

The logo for atkinson, featuring the word "atkinson" in a lowercase, serif font. A small green dot is positioned below the letter "i".

atkinson

A large, solid green circle on the left side of the page, partially overlapping a larger grey circle in the background.

Precise.

Personal.

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**PAA-KO COMMUNITIES  
SEWER ASSOCIATION**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**December 31, 2018 and 2017**

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

## CONTENTS

	Page
TABLE OF CONTENTS .....	i
OFFICIAL ROSTER .....	1
INDEPENDENT AUDITORS' REPORT .....	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED).....	5-7
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Position – Proprietary Fund .....	8
Statements of Revenues, Expenses, and Changes in Net Position – Proprietary Fund .....	9
Statements of Cash Flows – Proprietary Fund .....	10
Notes to Financial Statements .....	11-19
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues and Expenses – Budget and Actual .....	20
Schedule of Individual Deposit Accounts and Pledged Collateral.....	21
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	22-23
SCHEDULE OF FINDINGS AND RESPONSES .....	24-25
EXIT CONFERENCE .....	26

Paa-Ko Communities Sewer Association

**OFFICIAL ROSTER**

December 31, 2018

**Board of Directors**

<b><u>Name</u></b>	<b><u>Title</u></b>
Derek Wartman	President
Timothy McDonald	Vice President
Luis Armijo	Secretary
W. Bruce Franks	Treasurer
Michael Boice	Member

## INDEPENDENT AUDITORS' REPORT

Honorable Brian Colón, State Auditor  
New Mexico Office of the State Auditor and  
Board of Directors  
Paa-Ko Communities Sewer Association

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Paa-Ko Communities Sewer Association (the Association) (a nonprofit organization), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents. We also have audited the accompanying budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, as of and 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.

### Auditors' Responsibility

Our responsibility is to express an opinion 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 auditors' 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 Association'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 Association'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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Paa-Ko Communities Sewer Association as of December 31, 2018, and the respective changes in its financial position and its cash flows for the year then ended and the respective budgetary comparison for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of Paa-Ko Communities Sewer Association as of December 31, 2017, were audited by other auditors whose report dated May 21, 2018, expressed an unmodified opinion on those statements.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 7 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.

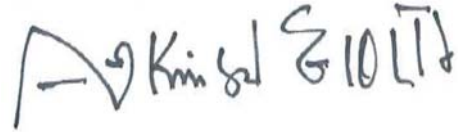
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The Schedule of Individual Deposit Accounts and Pledged Collateral is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of the Association'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 Association's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial "A" on the left.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
May 28, 2019

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

For the Year Ended December 31, 2018

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The management of the Association offers readers of the Association's financial statements this narrative overview and analysis of the financial position of the Association as of December 31, 2018, and the results of its operations for the year then ended. Data as of December 31, 2017, has been provided for comparative purposes.

**BASIC FINANCIAL STATEMENTS**

The Association is considered a local public body pursuant to statutes and legal rulings but does not employ fund accounting and therefore this format is not presented. The Association is reporting using the business-type activities (BTA) format for the fiscal years ending December 31, 2018 and 2017.

The basic financial statements include statements of net position, which report the Association's assets, liabilities and net position (equity), statements of revenues, expenses, and changes in net position, and statements of cash flows. The statement of net position is presented as of December 31, 2018 and 2017, while the latter two statements cover the years then ended.

**CONDENSED COMPARATIVE FINANCIAL INFORMATION**

The Association's assets, liabilities and net position can be summarized as follows as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 555,017	\$ 525,575
Capital assets, net	<u>2,554,982</u>	<u>2,759,898</u>
Total assets	3,109,999	3,285,473
Current liabilities	92,125	97,213
Noncurrent liabilities	<u>743,850</u>	<u>821,409</u>
Total liabilities	835,975	918,622
Net investment in capital assets	1,733,574	1,863,192
Unrestricted	<u>540,450</u>	<u>503,659</u>
Total net position	<u>\$ 2,274,024</u>	<u>\$ 2,366,851</u>



Paa-Ko Communities Sewer Association

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

For the Year Ended December 31, 2018

The Association's revenues and expenses can be summarized as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 401,516	\$ 376,707
Interest income	2,580	814
	<u>404,096</u>	<u>377,521</u>
Operating expenses	471,285	478,711
Nonoperating expenses	<u>25,638</u>	<u>27,867</u>
	496,923	506,578
Change in net position	(92,827)	(129,057)
Net position, beginning	<u>2,366,851</u>	<u>2,495,908</u>
Net position, ending	<u>\$ 2,274,024</u>	<u>\$ 2,366,851</u>

**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Current assets increased by \$29,442 from the prior year mainly due to the improvements in net operating income before depreciation expense. Current liabilities went down slightly by about \$5,088 due mainly to timing of when expenses were paid.

