

**PAA-KO COMMUNITIES SEWER  
ASSOCIATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 and 2015**

# PAA-KO COMMUNITIES SEWER ASSOCIATION

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**PAA-KO COMMUNITIES SEWER ASSOCIATION**

*Official Roster*

**Board of Directors**

<b><u>Name</u></b>	<b><u>Title</u></b>
Derek Wartman	President
Thomas P. Dittman	Vice President
Nick Thompson	Secretary
W. Bruce Franks	Treasurer
Patrick Hall	Member



## Independent Auditor's Report

6200 Uptown Blvd NE

Suite 400

Albuquerque, NM 87110

505.338.0800

Mr. Tim Keller  
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, 2016 and 2015, 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, 2016, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

## **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, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended and the respective budgetary comparison for the year ended December 31, 2016 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 5-7 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 relates 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.

The Schedule of Vendor Information as required by 2.2.2.10(A)(2)(g) NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2017, 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 & Company, LLC*

Albuquerque, New Mexico  
May 22, 2017

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**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, 2016 and the results of its operations for the year then ended. Data as of December 31, 2015 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, 2016 and 2015.

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, 2016 and 2015 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, 2016 and 2015:

	2016	2015
Current assets	\$ 485,671	477,268
Capital assets, net	<u>3,000,052</u>	<u>3,236,207</u>
Total assets	<u>3,485,723</u>	<u>3,713,475</u>
Current liabilities	93,109	97,470
Noncurrent liabilities	<u>896,706</u>	<u>975,883</u>
Total liabilities	<u>989,815</u>	<u>1,073,353</u>
Net investment in capital assets	2,030,241	2,195,420
Unrestricted	<u>465,667</u>	<u>444,702</u>
Total net position	<u>\$ 2,495,908</u>	<u>2,640,122</u>

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

The Association's revenues and expenses can be summarized as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Operating revenues	\$ 393,621	368,497
Interest income	<u>866</u>	<u>934</u>
Total revenues	394,487	369,431
Operating expenses	508,668	489,053
Nonoperating expenses	<u>30,033</u>	<u>32,133</u>
Change in net position	(144,214)	(151,755)
Net position, beginning	<u>2,640,122</u>	<u>2,791,877</u>
Net position, ending	<u>\$ 2,495,908</u>	<u>2,640,122</u>

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

Current assets increased by \$8,403 from the prior year mainly due to the improvement in net operating income before depreciation expense. Current liabilities were down slightly by about \$4,362 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 2016 were \$25,124 more than in 2015 due to the collection of some old receivables and late fees.

Operating expenses for 2016 are up from those for 2015 by \$19,615. Septic tank pumping as well as repairs and maintenance expense in 2016 were more than in 2015. On our three-year septic tank pumping cycle, 2016 was a year when more tanks were pumped than in 2015. Repairs and maintenance expense was up in 2016 mainly due to various repairs.



**PAA-KO COMMUNITIES SEWER ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**BUDGETARY ANALYSIS**

The budgetary basis is cash basis.

	Original Budget	Final Budget	Budgetary Basis Actual	Positive (Negative) Variance
Revenues	\$ 371,400	371,400	391,814	20,414
Expenses	441,200	441,200	385,998	55,202
Revenues over (under) expenses	<u>\$ (69,800)</u>	<u>(69,800)</u>	<u>5,816</u>	<u>75,616</u>

There was no significant difference between the final budget revenues and actual budget results.

The differences in final budget expenses and actual budget results were related mainly to capital outlay items which were less than budgeted. This was due primarily to certain expenditures related to the UV treatment equipment that were not expended in 2016. The Association budgeted \$69,800 to come from reserves for 2016. Because of the lower than expected capital expenditures and residential septic tank pump coming in below the amount budgeted to be expended, none of the reserves was actually used.

**CAPITAL ASSET ACTIVITY**

A UV disinfection system costing \$58,771 was placed in service in 2016. Current depreciation in the amount of \$244,154 was recorded.

**DEBT ACTIVITY**

There were principal payments totaling \$70,976 made as scheduled in 2016.

**FACTORS BEARING ON THE ASSOCIATION'S FUTURE**

Budgeted revenues and expenditures for 2017 are \$385,200 and \$365,899, respectively.

