



**CABEZON PUBLIC  
IMPROVEMENT DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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**CABEZON PUBLIC IMPROVEMENT DISTRICT**

**Official Roster  
As of June 30, 2010**

**Board of Directors**

Stan Strickman	Chairman
Olivia Padilla-Jackson	Secretary-Treasurer
Bo Johnson	Member
James Jimenez	Member
John Castillo	Member

## Independent Auditors' Report

To the Board of Directors  
Cabezon Public Improvement District  
and  
Mr. Hector Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities and each major fund of the Cabezon Public Improvement District (District) as of and for the year ended June 30, 2010 which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the budgetary comparisons for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 with 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2010 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparisons referred to above present fairly, in all material respects, the budgetary comparisons for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Cabezon Public Improvement District  
and  
Mr. Hector Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 22, 2010

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

As management of the Cabezon Public Improvement District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010.

Cabezon Public Improvement District (the “District”), is a political subdivision of the State of New Mexico (the “State”) created by the City of Rio Rancho pursuant to the Public Improvement District Act, Sections 5-11-1 through 5-11-27, New Mexico Statutes Annotated, as amended (the “Act”) and Chapter 2, Article 10 of the Administrative Procedures of the City (the “PID Policy”).

The Formation Resolution also authorized the imposition and collection of (i) a special levy (“Special Levy A”) against real property in the District, all of which will benefit from Special Levy A, to be used for the purpose, among others, of paying the principal of and interest on such bonds, as more particularly described herein and (ii) a special levy (“Special Levy B” and together with Special Levy A, the “Special Levy”) against the real property in the District, all of which will benefit from Special Levy B to be used for the purpose of funding on an annual basis enhanced services within the District including the maintenance of landscaping for the linear park, trails and parkway to be constructed adjacent to the east branch of the Black Arroyo Channel and in a portion of the City’s rights-of-way. Special Levy B is not pledged to the payment of the Bonds.

*Financial Highlights*

The financial statements, which follow the Management’s Discussion and Analysis, provide those significant key financial highlights for fiscal year ended June 30, 2010 as follows:

- In the Statement of Net Assets, the District’s total deficit net assets decreased from a negative \$8.79 million in fiscal year 2009 to a negative \$8.5 million in fiscal year 2010. The reduction in deficit net assets relates to excess of special levy over the total expenses incurred during the fiscal year.
- In the Statement of Activities the total district revenue amounted to \$1.19 million, while expenditures amounted to \$0.9 million.

*Overview of Financial Statements*

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of: 1) government-wide financial statement, 2) fund financial statements, and 3) notes to the financial statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., Special Levy revenues).

In the government-wide financial statements, the District's activities are presented in the following category.

***Governmental activities*** – Governmental activities include the District's basic activities to construct certain infrastructure improvements and on an annual basis funding for enhanced services providing maintenance of landscaping for the linear park, trails and parkways.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental funds.*** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The reconciliation's are on pages 12 and 14, respectively.



**CABEZON PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Bond Fund, the Reserve Fund and the Enhanced Services Fund, all of which are considered to be major funds. Data from the other governmental functions/programs are combined into a single, aggregated presentation.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Government-wide Financial Analysis**

Net assets may serve over time as a useful indicator of a district’s financial position. In the case of the District, liabilities exceeded assets by \$8,504,426.

The purpose of the District is to construct a linear park along the Black Arroyo and storm drains in a portion of the City of Rio Rancho’s rights of way. Thus the District does not account for the asset created by the construction. This project was completed in fiscal year 2009. It should be noted that the resources needed to repay this debt must be provided from Special Levy revenue collected from property owners within the District to liquidate liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the issuance of District bonds, construction of improvements and payment of debt. The capital assets constructed from the bond proceeds are transferred to the City of Rio Rancho and are not recorded on the District’s books.

The following table presents the condensed net assets for the fiscal years ended June 30:

	<u>2010</u>	<u>2009</u>
Current assets	\$ 1,759,832	1,697,309
Other assets	144,510	150,531
	<hr/> 1,904,342	<hr/> 1,847,840
Current liabilities	419,962	463,906
Long-term obligations outstanding	9,988,806	10,177,233
Total liabilities	<hr/> 10,408,768	<hr/> 10,641,139
Net Assets – unrestricted (deficit)	<hr/> \$ (8,504,426)	<hr/> (8,793,299)

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

- Special levy for the fiscal year amounted to \$1,194,861.
- Interest expense incurred related to the Revenue Bond amounted to \$641,232
- Maintenance expense of \$213,192 incurred to maintain improvements in accordance with the Public Improvement District agreement.

