



**MONTECITO ESTATES PUBLIC  
IMPROVEMENT DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**

**Official Roster  
As of June 30, 2011**

**Board of Directors**

Michael Riordan	Chairman
Jacques Blair	Vice Chairman
Christopher Daniel	Secretary/Treasurer

## Report of Independent Auditors

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 audited the accompanying financial statements of the governmental activities and each major fund and the budgetary comparison for the general fund of Montecito Estates Public Improvement District (District) as of and for the year ended June 30, 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the major debt service funds presented as supplementary information in the fund statements for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the respective budgetary comparisons for the major debt service funds for the year ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Mess Adams LLP*

Albuquerque, New Mexico  
August 17, 2012

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

As management of the Montecito Estates Public Improvement District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2011. We encourage readers to consider the financial information presented here in conjunction with the financial statements and accompanying notes which follow this section.

The District is a political subdivision of 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 (City) Enactment No. 0-2003-12 and City Resolution Enactment No. R-2007-081 adopted on June 18, 2007, the "Formation Resolution."

In addition to forming the District, the Formation Resolution also authorized the imposition and collection of a Special Levy against real property in the District, all of which will benefit from the Special Levy, to be used for the purpose, among others, of paying the principal of and interest on such bonds, as more particularly described herein.

*Financial Highlights*

The financial statements, which follow the Management's Discussion and Analysis, provide those significant key financial highlights for fiscal year 2011 as follows:

- In the Statement of Net Assets, the District's total net assets decreased from negative \$3.62 million in fiscal year 2010 to a negative \$3.54 million in fiscal year 2011.
- In the Statement of Activities, the District incurred \$0.3 million in debt service payments and general government expenses.

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 comprise of: 1) government-wide financial statement, 2) fund financial statements, and 3) 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 assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
June 30, 2011**

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

***Governmental activities*** – Governmental activities include the District's basic activities to construct certain infrastructure improvements.

**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 11 and 13, respectively.

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 is considered to be a major fund. Data from the other governmental Functions/Programs are combined into a single, aggregated presentation.

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

**Government-wide Financial Analysis**

Net assets may serve over time as a useful indicator of a district's financial position. In the case of the District, liabilities exceeded assets by \$3,538,485.

The purpose of the District is to provide for improvements on Water and Wastewater System, Transportation, Storm Water Management, Park and Dry Utilities. The project was completed on December 19, 2007 and was transferred through bill of sale to the City. As a result, the District does not account for the asset created by the construction. It should be noted that the resources needed to repay this debt must be provided from other sources such as the Special Levy revenue collected from property owners within the District to liquidate liabilities.



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
June 30, 2011**

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

	<u>2011</u>	<u>2010</u>
Current assets	\$ 674,276	\$ 633,392
Other assets	<u>152,880</u>	<u>158,695</u>
	<u>827,156</u>	<u>792,087</u>
Current liabilities	157,631	149,553
Long-term obligations outstanding	<u>4,208,010</u>	<u>4,265,360</u>
Total liabilities	<u>4,365,641</u>	<u>4,414,913</u>
Net Assets - unrestricted (deficit)	<u>\$ (3,538,485)</u>	<u>\$ (3,622,826)</u>

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

- Interest expense incurred in fiscal year 2011 amounted to \$312,876, including amortization of discount and bond issuance cost of \$8,463.
- The District assessed Special Levy in fiscal year 2011 of \$456,120, compared to \$406,344 in fiscal year 2010.

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

	<u>2011</u>	<u>2010</u>
<b>Expenses</b>		
General government	\$ (59,283)	(45,228)
Interest expense	<u>(312,876)</u>	<u>(315,763)</u>
<b>Total expenses</b>	<u>(372,159)</u>	<u>(360,991)</u>
<b>General Revenues</b>		
Special Levy	456,120	406,344
Interest income	357	218
Dividend income	<u>23</u>	<u>-</u>
	<u>456,500</u>	<u>406,562</u>
Change in net assets	<u>\$ 84,341</u>	<u>45,571</u>

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

The District's revenues in the governmental funds amounted to \$452,715, while expenditures amounted to \$419,658. The major expenditures of the District are debt service payments and administrative expenses.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
June 30, 2011**

**General Fund Budgetary Highlights**

The District adopts annual budget, which project the expected expenditures (based on debt service requirement, administrative expenses and estimated delinquency) and interest income from funds, to determine the amount of special levy for each year. There were no changes in the original budget for the fiscal year 2011.

**Capital Assets and Debt Administration**

The District owns no significant capital assets following the transfer of all public infrastructure improvements owned by the District to the City of Albuquerque on December 19, 2007.