**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, 2016 and 2015**

**ASSETS**

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 285,121	279,497
Certificates of deposit	166,934	166,742
Accounts receivable	30,082	27,409
Prepaid insurance	3,534	3,620
<b>Total current assets</b>	<u>485,671</u>	<u>477,268</u>
Property and Equipment		
Construction in progress	-	50,772
Wastewater treatment plant	3,257,934	3,199,163
Wastewater collection system	2,642,632	2,642,632
Total, at cost	<u>5,900,566</u>	<u>5,892,567</u>
Accumulated depreciation	(2,900,514)	(2,656,360)
<b>Net property and equipment</b>	<u>3,000,052</u>	<u>3,236,207</u>
<b>Total assets</b>	<u>3,485,723</u>	<u>3,713,475</u>

**LIABILITIES**

Current Liabilities		
Accounts payable	3,787	9,086
Current maturities of long-term debt	73,105	70,976
Accrued interest payable	16,217	17,408
<b>Total current liabilities</b>	<u>93,109</u>	<u>97,470</u>
Noncurrent Liabilities		
Notes payable	896,706	969,811
Estimated closure costs payable	-	6,072
<b>Total noncurrent liabilities</b>	<u>896,706</u>	<u>975,883</u>
<b>Total liabilities</b>	<u>989,815</u>	<u>1,073,353</u>

**NET POSITION**

Members' Net Position		
Net investment in capital assets	2,030,241	2,195,420
Unrestricted	465,667	444,702
<b>Total members' net position</b>	<u>\$ 2,495,908</u>	<u>2,640,122</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, 2016 and 2015**

	2016	2015
Operating Revenues		
Members' assessments	\$ 373,928	346,897
Sewer hookup fees	18,000	19,000
Sewer transfer fees	1,693	2,600
	<hr/>	<hr/>
<b>Total operating revenues</b>	<b>393,621</b>	<b>368,497</b>
	<hr/>	<hr/>
Operating Expenses		
Depreciation	244,154	242,966
Maintenance fees	136,114	135,413
Utilities and telephone	27,597	30,430
Professional fees	17,534	18,821
Septic pumping	38,817	33,852
Repairs and maintenance	35,505	14,507
Insurance	7,216	7,258
Office supplies	1,185	872
Licenses and permits	546	4,934
	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>508,668</b>	<b>489,053</b>
	<hr/>	<hr/>
<b>Operating loss</b>	<b>(115,047)</b>	<b>(120,556)</b>
	<hr/>	<hr/>
Nonoperating Revenues and (Expenses)		
Interest income	866	934
Interest expense	(30,033)	(32,133)
	<hr/>	<hr/>
<b>Total nonoperating expenses</b>	<b>(29,167)</b>	<b>(31,199)</b>
	<hr/>	<hr/>
<b>Change in net position</b>	<b>(144,214)</b>	<b>(151,755)</b>
	<hr/>	<hr/>
Members' net position, beginning of year	2,640,122	2,791,877
	<hr/>	<hr/>
<b>Members' net position, end of year</b>	<b>\$ 2,495,908</b>	<b>2,640,122</b>
	<hr/> <hr/>	<hr/> <hr/>

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

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND  
For the Years Ended December 31, 2016 and 2015**

	2016	2015
Cash Flows From Operating Activities		
Cash received from members	\$ 390,948	368,269
Interest received	866	934
Cash paid to suppliers	(275,799)	(244,359)
<b>Net cash provided by operating activities</b>	<b>116,015</b>	<b>124,844</b>
Cash Flows From Investing Activities		
Interest reinvested	(192)	(211)
<b>Net cash used by investing activities</b>	<b>(192)</b>	<b>(211)</b>
Cash Flows From Capital Financing Activities		
Purchase of plant and equipment	(7,999)	(29,607)
Interest payments on notes payable	(31,224)	(33,289)
Principal payments on notes payable	(70,976)	(68,909)
<b>Net cash used by capital financing activities</b>	<b>(110,199)</b>	<b>(131,805)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,624</b>	<b>(7,172)</b>
Cash and cash equivalents, beginning of year	279,497	286,669
<b>Cash and cash equivalents, end of year</b>	<b>\$ 285,121</b>	<b>279,497</b>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (115,047)	(120,556)
Adjustments to reconcile changes in net position to net cash provided by operating activities		
Depreciation	244,154	242,966
Interest received	866	934
Changes in assets and liabilities:		
Receivables	(2,673)	(228)
Prepaid insurance	86	(104)
Estimated closure costs payable	(6,072)	-
Accounts payable	(5,299)	1,832
Total adjustments	231,062	245,400
<b>Net cash provided by operating activities</b>	<b>\$ 116,015</b>	<b>124,844</b>

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

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**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.

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.

*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 (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.

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 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.

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.

*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 \$125 lien release fee is charged as applicable.

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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:

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, 2016 and 2015.

The Association has significant capital assets, net of related debt as reported on the statement of net position - proprietary fund for 2016 and 2015. 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.

*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.

*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.



**PAA-KO COMMUNITIES SEWER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 2016 and 2015. The level of budgetary control is at the fund level.

*Subsequent Events.* Subsequent events were evaluated through May 22, 2017, 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, 2016, 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.

