



**CABEZON PUBLIC IMPROVEMENT
DISTRICT**

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

June 30, 2013

atkinson

PRECISE. PERSONAL. PROACTIVE.

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Cabazon Public Improvement District

OFFICIAL ROSTER

Year ended June 30, 2013

BOARD OF DIRECTORS

| | |
|---------------------|---------------------|
| Thomas E. Swisstack | Chairman |
| Tamara L. Gutierrez | Secretary-Treasurer |
| Chuck Wilkins | Member |
| Patricia A. Thomas | Member |
| Mark Scott | Member |
| Lonnie Clayton | Member |
| Timothy C. Crum | 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

Report on the Financial Statement

We have audited the accompanying financial statement of the governmental activities and each major fund of the Cabezon Public Improvement District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the respective budgetary comparisons for the general fund and enhanced services fund and the budgetary comparisons reported as supplementary information for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2013, and the respective changes in financial position and the respective budgetary comparisons for the general and enhanced services fund and the budgetary comparisons listed as supplementary information for the year then ended in accordance with accounting principles generally accepted in the United States of America.

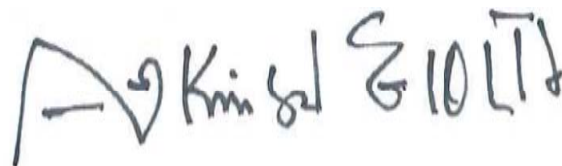
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 2, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2013

Management of the Cabazon Public Improvement District (the 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, 2013.

Cabazon Public Improvement 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 parks and trails, and parkway constructed adjacent to the east branch of the Black Arroyo Channel and parkways and medians, 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, 2013 as follows:

- In the Statement of Activities, the District's total deficit net position decreased from a negative \$7.9 million in fiscal year 2012 to a negative \$7.6 million in fiscal year 2013. The reduction in deficit net position 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 \$1.157 million, while expenditures amounted to \$0.895 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 statements, 2) fund financial statements, and 3) notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

Year ended June 30, 2013

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 Position presents information on all of the District's assets and liabilities, and deferred outflows and inflows with the residual reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 reconciliations are on pages 13 and 15, respectively.

Cabazon Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

Year ended June 30, 2013

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 position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$7,628,214.

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 parks and trails associated with the Channel and 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 were transferred to the Southern Sandoval County Arroyo Flood Control Authority and are not recorded on the District's general ledger. The following table presents the condensed net position for the fiscal years ended June 30:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------------|-----------------------|-----------------------|
| Current assets | \$ 1,873,920 | \$ 1,885,253 |
| Other assets | 288,589 | 201,008 |
| | <u>2,162,509</u> | <u>2,086,261</u> |
| Current liabilities | 427,196 | 430,704 |
| Long-term obligations outstanding | 9,363,527 | 9,581,954 |
| | <u>9,790,723</u> | <u>10,012,658</u> |
| Total liabilities | <u>9,790,723</u> | <u>10,012,658</u> |
| Net Position - unrestricted (deficit) | <u>\$ (7,628,214)</u> | <u>\$ (7,926,397)</u> |

Cabazon Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

Year ended June 30, 2013

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

- Special levies for the fiscal year amounted to \$1,157,722.
- Interest expense incurred related to the Revenue Bond amounted to \$609,848.
- Maintenance expense of \$235,923 incurred to maintain improvements in accordance with the Public Improvement District development agreement.
- Administrative expenses of \$49,528 to pay for services such as legal and financial services.

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

| | <u>2013</u> | <u>2012</u> |
|----------------------------|-------------------|-------------------|
| Expenses | | |
| Public works - maintenance | \$ 235,923 | \$ 228,785 |
| General government | 49,528 | 50,583 |
| Interest expense | <u>609,848</u> | <u>620,942</u> |
| Total expenses | 895,299 | 900,310 |
| General Revenues | | |
| Special Levy | 1,157,722 | 1,062,253 |
| Dividend Income | <u>110</u> | <u>81</u> |
| | <u>1,157,832</u> | <u>1,062,334</u> |
| Change in Net Position | <u>\$ 262,533</u> | <u>\$ 162,024</u> |

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds amounted to \$1,063,481, while expenditures amounted to \$1,101,432. The major expenditures of the District are debt service payments and maintenance expenditures.