**Changes in net assets.** The following table presents a summary of the changes in net assets for fiscal years ended June 30:

	<u>2010</u>	<u>2009</u>
<b>Expenses</b>		
Public works - construction	\$ -	652,746
Public works - maintenance	213,192	245,175
General government	52,029	67,931
Interest expense	641,232	648,765
<b>Total expenses</b>	<u>906,453</u>	<u>1,614,617</u>
 <b>General Revenues</b>		
Special Levy	1,194,861	1,070,619
Dividend income	465	10,664
	<u>1,195,326</u>	<u>1,081,283</u>
 Change in net assets	 <u>\$ 288,873</u>	 <u>(533,334)</u>

**Financial Analysis of the Government’s Funds**

The District’s revenues in the governmental funds amounted to \$1,192,711, while expenditures amounted to \$1,086,391. The major expenditures of the District are maintenance expenditures and debt service payments.

**General Fund Budgetary Highlights**

The District adopts an annual budget, which projects the expected expenditures (based on debt service requirement, administrative expenses and estimated delinquency) and interest income from funds, to determine the amount of Special Levy for each year. There were no changes in the original budget for the fiscal year.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**Capital Assets and Debt Administration**

Upon the completion of capital assets, they are transferred to the City of Rio Rancho and Southern Sandoval County Arroyo Flood Control Authority, hence they are not recorded on the District's financial statements.

Pursuant to resolutions adopted on December 6, 2004 and January 6, 2005 the District issued its \$11,050,000 Special Levy Revenue Bonds, Series 2005 on January 26, 2005. Under the Indenture dated as of January 1, 2005, the Bonds are payable from revenues received by the District in each Fiscal Year from the payment of Special Levy A installments ("Special Levy A Revenues"), authorized pursuant to the Act to be levied against parcels of land within the District in accordance with the Rate and Method of Apportionment of Special Levy for the District approved by the Governing Body in the Formation Resolution (the "Rate and Method"), with a priority co-equal to and independent of the lien of general ad valorem property taxes for the purpose of paying debt service on the Bonds. Under the Indenture, the District has agreed to repay the Bonds from (i) all Special Levy A Revenues including any revenues collected as prepayment in whole or in part of Special Levy A (but net of the annual Administrative Expense requirement), (ii) all money and investments in the Pledged Revenue Fund, the Bond Fund and the Reserve Fund, but not including any funds held in the Issuance and Expenses Fund or any rebate fund established in accordance with the terms of the Indenture, and (iii) all proceeds of foreclosures for delinquent Special Levy A installments (collectively, the "Pledged Revenues").

The outstanding debt at the end of fiscal year June 30, 2010 amounted to \$10,335,000 (before unamortized bond discount).

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Financial Services Department, City of Rio Rancho, 3200 Civic Center Circle NE, Rio Rancho, New Mexico 87144.

**CABEZON PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF NET ASSETS**  
**June 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,682,375
Receivable, net	77,457
Bond issuance costs, net	144,510
<b>Total assets</b>	<u>1,904,342</u>
<b>LIABILITIES</b>	
Accrued expenses - professional services	22,412
Interest payable	209,124
Revenue bonds payable, net	
Due within one year	188,426
Due in more than one year	9,988,806
<b>Total liabilities</b>	<u>10,408,768</u>
<b>NET ASSETS</b>	
Unrestricted (deficit)	<u>\$ (8,504,426)</u>

*See Notes to Financial Statements.*

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010**

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Public works - maintenance	\$ 213,192	(213,192)
General government	52,029	(52,029)
Interest expense	641,232	(641,232)
<b>Total expenses</b>	<u>\$ 906,453</u>	<u>(906,453)</u>
General Revenues		
Special Levy		\$ 1,194,861
Dividend income		465
		<u>1,195,326</u>
Change in net assets		288,873
Net assets (deficit), beginning		<u>(8,793,299)</u>
<b>Net assets (deficit), ending</b>		<u>\$ (8,504,426)</u>

