ 107,225</u>

**STATE OF NEW MEXICO
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NOTE 6 – LONG-TERM DEBT – CONTINUED

Debt service requirements as of December 31, 2015 are as follows:

Year ended December 31:

2016	\$	6,866
2017		7,072
2018		7,284
2019		7,502
2020		7,727
Thereafter		<u>70,774</u>
	\$	<u><u>107,225</u></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, 2015, the District had no construction in progress or other significant commitments that would require disclosure in the financial statements.

As of December 31, 2015, there is no pending litigation or any other contingencies that would require disclosure or recognition in the financial statements.