The net decrease in non-current assets is due to the current year's depreciation provision. The decrease in non-current liabilities was the result of the Association paying its scheduled loan payments.

Operating revenues for 2018 were \$401,516; an increase from 2017 due to the collection of fees for sewer hookups.

Operating expenses for 2018 are down from those for 2017 by \$7,428. The decrease is primarily attributable to the decrease in depreciation expense while there were increases in septic pumping, repairs and maintenance and other maintenance costs.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

For the Year Ended December 31, 2018

**BUDGETARY ANALYSIS**

The budgetary basis is cash basis.

	Original Budget	Final Budget	Budgetary Basis Actual	Positive (Negative) Variance
Revenues	\$ 385,950	\$ 385,950	\$ 423,288	\$ 37,338
Expenses	397,499	397,499	394,536	2,963
Revenues (under) over expenses	<u>\$ (11,549)</u>	<u>\$ (11,549)</u>	<u>\$ 28,752</u>	<u>\$ 40,301</u>

Member assessments, hookup fees, membership transfer fees and the late fees revenues were all more than budgeted for 2018, resulting in revenues being \$37,338 above budget expectations.

The differences in final budget expenses and actual budget results were the result of several expenditure categories coming in a little below what had been budgeted.

**CAPITAL ASSET ACTIVITY**

Current depreciation in the amount of \$204,916 was recorded.

**DEBT ACTIVITY**

There were principal payments totaling \$75,298 made as scheduled in 2018.

**CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS**

Budgeted revenues and expenditures for 2019 are \$427,479 and \$437,459, respectively. Our three-year septic tank pumping cycle did not completely finish in 2018, therefore, 2019 will include cost related to additional tanks being pumped.

**CONTACTING THE ASSOCIATION’S FINANCIAL MANAGEMENT**

This financial report is designed to provide a more understandable and useful overview of the Association and its finances, and to demonstrate Association’s prudent use of the money it receives. If you have any questions about this report or need additional financial information, contact:

The Paa-Ko Communities Sewer Association  
1717 Louisiana NE, Suite 111  
Albuquerque, NM 87110

Paa-Ko Communities Sewer Association

**STATEMENTS OF NET POSITION – PROPRIETARY FUND**

December 31,

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 109,907	\$ 330,446
Certificates of deposit	416,223	167,126
Accounts receivable	25,149	24,397
Prepaid insurance	<u>3,738</u>	<u>3,606</u>
Total current assets	555,017	525,575
Property and Equipment:		
Wastewater treatment plant	3,257,934	3,257,934
Wastewater collection system	<u>2,642,632</u>	<u>2,642,632</u>
Total property and equipment	5,900,566	5,900,566
Accumulated depreciation	<u>(3,345,584)</u>	<u>(3,140,668)</u>
Net property and equipment	<u>2,554,982</u>	<u>2,759,898</u>
Total Assets	<u>3,109,999</u>	<u>3,285,473</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	839	6,925
Current maturities of notes payable	77,558	75,297
Accrued interest payable	<u>13,728</u>	<u>14,991</u>
Total current liabilities	<u>92,125</u>	<u>97,213</u>
Noncurrent Liabilities		
Notes payable, less current maturities	<u>743,850</u>	<u>821,409</u>
Total noncurrent liabilities	<u>743,850</u>	<u>821,409</u>
Total liabilities	<u>835,975</u>	<u>918,622</u>
<b>NET POSITION</b>		
Members' Net Position		
Net investment in capital assets	1,733,574	1,863,192
Unrestricted	<u>540,450</u>	<u>503,659</u>
Total Members' Net Position	<u>\$ 2,274,024</u>	<u>\$ 2,366,851</u>

The accompanying notes are an integral part of these financial statements.