Pursuant to Resolution No. 2007-3 adopted on September 6, 2007, the District issued its \$4,390,000 Special Levy Revenue Bonds, Series 2007 (Bonds) on December 18, 2007. Under the Indenture dated December 1, 2007, the Bonds are payable from revenues received by the District in each fiscal year from the payment of the Special Levy, 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 the Special Levy for the District approved by the City in the Formation Resolution and approved the District to Resolution No. 2007-3 adopted on September 6, 2007.

The outstanding debt at June 30, 2011 is \$4,335,000. The first principal payment was made on October 1, 2010.

**Requests for Information**

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2011 is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the Chairman of the Montecito Estates Public Improvement District, c/o Michael Riordan, Department of Municipal Development, City of Albuquerque, P. O. Box 1293, Albuquerque, New Mexico 87103.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 632,455
Special Levy receivables	41,821
Bond issuance costs, net	152,880
<b>Total assets</b>	<u>827,156</u>
<b>LIABILITIES</b>	
Accrued expenses - professional services	24,418
Interest payable	75,862
Revenue bonds payable, net	
Due within one year	57,351
Due in more than one year	4,208,010
<b>Total liabilities</b>	<u>4,365,641</u>
<b>NET ASSETS</b>	
Unrestricted (deficit)	<u>\$ (3,538,485)</u>

*See Notes to Financial Statements.*

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2011**

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 312,876	(312,876)
General government	59,283	(59,283)
<b>Total expenses</b>	<u>372,159</u>	<u>(372,159)</u>
General Revenues		
Special Levy		456,120
Interest income		357
Dividend income		23
		<u>456,500</u>
Change in net assets		84,341
Net assets (deficit), beginning		<u>(3,622,826)</u>
<b>Net assets (deficit), ending</b>		<u>\$ (3,538,485)</u>

*See Notes to Financial Statements.*

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2011

	General Fund	Bond Fund	Reserve Fund	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 267,491	396	364,568	632,455
Special Levy receivable	41,821	-	-	41,821
	<u>\$ 309,312</u>	<u>396</u>	<u>364,568</u>	<u>674,276</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accrued expenses	\$ 24,418	-	-	24,418
Deferred revenue	11,951	-	-	11,951
<b>Total liabilities</b>	<u>36,369</u>	<u>-</u>	<u>-</u>	<u>36,369</u>
Fund balances				
Restricted	-	396	364,568	364,964
Unassigned	272,943	-	-	272,943
<b>Total fund balances</b>	<u>272,943</u>	<u>396</u>	<u>364,568</u>	<u>637,907</u>
<b>Total liabilities and fund balances</b>	<u>\$ 309,312</u>	<u>396</u>	<u>364,568</u>	<u>674,276</u>

See Notes to Financial Statements.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
Year Ended June 30, 2011**

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

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Fund balance - total governmental funds	\$ 637,907
<p>Amounts reported for governmental activities in  the Statement of Net Assets are different  because:</p>	
<p>Bond issuance costs in the governmental  activities are not financial resources and  therefore, not reported in the  governmental funds</p>	152,880
<p>Long-term obligations for the revenue bonds,  are not due and payable in the current  period, and therefore are not reported  in the governmental funds</p>	(4,265,361)
<p>Interest accrued on long-term debt is not  accrued in the governmental funds, but  rather is recognized as an expenditure  when due</p>	(75,862)
<p>Receivables reported in the Statement of  Net Assets that are not currently  available in the funds</p>	<u>11,951</u>
<b>Net assets of governmental activities</b>	<u><u>\$ (3,538,485)</u></u>

*See Notes to Financial Statements.*

MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2011

	General Fund	Bond Fund	Reserve Fund	Total
<b>Revenues</b>				
Special Levy	\$ 452,335	-	-	452,335
Interest income	92	15	250	357
Dividend income	10	-	13	23
	<u>452,437</u>	<u>15</u>	<u>263</u>	<u>452,715</u>
<b>Expenditures</b>				
Current:				
General government	59,283	-	-	59,283
Debt service:				
Interest expense	-	305,375	-	305,375
Principal	-	55,000	-	55,000
<b>Total expenditures</b>	<u>59,283</u>	<u>360,375</u>	<u>-</u>	<u>419,658</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>393,154</u>	<u>(360,360)</u>	<u>263</u>	<u>33,057</u>
<b>Other financing sources (uses)</b>				
Transfer in	-	360,367	-	360,367
Transfer out	(360,091)	-	(276)	(360,367)
<b>Total</b>	<u>(360,091)</u>	<u>360,367</u>	<u>(276)</u>	<u>-</u>
<b>Net change in fund balance</b>	33,063	7	(13)	33,057
Fund balances, beginning	<u>239,880</u>	<u>389</u>	<u>364,581</u>	<u>604,850</u>
<b>Fund balances, ending</b>	<u>\$ 272,943</u>	<u>396</u>	<u>364,568</u>	<u>637,907</u>