*See Notes to Financial Statements.*

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2010**

	General Fund	Bond Fund	Reserve Fund	Enhanced Services Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 638,703	937	825,203	217,532	1,682,375
Receivables, net	61,058	-	-	16,399	77,457
Total assets	<u>\$ 699,761</u>	<u>937</u>	<u>825,203</u>	<u>233,931</u>	<u>1,759,832</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accrued expenses	\$ 16,012	-	-	6,400	22,412
Deferred revenue	29,231	-	-	7,135	36,366
<b>Total liabilities</b>	<u>45,243</u>	<u>-</u>	<u>-</u>	<u>13,535</u>	<u>58,778</u>
Fund Balances					
Reserved for debt service	-	937	825,203	-	826,140
Unreserved fund balances	654,518	-	-	220,396	874,914
<b>Total fund balances</b>	<u>654,518</u>	<u>937</u>	<u>825,203</u>	<u>220,396</u>	<u>1,701,054</u>
<b>Total liabilities and fund balances</b>	<u>\$ 699,761</u>	<u>937</u>	<u>825,203</u>	<u>233,931</u>	<u>1,759,832</u>

*See Notes to Financial Statements.*

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
June 30, 2010**

Reconciliation of the Governmental Funds Balance  
Sheet to the Statement of Net Assets:

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Fund balance - total governmental funds	\$ 1,701,054
<p>Amounts reported for governmental activities in  the Statement of Net Assets are different  because:</p>	
Bond issuance costs in the governmental activities are not financial resources and therefore, not reported in the funds	144,510
Long-term liabilities for the revenue bonds, are not due and payable in the current period, and therefore are not reported in the funds	(10,177,232)
Accrued interest payable	(209,124)
Receivables reported in the Statement of Net Assets that are not currently available in the funds	36,366
<b>Net assets of governmental activities</b>	<b>\$ (8,504,426)</b>

*See Notes to Financial Statements.*

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2010**

	General Fund	Bond Fund	Reserve Fund	Enhanced Services Fund	Total
<b>Revenues</b>					
Special Levy taxes	\$ 950,094	-	-	242,152	1,192,246
Dividend income	53	3	409	-	465
Total revenues	<u>950,147</u>	<u>3</u>	<u>409</u>	<u>242,152</u>	<u>1,192,711</u>
<b>Expenditures</b>					
General government	49,672	-	-	2,357	52,029
Public works	-	-	-	213,192	213,192
Debt service					
Interest expense	-	631,170	-	-	631,170
Principal	-	190,000	-	-	190,000
Total expenditures	<u>49,672</u>	<u>821,170</u>	<u>-</u>	<u>215,549</u>	<u>1,086,391</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>900,475</u>	<u>(821,167)</u>	<u>409</u>	<u>26,603</u>	<u>106,320</u>
<b>Other financing sources (uses)</b>					
Transfer in	-	821,945	-	-	821,945
Transfer out	(820,815)	-	(1,130)	-	(821,945)
Total	<u>(820,815)</u>	<u>821,945</u>	<u>(1,130)</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	79,660	778	(721)	26,603	106,320
Fund balances, beginning	<u>574,858</u>	<u>159</u>	<u>825,924</u>	<u>193,793</u>	<u>1,594,734</u>
<b>Fund balances, ending</b>	<u>\$ 654,518</u>	<u>937</u>	<u>825,203</u>	<u>220,396</u>	<u>1,701,054</u>

*See Notes to Financial Statements.*



**CABEZON PUBLIC IMPROVEMENT DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010**

Reconciliation of the Governmental Funds Statement of  
Revenues, Expenditures, and Changes in Fund Balance  
to the Statement of Net Assets:

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Net change in fund balances - total governmental funds	\$	106,320
<p>Amounts reported for governmental activities in the  Statement of Activities are different because:</p>		
<p>Governmental fund report the effect of issuance  costs and discounts, whereas these amounts  are deferred and amortized in the Statement  of Activities</p>		(12,596)
<p>Special Levy that is not recognized in the  fund balances</p>		2,615
<p>The repayment of long-term debt consumes the  current financial resources of the governmental  funds. This has no effect on net assets.</p>		190,000
<p>Accrued interest expense</p>		<u>2,534</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u><u>288,873</u></u></b>

