

CABEZON PUBLIC
IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

June 30, 2017



CABEZON PUBLIC IMPROVEMENT DISTRICT

TABLE OF CONTENTS

Official Roster.....	1
Independent Auditor’s Report.....	2
Management’s Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Budget to Actual – General Fund.....	14
Budget to Actual – Enhanced Services Fund	15
Notes to the Financial Statements	16
Compliance Section	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
Schedule of Findings and Responses	25
Exit Conference	26

CABEZON PUBLIC IMPROVEMENT DISTRICT

OFFICIAL ROSTER

YEAR ENDED JUNE 30, 2017

BOARD OF DIRECTORS

Paul Joseph Howell	Chairman
Michael Barger	Member
Dale Sapp	Member
Heidi Buxman	Member
Carole Jaramillo	Treasurer/Secretary

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cabezon Public Improvement District
and Mr. Wayne Johnson
New Mexico, State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue fund of Cabezon Public Improvement District ("the District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue fund 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 on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements, and other matters. The purpose of this 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 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.



Albuquerque, New Mexico
December 14, 2017

CABEZON PUBLIC IMPROVEMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Management of the Cabezon 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, 2017.

Cabezon 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, to be used for the purpose of paying the principal of and interest on the District's special levy revenue bonds, and (ii) a special levy (Special Levy B) against the real property in the District, to be used for the purpose of funding certain enhanced services within the District including the maintenance of landscaping for the Linear Park and trails constructed adjacent to the east branch of the Black Arroyo Channel and parkways and medians in a portion of the City of Rio Rancho's rights-of-way. Special Levy B is not pledged to the payment of the bonds.

Both Special Levy A and Special Levy B are included on the property tax assessment notices sent to property owners each year by the Sandoval County Treasurer's Office. The special levies are paid to the county at the same time as property taxes, and the county remits the special levy collections to the District on a monthly basis.

FINANCIAL HIGHLIGHTS

Following are highlights from the financial statements for the fiscal year ended June 30, 2017:

- The District's total net position increased from a negative \$7,342,028 in fiscal year 2016 to negative \$6,785,242 in fiscal year 2017.
- In the Statement of Activities, special levy revenue and interest expense amounted to \$1,073,561 and \$276,099, respectively.

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, 3) the budgetary comparisons for general fund and special revenue fund and 4) notes to the financial statements.

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, 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 that have been assessed but not yet collected).

**CABEZON PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

In the government-wide financial statements, the District’s activities are presented as *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 and outflows 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 condition.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental funds and governmental activities. The reconciliations are on pages 11 and 13 of this report.

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.

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. At June 30, 2017, the District’s liabilities exceeded assets by \$6,785,242.

As stated earlier, the District was originally formed to construct certain improvements to the East Branch of the Black Arroyo Channel and appurtenances, including detention/sediment basins, and water quality facilities. The majority of the improvements were financed from bond proceeds, and once completed, the assets were transferred to the Southern Sandoval County Arroyo Flood Control Authority (SSCAFA) and are not recorded on the District’s general ledger. However, the District remains liable for debt service on the outstanding bonds. The bonds will be repaid over time as the District assesses and collects Special Levy A on property owners within the District.

The following table presents the District’s condensed net position as of June 30:

	2017	2016
Current assets	\$ 1,889,004	1,702,457
Total current assets	<u>1,889,004</u>	<u>1,702,457</u>
Current liabilities	459,246	457,082
Long-term liabilities	8,215,000	8,587,403
Total liabilities	<u>8,674,246</u>	<u>9,044,485</u>
Net position – restricted	492,628	365,731
Net position – unrestricted (deficit)	<u>(7,277,870)</u>	<u>(7,707,759)</u>
Total net position (deficit)	<u>\$ (6,785,242)</u>	<u>(7,342,028)</u>

**CABEZON PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Changes in Net Position. The District's net position increased \$556,786. Revenue from special levies was relatively flat; however, expenses decreased by \$45,780 mainly due to lower maintenance expenses.