**NOTE 3. RELATED PARTY TRANSACTIONS**

Member assessments of \$46,176 and \$44,575 were paid by Mountain Ranch Limited Partnership (Partnership) during 2016 and 2015, respectively, for developed lots still owned by the Partnership.

Two 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. \$7,079 and \$7,062 during 2016 and 2015, 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. provide 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.

**PAA-KO COMMUNITIES SEWER ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 3. RELATED PARTY TRANSACTIONS (CONTINUED)**

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, 2016 is as follows:

	Balance 2015	Additions	Deletions	Balance 2016
Non-depreciable				
Construction in progress	\$ 50,772	-	(50,772)	-
Depreciable				
Treatment plant	3,199,163	58,771	-	3,257,934
Wastewater collection system	2,642,632	-	-	2,642,632
Total	<u>5,892,567</u>	<u>58,771</u>	<u>(50,772)</u>	<u>5,900,566</u>
Accumulated depreciation				
Treatment plant	(1,263,106)	(158,504)	-	(1,421,610)
Collection system	(1,393,254)	(85,650)	-	(1,478,904)
Total	<u>(2,656,360)</u>	<u>(244,154)</u>	<u>-</u>	<u>(2,900,514)</u>
<b>Net capital assets</b>	<u>\$ 3,236,207</u>	<u>(185,383)</u>	<u>(50,772)</u>	<u>3,000,052</u>

Depreciation expense for years ended December 31, 2016 and 2015 was \$244,154 and \$242,966, respectively.

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5. DEBT**

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

Debt Description	December 31, 2015	Payments	December 31, 2016	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	\$ 337,393	(23,774)	313,620	24,487
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	336,496	(23,710)	312,786	24,421
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	<u>366,898</u>	<u>(23,492)</u>	<u>343,406</u>	<u>24,197</u>
<b>Total</b>	<b>\$ <u>1,040,787</u></b>	<b><u>(70,976)</u></b>	<b><u>969,811</u></b>	<b><u>73,105</u></b>

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 amortize over 20 years for any interim drawdowns made prior to construction being completed. As of December 31, 2016 and 2015, accrued interest on loan amounts is:

Loan Number	2016	2015
Loan #RIP 2004-11	\$ 6,831	7,351
Loan #RIP 2005-04	4,165	4,483
Loan #RIP 2006-01	<u>5,221</u>	<u>5,574</u>
<b>Total accrued interest</b>	<b><u>\$ 16,217</u></b>	<b><u>17,408</u></b>

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5. DEBT (CONTINUED)**

As of December 31, 2016, the Association has drawn down the entire amount of available loan funds. The debt service requirements are as follows for all currently outstanding loans:

	Principal	Interest	Total
Years ending December 31,			
2017	\$ 73,105	29,095	102,200
2018	75,299	26,901	102,200
2019	77,558	24,642	102,200
2020	79,884	22,316	102,200
2021	82,281	19,919	102,200
2022-2026	449,945	61,053	510,998
2027-2028	131,739	4,957	136,696
	<u>\$ 969,811</u>	<u>188,883</u>	<u>1,158,694</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 were completed in 2016 and therefore as of December 31, 2016, there were no more post closure costs.

**NOTE 7. COMMITMENTS**

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).

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 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.

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 8. 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, 2016, the Association did not reduce insurance coverages from coverage levels in place as of December 31, 2015. No settlements have exceeded coverage levels in place during 2016 or 2015.

**SUPPLEMENTARY INFORMATION**

**PAA-KO COMMUNITIES SEWER ASSOCIATION**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**  
**For the Year Ended December 31, 2016**

