

PAA-KO COMMUNITIES SEWER ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2012

PAA-KO COMMUNITIES SEWER ASSOCIATION

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PAA-KO COMMUNITIES SEWER ASSOCIATION

Official Roster

Board of Directors

<u>Name</u>	<u>Title</u>
Ken Lundy, Sr.	President
Patrick Hall	Vice President
W. Bruce Franks	Treasurer
Josh Hyatt	Secretary
Nick Thompson	Member

Independent Auditor's Report

Mr. Hector H. Balderas
New Mexico State Auditor and
Board of Directors
Paa-Ko Communities Sewer Association
Sandia Park, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Paa-Ko Communities Sewer Association (Association) as of and for the years ended December 31, 2012 and 2011, 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 for the year ended December 31, 2012 presented as supplementary information as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 the Paa-Ko Communities Sewer Association, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended and budgetary comparison for the year ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the 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 was derived from and relate 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 14, 2013, 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.

Ricci, Porch & Company, LLC

Albuquerque, New Mexico
May 14, 2013

**PAA-KO COMMUNITIES SEWER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

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, 2012 and the results of its operations for the year then ended. Data as of December 31, 2011 has been provided for comparative purposes.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, was adopted by the Association as of January 1, 2006.

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 pursuant to GASB 34 reporting model for the fiscal years ending December 31, 2012 and 2011.

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, 2012 and 2011 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, 2012 and 2011:

	2012	2011
Current assets	\$ 477,402	456,715
Noncurrent assets	<u>3,917,041</u>	<u>4,161,361</u>
Total assets	<u>4,394,443</u>	<u>4,618,076</u>
Current liabilities	89,365	85,100
Noncurrent liabilities	<u>1,182,670</u>	<u>1,247,623</u>
Total liabilities	<u>1,272,035</u>	<u>1,332,723</u>
Net investment in capital assets	2,675,490	2,856,749
Unrestricted	<u>446,918</u>	<u>428,604</u>
Total net position	<u>\$ 3,122,408</u>	<u>3,285,353</u>

**PAA-KO COMMUNITIES SEWER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

The Association's revenues and expenses can be summarized as follows for the years ended December 31, 2012 and 2011:

	2012	2011
Operating revenues	\$ 346,562	333,534
Interest income	<u>2,090</u>	<u>3,129</u>
Total revenues	348,652	336,663
Operating expenses	473,517	431,211
Nonoperating expenses	<u>38,080</u>	<u>39,947</u>
Change in net position	<u>\$ (162,945)</u>	<u>(134,495)</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Current assets increased by \$20,687 from the prior year mainly due to increased operating revenues and in increase in accounts receivable for 2012. Current liabilities also were up slightly by about \$4,265 due mainly to a late billing being received for three months of plant monitoring fees.

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 2012 were \$13,028 more than in 2011 mainly as a result of Hook-up fee revenue being up by \$10,500.

Expenses for 2012 are up from those for 2011. Septic tank pumping as well as repairs and maintenance expense in 2012 was more than in 2011. On our three-year septic tank pumping cycle, 2012 was a year when many more tanks were pumped than in 2011. Repairs and maintenance expense was up in 2012 mainly due to various lift station malfunction alarms triggered by irregular electric power either weather related or supplier related. Although higher in 2012, our repairs and maintenance expense was less than budgeted by \$3,196.

**PAA-KO COMMUNITIES SEWER ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

BUDGETARY ANALYSIS

The budgetary basis is cash basis.

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues	\$ 338,296	338,296	348,652	10,356
Expenses	<u>360,200</u>	<u>360,200</u>	<u>330,338</u>	<u>29,862</u>
Excess of revenues over expenses	<u>\$ (21,904)</u>	<u>(21,904)</u>	<u>18,314</u>	<u>40,218</u>

There was no significant difference between the final budget revenues and actual budget results except that sewer hookup fees were more than budgeted by \$8,900.

The differences in final budget expenses and actual budget results were related to decreases in several expense areas (electric, insurance, septic tank pumping, lift station pumping, professional fees and repairs). We were also under budget as we did not expend funds for driveway gravel.

CAPITAL ASSET ACTIVITY

There were no capital assets purchased during 2012. Current depreciation in the amount of \$244,320 was recorded.