*See Notes to Financial Statements.*

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)  
 Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Special Levy taxes	\$ 950,943	950,943	950,094	(849)
Dividend income	-	-	53	53
<b>Total revenues</b>	<u>950,943</u>	<u>950,943</u>	<u>950,147</u>	<u>(796)</u>
<b>Expenditures</b>				
General government	81,009	81,009	49,672	31,337
<b>Total expenditures</b>	<u>81,009</u>	<u>81,009</u>	<u>49,672</u>	<u>31,337</u>
<b>Other Financing Sources (Uses)</b>				
Transfer out	(869,934)	(869,934)	(820,815)	49,119
<b>Total</b>	<u>(869,934)</u>	<u>(869,934)</u>	<u>(820,815)</u>	<u>49,119</u>
<b>Net change in fund balance</b>	-	-	79,660	79,660
Fund balances, beginning of year	<u>574,858</u>	<u>574,858</u>	<u>574,858</u>	-
<b>Fund balances, end of year</b>	<u>\$ 574,858</u>	<u>574,858</u>	<u>654,518</u>	<u>79,660</u>

**CABEZON PUBLIC IMPROVEMENT DISTRICT**  
**BUDGET TO ACTUAL SCHEDULE (ENHANCED SERVICES FUND)**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Special Levy taxes	\$ 243,918	243,918	242,152	(1,766)
<b>Total revenues</b>	<b>243,918</b>	<b>243,918</b>	<b>242,152</b>	<b>(1,766)</b>
<b>Expenditures</b>				
General government	4,939	4,939	2,357	2,582
Public works	226,783	226,783	213,192	13,591
<b>Total expenditures</b>	<b>231,722</b>	<b>231,722</b>	<b>215,549</b>	<b>16,173</b>
<b>Net change in fund balance</b>	<b>12,196</b>	<b>12,196</b>	<b>26,603</b>	<b>14,407</b>
Fund balances, beginning of year	193,793	193,793	193,793	-
<b>Fund balances, end of year</b>	<b>\$ 205,989</b>	<b>205,989</b>	<b>220,396</b>	<b>14,407</b>

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 1. REPORTING ENTITY**

Cabazon Public Improvement District (the “District”) is a political subdivision of the State of New Mexico duly created and existing pursuant to Sections 5-11-1 through 5-11-127 NMSA 1978, as amended, Chapter 2, Article 10 of the City of Rio Rancho (the “City”) Administrative Policies and Procedures entitled "Public Improvement District Guidelines and Application Procedures, and City Resolution No. 105, Enactment No. 04-103” adopted on November 10, 2004.

The District was created to fund public infrastructure improvements (the “Cabazon Project”) and enhanced services for Cabazon Communities, which consists of approximately 721 gross acres of property located in the City of Rio Rancho. Of the 721 acres, approximately 588 acres are subject to a Special Levy.

The District follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The District is not a component of any other governmental entity and the District has no subordinate component units.

The District is governed by the District Board, consisting of five directors. The District Board has control over and management supervision of all affairs of the District. Directors serve either four years or six years.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s policies are described below.

**Basis of Presentation**

*District-Wide Statements.* The Statement of Net Assets and Statement of Activities present financial information about reporting government as a whole. These statements include the financial activities of the overall District in its entirety. Eliminations have been made to minimize the double counting of internal transactions. District activities generally are financed through Special Levy.

The Statement of Activities presents comparison between direct expenses and direct revenues for each function of the District governmental activities. Direct expenses are those that are specifically associated with and clearly identifiable to a particular function. Direct revenues include Special Levy on real property covered by the District, and dividends income from the investment of funds.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

*Fund Financial Statements.* Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category.
- b. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

*Governmental Funds.* The District reports the following major governmental funds:

- a. General Fund – is the District’s primary operating fund. It accounts for all the financial resources of the general government except those required to be accounted for in another fund. It includes proceeds from Special Levy A.

Debt Service Funds:

- b. Bond Fund – used to account for the payment of principal and interest related to the bonds obligation.
- c. Reserve Fund – used to account for funds to be used in accordance with the bond indenture in situations whereby the bond fund does not have sufficient funds to pay for debt service payments.

Special Revenue Fund:

- d. Enhanced Services Fund – used to account for Special Levy B proceeds to be used for repairs and maintenance.

**Measurement Focus and Basis of Accounting**

The Government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of when the related cash transaction takes place. On an accrual basis, revenue from special levy on property is recognized in the fiscal year for which the taxes are levied.

The governmental fund statements are reported using the current resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

principal and interest on the bond obligations, which are recognized as expenditures when paid. Proceeds from the issuance of bond obligations are reported as other financing sources.

**Cash Equivalents**

The District considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents.