General Fund Budgetary Highlights

The District adopts an annual budget, which projects the expected General Fund 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 (UNAUDITED) - CONTINUED

Year ended June 30, 2013

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, 2013 amounted to \$9,581,953 (net of unamortized bond discount).

Currently Known Facts and Conditions

The delinquency rate for fiscal year 20132013 was 9.12 percent. In general, the District has observed a consistent delinquency rate 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 POSITION

June 30, 2013

| | Governmental Activities |
|--|----------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 1,873,920 |
| Receivable, net | 162,143 |
| Bond discounts and issuance costs, net | <u>126,446</u> |
| Total assets | 2,162,509 |
| Liabilities | |
| Accounts payable | 10,304 |
| Interest payable | 198,462 |
| Revenue bonds payable, net | |
| Due within one year | 218,427 |
| Due in more than one year | <u>9,363,526</u> |
| Total liabilities | <u>9,790,719</u> |
| Net Position | |
| Restricted for debt service | 824,865 |
| Unrestricted (deficit) | <u>(8,453,079)</u> |
| Total net position | <u><u>\$ (7,628,214)</u></u> |

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

Cabazon Public Improvement District

STATEMENT OF ACTIVITIES

Year ended June 30, 2013

| | <u>Expenses</u> | <u>Governmental Activities</u> |
|---|-------------------|------------------------------------|
| Expenses | | |
| Public works - maintenance | \$ 235,923 | \$ (235,923) |
| General government | 49,528 | (49,528) |
| Interest expense | <u>609,848</u> | <u>(609,848)</u> |
| Total expenses | <u>\$ 895,299</u> | (895,299) |
| General Revenues | | |
| Special Levy | | 1,157,722 |
| Dividend income | | <u>110</u> |
| | | <u>1,157,832</u> |
| Change in net position | | 262,533 |
| Net position (deficit) beginning, as previously reported | | (7,926,397) |
| Restatement | | <u>35,650</u> |
| Net position as restated | | <u>(7,890,747)</u> |
| Restatement net position (deficit), ending | | <u>\$ (7,628,214)</u> |

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

Cabazon Public Improvement District

BALANCE SHEET – GOVERNMENTAL FUNDS

Year ended June 30, 2013

| | General Fund | Bond Fund | Reserve Fund | Enhanced Services Fund | Total |
|--|-------------------|--------------|-------------------|------------------------------|---------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 772,727 | \$ 1 | \$ 824,864 | \$ 276,326 | \$ 1,873,918 |
| Receivables, net of allowance of \$12,658 | <u>129,222</u> | <u>-</u> | <u>-</u> | <u>32,921</u> | <u>162,143</u> |
| Total assets | <u>\$ 901,949</u> | <u>\$ 1</u> | <u>\$ 824,864</u> | <u>\$ 309,247</u> | <u>\$ 2,036,061</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 10,093 | \$ - | \$ - | \$ 213 | \$ 10,306 |
| Deferred revenue | <u>129,917</u> | <u>-</u> | <u>-</u> | <u>32,151</u> | <u>162,068</u> |
| Total Liabilities | 140,010 | - | - | 32,364 | 172,374 |
| Fund Balances | | | | | |
| Restricted for debt service | - | 1 | 824,864 | - | 824,865 |
| Unassigned | <u>761,939</u> | <u>-</u> | <u>-</u> | <u>276,883</u> | <u>1,038,822</u> |
| Total fund balances | <u>761,939</u> | <u>1</u> | <u>824,864</u> | <u>276,883</u> | <u>1,863,687</u> |
| Total liabilities and fund balances | <u>\$ 901,949</u> | <u>\$ 1</u> | <u>\$ 824,864</u> | <u>\$ 309,247</u> | <u>\$ 2,036,061</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 POSITION**