The following table presents a summary of the changes in the District's net position for the fiscal years ended June 30:

	<u>2017</u>	<u>2016</u>
Revenues:		
Special levy	\$ 1,073,561	1,072,500
Dividend income	1,620	77
Miscellaneous	-	13,332
Total revenues	<u>1,075,181</u>	<u>1,085,909</u>
Expenses:		
General government	56,610	50,898
Public works –maintenance	176,473	213,228
Amortization of prepaid insurance	9,213	9,213
Interest expense	276,099	290,836
Total expenses	<u>518,395</u>	<u>564,175</u>
Change in net position	556,786	521,734
Net position, beginning	<u>(7,342,028)</u>	<u>(7,863,762)</u>
Net position, ending	<u>\$ (6,785,242)</u>	<u>(7,342,028)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

As stated earlier, the District does not own any capital assets but remains responsible for paying debt service on bonds that were issued to construct certain assets that were subsequently transferred to SSCAFCA.

In October 2014, the District issued \$9,340,000 in Series 2014 special levy revenue bonds to refund its outstanding Series 2005 special levy revenue bonds. Taking advantage of lower interest rates, the District realized a net present value savings of \$1.78 million and a cash flow savings of \$2.3 million or approximately \$150,000 per year through the year 2034. The refunding transaction allowed the District to lower the amount of Special Levy A by 20% for all property owners.

At June 30, 2017, the District's outstanding bonds totaled \$8,580,000.

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's revenues come from special levies paid by property owners within the District, and the major expenditures of the District are debt service payments and landscape maintenance expenditures. For fiscal year 2017, revenues for all governmental funds totaled \$1,077,595, while expenditures totaled \$879,420. The general fund has unassigned fund balance of \$1,190,739, representing 135% of the total expenditures during the fiscal year.

The following table shows the balances of the District's governmental funds at June 30, 2017:

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Enhanced Services Fund</u>	<u>Total</u>
Fund Balances:					
Restricted	\$ -	19	-	496,297	496,316
Unassigned	1,190,739	-	-	-	1,190,739
Total	<u>\$ 1,190,739</u>	<u>19</u>	<u>-</u>	<u>496,297</u>	<u>1,687,055</u>

**CABEZON PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 A for each year. Actual revenues is higher by \$3,125 than budgeted amount while actual expenditures is lower by \$90,280 than budgeted amount. There were no significant changes between original and final budgets for the fiscal years ending 2017.

Other Funds – Enhanced Services Fund

The Enhanced Services Fund exists to pay for costs of maintaining the Linear Park trails and certain medians and landscaping along the major collector and arterial roads within the District's boundaries. These costs are paid for through collection of Special Levy B that is assessed on all property owners within the District. During fiscal year 2017, maintenance costs were \$176,473 or 17% lower than the prior year. The fund ended the year with a balance of \$496,297 which is restricted for future landscape maintenance needs.

CURRENTLY KNOWN FACTS AND CONDITIONS

For several years, the governing body of the City of Rio Rancho has been acting as the District's board for all legal and budgetary matters. In August 2015, the District held a formal election to select new board members comprised of residents from the various neighborhoods of the Cabezon District. Three individuals were elected to the District board, and the City's governing body turned over all legal and budgetary responsibility for the District's affairs to the new board. The District continues to contract with the City for certain financial and administrative services.

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. Questions about this report or any other information about the District should be directed to the Financial Services Department of the City of Rio Rancho, 3200 Civic Center Circle NE, Rio Rancho, New Mexico 87144.

BASIC FINANCIAL STATEMENTS

**CABEZON PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,669,497
Special levy receivable	53,683
Prepaid insurance, net	<u>165,824</u>
Total assets	<u>1,889,004</u>
LIABILITIES	
Interest payable	94,246
Revenue bonds payable	
Due within one year	365,000
Due in more than one year	<u>8,215,000</u>
Total liabilities	<u>8,674,246</u>
Net Position	
Restricted	492,628
Unrestricted (deficit)	<u>(7,277,870)</u>
Total net position	<u>\$ (6,785,242)</u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