**Receivables**

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**Capital Assets**

As capital assets are constructed the ownership is transferred to the City of Rio Rancho and Southern Sandoval County Arroyo Flood Control Authority. As a result, the District does not capitalize any capital assets on their financial statements.

**Long-Term Obligations**

In the Government-wide financial statements, long-term debts are reported as liabilities. Long-term obligations of the governmental funds payable from the general revenues of the District are reported in the District-wide financial statements. Payments of principal and interest are reported as expenditures in the fund financial statements.

Bond discount, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the bonds.

In the governmental fund financial statements, bond discounts and issuance costs are recognized during the current period. The face amount of debt issued and any premiums received are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Special Levy**

The District imposes Special Levy A (which secures the payment of the debt service on the District's Special Levy Revenue Bonds) and Special Levy B (which provides annual funding for the costs of maintaining park improvements and landscaping). The maximum annual amount of Special Levy A shall not exceed \$1,251,411 and \$243,918 for Special Levy B for the fiscal year ended 2010. The Special Levy B is subject to a maximum annual increase of ten percent in accordance with the Rate and Method of Apportionment of the Special Levy. The District started to impose the Special Levies effective fiscal year 2005 - 2006.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

The Annual Special Levy A shall cease to be levied following the payment of all schedule interest, principal, and premium, if any, for the Bonds. There is no termination date for the Annual Special Levy B.

The Special Levy is billed and collected by Sandoval County in the same manner and at the same time as general ad valorem property taxes. Assessments are made as of January 1 of each year, with one-half of the taxes on that assessment due the following November 10 and one-half due April 10 of the next calendar year. The special levy installment due November 10 becomes delinquent on December 11, while the April 10 installment becomes delinquent on May 11. Special Levy A and B shall be subject to foreclosure by the District at any time after six months following written notice of delinquency to the owner of the real property to which the delinquency applies. The lien shall include delinquencies, penalties and interest thereon at a rate not to exceed the maximum legal rate of interest per year and penalties otherwise applicable.

**Transfers**

Transfers in from (out to) other governmental funds are recorded as other financing sources (uses).

**Fund Equity Reservations**

In the fund financial statements, governmental funds report reservations for amounts that are not available for appropriation or are legally restricted.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

**Budgets**

The District has adopted budgets for each year. The budget is adopted on a modified accrual basis of accounting. The legal level of compliance is total expenditures.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 3. DEPOSITS AND INVESTMENTS**

The District is authorized under the provision of Chapter 6, Article 10, paragraph 10, NMSA 1978, annotated, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If the District is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the District may invest its money as provided under Section 6-10-10.1 NMSA 1978 with the New Mexico State Treasurer's investment pool for a period greater than 181 days. The State Treasurer's investment pool shall be invested as provided for State funds under Section 60-10-10 NMSA 1978.

Cash and investments held by the District include cash on deposit with financial institutions. Deposits are secured by Federal depository insurance and U.S. Treasuries. Under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50% (102% for overnight deposits) of the uninsured balance. Market values of all cash and deposits approximate the cost of those assets.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of June 30, 2010 the District's deposits were exposed to custodial risk as follows:

Total deposits	\$ 217,532
FDIC insurance	<u>(250,000)</u>
Over	<u>\$ (32,468)</u>

Cash and cash equivalents at June 30, 2010 consists of the following:

Cash in Bank of Albuquerque	\$ 217,532
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>1,464,843</u>
	<u>\$ 1,682,375</u>

Cash equivalents represent investments in mutual funds, consisting of treasury bonds with maturities of less than 30 days.



**CABEZON PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 4. SPECIAL LEVY RECEIVABLES**

Special Levy receivables at June 30, 2010 consist of:

Special Levy receivables	\$ 90,116
Allowance for bad debts	<u>(12,659)</u>
	<u>\$ 77,457</u>

**NOTE 5. REVENUE BONDS**

On January 26, 2005, the District issued Special Levy Revenue Bonds, Series 2005 with total par value of \$11,050,000 for \$10,856,625, or a discount of \$193,375. The proceeds from issuance were primarily used in the construction of the Cabezon Project. The bonds are generally callable with interest payable semi-annually, every March 1 and September 1. The obligations are secured by the pledge of net revenues from District Special Levy A.