See Notes to Financial Statements.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2011**

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

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Net change in fund balances - total governmental funds	\$	33,057
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Amounts reported for governmental activities in the Statement  
of Activities are different because:

Governmental funds report the effect of issuance cost and discounts, whereas these amounts are deferred and amortized in the Statement of of Activities	(7,501)
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The repayment of long-term debt consumes current financial resources of the governmental funds. This has no effect on the net assets	55,000
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Special Levy that is not recognized in the fund balances	<u>3,785</u>
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Change in net assets of governmental activities	\$	<u><u>84,341</u></u>
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*See Notes to Financial Statements.*



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)  
 Year End June 30, 2011**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Special Levy	\$ 456,120	456,120	452,335	(3,785)
Interest income	-	-	92	92
Dividend income	-	-	10	10
<b>Total revenues</b>	<u>456,120</u>	<u>456,120</u>	<u>452,437</u>	<u>(3,683)</u>
<b>Expenditures</b>				
General government	92,670	92,670	59,283	33,387
<b>Total expenditures</b>	<u>92,670</u>	<u>92,670</u>	<u>59,283</u>	<u>33,387</u>
<b>Other Financing Sources (Uses)</b>				
Transfer out	-	-	(360,091)	(360,091)
<b>Total</b>	<u>-</u>	<u>-</u>	<u>(360,091)</u>	<u>(360,091)</u>
<b>Net change in fund balance</b>	363,450	363,450	33,063	(330,387)
Fund balances, beginning of year	239,880	239,880	239,880	-
<b>Fund balances, end of year</b>	<u>\$ 603,330</u>	<u>603,330</u>	<u>272,943</u>	<u>(330,387)</u>

*See Notes to Financial Statements.*

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**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.

**Basis of Presentation**

District-Wide Statements

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

The Statement of Activities presents a 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 a Special Levy on real property covered by the District and dividend income from the investment of funds.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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

**Basis of Presentation (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% 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.

**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 a Special Levy on property is recognized in the fiscal year for which the assessments are levied.

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

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

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

**Cash Equivalents**

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

**Capital Assets**

As capital assets are constructed the ownership is transferred to the City. As a result, the District does not capitalize any capital assets on their financial statements.

**Long-Term Obligations**

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

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

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

**Special Levy**

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

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 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).

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

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

**Fund Balance**

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Restricted – amounts than 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 government. The restricted fund balances at June 30, 2011 relate to debt service as imposed by creditors.

Unassigned – all other spendable amounts.

The District has no fund balances that are classified as nonspendable, committed or assigned.

**Use of Estimates**

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

**Budgets**

The budget is adopted on a modified accrual basis of accounting. The legal compliance for the budget is total expenditures.

**NOTE 3. DEPOSITS AND INVESTMENTS**

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

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If the District is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the Authority 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.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)**

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, 2011 consist of the following:

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>\$ 632,455</u>
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**NOTE 4. REVENUE BONDS**

On December 18, 2007, the District issued Revenue Bonds with a par value of \$4,390,000 for \$4,310,980, or a discount of \$79,020. The proceeds from issuance were primarily used in the construction of the Montecito Project. The bonds are generally callable with interest payable semi-annually, every April 1 and October 1. The obligations are secured by the pledge of net revenues from District Special Levy.

The Indenture of Trust and Security Agreement (Bond Indenture) dated December 1, 2007 with Bank of Albuquerque (as Trustee) contains special mandatory and optional redemption. The special mandatory redemption, triggers when: (a) on or after the completion of the project, moneys are transferred from the Project 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 for principal maturing after October 1, 2017. No events occurred that triggered special mandatory redemption.

The Revenue Bonds bear annual interest of 7%, with final maturity on October 1, 2037. The amount payable in the Statement of Net Assets is net of unamortized bond discount of \$69,639 at June 30, 2011.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 4. REVENUE BONDS (CONTINUED)**

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 60,000	301,350	361,350
2013	65,000	296,975	361,975
2014	65,000	292,425	357,425
2015	70,000	287,700	357,700
2016	75,000	282,625	357,625
2017 - 2021	470,000	1,321,950	1,791,950
2022 - 2026	660,000	1,125,950	1,785,950
2027 - 2031	920,000	852,250	1,772,250
2032 - 2036	1,295,000	468,125	1,763,125
2037 - 2038	655,000	46,725	701,725
	<u>\$ 4,335,000</u>	<u>5,276,075</u>	<u>9,611,075</u>

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

	July 1	Increases	Decreases	June 30
Special Levy Revenue Bonds	\$ 4,390,000	-	(55,000)	4,335,000
Unamortized bond discount	(72,288)	-	2,649	(69,639)
	<u>\$ 4,317,712</u>	<u>-</u>	<u>2,649</u>	<u>4,265,361</u>

**NOTE 5. LETTER OF CREDIT**

In accordance with the Bond Indenture, the District has established an irrevocable standby letter of credit with Bank of America in the amount of \$264,400, with an expiration date of December 19, 2010. The letter of credit was terminated upon expiration in December 2010.