Paa-Ko Communities Sewer Association

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION – PROPRIETARY FUND**

For the Years Ended December 31,

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Members' assessments	\$ 359,816	\$ 359,013
Sewer hookup fees	38,000	14,994
Sewer transfer fees	<u>3,700</u>	<u>2,700</u>
Total operating revenues	<u>401,516</u>	<u>376,707</u>
<b>OPERATING EXPENSES</b>		
Depreciation	204,916	240,154
Maintenance fees	143,627	139,727
Septic pumping	32,683	17,518
Repairs and maintenance	31,994	23,088
Utilities and telephone	30,987	29,964
Professional fees	18,443	17,327
Insurance	7,398	7,196
Office supplies	540	2,970
Postage	351	557
Licenses and permits	<u>346</u>	<u>210</u>
Total operating expenses	471,285	478,711
Operating loss	(69,769)	(102,004)
<b>Nonoperating Revenues and (Expenses)</b>		
Interest income	2,580	814
Interest expense	<u>(25,638)</u>	<u>(27,867)</u>
Total nonoperating revenues and (expenses)	<u>(23,058)</u>	<u>(27,053)</u>
Change in net position	(92,827)	(129,057)
Members' net position, beginning of year	<u>2,366,851</u>	<u>2,495,908</u>
Members' net position, end of year	<u>\$ 2,274,024</u>	<u>\$ 2,366,851</u>

The accompanying notes are an integral part of these financial statements.

Paa-Ko Communities Sewer Association

**STATEMENTS OF CASH FLOWS – PROPRIETARY FUND**

Years Ended December 31,

Increase (Decrease) in Cash and Cash Equivalents

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from members	\$ 400,763	\$ 382,392
Interest received	2,580	814
Cash paid to suppliers	<u>(272,586)</u>	<u>(235,491)</u>
Net cash provided by operating activities	130,757	147,715
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest reinvested	(271)	(192)
Purchases of certificates of deposit	<u>(248,826)</u>	<u>-</u>
Net cash used in investing activities	(249,097)	(192)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest payments on notes payable	(26,901)	(29,093)
Principal payments on notes payable	<u>(75,298)</u>	<u>(73,105)</u>
Net cash used in financing activities	<u>(102,199)</u>	<u>(102,198)</u>
Net (decrease) increase in cash and cash equivalents	(220,539)	45,325
Cash and cash equivalents, beginning of year	<u>330,446</u>	<u>285,121</u>
Cash and cash equivalents, end of year	<u>\$ 109,907</u>	<u>\$ 330,446</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (69,769)	\$ (102,004)
Adjustments to reconcile changes in net position to net cash provided by operating activities		
Depreciation	204,916	240,154
Interest received	2,580	814
Changes in assets and liabilities:		
Receivables	(752)	5,685
Prepaid insurance	(132)	(72)
Accounts payable and accrued expenses	<u>(6,086)</u>	<u>3,138</u>
Total Adjustments	<u>200,526</u>	<u>249,719</u>
Net cash provided by operating activities	<u>\$ 130,757</u>	<u>\$ 147,715</u>

The accompanying notes are an integral part of these financial statements.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Financial Reporting Entity

Paa-Ko Communities Sewer Association (Paa-Ko or the Association) is a not-for-profit sewer association formed to provide sewer service to its members-owned and operated sewer utility system and to develop adequate and sanitary sewer works, including the construction of sewage treatment facilities and other necessary improvements and expansion of its sewer system. The Association services only the Paa-Ko Communities, which are located in Sandia Park, New Mexico. The Association operates facilities located in Sandia Park. The Association has the authority to borrow money, to act as an agent or representative of any members, and to convey, assign, and transfer all of its property and contractual rights to another association or other legal entity that is capable and willing to meet the purposes for which the Association is formed. The Board of Directors establishes sewer service rates.

On February 13, 2004, the Paa-Ko communities Sewer Cooperative, Inc., a cooperative association organized on September 1, 1993, acting under the authority granted by the provisions of the Sanitary Projects Act, Sections 3-29-1 through 3-29-19, New Mexico Statutes 1978 (Sanitary Projects Act), reorganized the cooperative association as an association under the Sanitary projects Act under the new name of Paa-Ko Communities Sewer Association.

All persons who are bona fide owners of land in the service area of the Association and who evidence their present or future need and desire for wastewater collection and treatment services provided by the Association shall be members. Each member is entitled to only one vote, regardless of the number of lots the member owns. Members owning the same lot will jointly have one vote. Membership is not transferable and terminates upon the conveyance of the last property owned by the member.