The Indenture contains special mandatory and optional redemption, ranging from 100% to 102% of the principal amount. The special mandatory redemption, which started on September 1, 2006, triggers when: (a) on or after the completion of the project, moneys are transferred from the Construction Fund to the Prepayment Account of the Bond Fund, and (b) the prepayment in whole or in part of any Special Levy by the owner of the Property and the deposit of such prepayment amounts to the Prepayment Account of the Bond Fund. The optional redemption is available starting September 1, 2015. No events occurred that have triggered special mandatory redemption.

The details of activity of the revenue bonds for the year ended June 30, 2010 are as follows:

	Special Levy Revenue Bonds, Series 2005						Total
Interest rate	3.6%	3.75%	4.00%	5.2%	6.00%	6.3%	
Maturity date	<u>9/1/2006</u>	<u>9/1/2007</u>	<u>9/1/2009</u>	<u>9/1/2015</u>	<u>9/1/2024</u>	<u>9/1/2034</u>	
Balance, 6/30/09	\$ -	-	190,000	1,330,000	3,035,000	5,970,000	10,525,000
Payments	-	-	(190,000)	-	-	-	(190,000)
Balance, 6/30/10	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>1,330,000</u>	<u>3,035,000</u>	<u>5,970,000</u>	<u>10,335,000</u>

The balance of revenue bonds at June 30, 2010 in the Statement of Net Assets is net of unamortized bond discount of \$157,768.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010**

**NOTE 5. REVENUE BONDS (CONTINUED)**

Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 195,000	622,300	817,300
2012	205,000	611,900	816,900
2013	215,000	600,980	815,980
2014	225,000	589,540	814,540
2015	240,000	577,450	817,450
2016-2020	1,405,000	2,663,900	4,068,900
2021-2025	1,880,000	2,175,150	4,055,150
2026-2030	2,530,000	1,501,605	4,031,605
2031-2035	3,440,000	568,575	4,008,575
	<u>\$ 10,335,000</u>	<u>9,911,400</u>	<u>20,246,400</u>

Interest payment and principal payments of the revenue bonds are serviced by revenues generated from the Special Levy and are paid from the Bond Fund.

	<u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30</u>	<u>Due in 1 year</u>
Special Levy Revenue Bonds	\$ 10,525,000	-	(190,000)	10,335,000	195,000
Unamortized bond discount	(164,341)	-	6,573	(157,768)	(6,574)
	<u>\$ 10,360,659</u>	<u>-</u>	<u>(183,427)</u>	<u>10,177,232</u>	<u>188,426</u>

**NOTE 6. DEFICIT NET ASSETS**

The total net assets balance is in a deficit position. This is due to the fact that the capital assets acquired with bond proceeds were transferred to another governmental agency. This resulted in the recognition of long-term debt with no related asset on the District's financial statement. The long-term debt will be repaid with future special levy assessments.

**CABEZON PUBLIC IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 7. INTERFUND TRANSFERS**

The following transfers were made for the year ended June 30, 2010 to fund the debt service requirements:

<u>Transfer Out</u>	<u>Transfer In</u> Bond Fund
General Fund	\$ 820,815
Reserve Fund	<u>1,130</u>
	<u>\$ 821,945</u>

**NOTE 8. ARBITRAGE**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on the revenue bonds and at June 30, 2010 does not expect to incur a liability.

**NOTE 9. INSURANCE COVERAGE**

The District is exposed to various risk of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omission and natural disasters. The District is not insured through private carriers for liability, casualty and director and office liability.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (BOND FUND)  
 Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Dividend income	\$ -	-	3	3
<b>Total revenues</b>	-	-	3	3
<b>Expenditures</b>				
Debt service				
Interest expense	627,370	627,370	631,170	(3,800)
Principal	195,000	195,000	190,000	5,000
<b>Total expenditures</b>	822,370	822,370	821,170	1,200
<b>Other Financing Sources (Uses)</b>				
Transfer in	822,370	822,370	821,945	(425)
<b>Total</b>	822,370	822,370	821,945	(425)
<b>Net change in fund balance</b>	-	-	778	778
Fund balances, beginning of year	159	159	159	-
<b>Fund balances, end of year</b>	\$ 159	159	937	778

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)  
 Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Dividend income	\$ -	-	409	409
<b>Total revenues</b>	-	-	409	409
<b>Other Financing Sources (Uses)</b>				
Transfer out	-	-	(1,130)	(1,130)
<b>Total</b>	-	-	(1,130)	(1,130)
<b>Net change in fund balance</b>	-	-	(721)	(721)
Fund balances, beginning of year	825,924	825,924	825,924	-
<b>Fund balances, end of year</b>	\$ 825,924	825,924	825,203	(721)