EXPENSES	<u>Expenses</u>	<u>Governmental Activities</u>
Public works- maintenance	\$ 176,473	(176,473)
General government	56,610	(56,610)
Amortization of prepaid insurance	9,213	(9,213)
Interest expense	276,099	(276,099)
Total expenses	<u>\$ 518,395</u>	<u>(518,395)</u>
 GENERAL REVENUES		
Special levy		\$ 1,073,561
Dividend income		<u>1,620</u>
		<u>1,075,181</u>
Change in net position		556,786
Net position (deficit) beginning		<u>(7,342,028)</u>
Net position (deficit), ending		<u>\$ (6,785,242)</u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Bond Fund	Reserve Fund	Enhanced Services Fund	Total
ASSETS					
Cash and cash equivalents	\$ 1,176,869	19	-	492,609	1,669,497
Special levy receivable	<u>38,820</u>	-	-	<u>14,863</u>	<u>53,683</u>
Total Assets	<u>\$ 1,215,689</u>	<u>19</u>	<u>-</u>	<u>507,472</u>	<u>1,723,180</u>
LIABILITIES					
Accounts payable	\$ -	-	-	-	-
<i>Total Liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS					
Special levy not available	<u>24,950</u>	-	-	<u>11,175</u>	<u>36,125</u>
<i>Total Deferred Inflows</i>	<u>24,950</u>	<u>-</u>	<u>-</u>	<u>11,175</u>	<u>36,125</u>
FUND BALANCES					
Restricted for debt service	-	19	-	-	19
Restricted for repair and maintenance	-	-	-	496,297	496,297
Unassigned	<u>1,190,739</u>	-	-	-	<u>1,190,739</u>
<i>Total fund balances</i>	<u>1,190,739</u>	<u>19</u>	<u>-</u>	<u>496,297</u>	<u>1,687,055</u>
<i>Total liabilities, deferred inflows and fund balances</i>	<u>\$ 1,215,689</u>	<u>19</u>	<u>-</u>	<u>507,472</u>	<u>1,723,180</u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

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

Fund Balance - total government funds	\$ 1,687,055
Long-term assets related to debt used in the governmental activities are not financial resources, and therefore are not reported in the funds	165,824
Long-term liabilities for the revenue bonds are not due and payable in the current period, and therefore are not reported in the funds	(8,580,000)
Accrued interest payable	(94,246)
Receivables reported in the Statement of Net Position that are not currently available in the funds and reported in deferred inflows	<u>36,125</u>
Net position of governmental activities	<u><u>\$ (6,785,242)</u></u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Bond Fund	Reserve Fund	Enhanced Services Fund	Total
Revenues					
Special levy	\$ 752,106	-	-	323,869	1,075,975
Dividend income	1,599	21	-	-	1,620
<i>Total Revenues</i>	<u>753,705</u>	<u>21</u>	<u>-</u>	<u>323,869</u>	<u>1,077,595</u>
Expenditures					
General government	39,780	-	-	16,830	56,610
Public works - maintenance	-	-	-	176,473	176,473
Debt service					
Principal	-	360,000	-	-	360,000
Interest	-	286,337	-	-	286,337
<i>Total Expenditures</i>	<u>39,780</u>	<u>646,337</u>	<u>-</u>	<u>193,303</u>	<u>879,420</u>
Excess (deficiency) of revenues over (under) expenditures	<u>713,925</u>	<u>(646,316)</u>	<u>-</u>	<u>130,566</u>	<u>198,175</u>
Other financing sources (uses)					
Transfer in	-	646,335	-	-	646,335
Transfer out	(646,335)	-	-	-	(646,335)
<i>Total other financing sources (uses)</i>	<u>(646,335)</u>	<u>646,335</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	67,590	19	-	130,566	198,175
Fund balances, beginning of year	<u>1,123,149</u>	<u>-</u>	<u>-</u>	<u>365,731</u>	<u>1,488,880</u>
Fund balances, end of year	<u>\$ 1,190,739</u>	<u>19</u>	<u>-</u>	<u>496,297</u>	<u>1,687,055</u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNEMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

