



**MONTECITO ESTATES
PUBLIC IMPROVEMENT DISTRICT**

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 2010

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT

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

Board of Directors

Michael Riordan	Chairman
Jacques Blair	Vice Chairman
Greg Stricklin	Treasurer
Christopher Daniel	Member

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

We have performed the procedures enumerated below, which were agreed to by Montecito Estates Public Improvement District (District) and New Mexico State Auditor (the specified parties), solely to users in evaluating the District's financial reporting relating to its Cash, Capital Assets, Debt, Revenue, Expenditures, Journal Entries, Budget and Capital Outlay Appropriations information and its compliance with Section 12-6-3B (6) NMSA 1978 and Section 2.2.2.16 NMAC as of and for the year ended June 30, 2010. The District is responsible for its financial reporting to the State Auditor as described above. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In accordance with Tier 6 of the Audit Act - Section 12-6-3 B (6) NMSA 1978 and Section 2.2.2.16 NMAC, we performed the following procedures:

1. Cash

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand. For purposes of performing our procedures "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the District.

To the Board of Directors
 Montecito Estates Public Improvement District
 and
 Mr. Hector Balderas
 New Mexico State Auditor

- b) Perform a random test of bank reconciliations for accuracy. Also, trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division. For purposes of performing our procedures "accuracy" means that reconciling items agree to deposit slips and subsequent bank or investment statements.
- c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results of Procedures 1(a) - 1(c)

We obtained a list from management of all bank and investment accounts, and the corresponding statements for the fiscal year ended June 30, 2010 as described below:

<u>Account No.</u>	<u>Description</u>	<u>GL Balance</u>
81-8814-01-4	Pledged Revenue	\$ 233,024
81-8814-03-0	Interest Account	1
81-8814-04-8	Prepayment Account	388
81-8814-02-2	Principal Account	-
81-8814-05-5	Letter of Credit	1
81-8814-08-9	Reserve Fund	364,580
81-8814-09-7	Admin Account	27,233
		<hr/>
Total		<u>\$ 625,227</u>

We noted the District did not maintain a general ledger for the fiscal year ending June 30, 2010, which has been noted as finding 10-01 on page 15 of this report. No other instances of noncompliance were noted as a result of performing the procedures described in 1(a) - 1(c).

To the Board of Directors
Montecito Estates Public Improvement District
and
Mr. Hector Balderas
New Mexico State Auditor

2. Capital Assets

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

Results of Procedure 2

The District has no capital assets and, accordingly, Section 12-6-10 NMSA 1978 is not applicable.

3. Debt

If the local public body has any debt, verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements. To verify whether required payments on debt were made we will compare the payment amount and date (interest and principal) per amortization schedule to the trust statements. To determine compliance with reserve requirement we will perform the following: (a) read the bond indenture to determine the reserve requirement, (b) obtain District management's calculation and recalculate the reserve requirement, and compare the recalculated amount to the balance of reserve fund to determine compliance.

Results of Procedures 3(a) – 3(b)

We noted interest payments of \$153,650 each on October 1 and April 1, 2010 in accordance with the amortization schedule. The District maintained a reserve balance at June 30, 2010 of \$364,580 compared with the required reserve balance of \$364,400 per Bond Indenture. No instances of noncompliance were noted as a result of performing the procedures described in 3(a) – 3(b).

To the Board of Directors
Montecito Estates Public Improvement District
and
Mr. Hector Balderas
New Mexico State Auditor

4. Revenues

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue. For purposes of performing our analytical procedures, we inquired of District management for explanations of all variances of budget to actual of more than 10% for each revenue type.

Test 50% of the total amount of revenues for the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement. For purposes of our procedures, we selected a random sample of recorded revenue transactions to achieve a minimum of 50% coverage.
- c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Results of Procedures 4(a) - 4(c)

As a result of performing the analytical review procedures in 4(a), we noted no variances of more than 10%.