**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***

To the Board of Directors  
Cabezon Public Improvement District  
and  
Mr. Hector Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities and each major fund of the Cabezon Public Improvement District (District), as of and for the year ended June 30, 2010 which collectively comprise the District's basic financial statements and have issued our report thereon dated December 22, 2010. We have also audited the budgetary comparisons for the year ended June 30, 2010 as listed in the table of contents. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified

To the Board of Directors  
Cabezon Public Improvement District  
and  
Mr. Hector Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

certain deficiencies in internal control over financial reporting, described in the accompanying *schedule of findings and responses* that we consider to be significant deficiencies in internal control over financial reporting as items 08-01 and 08-03. 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 an 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 10-01.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the District, the Commissioners, the State Auditor, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

*Mess Adams LLP*

Albuquerque, New Mexico  
December 22, 2010

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2010**

**08-01: Improve Disbursement Procedures for Enhanced Services Account**

CONDITION

Our testing of selected disbursements for the Enhanced Services Account revealed that the whole disbursement cycle is completely controlled by Board members representing the developer, without oversight by a Board member from the City of Rio Rancho.

CRITERIA

Good internal controls include adequate check and balances to ensure all transactions are properly authorized.

EFFECT

There is an increased risk of improper payments being made without timely detection.

CAUSE

The current procedures were developed without proper consideration as to the involvement by the City of Rio Rancho.

RECOMMENDATION

We recommend that the District implement procedures to provide for additional oversight of the Enhanced Services Account, such as review of the District's Treasurer of invoices before payment is initiated.

MANAGEMENT'S RESPONSE

The District concurs with this finding and will implement new procedures to ensure proper segregation of duties. Such new procedures will involve the City Treasurer reviewing invoices prior to payment.



**CABEZON PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**08-03: No General Ledger Maintained**

CONDITION

The District did not maintain a general ledger for fiscal year June 30, 2010.

CRITERIA

Good internal controls include the use of a general ledger to account for all transactions of the District.

EFFECT

There is an increased risk of improper expenditures being made and also that budget overages could occur.

CAUSE

The District used the monthly bank statements to track transactions.

RECOMMENDATION

We recommend that the District create a general ledger that will generate reports on a monthly basis in order to review the financial activity of the District including budget to actual statements.

MANAGEMENT'S RESPONSE

The District will create a general ledger in the future.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended June 30, 2010**

**10-01: Late Audit Report**

**CONDITION**

The audit reports for the year ending June 30, 2010 were not submitted by the deadline of December 1, 2010. These reports were submitted to the State Auditor's Office on January 6, 2011.

**CRITERIA**

2.2.2 NMAC, Audit Rule 2010, specifies the deadline for submission of audit reports. Section 2.2.2.9 A (1)(d) stipulates that District reports are due no later than December 1. Further, Section 2.2.2.9 A (2) requires that submission of a late audit report shall be reported as current year audit finding in the audit report.

**CAUSE**

There was a delay in submitting letter of audit recommendation to the State Auditor's Office. Hence, executed audit contract was only received on December 7, 2010.

**EFFECT**

The District is not in compliance with Section 2.2.2.9 A (1)(d) of the NMAC, Audit Rule 2010.

**RECOMMENDATION**

Management should ensure that audit contract be executed on a timely manner to ensure that audit report will be submitted on or before the deadline.

**MANAGEMENT'S RESPONSE**

The District will make sure that necessary documentations be submitted to the State Auditor's Office to ensure that audit contract get executed as early as possible to allow timely submission of the audit report.

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2010**

08-01	Improve Disbursement Procedures for Enhanced Services Account	Updated and Repeated as 08-01
08-03	No General Ledger Maintained	Updated and Repeated as 08-03
08-04	Budget Overspending	Resolved

**CABEZON PUBLIC IMPROVEMENT DISTRICT  
EXIT CONFERENCE  
Year Ended June 30, 2010**

An exit conference was held on December 3, 2010. Attending were the following:

Representing Cabezon Public Improvement District:

Olivia Padilla-Jackson, Secretary/Treasurer  
Kevin Powers, Financial Advisor

Representing Moss Adams LLP:

Brandon Valentini, CPA, Partner  
Jaime Rumbaoa, CPA, Manager

The financial statements were prepared with the assistance of Moss Adams LLP.