DEBT ACTIVITY

There were principal payments totaling \$63,061 made as scheduled in 2012.

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 the Authority'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

BASIC FINANCIAL STATEMENTS

**PAA-KO COMMUNITIES SEWER ASSOCIATION
STATEMENTS OF NET POSITION - PROPRIETARY FUND
December 31, 2012 and 2011**

ASSETS

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 286,337	272,981
Certificates of deposit	165,846	165,564
Accounts receivable	21,823	15,236
Prepaid insurance	3,396	2,934
Total current assets	<u>477,402</u>	<u>456,715</u>
Property and Equipment		
Wastewater treatment plant	3,199,163	3,199,163
Wastewater collection system	2,642,632	2,642,632
Total, at cost	<u>5,841,795</u>	<u>5,841,795</u>
Accumulated depreciation	(1,924,754)	(1,680,434)
Net property and equipment	<u>3,917,041</u>	<u>4,161,361</u>
Total assets	<u>4,394,443</u>	<u>4,618,076</u>

LIABILITIES

Current Liabilities		
Accounts payable	3,636	205
Current maturities of long-term debt	64,953	63,061
Accrued interest payable	20,776	21,834
Total current liabilities	<u>89,365</u>	<u>85,100</u>
Noncurrent Liabilities		
Notes payable	1,176,598	1,241,551
Estimated closure costs payable	6,072	6,072
Total noncurrent liabilities	<u>1,182,670</u>	<u>1,247,623</u>
Total liabilities	<u>1,272,035</u>	<u>1,332,723</u>

NET POSITION

Members' Net Position		
Net investment in capital assets	2,675,490	2,856,749
Unrestricted	446,918	428,604
Total members' net position	<u>\$ 3,122,408</u>	<u>3,285,353</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, 2012 and 2011**

	2012	2011
Operating Revenues		
Members' assessments	\$ 325,462	323,627
Sewer hookup fees	18,500	8,000
Sewer transfer fees	2,600	1,907
	<hr/>	<hr/>
Total revenues	346,562	333,534
	<hr/>	<hr/>
Operating Expenses		
Depreciation and amortization	244,320	244,453
Maintenance fees	131,912	127,842
Septic pumping	34,172	6,343
Utilities and telephone	26,255	23,487
Professional fees	16,582	16,043
Repairs and maintenance	13,604	5,880
Insurance	5,993	5,921
Licenses and permits	334	642
Office supplies	308	600
Postage	37	-
	<hr/>	<hr/>
Total operating expenses	473,517	431,211
	<hr/>	<hr/>
Operating deficit	(126,955)	(97,677)
	<hr/>	<hr/>
Nonoperating Revenues and (Expenses)		
Interest income	2,090	3,129
Interest expense	(38,080)	(39,947)
	<hr/>	<hr/>
Total nonoperating expenses	(35,990)	(36,818)
	<hr/>	<hr/>
Change in net position	(162,945)	(134,495)
	<hr/>	<hr/>
Members' net position, beginning of year	3,285,353	3,419,848
	<hr/>	<hr/>
Members' net position, end of year	\$ 3,122,408	3,285,353
	<hr/> <hr/>	<hr/> <hr/>

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

**PAA-KO COMMUNITIES SEWER ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011**

	2012	2011
Cash Flows From Operating Activities		
Cash received from members	\$ 339,975	334,594
Cash paid to suppliers	(226,228)	(187,118)
Interest paid	(39,138)	(40,974)
	<hr/>	<hr/>
Net cash provided by operating activities	74,609	106,502
	<hr/>	<hr/>
Cash Flows From Investing Activities		
Interest received	1,808	2,565
	<hr/>	<hr/>
Net cash provided by investing activities	1,808	2,565
	<hr/>	<hr/>
Cash Flows From Capital Financing Activities		
Principal payments on notes payable	(63,061)	(61,225)
	<hr/>	<hr/>
Net cash used by financing activities	(63,061)	(61,225)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	13,356	47,842
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	272,981	225,139
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 286,337	272,981
	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of Operating Income (Deficit) to Net Cash Provided by Operating Activities		
Operating deficit	\$ (126,955)	(97,677)
Adjustments to reconcile changes in net position to net cash provided by operating activities		
Depreciation and amortization	244,320	244,453
Interest paid	(39,138)	(40,974)
Changes in assets and liabilities		
Other assets	(462)	(34)
Receivables	(6,587)	1,060
Accounts and estimated closure costs payable	3,431	(326)
Total adjustments	201,564	204,179
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 74,609	106,502
	<hr/> <hr/>	<hr/> <hr/>

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

**PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

There are no component units of the Association as defined in governmental accounting principles.