See Schedule of Revenues and Expenditures - Budget and Actual (Cash Basis) in pages 12 through 14 of this report.

To the Board of Directors
 Montecito Estates Public Improvement District
 and
 Mr. Hector Balderas
 New Mexico State Auditor

We selected the following items for procedures 4(b) – 4(c) and obtained a 100% coverage of the total revenues as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
12/21/09	Special levy	\$ 31,335
01/20/10	Special levy	109,899
02/23/10	Special levy	4,205
03/22/10	Special levy	3,757
04/20/10	Special levy	74,404
05/20/10	Special levy	23,478
06/21/10	Special levy	148,380
Total		<u>\$ 395,458</u>

We noted the District did not maintain a general ledger for the fiscal year ending June 30, 2010. This has been noted as finding 10-01 on page 15 of this report. No other instances of noncompliance were noted as a result of performing the procedures described in 4(a) – 4(c).

5. Expenditures

Select a sample of cash disbursements and test at least 25 transactions and 50% of the total amount of expenditures for the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the vendor’s invoice, purchase order, contract and cancelled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures. For purposes of performing our procedures, disbursements were considered to be properly authorized if they contained evidence of review such as sign off on invoices or approval through correspondence.

To the Board of Directors
 Montecito Estates Public Improvement District
 and
 Mr. Hector Balderas
 New Mexico State Auditor

- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results of Procedures 5(a) – 5(c)

We selected the following cash disbursements (representing 100% of the total expenditures) and performed the procedures described in 5(a) – 5(c) above:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
07/08/09	Professional fees	\$ 3,125
09/02/09	Professional fees	12,926
10/01/09	Payment of interest on Revenue Bonds	153,650
10/05/09	Professional fees	3,125
11/18/09	Professional fees	2,500
02/04/10	Professional fees	3,125
02/04/10	Professional fees	16,112
02/04/10	Professional fees	10,860
02/11/10	Professional fees	3,206
04/01/10	Payment of interest on Revenue Bonds	153,650
04/29/10	Professional fees	3,720
05/06/10	Professional fees	2,500
Total		<u>\$ 368,499</u>

We noted the District did not maintain a general ledger for the fiscal year ending June 30, 2010, which has been noted as finding 10-01 on page 15 of this report. In addition, the District is not required to follow the Procurement Code in accordance with NMSA 5-11-10 D. or the Per Diem and Mileage Act as the District has no employees. No other instances of noncompliance were noted as a result of performing the procedures described in 5(a) – 5(c).

To the Board of Directors
Montecito Estates Public Improvement District
and
Mr. Hector Balderas
New Mexico State Auditor

6. Journal Entries

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items for the following attributes:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results of Procedures 6(a) - 6(b)

We noted that the District did not maintain a general ledger for the fiscal year ending June 30, 2010 which has been noted as finding 10-01 on page 15. Accordingly, the District did not have any journal entries. We also noted the District does not have a policy regarding journal entries or their approval process.

7. Budget

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a) Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and approved budgets and general ledger, prepare a schedule of revenues and expenditures - budget and actual on the budgetary basis used by the local public body (cash, accrual, or modified accrual basis) for each individual fund.

To the Board of Directors
Montecito Estates Public Improvement District
and
Mr. Hector Balderas
New Mexico State Auditor

Results of Procedures 7(a) – 7(c)

We noted the District did not maintain a general ledger for the fiscal year ending June 30, 2010, which has been noted as finding 10-01 on page 15. No other instances of noncompliance were noted as a result of performing the procedures described in 7(a) – 7(c). See Schedule of Revenues and Expenditures – Budget and Actual (Cash Basis) in pages 12 through 14 of this report.

Capital Outlay Appropriations

Request and review all state-funded capital outlay awards, joint powers agreements, correspondence and other relevant documentation for any capital outlay award funds expended by the recipient during the fiscal year.

