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

CABEZON PUBLIC IMPROVEMENT DISTRICT

June 30, 2011

atkinson

PRECISE. PERSONAL. PROACTIVE.

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Cabazon Public Improvement District

OFFICIAL ROSTER

Year ended June 30, 2011

BOARD OF DIRECTORS

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



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector Balderas, New Mexico State Auditor
and the Board of Directors
Cabezon Public Improvement District
Rio Rancho, 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, 2011 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, 2011 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.

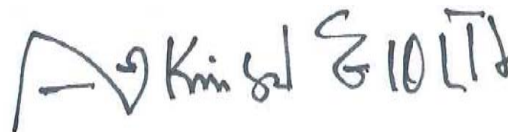
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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, 2011 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, 2011 in conformity with U.S. generally accepted accounting principles.

The District implemented Governmental Accounting Standards Board (GASB) Opinion No. 54 "Fund Balance Reporting and Government Fund Type Definition" in FY12. This standard affects governmental fund balance reporting and classifications as detailed in Note J.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2012, 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 5 through 9 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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
March 6, 2012

Cabazon Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2011

Management of the Cabazon Public Improvement District (District) offers 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, 2011.

Cabazon 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, 2011 as follows:

- In the Statement of Net Assets, the District's total deficit net assets decreased from a negative \$8.5 million in fiscal year 2010 to a negative \$8.1 million in fiscal year 2011. 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 \$1.286 million, while expenditures amounted to \$0.87 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2011

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 finance the construction of certain infrastructure improvements and on an annual basis provide 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 13 and 15, respectively.

Cabazon Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2011

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 \$8,088,421.

The purpose of the District is to construct (i) the East Branch of the Black Arroyo Channel and appurtenances, including detention/sediment basins, water quality facilities, and the associated linear park, (ii) landscaping improvements in portions of the City rights-of-way within the district along Unser Boulevard, Cabazon Boulevard, Westside Boulevard, Trailside Road, and Western Hills Road, and (iii) a portion of the major storm drain line serving the District and fund landscape maintenance for the linear park, trails, parkway, and medians in portions of Cabazon Boulevard, Westside Boulevard, Unser Boulevard (east side only), Western Hills Road, and Trailside Road.

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 Southern Sandoval County Arroyo Flood Control Authority 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>2011</u>	<u>2010</u>
Current assets	\$ 1,882,560	\$ 1,759,832
Other assets	<u>236,537</u>	<u>144,510</u>
	2,119,097	1,904,342
Current liabilities	417,139	419,962
Long-term obligations outstanding	<u>9,790,379</u>	<u>9,988,806</u>
Total liabilities	<u>10,207,518</u>	<u>10,408,768</u>
Net assets - unrestricted (deficit)	<u>\$ (8,088,421)</u>	<u>\$ (8,504,426)</u>

Cabazon Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2011

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 \$1,284,888.
- Interest expense incurred related to the Revenue Bond amounted to \$631,515.
- Maintenance expense of \$206,594 incurred to maintain improvements in accordance with the Public Improvement District development agreement.
- Administrative expenses of \$32,235 to pay for services such as legal and financial services.

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

	2011	2010
Expenses		
Public works - maintenance	\$ 206,594	\$ 213,192
General government	32,235	52,029
Interest expense	631,515	641,232
	<hr/>	<hr/>
Total expenses	870,344	906,453
General Revenues		
Special Levy	1,284,888	1,194,861
Dividend Income	1,461	465
	<hr/>	<hr/>
	1,286,349	1,195,326
	<hr/>	<hr/>
Change in net assets	\$ 416,005	\$ 288,873

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds amounted to \$1,222,952, while expenditures amounted to \$1,056,132. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2011

Capital Assets and Debt Administration

Upon the completion of capital assets, they are transferred to the 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, 2011 amounted to \$9,988,806 (net of unamortized bond discount).

Currently Known Facts and Conditions

The delinquency rate for fiscal year 2011 was 2.1 percent, which was similar to the rate experienced in fiscal years 2009 and 2010 of 3.0 and 1.4 percent, respectively. In general the District has observed a slight increase in delinquency rates following the onset of the recent economic recession. However, to date, these rates have remained relatively low and have not had an adverse impact to the District's finances. The District pursues and collects delinquent special assessments by mailing reminder letters after each installment due date and the County notifies lenders of delinquent property taxes. The District has not filed any foreclosure actions to date.