Per Attorney General Opinion 06-02, the Attorney General of the State of New Mexico ruled that mutual domestic water associations are local public bodies considered governmental nonprofit organizations and, as such, are subject to certain state statutes and should present financial statements in a government format. The Association has a responsibility to abide by the following:

- Open Meeting Act
- Inspection of Public Records Act
- Procurement Code
- Per Diem and Mileage Act
- Section 6-6 NMSA 1978

The Association is not a component unit of a governmental entity nor does it have any component units.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basic Financial Statements

The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

3. Basis of Presentation

The Association is considered a special purpose government engaged in a single business-type activity and presents only financial statements required for enterprise funds. These financial statements and corresponding required supplementary information consist of:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements
- Management's Discussion and Analysis
- Information Required by the State Auditor Rule

4. Basis of Accounting and Measurement Focus – Proprietary Fund

The accompanying financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place. The proprietary fund consists of one enterprise fund and as such does not employ any internal service funds.

5. Cash and Cash Equivalents

The Association maintains its cash in various bank deposit accounts in order to maximize FDIC insurance coverage. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

For the purposes of the statements of cash flows, the Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Association is required to obtain collateral in an amount equal to one-half of the deposited public money in excess of \$250,000 for each financial institution with custody of cash and cash equivalents.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

6. Receivables

Receivables represent amounts due for member assessments. The Association considers these amounts to be fully collectible; accordingly, no allowance is deemed necessary. When receivables are determined to be uncollectible, they are charged to operations when that determination is made. Member assessments are billed in January of each year, and reminder notices are sent throughout the year for delinquent accounts. At year end, the Association files liens on large outstanding balances. Late fees are currently being charged on outstanding balances and a \$125 lien release fee is charged as applicable.

7. Capital Assets

Capital assets are tangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. Capital assets are reported at historical cost. Capital assets are depreciated using the straight-line method over their estimated useful lives. The Association capitalizes new asset additions greater than \$5,000. The Association does not own or lease any vehicles or equipment. Useful lives of capital assets are included in the following table:

<u>Asset Class</u>	<u>Useful Life</u>
Wastewater treatment plant	7-24 years
Wastewater collection system	10-25 years

Repairs and maintenance expense is charged to operations when incurred and major betterments and replacements are capitalized.

8. Components of Net Position

Net position is reported as restricted when constraints placed on net position use are externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Association has no restrictions on net position at December 31, 2018 and 2017.

The Association has significant capital assets, net of related debt as reported on the statement of net position – proprietary fund for 2018 and 2017. They consist principally of sewer facilities and the corresponding debt thereon. Capital assets are defined as tangible or intangible assets that are used in operations and have a useful life extending beyond one reporting period.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

9. Classification of Revenues

The Association has classified its revenues for the proprietary fund as either operating or nonoperating according to the following criteria:

Operating Revenues: Operating revenues include activities that have characteristics of exchange transactions, such as 1) annual association member fees, 2) sewer hookup fees, and 3) transfer fees for changes in home ownership.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions such as investment income and revenue sources that are defined as nonoperating revenues.

10. Operating Expenditures

Operating expenditures are associated with providing goods and services in connection with operations. Operating expenditures include administrative expenditures required to manage and operate the fund.

11. Use of Estimates

The preparation of these 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.

12. Budgetary Basis

The Association budgets on a cash basis. Depreciation is not budgeted. The Board of Directors is responsible for authorizing the Association's budget. The Association is statutorily required to submit a budget to the Department of Finance and Administration for approval. The Association was in compliance with these requirements for 2018 and 2017. The level of budgetary control is at the fund level.

13. GASB 77

The Association does not have any GASB Standard No. 77, *Tax Abatement Disclosures*, requirements for 2018 or 2017.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

14. Subsequent Events

Subsequent events were evaluated through May 28, 2019, which is the date the financial statements were available to be issued. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

**NOTE B – CASH AND CASH EQUIVALENTS**

Custodial credit risk is the risk that in the event of a bank failure the Association's deposits may not be returned to it. The Association has implemented a deposit policy to utilize multiple deposit accounts with different banks so as to maximize the protection of the FDIC insurance coverage. As of December 31, 2018, the bank balances were not exposed to custodial credit risk. The total deposits of cash and cash equivalents and certificates of deposit totaled \$582,745 and \$511,753 as of December 31, 2018 and 2017, respectively.

The Association has funds in a money market account that is unrated as to its credit risk.