Test all capital outlay expenditures during the fiscal year to:

- a) Determine that the amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date and description agree to the purchase order, contract, vendor's invoice and canceled check, as appropriate.
- b) Determine that the cash disbursements were properly authorized and approved in accordance with the budget, legal requirements and established policies and procedures.
- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code and State Purchasing Regulations (Section 13-1-28 through 13-1-199 NMSA 1978 and 1.4.1 NMAC).
- d) Determine the physical existence (by observation) of the capital asset based on expenditures to date.

To the Board of Directors
Montecito Estates Public Improvement District
and
Mr. Hector Balderas
New Mexico State Auditor

- e) Verify that status reports were submitted to the state agency per terms of agreement and amounts in the status report agree with the general ledger and other supporting documentation.
- f) If the project was funded in advance, determine if the award balance (and cash balance) appropriately reflects the percentage of completion based on the project schedule and expenditures to date.
- g) If the project is complete, determine if there is an unexpended balance and whether it was reverted per statute and agreement with the grantor.
- h) Determine whether cash received for the award was accounted for in a separate fund or separate bank account that is non-interest bearing if so required by the capital outlay award agreement
- i) Determine whether reimbursement requests were properly supported by costs incurred by the recipient.

Results of Procedures on Capital Outlay Appropriations

The District did not expend any capital outlay for the year ended June 30, 2010. Hence, procedures for Capital Outlay Appropriations are not applicable.

Other

If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.

To the Board of Directors
Montecito Estates Public Improvement District
and
Mr. Hector Balderas
New Mexico State Auditor

Results of Procedures - Other

Schedule of Findings and Responses are included in pages 15 and 16 of this report.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the District's financial reporting to the State Auditor as described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the District and Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

Mess Adams LLP

Albuquerque, New Mexico
March 15, 2011

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL (CASH BASIS) SCHEDULE
 GENERAL FUND
 Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 406,344	406,344	395,458	(10,886)
Dividend income	-	-	7	7
Total revenues	<u>406,344</u>	<u>406,344</u>	<u>395,465</u>	<u>(10,879)</u>
Expenditures				
General government	73,127	73,127	61,199	11,928
Total expenditures	<u>73,127</u>	<u>73,127</u>	<u>61,199</u>	<u>11,928</u>
Other Financing Sources (Uses)				
Transfer out	-	-	(102,273)	(102,273)
Total	<u>-</u>	<u>-</u>	<u>(102,273)</u>	<u>(102,273)</u>
Net change in fund balance	333,217	333,217	231,993	(101,224)
Fund balances, beginning of year	<u>(12,078)</u>	<u>(12,078)</u>	<u>(12,078)</u>	-
Fund balances, end of year	<u>\$ 321,139</u>	<u>321,139</u>	<u>219,915</u>	<u>(101,224)</u>

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL (CASH BASIS) SCHEDULE
 BOND FUND
 Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Dividend income	\$ -	-	30	30
Total revenues	-	-	30	30
Expenditures				
Debt service				
Interest expense	307,300	307,300	307,300	-
Total expenditures	307,300	307,300	307,300	-
Other Financing Sources (Uses)				
Transfer out	-	-	104,216	104,216
Total	-	-	104,216	104,216
Net change in fund balance	(307,300)	(307,300)	(203,054)	104,246
Fund balances, beginning of year	203,443	203,443	203,443	-
Fund balances, end of year (deficit)	\$ (103,857)	(103,857)	389	104,246

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL (CASH BASIS) SCHEDULE
RESERVE FUND
Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Dividend income	\$ -	-	181	181
Total revenues	-	-	181	181
Other Financing Sources (Uses)				
Transfer out	-	-	(1,943)	(1,943)
Total	-	-	(1,943)	(1,943)
Net change in fund balance	-	-	(1,762)	(1,762)
Fund balances, beginning of year	366,343	366,343	366,343	-
Fund balances, end of year	<u>\$ 366,343</u>	<u>366,343</u>	<u>364,581</u>	<u>(1,762)</u>

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

10-01 No General Ledger Maintained

CONDITION

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

CRITERIA

State Audit Rule 2.2.2.10 I, Section 12-6-5, NMSA 1978 states that any violation of good accounting practices be included in the annual audit report.