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.

Cabazon Public Improvement District

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,882,560
Receivable, net	98,048
Bond issuance costs, net	<u>138,489</u>
 Total assets	 2,119,097
 Liabilities	
Accrued expenses - professional services	12,969
Interest payable	205,743
Revenue bonds payable, net	
Due within one year	198,427
Due in more than one year	<u>9,790,379</u>
 Total liabilities	 <u>10,207,518</u>
 Net Assets	
Restricted for debt service	824,907
Unrestricted (deficit)	<u>(8,913,328)</u>
	 <u><u>\$ (8,088,421)</u></u>

The accompanying notes are an integral part of this financial statement.

Cabazon Public Improvement District

STATEMENT OF ACTIVITIES

Year ended June 30, 2011

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Public works - maintenance	\$ 206,594	\$ (206,594)
General government	32,235	(32,235)
Interest expense	<u>631,515</u>	<u>(631,515)</u>
Total expenses	<u>\$ 870,344</u>	(870,344)
General Revenues		
Special Levy		1,284,888
Dividend income		<u>1,461</u>
		<u>1,286,349</u>
Change in net assets		416,005
Net assets (deficit), beginning		<u>(8,504,426)</u>
Net assets (deficit), ending		<u>\$ (8,088,421)</u>

The accompanying notes are an integral part of this financial statement.

Cabazon Public Improvement District

BALANCE SHEET – GOVERNMENTAL FUNDS

Year ended June 30, 2011

	General Fund	Bond Fund	Reserve Fund	Enhanced Services Fund	Total
Assets					
Cash and cash equivalents	\$ 789,150	\$ 4	\$ 824,907	\$ 268,499	\$ 1,882,560
Receivables, net	77,160	-	-	20,888	98,048
Total assets	<u>\$ 866,310</u>	<u>\$ 4</u>	<u>\$ 824,907</u>	<u>\$ 289,387</u>	<u>\$ 1,980,608</u>
Liabilities and Fund Balances					
Liabilities					
Accrued expenses	\$ 5,364	\$ -	\$ -	\$ 7,605	\$ 12,969
Deferred revenue	78,413	-	-	19,891	98,304
Total Liabilities	83,777	-	-	27,496	111,273
Fund Balances					
Restricted for debt service	-	4	824,907	-	824,911
Unassigned	782,533	-	-	261,891	1,044,424
Total fund balances	<u>782,533</u>	<u>4</u>	<u>824,907</u>	<u>261,891</u>	<u>1,869,335</u>
Total liabilities and fund balances	<u>\$ 866,310</u>	<u>\$ 4</u>	<u>\$ 824,907</u>	<u>\$ 289,387</u>	<u>\$ 1,980,608</u>

The accompanying notes are an integral part of this financial statement.

Cabazon Public Improvement District

**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

Year ended June 30, 2011

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

Fund balance - total governmental funds	\$ 1,869,335
Amounts reported for governmental activities in the the Statement of Net Assets are different because:	
Bond issuance cost in the governmental activities are not financial resources and therefore, not reported in the funds	138,489
Long-term liabilities for the revenue bonds, are not due and payable in the current period, and therefore are not reported in the funds	(9,988,806)
Accrued interest payable	(205,743)
Receivables reported in the Statement of Net Assets that are not currently available in the funds	<u>98,304</u>
Net assets of governmental activities	<u>\$ (8,088,421)</u>

The accompanying notes are an integral part of this financial statement.