Year ended June 30, 2013

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

| | |
|--|-----------------------|
| Fund balance - total governmental funds | \$ 1,863,687 |
| Amounts reported for governmental activities in the the Statement of Net Position are different because: | |
| Bond issuance cost in the governmental activities are not financial resources and therefore, not reported in the funds | 126,446 |
| Long-term liabilities for the revenue bonds, are not due and payable in the current period, and therefore are not reported in the funds | (9,581,953) |
| Accrued interest payable | (198,462) |
| Receivables reported in the Statement of Net Position that is not currently available in the funds and reported in deferred revenue | <u>162,068</u> |
| Net position of governmental activities | <u>\$ (7,628,214)</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, 2013

| | General Fund | Bond Fund | Reserve Fund | Enhanced Services Fund | Total |
|--|-------------------|--------------|-------------------|------------------------------|---------------------|
| Revenues | | | | | |
| Special Levy | \$ 844,025 | \$ - | \$ - | \$ 183,697 | \$ 1,027,722 |
| Dividend income | 36 | 4 | 70 | - | 110 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 844,061 | 4 | 70 | 183,697 | 1,027,832 |
| Expenditures | | | | | |
| General Government | 49,528 | - | - | - | 49,528 |
| Public works | - | - | - | 235,923 | 235,923 |
| Debt service | | | | | |
| Interest expense | - | 600,981 | - | - | 600,981 |
| Principal | - | 215,000 | - | - | 215,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 49,528 | 815,981 | - | 235,923 | 1,101,432 |
| Excess (deficiency) of revenues over (under) expenditures | 794,533 | (815,977) | 70 | (52,226) | (73,600) |
| Other financing sources (uses) | | | | | |
| Transfer in | - | 815,977 | - | - | 815,977 |
| Transfer out | (815,914) | - | (64) | - | (815,978) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | (815,914) | 815,977 | (64) | - | (1) |
| Net change in fund balance | (21,381) | - | 6 | (52,226) | (73,601) |
| Fund balances, beginning as previously reported | 757,352 | 1 | 824,858 | 319,427 | 1,901,638 |
| Restatement | 25,968 | - | - | 9,682 | 35,650 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balances, beginning as restated | 783,320 | 1 | 824,858 | 329,109 | 1,937,288 |
| Fund balances, ending | <u>\$ 761,939</u> | <u>\$ 1</u> | <u>\$ 824,864</u> | <u>\$ 276,883</u> | <u>\$ 1,863,687</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, 2013

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

| | | |
|--|----|----------|
| Net Change in fund balances - total governmental funds | \$ | (73,601) |
|--|----|----------|

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 amortized in the Statement of Activities | | (12,595) |
|--|--|----------|

| | | |
|---|--|---------|
| Change in Special Levy deferred revenue recognized in the fund balances | | 130,001 |
|---|--|---------|

| | | |
|---|--|---------|
| The repayment of long-term debt uses the current financial resources of the governmental funds. This has no effect on net position. | | 215,000 |
|---|--|---------|

| | | |
|------------------------------------|--|--------------|
| Change in accrued interest payable | | <u>3,728</u> |
|------------------------------------|--|--------------|