EFFECT

There is an increased risk of misstatements and/or budget overages occurring and not being detected and corrected in a timely manner.

CAUSE

The District has minimal transaction activity and uses the monthly bank statements to track transactions.

RECOMMENDATION

We recommend that the District implement a basic general ledger software package as soon as it is practical.

MANAGEMENT'S RESPONSE

The District undertakes very few transactions and the Trustee maintains control of all of the District's funds and accounts pursuant to the Bond Indenture. The District, however, will consider implementing the recommendation, considering its limited resources, at the next annual meeting of the board of directors of the District

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

10-02: Late Submission of the Agreed-Upon Procedure Report

CONDITION

The agreed-upon procedures reports for the year ending June 30, 2010 were not submitted by the deadline of December 1, 2010. These reports were submitted to the State Auditor's Office on March 24, 2011.

CRITERIA

2.2.2 NMAC, Audit Rule 2010, specifies the deadline for submission of agreed-upon procedure report. Section 2.2.2.16 H stipulates that District reports are due no later than December 1. Further, Section 2.2.2.9 A (2) requires that submission of a late report shall be reported as current year audit finding in the audit report.

CAUSE

There was a delay in submitting letter of recommendation to the State Auditor's Office. Hence, executed contract was only received in February 2011.

EFFECT

The District is not in compliance with Section 2.2.2.16 H of the NMAC, Audit Rule 2010.

RECOMMENDATION

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

MANAGEMENT'S RESPONSE

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

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

An exit conference was held on March 10, 2011. Attending were the following:

Representing Montecito Estates Public Improvement District:

Michael Riordan, Chairman
Justin Horwitz, Legal Counsel

Representing Moss Adams LLP:

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

The Schedules of Revenues and Expenditures – Budget to Actual (Cash Basis) were prepared with the assistance of Moss Adams LLP.



**MONTECITO ESTATES
PUBLIC IMPROVEMENT DISTRICT**

FINANCIAL STATEMENTS

JUNE 30, 2010

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT

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Compilation Report of Independent Accountants

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

We have compiled the accompanying balance sheet - governmental funds of Montecito Estates Public Improvement District as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balances - governmental funds for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit the Statement of Net Assets, Statement of Activities and related disclosures that are required by accounting principles generally accepted in the United States. If the omitted statements and disclosures were included in the financial statements, they might influence the user's conclusions about the Montecito Estates Public Improvement's financial position and results of operations. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Moss Adams LLP

Albuquerque, New Mexico
March 15, 2011

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Bond Fund	Reserve Fund	Total
ASSETS				
Cash and cash equivalents	\$ 260,257	389	364,581	625,227
Special levy receivable	1,274	-	-	1,274
	<u>\$ 261,531</u>	<u>389</u>	<u>364,581</u>	<u>626,501</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accrued expenses	\$ 40,342	-	-	40,342
Deferred revenue	1,274	-	-	1,274
Total liabilities	<u>41,616</u>	<u>-</u>	<u>-</u>	<u>41,616</u>
Fund balances				
Reserved for debt service	-	389	364,581	364,970
Unreserved fund balances	219,915	-	-	219,915
Total fund balances	<u>219,915</u>	<u>389</u>	<u>364,581</u>	<u>584,885</u>
Total liabilities and fund balances	<u>\$ 261,531</u>	<u>389</u>	<u>364,581</u>	<u>626,501</u>

See Compilation Report of Independent Accountants.