Cabazon Public Improvement District

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS**

Year ended June 30, 2011

	General Fund	Bond Fund	Reserve Fund	Enhanced Services Fund	Total
Revenues					
Special Levy	\$ 974,862	\$ -	\$ -	\$ 248,090	\$ 1,222,952
Dividend income	621	9	831	-	1,461
Total revenues	<u>\$ 975,483</u>	<u>\$ 9</u>	<u>\$ 831</u>	<u>\$ 248,090</u>	<u>\$ 1,224,413</u>
Expenditures					
General Government	\$ 32,236	\$ -	\$ -	\$ -	\$ 32,236
Public works	-	-	-	206,595	206,595
Debt service					
Interest expense	-	622,301	-	-	622,301
Principal	-	195,000	-	-	195,000
Total expenditures	<u>32,236</u>	<u>817,301</u>	<u>-</u>	<u>206,595</u>	<u>1,056,132</u>
Excess (deficiency) of revenues over (under) expenditures	943,247	(817,292)	831	41,495	168,281
Other financing sources (uses)					
Transfer in	-	816,359	-	-	816,359
Transfer out	(815,232)	-	(1,127)	-	(816,359)
Total	<u>(815,232)</u>	<u>816,359</u>	<u>(1,127)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	128,015	(933)	(296)	41,495	168,281
Fund balances, beginning	<u>654,518</u>	<u>937</u>	<u>825,203</u>	<u>220,396</u>	<u>1,701,054</u>
Fund balances, ending	<u>\$ 782,533</u>	<u>\$ 4</u>	<u>\$ 824,907</u>	<u>\$ 261,891</u>	<u>\$ 1,869,335</u>

The accompanying notes are an integral part of this financial statement.

Cabazon 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, 2011

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

Net Change in fund balances - total governmental funds	\$	168,281
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental fund reports the effect of issuance costs and discounts, whereas these amounts are deferred and amortized in the Statement of Activities		(12,595)
Special Levy that is not recognized in the fund balances		61,938
The repayment of long-term debt consumes the current financial resources of the governmental funds. This has no effect on net assets.		195,000
Accrued interest payable		<u>3,381</u>
Net assets of governmental activities	\$	<u>416,005</u>

The accompanying notes are an integral part of this financial statement.

Cabazon Public Improvement District

GENERAL FUND – BUDGET AND ACTUAL

Year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special Levy	\$ 962,506	\$ 962,506	\$ 974,862	\$ 12,356
Dividend income	-	-	621	621
Total revenues	962,506	962,506	975,483	12,977
Expenditures				
General government	92,125	92,125	32,236	59,889
Total expenditures	92,125	92,125	32,236	59,889
Other Financing Sources (Uses)				
Transfer out	(870,381)	(870,381)	(815,232)	55,149
Total	(870,381)	(870,381)	(815,232)	55,149
Net change in fund balance	-	-	128,015	128,015
Fund balances, beginning of year	654,518	654,518	654,518	-
Fund balances, end of year	\$ 654,518	\$ 654,518	\$ 782,533	\$ 128,015

The accompanying notes are an integral part of this financial statement.

Cabazon Public Improvement District

ENHANCED SERVICES FUND – BUDGET AND ACTUAL

Year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special Levy	<u>\$ 268,287</u>	<u>\$ 268,287</u>	<u>\$ 248,090</u>	<u>\$ (20,197)</u>
Total revenues	<u>268,287</u>	<u>268,287</u>	<u>248,090</u>	<u>(20,197)</u>
Expenditures				
General government	<u>5,183</u>	<u>5,183</u>	<u>-</u>	<u>5,183</u>
Public works	<u>249,689</u>	<u>249,689</u>	<u>206,595</u>	<u>43,094</u>
Total expenditures	<u>254,872</u>	<u>254,872</u>	<u>206,595</u>	<u>48,277</u>
Net change in fund balance	<u>13,415</u>	<u>13,415</u>	<u>41,495</u>	<u>28,080</u>
Fund balances, beginning of year	<u>220,396</u>	<u>220,396</u>	<u>220,396</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 233,811</u></u>	<u><u>\$ 233,811</u></u>	<u><u>\$ 261,891</u></u>	<u><u>\$ 28,080</u></u>

The accompanying notes are an integral part of this financial statement.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE A - 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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (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.

1. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

1. Basis of Presentation - Continued

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.

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.
- b. Bond Fund – used to account for the payment of principal and interest related to the bonds obligation.
- c. Restricted 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.
- d. Enhanced Services Fund – used to account for Special Levy B proceeds to be used for repairs and maintenance.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. 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 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.

3. 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.

4. Receivables

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

5. 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.

6. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Long-Term Obligations - Continued

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.

7. 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). Billings on Special Levy A and Special Levy B amounted to \$962,506 and \$268,289 for the fiscal year ended 2011, respectively. 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.

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.

8. Transfers

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Fund Balances

The District implemented GASB 54 during the current fiscal year. In the governmental fund financial statements the District classifies fund balances into spendable and non-spendable classifications. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact permanently such as principal of a permanent fund. The District has no non-spendable fund balances at June 30, 2011.