| | | |
|--|----|-----------------------|
| Changes in net position of governmental activities | \$ | <u><u>262,533</u></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, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Special Levy | \$ 643,140 | \$ 643,140 | \$ 844,025 | \$ 200,885 |
| Dividend income | - | - | 36 | 36 |
| Total revenues | 643,140 | 643,140 | 844,061 | 200,921 |
| Expenditures | | | | |
| General government | 216,445 | 216,445 | 49,528 | 166,917 |
| Total expenditures | 216,445 | 216,445 | 49,528 | 166,917 |
| Other Financing Sources (Uses) | | | | |
| Transfer out | (426,695) | (426,695) | (815,914) | (389,219) |
| Total | (426,695) | (426,695) | (815,914) | (389,219) |
| Net change in fund balance | - | - | (21,381) | (21,381) |
| Fund balances, beginning of year | 757,352 | 757,352 | 783,320 | - |
| Fund balances, end of year | <u>\$ 757,352</u> | <u>\$ 757,352</u> | <u>\$ 761,939</u> | <u>\$ (21,381)</u> |

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, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------------|------------------|------------|------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Special Levy | \$ 200,328 | \$ 200,328 | \$ 183,697 | \$ (16,631) |
| Total revenues | 200,328 | 200,328 | 183,697 | (16,631) |
| Expenditures | | | | |
| General government | - | - | - | - |
| Public works | 256,355 | 256,355 | 235,923 | 20,432 |
| Total expenditures | 256,355 | 256,355 | 235,923 | 20,432 |
| Other Financing Sources (Uses) | | | | |
| Transfer in | - | - | - | - |
| Total | - | - | - | - |
| Net change in fund balance | (56,027) | (56,027) | (52,226) | 3,801 |
| Fund balances, beginning of year | 319,427 | 319,427 | 329,109 | - |
| Fund balances, end of year | \$ 263,400 | \$ 263,400 | \$ 276,883 | \$ 3,801 |

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

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 seven 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 Position 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 Net Position includes the District's assets, liabilities, deferred outflows of resources and deferred inflows of resources and the residual of these items are reported as net position for the year ending June 30, 2013. There are no deferred outflows or deferred inflows of resources for the District.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

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

June 30, 2013

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. For the year ending June 30, 2013, amounts of special levy receivable expected to be collected 60 days beyond the fiscal year is reported as deferred revenue. 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

June 30, 2013

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 \$948,703 and \$209,018 for the fiscal year ended 2013, 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 scheduled 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. Levy amounts not available within 60 days of the reporting date are recorded as deferred revenue.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Transfers

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

9. Fund Balances

The District follows GASB 54. 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, 2013.

The spendable classifications are detailed below:

Restricted Fund Balances

Net position is reported as restricted when constraints placed on net position 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 position is restricted by enabling legislation is \$824,865 which represents all restricted net position reported on page 10.

The District will apply first restricted resources and then unrestricted resources to any activity that may be satisfied by either restricted or unrestricted resources.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

11. Budgets

The District has adopted budgets for each year. The budget is adopted on a modified accrual (GAAP) 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.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE C - DEPOSITS AND INVESTMENTS - CONTINUED

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, 2013, the District's deposits were exposed to custodial risk as follows:

| | | |
|---|--|-------------------|
| Total deposits | | \$ 276,326 |
| Insured | | <u>(250,000)</u> |
| | | 26,326 |
| Pledged collateral is being held by a third party banking institution not in Cabazon's name | | |
| CUSIP 3136A1R1 Fed Home Loan stated at fair value | | |
| | | <u>312,920</u> |
| Excess collateral | | <u>\$ 286,594</u> |

Cash and cash equivalents at June 30, 2013 consists of the following:

| | | |
|--|--|---------------------|
| Cash in Bank of Albuquerque | | \$ 276,326 |
| Held in trust by Bank of Albuquerque in U.S. Treasury Fund | | <u>1,597,595</u> |
| | | <u>\$ 1,873,921</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, 2013 consist of:

| | | |
|--------------------------|--|-------------------|
| Special Levy receivables | | \$ 174,801 |
| Allowance for bad debts | | <u>(12,659)</u> |
| | | <u>\$ 162,142</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.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE E - REVENUE BONDS - CONTINUED

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, 2013 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, 6/30/12 | \$ - | \$ - | \$ - | \$ 930,000 | \$ 3,035,000 | \$ 5,970,000 | \$ 9,935,000 |
| Payments | - | - | - | (215,000) | - | - | (215,000) |
| Balance, 6/30/13 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 715,000</u> | <u>\$ 3,035,000</u> | <u>\$ 5,970,000</u> | <u>\$ 9,720,000</u> |

The balance of revenue bonds at June 30, 2013 in the Statement of Net Position is net of unamortized bond discount of \$138,046.