Basic Financial Statements - GASB Statement No. 34. The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (US 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.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis-For State and Local Governments*. This Statement provides for the most significant change in financial reporting in over twenty years.

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:

**PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As of January 1, 2006, the Association implemented the provisions of GASB No. 34, *Basic Financial Statements-Management's Discussion and Analysis-For State and Local Governments*. There was no financial impact to the Association from adopting GASB No. 34.

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 Rules

Basis of Accounting and Measurement Focus - Enterprise Fund. The accompanying financial statements have been prepared on the accrual basis of accounting. The economic resource measurement focus is used for all assets (both financial and capital), liabilities, revenues, expenses, gains and losses. Revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of the related cash flows. The Association has elected not to apply FASB pronouncements issued after November 30, 1989. The proprietary fund consists of one enterprise fund and as such does not employ any internal service funds.

The fund distinguishes operating revenues and expenditures in the enterprise fund from nonoperating items. Operating revenues and expenditures generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the fund are members' assessments, hookup fees, and sewer transfer fees. Operating expenditures include administrative expenditures required to manage and operate the fund. All revenues and expenditures not meeting this definition are reported as non-operating revenues and expenditures.

**PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$100 lien release fee is charged as applicable. Late fees collected in 2012 were insignificant.

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, which range from ten to twenty-five years. 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:

Asset Class	Useful Life
Wastewater treatment plant	7 - 24
Wastewater collection system	10 - 25

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

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, 2012 and 2011.

The Association has significant capital assets, net of related debt as reported on the statement of net position - proprietary fund for 2012 and 2011. They consist principally of sewer facilities and the corresponding debt thereon. Capital assets are defined as those that are tangible or intangible assets that are used in operations and have a useful life extending beyond one reporting period.

PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues. The Association has classified its revenues for the enterprise 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 hook-up 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 by GASB Statement No. 9, *Reporting Cash Flows Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

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.

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 2012 and 2011. The Association treats aggregate cash receipts disbursements as one fund. The level of budgetary control is at the fund level.

Reclassifications. Certain reclassifications of information have been made to the prior year financial statements so as to conform to the presentation for the current year.

Subsequent Events. Subsequent events were evaluated through May 14, 2013, which is the date the financial statements were available to be issued.

NOTE 2. 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, 2012, the bank balances were not exposed to custodial credit risk.

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.

PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3. RELATED PARTY TRANSACTIONS

Member assessments of \$47,250 and \$51,188 were paid by Mountain Ranch Limited Partnership (Partnership) during 2012 and 2011, respectively, for developed lots still owned by the Partnership.

The majority of the officers of the Association's Board of Directors are employees of Roger Cox and Associates, Inc. or its affiliates. The Association paid Roger Cox and Associates, Inc. \$7,038 and \$7,062 during 2012 and 2011, 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.

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 4. PROPERTY AND EQUIPMENT

The roll forward of capital assets for the year ending December 31, 2012 is as follows:

	Balance 2011	Additions	Deletions	Balance 2012
Depreciable				
Treatment plant	\$ 3,199,163	-	-	3,199,163
Wastewater collection system	2,642,632	-	-	2,642,632
Total	<u>5,841,795</u>	-	-	<u>5,841,795</u>
Accumulated depreciation				
Treatment plant	(637,355)	(156,851)	-	(794,206)
Collection system	(1,043,079)	(87,469)	-	(1,130,548)
Total	<u>(1,680,434)</u>	<u>(244,320)</u>	-	<u>(1,924,754)</u>
Net capital assets	<u>\$ 4,161,361</u>	<u>(244,320)</u>	-	<u>3,917,041</u>

Depreciation expense for years ended December 31, 2012 and 2011 was \$244,320 and \$244,453, respectively.

**PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 5. DEBT

The Association has the following debt in connection with construction of new facilities:

Debt Description	December 31, 2011	Payments	December 31, 2012	Amount Due Within One Year
Loan #RIP 2004-11 with New Mexico Environment Department (NMED); 3% interest rate per annum; payment begins after final warrant for a period of 20 years at \$33,895/year; option to pay all interest upon completion of construction, uncollateralized	\$ 425,761	(21,122)	404,639	21,756
Loan #RIP 2005-04 with New Mexico Environment Department (NMED); 3% interest rate per annum; payment begins after final warrant for a period of 20 years at \$33,805/year; option to pay all interest upon completion of construction, uncollateralized	424,629	(21,066)	403,563	21,698
Loan #RIP 2006-01 with New Mexico Environment Department (NMED); 3% interest rate per annum; payment begins after final warrant for a period of 20 years at \$34,499/year; option to pay all interest upon completion of construction, uncollateralized	454,222	(20,873)	433,349	21,499
Total	<u>\$ 1,304,612</u>	<u>(63,061)</u>	<u>1,241,551</u>	<u>64,953</u>

As stated in the loan agreements with New Mexico Environment Department, the Association has the option to include accrued interest in the loan amounts and amortized over 20 years for any interim draw downs made prior to construction being completed. As of December 31, 2012 and 2011, accrued interest on loan amounts is:

Loan Number	2012	2011
Loan #RIP 2004-11	\$ 7,823	8,233
Loan #RIP 2005-04	5,669	5,965
Loan #RIP 2006-01	7,284	7,636
Total accrued interest	<u>\$ 20,776</u>	<u>21,834</u>

**PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 5. DEBT (CONTINUED)

As of December 31, 2012, the Association has drawn down the entire amount of available loan funds. The debt service requirements would be as follows for all currently outstanding loans:

Years ending December 31,	Principal	Interest	Total
2013	\$ 64,953	37,247	102,200
2014	66,902	35,298	102,200
2015	68,909	33,291	102,200
2016	70,975	31,225	102,200
2017	73,106	29,094	102,200
2018-2022	399,770	111,230	511,000
2023-2027	463,442	47,558	511,000
2027-2028	33,494	1,006	34,500
	<u>\$ 1,241,551</u>	<u>325,949</u>	<u>1,567,500</u>

NOTE 6. WETLANDS AND POST CLOSURE COSTS

The wetlands sewage treatment system was replaced by a sewage treatment plant near the end of 2007. Per federal and state regulations, if facilities are closed or discharge of wastewater ceases, Paa-Ko shall take steps as defined by New Mexico Environment Department to remediate wetland cells. These steps include the following:

- Remove all lines leading to the wetlands cells so that a discharge can no longer occur;
- Drain and/or evaporate all liquids and dispose of any plant material in accordance with all regulations;
- Dispose of any sludge in accordance with all regulations;
- Perforate or remove wetland liners and fill the cells with dirt to match the surrounding topography in such a way for proper drainage preventing any ponding; and
- Notify NMED within 30 days of the closure.

Paa-Ko is liable for closure and post closure costs. The remaining post closure costs, based on engineering estimates, are expected to be minimal and are currently estimated to be \$6,072. No additional accrued expenses have been recorded since 2008 as management believes the original estimate is sufficient.

**PAA-KO COMMUNITIES SEWER ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 7. COMMITMENTS

Agreements

The Association entered into an agreement with New Mexico American Water, now known as EPCOR Water, to provide certain operations and maintenance services in connection with the management, operations and maintenance of the wastewater system beginning November 1, 2010 and ending October 31, 2013. The Association is required to pay a monthly service fee of \$11,208, adjusted annually based on the change in the annual Consumer Price Index (CPI).

The Association has also entered into an agreement with Martin/Martin, Inc. to provide engineering services in connection with the operation of the wastewater system beginning December 7, 2012. The Association is required to pay a monthly service fee based on \$800 for onsite visits and \$480 for offsite operations monitoring, which is anticipated to be \$7,680 per annum. The agreement has a term of three years.

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.

Discharge Permit

The Association's discharge permit was renewed in 2007. The State of New Mexico Environment Department has the authority to fine the Association for the expiration of the discharge permit.