The spendable classifications are detailed below:

Restricted Fund Balances

Net assets are reported as restricted when constraints placed on net asset use are (a) externally imposed by creditors such as through debt covenants, grantors, contributors, laws, or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be only for the specific purposes stipulated in the legislation.

Legal enforceability means the government can be impelled by an external party, such as citizens, public interest groups, or the judiciary to use resources for the purpose specified by the legislation.

The amount of net assets restricted by enabling legislation is \$824,907 which represents all restricted net assets reported on page 12.

Unrestricted Assets – consist of net assets that do not meet the definition of “restricted” or invested in capital assets, net of related debt.

10. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. 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.

NOTE C - 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, 2011 the District's deposits were exposed to custodial risk as follows:

Total deposits	\$ 268,499
50% requirements	(134,250)
FDIC insurance	<u>(250,000)</u>
Over insured	<u>\$ 115,751</u>

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE C - DEPOSITS AND INVESTMENTS - CONTINUED

Cash and cash equivalents at June 30, 2011 consists of the following:

Cash in Bank of Albuquerque	\$ 268,499
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>1,614,061</u>
	<u>\$ 1,882,560</u>

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

NOTE D - SPECIAL LEVY RECEIVABLES

Special Levy receivables at June 30, 2011 consist of:

Special Levy receivables	\$ 110,707
Allowance for bad debts	<u>(12,659)</u>
	<u>\$ 98,048</u>

NOTE E - 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 Cabazon 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.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE E - REVENUE BONDS - CONTINUED

The details of activity of the revenue bonds for the year ended June 30, 2011 are as follows:

	Special Levy Revenue Bonds, Series 2005						Total
Interest rate	3.60%	3.75%	4.00%	5.20%	6.00%	6.30%	
Maturity date	9/1/2006	9/1/2007	9/1/2009	9/1/2015	9/1/2024	9/1/2034	
Balance, 6/30/10	\$ -	\$ -	\$ -	\$ 1,330,000	\$ 3,035,000	\$ 5,970,000	\$ 10,335,000
Payments	-	-	-	(195,000)	-	-	(195,000)
Balance, 6/30/11	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,135,000</u>	<u>\$ 3,035,000</u>	<u>\$ 5,970,000</u>	<u>\$ 10,140,000</u>

The balance of revenue bonds at June 30, 2011 in the Statement of Net Assets is net of unamortized bond discount of \$151,194.

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>
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	250,000	564,710	814,710
2017-2021	1,490,000	2,578,050	4,068,050
2022-2026	1,990,000	2,058,383	4,048,383
2027-2031	2,690,000	1,337,175	4,027,175
2032-2035	<u>2,835,000</u>	<u>370,913</u>	<u>3,205,913</u>
	<u>\$ 10,140,000</u>	<u>\$ 9,289,101</u>	<u>\$ 19,429,101</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.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

NOTE F - 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.

	<u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30</u>	<u>Due in 1 year</u>
Special Levy Revenue Bonds	\$ 10,335,000	\$ -	\$ (195,000)	\$ 10,140,000	\$ 205,000
Unamortized bond discount	(157,768)	-	6,574	(151,194)	(6,573)
	<u>\$ 10,177,232</u>	<u>\$ -</u>	<u>\$ (188,426)</u>	<u>\$ 9,988,806</u>	<u>\$ 198,427</u>

NOTE G - INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2011 to fund the debt service requirements:

<u>Transfer Out</u>	<u>Transfer In</u> <u>Bond Fund</u>
General Fund	\$ 815,232
Reserve Fund	<u>1,127</u>
	<u>\$ 816,359</u>

NOTE H - 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, 2011 does not expect to incur a liability.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2011

NOTE I - 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. Certain actions of the Board and management are covered through the Tort Claims Act.

NOTE J - RESTATEMENT REQUIRED BY GASB 54

GASB Statement No. 54 clarifies the existing governmental fund type's definitions and provides clearer fund balance categories and classifications. The hierarchical fund balance classifications are based primarily upon the extent to which government is bound to follow constraints on resources in governmental funds and includes the terms: non-spendable, restricted, committed, assigned, and unassigned. GASB Statement No. 54 was implemented in the current fiscal year and requires retroactive restatement. All of the District's fund balances previously classified as reserved were reclassified as restricted fund balances.