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 government funds	\$	198,175
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report prepaid insurance costs as an expense; however, in the Statement of Activities, the expense is amortized		(9,213)
The repayment of long-term debt uses the current financial resources of the governmental funds. This has no effect on net position.		360,000
Change in property tax receivable - deferred inflows		(2,415)
Change in bond premium		7,839
Change in accrued interest payable		<u>2,400</u>
Changes in net position of governmental activities	\$	<u><u>556,786</u></u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 750,580	750,580	752,106	1,526
Dividend income	-	-	1,599	1,599
<i>Total Revenues</i>	<u>750,580</u>	<u>750,580</u>	<u>753,705</u>	<u>3,125</u>
Expenditures				
General government	130,060	130,060	39,780	90,280
Public works	-	-	-	-
<i>Total Expenditures</i>	<u>130,060</u>	<u>130,060</u>	<u>39,780</u>	<u>90,280</u>
Other financing sources (uses)				
Transfer in	-	-	-	-
Transfer (out)	-	-	(646,335)	(646,335)
<i>Total</i>	<u>-</u>	<u>-</u>	<u>(646,335)</u>	<u>(646,335)</u>
Net change in fund balance	620,520	620,520	67,590	(552,930)
Fund balances, beginning of year	<u>1,123,149</u>	<u>1,123,149</u>	<u>1,123,149</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,743,669</u>	<u>1,743,669</u>	<u>1,190,739</u>	<u>(552,930)</u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL - ENHANCED SERVICES FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 327,636	327,636	323,869	(3,767)
Dividend income	-	-	-	-
<i>Total Revenues</i>	<u>327,636</u>	<u>327,636</u>	<u>323,869</u>	<u>(3,767)</u>
Expenditures				
General government	30,984	30,984	16,830	14,154
Public works - maintenance	372,768	372,768	176,473	196,295
<i>Total Expenditures</i>	<u>403,752</u>	<u>403,752</u>	<u>193,303</u>	<u>210,449</u>
Other financing sources (uses)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
<i>Total</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(76,116)	(76,116)	130,566	206,682
Fund balances, beginning of year	356,526	356,526	365,731	9,205
Fund balances, end of year	<u>\$ 280,410</u>	<u>280,410</u>	<u>496,297</u>	<u>215,887</u>

See Notes to the Financial Statements.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – REPORTING ENTITY

Cabezon 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 Cabezon Project) and enhanced services for Cabezon 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.

These financial statements present the District (the primary government). As defined by GASB Statements No. 14 and 61, component units are legally separate entities that are included in the District's reporting entity because of the significance of their operating or financial relationships with the District. Based on the criterion in GASB Statements No. 14 and 61, the District had no component units.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with 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.

Basis of Presentation

District-Wide Statements. The Statement of Net Position and Statement of Activities present financial information about the 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, 2017. There are no deferred outflows or deferred inflows of resources for the District as a whole.

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

**CABEZON PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Governmental Funds

The District reports the following major governmental funds:

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

Debt Service Funds:

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

Special Revenue Fund:

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

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

The governmental fund statements are reported using the current resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. For the year ending June 30, 2017, amounts of special levy receivable expected to be collected 60 days beyond the fiscal year is reported as deferred inflows. 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.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Also, in addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows in the governmental funds regarding property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

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

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

Bond discount is 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 expense as they are incurred. Prepaid insurance costs are recognized as asset and amortized over the life of the bonds.

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

Special Levy. The District imposes Special Levy A (which secures the payment of the debt service on the District's Special Levy Revenue Bonds) and Special Levy B (which provides annual funding for the costs of maintaining park improvements and landscaping). Assessment on Special Levy A and Special Levy B amounted to \$747,498 and \$326,063 for the fiscal year ended 2017, 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.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 inflows of resources.

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

Fund Balance. As of June 30, 2017, the fund balances of governmental funds are classified as follows:

Restricted – amounts to be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned – All other spendable amounts.

The District has no fund balances that are classified as non-spendable, committed or assigned.

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

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

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.