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

| Year Ending June 30 | Principal | Interest | Total Debt Service |
|---------------------|---------------------|---------------------|----------------------|
| 2014 | \$ 225,000 | \$ 589,540 | \$ 814,540 |
| 2015 | 240,000 | 577,450 | 817,450 |
| 2016 | 250,000 | 564,710 | 814,710 |
| 2017 | 265,000 | 550,260 | 815,260 |
| 2018 | 280,000 | 533,910 | 813,910 |
| 2019-2023 | 1,300,000 | 1,952,040 | 3,252,040 |
| 2024-2028 | 2,110,000 | 1,933,335 | 4,043,335 |
| 2029-2033 | 2,860,000 | 1,162,350 | 4,022,350 |
| 2034-2038 | 2,190,000 | 212,625 | 2,402,625 |
| | <u>\$ 9,720,000</u> | <u>\$ 8,076,220</u> | <u>\$ 17,796,220</u> |

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE E - REVENUE BONDS - CONTINUED

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 | \$ 9,935,000 | \$ - | \$ (215,000) | \$ 9,720,000 | \$ 225,000 |
| Unamortized bond discount | (144,620) | - | 6,573 | (138,047) | (6,573) |
| | <u>\$ 9,790,380</u> | <u>\$ -</u> | <u>\$ (208,427)</u> | <u>\$ 9,581,953</u> | <u>\$ 218,427</u> |

NOTE F - DEFICIT NET POSITION

The total net position 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.

NOTE G - INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2013 to fund the debt service requirements:

| <u>Transfer Out</u> | <u>Transfer In Bond Fund</u> | <u>Transfer In Enhanced Services Fund</u> |
|---------------------|----------------------------------|---|
| General Fund | <u>\$ 815,977</u> | <u>\$ -</u> |
| Reserve Fund | <u>\$ 64</u> | <u>\$ -</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, 2013 does not expect to incur a liability.

Cabazon Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

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 officer liability. Certain actions of the Board and management are covered through the Tort Claims Act. As it applies to the District, neither any member of the Board of Directors of the District nor any person acting on behalf of the District, while acting within the scope of his authority, shall be subject to any personal liability for any action taken or omitted within that scope of authority.

NOTE J - SUBSEQUENT EVENTS

Events subsequent to June 30, 2013 have been evaluated by management through December 2, 2013, the date the financial statements were available for issuance. In the opinion of management no events occurring after June 30, 2013 require adjustment or disclosure in the financial statements.

NOTE K- PRIOR PERIOD ADJUSTMENTS

During the current year engagement, it was determined that Accounts Receivable was recorded incorrectly in the prior period.

Governmental Activities: In the Government-Wide and Fund Financials statements, Accounts Receivable was under stated due to only the current receivables being take into consideration and not receivables as a whole. Accounts Receivables was under stated by \$35,649, which will increase the net position (deficit), ending balance.

| | <u>Ending Balance as Previously reported</u> | <u>Notes Receivable Restatement</u> | <u>Net Position as Restated</u> |
|---------------------------------|---|--|--|
| Cabazon Fund Financials: | | | |
| Net Position | | | |
| Ending Balance | \$ <u>7,926,397</u> | \$ <u>(35,649)</u> | \$ <u>7,890,747</u> |
| Total Fund Financials | \$ <u>7,926,397</u> | \$ <u>(35,649)</u> | \$ <u>7,890,747</u> |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE L - NEW ACCOUNTING STANDARDS

GASB 63

The District implemented Governmental Accounting Standard Board Statement No. 63 “Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position” (GASB No. 63) for the year ending June 30, 2013. GASB 63 introduces a fundamental change to the reporting of elements that make up a statement of financial position.