NOTE K - SUBSEQUENT EVENTS

Events subsequent to June 30, 2011 have been evaluated by management through March 6, 2012, the date the financial statements were available for issuance. In the opinion of management no events occurring after June 30, 2011 require adjustment or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Cabazon Public Improvement District

BOND FUND – BUDGET AND ACTUAL

Year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Dividend income	\$ -	\$ -	\$ 9	\$ 9
Total revenues	-	-	9	9
Expenditures				
Debt service				
Interest expense	617,230	617,230	622,301	(5,071)
Principal	205,000	205,000	195,000	10,000
Total expenditures	822,230	822,230	817,301	4,929
Other financing sources (uses)				
Transfer in	822,230	822,230	816,359	(5,871)
Total	822,230	822,230	816,359	(5,871)
Net change in fund balance	-	-	(933)	(933)
Fund balances, beginning of year	937	937	937	-
Fund balances, end of year	\$ 937	\$ 937	\$ 4	\$ (933)

Cabazon Public Improvement District

RESERVE FUND – BUDGET AND ACTUAL

Year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Dividend income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 831</u>	<u>\$ 831</u>
Total revenues	-	-	831	831
Other financing sources (uses)				
Transfer out	<u>-</u>	<u>-</u>	<u>(1,127)</u>	<u>(1,127)</u>
Total	<u>-</u>	<u>-</u>	<u>(1,127)</u>	<u>(1,127)</u>
Net change in fund balance	-	-	(296)	(296)
Fund balances, beginning of year	<u>825,203</u>	<u>825,203</u>	<u>825,203</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 825,203</u></u>	<u><u>\$ 825,203</u></u>	<u><u>\$ 824,907</u></u>	<u><u>\$ (296)</u></u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mr. Hector Balderas, New Mexico State Auditor
and the Board of Directors
Cabezon Public Improvement District
Rio Rancho, 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, 2011 which collectively comprise the District's basic financial statements and have issued our report thereon dated March 6, 2012. We have also audited the budgetary comparisons for the year ended June 30, 2011 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

Management of the District is responsible for establishing and maintaining effective 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.

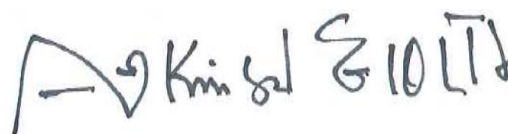
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

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, grant agreements, 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 11-01 and that we consider to be a significant deficiency. A significant deficiency is a deficiency or 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.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District'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 Board of Directors, 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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' with a checkmark-like shape inside.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
March 6, 2012

Cabazon Public Improvement District

SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2011

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements: No

FINANCIAL STATEMENT FINDINGS

None

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

11-01 Late Audit Report (Significant Deficiency)

PRIOR YEAR FINDINGS

08-01 Improve Disbursement Procedures for Enhanced Services Account Resolved

08-03 No General Ledger Maintained Resolved

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2011

11-01: Late Audit Report (Significant Deficiency)

CONDITION

The audit reports for the year ending June 30, 2011 were not submitted by the deadline of December 1, 2011. These reports were submitted to the State Auditor's Office on March 6, 2012.

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

The District retained new auditors for the year ended June 30, 2011. The District is not a complex organization, however, the audit documentation is obtained from numerous sources including outside contractors. It has taken time for the auditors, and the District's staff, to determine what audit documentation was needed and who was to provide it.

EFFECT

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

RECOMMENDATION

We recommend the District and auditors to work closely to determine what documentation is needed and who is to provide it.

MANAGEMENT'S RESPONSE

The District and auditors will work closely to determine what audit documentation is needed. Management does not expect this to be a continuing finding.

Cabazon Public Improvement District

EXIT CONFERENCE

Year ended June 30, 2011

An exit conference was held on February 29, 2012. Attending were the following:

Representing Cabazon Public Improvement District:

Olivia Padilla-Jackson, Secretary/Treasurer
James Jimenez, City Manager

Representing Atkinson & Co. Ltd.:

Martin Mathisen, CPA, CGFM, Director
Krik Mielke, CPA, CFE, FCPA, Manager

The financial statements were prepared with the assistance of Atkinson & Co., Ltd.

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