SUPPLEMENTARY INFORMATION

**PAA-KO COMMUNITIES SEWER ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
For the Year Ended December 31, 2012**

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues				
Members' assessments	\$ 324,240	324,240	325,462	1,222
Sewer hookup fees	9,600	9,600	18,500	8,900
Sewer transfer fees	2,000	2,000	2,600	600
Interest income	2,456	2,456	2,090	(366)
Total revenues	338,296	338,296	348,652	10,356
Budgeted cash balance	21,904	21,904	-	(21,904)
Total revenues and budgeted cash balance	\$ 360,200	360,200	348,652	(11,548)
Expenses				
Operations and maintenance contract	121,300	121,300	121,129	171
Debt service principal and interest	102,200	102,200	101,141	1,059
Septic tank pumping	46,000	46,000	33,166	12,834
Electric and gas plant	24,000	24,000	23,254	746
Accounting and audit fees	17,000	17,000	16,157	843
Repairs (non-capital)	16,800	16,800	13,604	3,196
Engineering services: monthly monitoring	9,000	9,000	8,924	76
Insurance	7,000	7,000	5,993	1,007
Telephone	3,000	3,000	2,848	152
Tank pumping - plant and lift stations	2,800	2,800	1,006	1,794
Professional fees	2,500	2,500	425	2,075
Driveway gravel	2,500	2,500	-	2,500
Testing and analysis	1,600	1,600	1,562	38
Bad debt	1,100	1,100	-	1,100
Water	1,000	1,000	153	847
Postage and delivery	1,000	1,000	37	963
Office supplies and miscellaneous	1,000	1,000	308	692
License, permits and fees	400	400	334	66
Administration fees	-	-	297	(297)
Total expenses	360,200	360,200	330,338	29,862
	\$ -	-	18,314	18,314
Revenues, budgetary basis			\$ 348,652	
Interest income			(2,090)	
Transfer from savings			-	
Total revenues, GAAP basis			\$ 346,562	
Expenses, budgetary basis			\$ 330,338	
Debt service principal and interest			(101,141)	
Depreciation			244,320	
Total expenses, GAAP basis			\$ 473,517	

OTHER SUPPLEMENTARY INFORMATION

**PAA-KO COMMUNITIES SEWER ASSOCIATION
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL
December 31, 2012**

Account	Bank Balance	Book Balance
Compass Bank		
General checking account	\$ 3,114	\$ 956
Association savings account	66,150	66,150
Total Compass Bank	69,264	67,106
First Community Bank		
Certificate of deposit	90,000	90,000
NM Bank & Trust		
Certificate of deposit	75,846	75,846
Main Bank		
Money market account	219,231	219,231
Total	454,341	<u>\$ 452,183</u>
FDIC coverage	<u>454,341</u>	
Total uninsured public funds	<u>\$ -</u>	
Collateral requirements - 50% (Section 6-10-17)	\$ -	
Amounts of pledged collateral -	Maturity	
pledged inventory Compass Bank	Date	CUSIP
	1/25/2034	31393VGC3
	Description	
	FNMA	<u>106,039</u>
Total over uncollateralized		<u>\$ 106,039</u>

OTHER REPORT

Ricci, Porch & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS
6200 UPTOWN BLVD. NE - SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Mr. Hector H. Balderas
New Mexico State Auditor and
Board of Directors
Paa-Ko Communities Sewer Association
Sandia Park, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Paa-Ko Communities Sewer Association (Paa-Ko or the Association), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated May 14, 2013.

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 opinions 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. 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.

Mr. Hector H. Balderas
New Mexico State Auditor and
Board of Directors
Paa-Ko Communities Sewer Association

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Ricci, Porch & Company, LLC

Albuquerque, New Mexico
May 14, 2013

STATE COMPLIANCE SECTION

**PAA-KO COMMUNITIES SEWER ASSOCIATION
SUMMARY FINDINGS AND RESPONSES
For the Years Ended December 31, 2012 and 2011**

PRIOR YEAR – FINANCIAL STATEMENT FINDING

None

CURRENT YEAR – FINANCIAL STATEMENT FINDING

None

**PAA-KO COMMUNITIES SEWER ASSOCIATION
EXIT CONFERENCE
For the Year Ended December 31, 2012**

An exit conference was held on May 14, 2013 to discuss the annual financial report. Attending were the following:

Representing the PAA-Ko Community Sewer Association:

Ken Lundy
W. Bruce Franks

President
Treasurer

Representing the Independent Auditor:

Herman Chavez, CPA

Note: Management is responsible for the context of the report, even though the financial statements were prepared substantially by the independent auditor.