Securities custodial risk and interest rate rise disclosures do not apply.

**NOTE C – RELATED PARTY TRANSACTIONS**

Member assessments of \$42,696 and \$45,978 were paid by Mountain Ranch Limited Partnership (Partnership), the developer of Paa-Ko Communities, during 2018 and 2017, respectively, for developed lots still owned by the Partnership.

Two of the officers of the Association's Board of Directors are employees or independent contractors of Roger Cox and Associates, Inc. or its affiliates. The Association paid Roger Cox and Associates, Inc. \$7,613 and \$7,088 during 2018 and 2017, respectively, for bookkeeping services. These amounts are included in professional fees on the accompanying statements of revenues, expenses and changes in net position. Roger Cox and Associates, Inc. provides administrative assistance to the Association at no charge.

Treated wastewater is disposed of on the Paa-Ko Golf Course, which is owned by Paa-Ko Golf Venture, LLC, a member of the Association. Paa-Ko Golf Venture, LLC has paid for the pumping equipment, transmission line, and storage ponds necessary to move the treated wastewater to the golf course. Operating expenses associated with transporting the treated wastewater to the golf course is the responsibility of Paa-Ko Golf Venture, LLC.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE C – RELATED PARTY TRANSACTIONS – CONTINUED**

Billing services are provided by Paa-Ko Homeowner’s Association who bills and collects member assessments and transfers them intact to the Association. Lot owners are required to be members of both the Homeowner’s Association and the Sewer Association.

The Partnership is obligated to pay all design, construction and related costs, but not annual operation and maintenance costs, required to provide wastewater collection and/or treatment service to portions of the Association’s service area not developed as of September 2004.

**NOTE D – PROPERTY AND EQUIPMENT**

The roll forward of capital assets for the year ending December 31, 2018, is as follows:

	Balance 2017	Additions	Deletions	Balance 2018
Depreciable				
Treatment plant	\$ 3,257,934	\$ -	\$ -	\$ 3,257,934
Wastewater collection system	2,642,632	-	-	2,642,632
Total	<u>5,900,566</u>	<u>-</u>	<u>-</u>	<u>5,900,566</u>
Accumulated depreciation				
Treatment plant	(1,576,114)	(85,650)	-	(1,661,764)
Collection system	(1,564,554)	(119,266)	-	(1,683,820)
Total	<u>(3,140,668)</u>	<u>(204,916)</u>	<u>-</u>	<u>(3,345,584)</u>
Net capital assets	<u>\$ 2,759,898</u>	<u>\$ (204,916)</u>	<u>\$ -</u>	<u>\$ 2,554,982</u>

Depreciation expense for the years ended December 31, 2018 and 2017, was \$204,916 and \$240,154, respectively.

Paa-Ko Communities Sewer Association

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE E – NOTES PAYABLE**

Notes payable activities are as follows for the year ended December 31, 2018:

	December 31, 2017	Additions	Payments	December 31, 2018	Amount Due Within One Year
Note payable #RIP 2004-11 with New Mexico Environment Department (NMED); 3% interest rate per annum; due in annual payments of \$33,895 through April 11, 2027. Uncollateralized loan balance includes construction period interest.	\$ 289,132	\$ -	\$ (25,220)	\$ 263,912	\$ 25,978
Note payable #RIP 2005-04 with New Mexico Environment Department (NMED); 3% interest rate per annum; due in annual payments of \$33,805 through July 23, 2027. Uncollateralized loan balance includes construction period interest.	288,365	-	(25,155)	263,210	25,909
Note payable #RIP 2006-01 with New Mexico Environment Department (NMED); 3% interest rate per annum; due in annual payments of \$34,499 through June 30, 2028. Uncollateralized loan balance includes construction period interest.	319,209	-	(24,923)	294,286	25,671
Total	<u>\$ 896,706</u>	<u>\$ -</u>	<u>\$ (75,298)</u>	<u>\$ 821,408</u>	<u>\$ 77,558</u>

As of December 31, 2018 and 2017, accrued interest on loan amounts is:

Loan Number	2018	2017
Loan #RIP 2004-11	\$ 5,748	\$ 6,021
Loan #RIP 2005-04	3,505	3,821
Loan #RIP 2006-01	4,475	5,149
Total accrued interest	<u>\$ 13,728</u>	<u>\$ 14,991</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE E – NOTES PAYABLE – CONTINUED**

The debt service requirements are as follows for all currently outstanding loans:

Years ending December 31,	Principal	Interest	Total
2019	\$ 77,558	\$ 24,642	\$ 102,200
2020	79,884	22,316	102,200
2021	82,281	19,919	102,200
2022	84,749	17,451	102,200
2023	87,292	14,909	102,201
2024 - 2028	409,644	33,652	443,296
	<u>\$ 821,408</u>	<u>\$ 132,889</u>	<u>\$ 954,297</u>

**NOTE F – COMMITMENTS AND CONTINGENCIES**

1. Agreements

The Association entered into an agreement with New Mexico American Water, now known as EPCOR Water (USA) Inc., to provide certain operations and maintenance services in connection with the management, operations and maintenance of the wastewater system beginning November 1, 2015. The agreement has a term of three years including two optional one-year extensions. The Association is required to pay a monthly service fee of \$13,219, adjusted annually based on the change in the annual Consumer Price Index (CPI). The first one year extension is currently being exercised.

2. Legal Proceedings

From time to time, the Association is involved in claims and legal actions arising from the ordinary course of business and member relations. In the opinion of management, the ultimate disposition of the various claims and legal actions will not have a material adverse effect on the Association's financial statements. The Association carries standard insurance for risk purposes.

3. Discharge Permit

The Association's discharge permit was renewed effective December 15, 2015 and is for five years. The State of New Mexico Environment Department has the authority to fine the Association for the expiration of the discharge permit.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and 2017

**NOTE G – RISK MANAGEMENT**

The Association 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 for which the Authority purchases commercial insurance.

During the year ended December 31, 2018, the Association did not reduce insurance coverages from coverage levels in place as of December 31, 2017. No settlements have exceeded coverage levels in place during 2018 or 2017.

**SUPPLEMENTARY INFORMATION**

Paa-Ko Communities Sewer Association

**SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL**

For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
<b>Revenues</b>				
Members' assessments	\$ 352,650	\$ 352,650	\$ 356,540	\$ 3,890
Sewer hookup fees	12,000	12,000	38,000	26,000
Sewer transfer fees	2,000	2,000	3,700	1,700
Late fees	-	-	2,523	2,523
Gross receipts tax	18,300	18,300	19,751	1,451
Interest income	1,000	1,000	2,774	1,774
<b>Total revenues</b>	<b>385,950</b>	<b>385,950</b>	<b>423,288</b>	<b>37,338</b>
<b>Expenses</b>				
Operations and maintenance contract	132,000	132,000	131,839	161
Septic tank pumping	39,200	39,200	32,683	6,517
Electric and gas plant	28,000	28,000	29,581	(1,581)
Accounting and audit fees	17,000	17,000	17,062	238
Repairs (noncapital)	25,000	25,000	31,994	(6,994)
Engineering services - monthly monitoring	9,000	9,000	11,540	(2,540)
Insurance	8,000	8,000	7,530	470
Telephone	3,100	3,100	3,613	(513)
Tank pumping - plant and lift stations	2,700	2,700	-	2,700
Professional fees	2,500	2,500	1,681	819
Testing and analysis	1,800	1,800	3,860	(2,060)
Bad debt	1,000	1,000	-	1,000
Water	1,000	1,000	336	664
Postage and delivery	1,000	1,000	351	649
Filtration Plant (Phases I - Building & Site)	2,500	2,500	-	2,500
License, permits and fees	700	700	346	354
Annual debt service - RIP-2004-11	33,895	33,895	33,895	-
Annual debt service - RIP 2005-04	33,805	33,805	33,805	-
Annual debt service - RIP 2006-01	34,499	34,499	34,499	-
Office supplies and miscellaneous	2,500	2,500	540	1,960
Gross receipts tax	18,300	18,300	19,681	(1,381)
<b>Total expenses</b>	<b>397,499</b>	<b>397,499</b>	<b>394,536</b>	<b>2,963</b>
<b>Revenues over expenses</b>	<b>\$ (11,549)</b>	<b>\$ (11,549)</b>	<b>\$ 28,752</b>	<b>\$ 40,301</b>
<b>Revenues, budgetary basis</b>			<b>\$ 423,288</b>	
Change in accounts receivable			752	
Gross receipts tax			(19,751)	
Interest income on savings			(193)	
<b>Total operating and nonoperating revenues, GAAP basis</b>			<b>\$ 404,096</b>	
<b>Expenses, budgetary basis</b>			<b>\$ 394,536</b>	
Change in accounts payable			(6,155)	
Change in accrued interest			(1,263)	
Change in prepaids			(132)	
Debt service principal			(75,298)	
Depreciation not budgeted			204,916	
Gross receipts tax			(19,681)	
<b>Total operating and nonoperating expenses, GAAP basis</b>			<b>\$ 496,923</b>	