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.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017**

NOTE 3 – DEPOSITS AND INVESTMENTS

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

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any District, 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, 2017, the District's deposits were exposed to custodial risk as follows:

Total deposits	\$ 492,609
Less - FDIC Insurance limit	250,000
Total uninsured public funds	<u>\$ 242,609</u>
Pledged collateral required (50% of uninsured fund)	\$ 121,305
Pledged collateral held by a third party banking institution	
FHLB Topeka CUSIP 3136A1RL1, 1/25/2030	80,846
FHLB Topeka CUSIP 3136A4S42, 4/25/2022	85,765
FHLB Topeka CUSIP 3136A4S42, 4/25/2022	<u>107,206</u>
Total	<u>273,817</u>
Excess collateral	<u>\$ 152,512</u>

Cash and cash equivalents at June 30, 2017 consists of the following:

Cash in Bank of Albuquerque	\$ 492,609
Held in trust by Bank of Albuquerque US Treasury Fund	<u>1,176,888</u>
Total	<u>\$ 1,669,497</u>

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

**CABEZON PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – REVENUE BONDS

On October 7, 2014, the District issued \$9,340,000 of Special Levy Refunding Revenue Bonds with interest rates between 2.00% and 3.75% to advance refund \$9,255,000 of series 2005 bonds outstanding with interest rates between 5.20% and 6.30%. In addition to the reserve fund cash balance of \$824,815, net proceeds of \$8,900,890 (including premium of \$8,711, underwriting discounts of \$62,782, issuance costs of \$200,789 and bond insurance of \$184,250) were used to purchase U.S. government securities that were placed in an escrow fund to provide for all future debt service payments for the 2005 series bonds. On March 1, 2015, the outstanding bonds were called and all principal, interest and a related premium of 2% were paid. The liability for those bonds has been removed from the government-wide statement of net assets. The refunding resulted in an economic gain of \$1,780,509 (difference between the present value of the debt service payments on the old and new debt).

The details of activity of the revenue bonds for the year ended June 30, 2017 are as follows:

	<u>6/30/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2017</u>
Special Levy Revenue Bonds	\$ 8,940,000	-	(360,000)	8,580,000
Unamortized bond premium	7,839	-	(7,839)	-
	<u>\$ 8,947,839</u>	<u>-</u>	<u>(367,839)</u>	<u>8,580,000</u>

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

Year Ending		<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>
June 30				<u>Service</u>
2018	\$	365,000	279,088	644,088
2019		370,000	269,887	639,887
2020		385,000	258,563	643,563
2021		400,000	246,787	646,787
2022		410,000	234,638	644,638
2023-2027		2,225,000	983,616	3,208,616
2028-2032		2,615,000	587,334	3,202,334
2033-2035		1,810,000	103,500	1,913,500
Total	\$	<u>8,580,000</u>	<u>2,963,413</u>	<u>11,543,413</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.

NOTE 5 – 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.

**CABEZON PUBLIC IMPROVEMENT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017**

NOTE 6 – INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2017 to fund the debt service requirements:

<u>Transfer Out</u>		<u>Transfer In Bond Fund</u>
General Fund	\$	<u>646,335</u>
Total	\$	<u>646,335</u>

NOTE 7 – 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, 2017 does not expect to incur a liability.

NOTE 8 – 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.

COMPLIANCE SECTION

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

To the Board of Directors
Cabezon Public Improvement District
Rio Rancho, New Mexico
and Mr. Wayne Johnson
New Mexico State Auditor

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 budgetary comparisons of the general fund and major special revenue fund of the Cabezon Public Improvement District (“the District), as of and for the year ended June 30, 2017, 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 14, 2017.

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 the 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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Albuquerque, New Mexico

December 14, 2017

**CABEZON PUBLIC IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR FINDINGS

No matters were reported

**CABEZON PUBLIC IMPROVEMENT DISTRICT
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2017**

An exit conference was held on December 13, 2017 which was attended by the following:

Cabazon Public Improvement District

Paul J. Howell, Chairman

Ambrosia Palmer, Special District Analyst

Carole Jaramillo, Treasurer/Secretary

Axiom CPAs and Business Advisors LLC

Jaime Rumbaoa, Partner

Financial Statement Presentation

The financial statements were prepared from the original books and records of Cabazon Public Improvement District as of June 30, 2017 by Axiom CPAs Business Advisors LLC. However, the contents of the financial statements remain the responsibility of management.