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
<b>Revenues</b>				
Members' assessments	\$ 352,400	352,400	365,842	13,442
Sewer hookup fees	16,000	16,000	18,000	2,000
Sewer transfer fees	2,000	2,000	1,693	(307)
Late Fees	-	-	5,413	5,413
Interest income	1,000	1,000	866	(134)
<b>Total revenues</b>	<b>371,400</b>	<b>371,400</b>	<b>391,814</b>	<b>20,414</b>
<b>Expenses</b>				
Capital outlay-filtration plant	77,500	77,500	34,241	43,259
Debt service principal and interest	102,200	102,200	102,200	-
Operations and maintenance contract	129,000	129,000	126,417	2,583
Septic tank pumping	46,800	46,800	38,817	7,983
Electric and gas plant	27,000	27,000	24,427	2,573
Accounting and audit fees	17,000	17,000	16,565	435
Repairs (non-capital)	10,100	10,100	15,535	(5,435)
Engineering services: monthly monitoring	9,000	9,000	8,055	945
Insurance	8,000	8,000	7,131	869
Telephone	3,000	3,000	2,991	9
Tank pumping - plant and lift stations	2,700	2,700	-	2,700
Professional fees	2,500	2,500	888	1,612
Testing and analysis	1,700	1,700	1,642	58
Bad debt	1,000	1,000	-	1,000
Water	1,000	1,000	222	778
Postage and delivery	1,000	1,000	-	1,000
Office supplies and miscellaneous	1,000	1,000	1,721	(721)
License, permits and fees	700	700	5,146	(4,446)
<b>Total expenses</b>	<b>441,200</b>	<b>441,200</b>	<b>385,998</b>	<b>55,202</b>
<b>Net loss</b>	<b>(69,800)</b>	<b>(69,800)</b>	<b>5,816</b>	<b>75,616</b>
Prior year cash balance budgeted	69,800	69,800		
	<u>\$ -</u>	<u>-</u>		
Revenues, budgetary basis			\$ 391,814	
Change in accounts receivable			2,673	
<b>Total operating and nonoperating revenues, GAAP basis</b>			<u>\$ 394,487</u>	
Expenses, budgetary basis			\$ 385,998	
Capital outlay			(7,999)	
Change in accounts payable			(5,299)	
Change in accrued interest			(1,191)	
Change in prepaids			86	
Debt service principal			(70,976)	
Post closure			(6,072)	
Depreciation not budgeted			244,154	
<b>Total operating and nonoperating expenses, GAAP basis</b>			<u>\$ 538,701</u>	

## **OTHER INFORMATION**



**PAA-KO COMMUNITIES SEWER ASSOCIATION  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL  
December 31, 2016**

Account	Bank Balance	Book Balance
Compass Bank		
General checking account	\$ 43,280	\$ 14,314
Association savings account	24,454	24,454
	<hr/>	<hr/>
<b>Total Compass Bank</b>	67,734	38,768
US Bank		
Certificate of deposit	90,000	90,000
NM Bank & Trust		
Certificate of deposit	76,934	76,934
Main Bank		
Money market account	246,353	246,353
	<hr/>	<hr/>
<b>Total</b>	481,021	<u><u>\$ 452,055</u></u>
FDIC coverage	<hr/>	481,021
<b>Total uninsured public funds</b>	<u><u>\$ -</u></u>	
Collateral requirements - 50% (Section 6-10-17)	<u><u>\$ -</u></u>	

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
 SCHEDULE OF VENDOR INFORMATION (UNAUDITED)  
 December 31, 2016**

<b>RFB#/RFP#</b>	<b>Type of Procurement</b>	<b>Awarded Vendor</b>	<b>\$ Amount of Awarded Contract</b>	<b>\$ Amount of Amended Contract</b>	<b>Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded</b>	<b>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</b>	<b>vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</b>	<b>Brief Description of the Scope of Work</b>
None								

## **OTHER REPORT**

# Ricci & Company LLC

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

## **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***

### **Independent Auditor's Report**

Mr. Tim Keller  
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 (Association), as of and for the years ended December 31, 2016 and 2015, 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 22, 2017.

#### **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. Tim Keller  
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 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 2015-001.

### **Management's Responses to Findings**

The responses from management to the findings identified in our audit are described in the accompanying schedule of findings and responses. These responses were not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

### **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 & Company, LLC*

Albuquerque, New Mexico  
May 22, 2017

**STATE COMPLIANCE SECTION**

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2016**

**A. PRIOR YEAR – FINANCIAL STATEMENT FINDING**

2015-001 Chief Procurement Officer Reporting and Certification

Updated and Repeated

**PAA-KO COMMUNITIES SEWER ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2016**

**B. FINDINGS – COMPLIANCE AND OTHER MATTERS**

**2015-001 CHIEF PROCUREMENT OFFICER REPORTING AND CERTIFICATION  
(Material Non-compliance)**

**CONDITION**

The Association`s Board of Directors operates as its central purchasing office. The Association has not designated a chief procurement officer. During 2016, one of the Board members completed training offered by the State Purchasing Division.

**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.

**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 has not able to complete all of the training required to be certified.

**RECOMMENDATION**

We recommend that the Association complete the steps necessary to register a chief procurement officer.

**MANAGEMENT RESPONSE**

It is difficult to find volunteer Board Members who can dedicate 3 days to training. We have no paid employees. We will plan to designate and register a chief procurement officer and that officer will obtain the required training and certificate. President of the Board will be responsible for accomplishing this by December 31, 2017.



**PAA-KO COMMUNITIES SEWER ASSOCIATION  
EXIT CONFERENCE  
For the Year Ended December 31, 2016**

An exit conference was held on May 19, 2017 to discuss the annual financial report. Attending were the following:

Representing the Paa-Ko Community Sewer Association:

Derek Wartman	President
W. Bruce Franks	Treasurer

Representing the Independent Auditor:

Robert Koehler, CPA

Note: Management is responsible for the content of the report, even though the financial statements were prepared with the assistance of the independent auditor.