Paa-Ko Communities Sewer Association

**SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL**

December 31, 2018

Account	<u>Bank Balance</u>	<u>Book Balance</u>
Compass Bank		
General checking account	\$ 142,004	\$ 85,389
Association savings account	<u>24,518</u>	<u>24,518</u>
Total Compass Bank	166,522	109,907
Main Bank		
Certificate of deposit	248,191	248,191
Certificate of deposit - CDARS	<u>90,635</u>	<u>90,635</u>
Total Main Bank	338,826	338,826
NM Bank & Trust		
Certificate of deposit	<u>77,397</u>	<u>77,397</u>
Total	<u>\$ 582,745</u>	<u>\$ 526,130</u>
FDIC coverage	<u>\$ 582,745</u>	
Total uninsured public funds	<u>\$ -</u>	
Collateral requirements - 50% (Section 6-10-17)	<u>\$ -</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**

Honorable Brian Colón, State Auditor  
New Mexico Office of the State Auditor and  
Board of Directors  
Paa-Ko Communities Sewer Association

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 Paa-Ko Communities Sewer Association (Association) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and the related budgetary comparison of the Association presented as supplementary information, and have issued our report thereon dated May 28, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

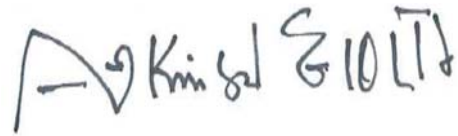
As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-001.

## Management's Responses to the Finding

The response from management to the finding identified in our audit is described in the accompanying schedule of findings and responses. This response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish at the end.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
May 28, 2019



**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

For the Year Ended December 31, 2018

**COMPLIANCE AND OTHER MATTERS FINDINGS**

2018-001 (2015-001) Chief Procurement Officer Reporting and Certification (Material Noncompliance) Repeated and Modified

**CONDITION**

The Association's Board of Directors has operated as its central purchasing office. During the year the Association operated without a Chief Procurement Officer (CPO) for most of the Association's fiscal year. The Association identified its CPO and this individual completed training and recognition as the CPO as of November 5, 2018. The finding is cleared for FY 2019.

**CRITERIA**

In accordance with Section 13-1-95.2(A) NMSA 1978, local public bodies are required to designate and report the name of their chief procurement officer. In accordance with Section 13-1-95.2(E) NMSA 1978, only chief procurement officers certified by the New Mexico State General Services Department Purchasing Division may approve procurements and issue purchase orders.

**EFFECT**

The Association may experience increased risk of not complying with the State Procurement Code and thus there is an increased potential for disputes with those bidding on contracts for most of the fiscal year.

**CAUSE**

Management of the Association worked with the Board to complete training so that one of the Board Members could be certified. However, the Board Member was not able to complete all of the training required to be certified until November 2018 leaving most of the fiscal year without a CPO.

**RECOMMENDATION**

As the Association has completed the requirements by obtaining a chief procurement officer certificate, we recommend the Association plan to recertify in two years as required.

**MANAGEMENT RESPONSE**

It is difficult to find volunteer Board Members who can dedicate 3 days to training. We have no paid employees. We did however have a Board Member take the training course in 2018 and became certified on November 5, 2018.

Paa-Ko Communities Sewer Association

**EXIT CONFERENCE**

For the Year Ended December 31, 2018,

An exit conference was held with the Paa-Ko Communities Sewer Association on May 23, 2019. The conference was held at Roger Cox and Associates. In attendance were:

**Paa-Ko Communities Sewer Association**

Luis Armijo, Secretary, Board Member  
W. Bruce Franks, Treasurer, Board Member

**Atkinson & Co., Ltd.**

Martin Mathisen, CPA, CGFM, Shareholder  
David Thomas, CPA, Senior Manager

**PREPARATION OF FINANCIAL STATEMENTS**

The financial statements presented in this report have been prepared by the independent auditor and were reviewed and approved by the Paa-Ko Communities Sewer Association. However, the financial statements remain the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.

ATKINSON & CO. LTD  
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