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

	General Fund	Bond Fund	Reserve Fund	Total
Revenues				
Special levy	\$ 395,458	-	-	395,458
Dividend income	7	30	181	218
	<u>395,465</u>	<u>30</u>	<u>181</u>	<u>395,676</u>
Expenditures				
Current:				
General government	61,199	-	-	61,199
Debt service:				
Interest expense	-	307,300	-	307,300
Total expenditures	<u>61,199</u>	<u>307,300</u>	<u>-</u>	<u>368,499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>334,266</u>	<u>(307,270)</u>	<u>181</u>	<u>27,177</u>
Other financing sources (uses)				
Transfer in	-	104,216	-	104,216
Transfer out	(102,273)	-	(1,943)	(104,216)
Total	<u>(102,273)</u>	<u>104,216</u>	<u>(1,943)</u>	<u>-</u>
Net change in fund balance	231,993	(203,054)	(1,762)	27,177
Fund balances, beginning (deficit)	<u>(12,078)</u>	<u>203,443</u>	<u>366,343</u>	<u>557,708</u>
Fund balances, ending	<u>\$ 219,915</u>	<u>389</u>	<u>364,581</u>	<u>584,885</u>

See Compilation Report of Independent Accountants.

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT
Selected Information – Substantially All Disclosures Required by Generally
Accepted Accounting Principles Are Not Included
June 30, 2010
See Compilation Report of Independent Accountants.

NOTE 1. REPORTING ENTITY

Montecito Estates 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 5-11-27 NMSA 1978, as amended, City of Albuquerque (the “City”) Enactment No. 0-2003-12 and City Resolution Enactment No. R 2007-081 adopted on June 18, 2007.

The District was created to fund public infrastructure improvements (the “Montecito Project”), which encompasses approximately 160 acres of land located in the northwestern portion the City. The Montecito Project includes improvements on Water and Wastewater System, Transportation, Storm Water Management, Park and Dry Utilities. The Montecito Project was completed and transferred to the City on December 19, 2007.

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

The District is governed by the District Board, consisting of five directors. The District Board has control over and management supervision of all affairs of the District. Directors serve six-year terms.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standard 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.

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT
Selected Information – Substantially All Disclosures Required by Generally
Accepted Accounting Principles Are Not Included
June 30, 2010
See Compilation of Independent Accountants.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

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% 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% 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.

Debt Service Funds:

- b. Bond Fund - used to account for the payment of principal and interest related to the bonds obligation.
- c. Reserve Fund - accounts 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.

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT
Selected Information – Substantially All Disclosures Required by Generally
Accepted Accounting Principles Are Not Included
June 30, 2010
See Compilation of Independent Accountants.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The governmental fund statements are reported using the current resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on the bond obligations, which are recognized as expenditures when paid. Proceeds from the issuance of bond obligations are reported as other financing sources.

Cash Equivalents

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

Long-Term Obligations

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 a Special Levy, which secures the payment of the debt service on the District's Revenue Bonds Obligations.

The Special Levy is to be billed and collected by Bernalillo 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. The Special Levy shall be subject to foreclosure by the District at any time after six months following

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

written notice of delinquency to the owner of the real property to which the delinquency applies. The lien shall include delinquencies, penalties and interest thereon at a rate not to exceed the maximum legal rate of interest per year and penalties otherwise applicable.

Transfers

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

Fund Equity Reservations

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. DEPOSITS AND INVESTMENTS

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

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at

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NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

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. The District has not formally adopted a deposit and investment policy that limits the government's allowable deposits or investments and addresses the specific types of risk to which the government is exposed.

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.

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

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

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>\$ 625,227</u>
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NOTE 4. INTERFUND TRANSFERS

The following transfer was made for the year ended June 30, 2010 to transfer excess amounts in the Reserve Fund in accordance with the Bond Indenture:

	<u>Transfer In</u>
	Bond Fund
<u>Transfer Out</u>	
General Fund	\$ 102,273
Reserve Fund	<u>1,943</u>
	<u>\$ 104,216</u>

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NOTE 5. INSURANCE COVERAGE

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