Deferred outflows of resources and deferred inflows of resources are now included in the elements that make up a statement of financial position and GASB 63 introduces the term net position for reporting the residual of all elements in a statement of financial position. The statement of financial position of the District at June 30, 2013 conforms to the presentation requirements of GASB 63. There were no deferred outflows or inflows to separately report at June 30, 2013

GASB 65

Governmental Accounting Standard Board Statement No. 65 “Items Previously Reported as Assets and Liabilities” (GASB No. 65) changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after December 15, 2012. The District will implement this standard next year. Bond issuance costs will be treated differently next year under this standard.

SUPPLEMENTARY INFORMATION

Cabazon Public Improvement District

BOND FUND – BUDGET AND ACTUAL

Year ended June 30, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------------|-------------------|-------------------|-------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Dividend income | \$ - | \$ - | \$ 4 | \$ 4 |
| Total revenues | - | - | 4 | 4 |
| Expenditures | | | | |
| Debt service | | | | |
| Interest expense | 595,390 | 595,390 | 600,981 | (5,591) |
| Principal | 225,000 | 225,000 | 215,000 | 10,000 |
| Total expenditures | 820,390 | 820,390 | 815,981 | 4,409 |
| Other financing sources (uses) | | | | |
| Transfer in | 815,980 | 815,980 | 815,977 | (3) |
| Total | 815,980 | 815,980 | 815,977 | (3) |
| Net change in fund balance | (4,410) | (4,410) | - | 4,410 |
| Fund balances, beginning of year | 1 | 1 | 1 | - |
| Fund balances, end of year | <u>\$ (4,409)</u> | <u>\$ (4,409)</u> | <u>\$ 1</u> | <u>\$ 4,410</u> |

Cabazon Public Improvement District

RESERVE FUND – BUDGET AND ACTUAL

Year ended June 30, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Dividend income | \$ - | \$ - | \$ 70 | \$ 70 |
| Total revenues | - | - | 70 | 70 |
| Other financing sources (uses) | | | | |
| Transfer out | - | - | (64) | (64) |
| Total | - | - | (64) | (64) |
| Net change in fund balance | - | - | 6 | 6 |
| Fund balances, beginning of year | 824,858 | 824,858 | 824,858 | - |
| Fund balances, end of year | <u>\$ 824,858</u> | <u>\$ 824,858</u> | <u>\$ 824,864</u> | <u>\$ 6</u> |

This reserve fund is not budgeted due to no current activity.



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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's, basic financial statements, and have issued our report thereon dated December 2, 2013.

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 of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

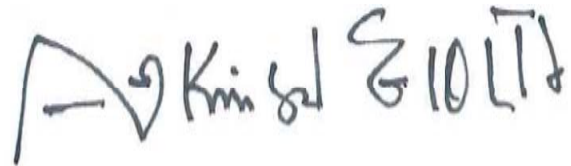
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a smaller 'K'.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 2, 2013

Cabazon Public Improvement District

SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

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

None

PRIOR YEAR FINDING

11-01 Late Audit Report (Significant Deficiency) (Resolved)

Cabazon Public Improvement District

EXIT CONFERENCE

Year ended June 30, 2013

An exit conference was held on November 25, 2013. Attending were the following:

Representing Cabazon Public Improvement District:

Marta Ortiz

Thomas Swisstack

Acting Financial Services Director

Mayor/City of Rio Rancho

Representing Atkinson & Co. Ltd.:

Martin Mathisen, CPA, CGFM

Shareholder/Audit Director

The financial statements were prepared with the assistance of Atkinson & Co., Ltd. The District is responsible for their content.

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