**NOTE 6. DEFICIT NET ASSETS**

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

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 7. INTERFUND TRANSFERS**

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

	<u>Transfer In</u> Bond Fund
<u>Transfer Out</u>	
General Fund	\$ 360,091
Reserve Fund	<u>276</u>
	<u>\$ 360,367</u>

**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 office liability.



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (BOND FUND)  
 Year End June 30, 2011**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Interest income	\$ -	-	15	15
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>15</u>	<u>15</u>
<b>Expenditures</b>				
Debt service				
Interest expense	305,575	305,575	305,375	200
Principal	60,000	60,000	55,000	5,000
<b>Total expenditures</b>	<u>365,575</u>	<u>365,575</u>	<u>360,375</u>	<u>5,200</u>
<b>Other Financing Sources (Uses)</b>				
Transfer in	360,367	360,367	360,367	-
<b>Total</b>	<u>360,367</u>	<u>360,367</u>	<u>360,367</u>	<u>-</u>
<b>Net change in fund balance</b>	(5,208)	(5,208)	7	5,215
Fund balances, beginning of year	389	389	389	-
<b>Fund balances, end of year (deficit)</b>	<u>\$ (4,819)</u>	<u>\$ (4,819)</u>	<u>\$ 396</u>	<u>\$ 5,215</u>

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)  
 Year End June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Dividends income	\$ -	-	13	13
Interest income	-	-	250	250
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>263</u>	<u>263</u>
<b>Other Financing Sources (Uses)</b>				
Transfer out	-	-	(276)	(276)
<b>Total</b>	<u>-</u>	<u>-</u>	<u>(276)</u>	<u>(276)</u>
<b>Net change in fund balance</b>	-	-	(13)	(13)
Fund balances, beginning of year	<u>364,581</u>	<u>364,581</u>	<u>364,581</u>	-
<b>Fund balances, end of year</b>	<u>\$ 364,581</u>	<u>364,581</u>	<u>364,568</u>	<u>(13)</u>

**Report of Independent Auditors 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  
Montecito Estates Public Improvement District  
and  
Mr. Hector H. Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities and each major fund and budgetary comparison of the general fund and related budgetary comparison presented as supplemental information of the Montecito Estates Public Improvement District (District), as of and for the year ended June 30, 2011, have issued our report thereon dated August 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiency in internal control over financial reporting that we consider to be material weakness.

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. We consider item 08-01 described in the schedule of findings and responses to be a material weakness.

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

### **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 did not disclose an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted a matter that is required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of finding and responses as item 11-01.

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

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

*Mess Adams LLP*

Albuquerque, New Mexico  
August 17, 2012

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2011**

**08-01 No General Ledger Maintained**

CONDITION

The District did not maintain a general ledger for the fiscal year ended June 30, 2011.

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 general consensus of the Board was that it was unreasonable and unnecessary for the District to maintain a general ledger at this time, due both to the District's limited resources and the fact that all District's funds are held and accounted for by the Trustee.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2011**

**11-01 Late Audit Report**

CONDITION

The audit report for the year ended June 30, 2011 was not submitted by the deadline of December 1. This report was submitted to the State Auditor's Office in August 2012.

CRITERIA

2.2.2 NMAC, Audit Rule 2011, specifies the deadline for submission of audit reports. Section 2.2.2.9 A (1)(c) stipulates that District's report is due no later than December 1. Further, Section 2.2.2.9 A (3) requires that submission of a late audit report shall be reported as a current year audit finding in the audit report.

EFFECT

The District is not in compliance with Section 2.2.2.9 A (1)(c) of the NMAC, Audit Rule 2011 which may impact future funding.

CAUSE

There was a miscommunication on whether the audit contract has been finalized.

RECOMMENDATION

Management should continue to work towards providing the timely completion of the audit report.

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**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**Year Ended June 30, 2011**

08-01 No General ledger Maintained

Updated and Repeated as 08-01

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
EXIT CONFERENCE  
Year Ended June 30, 2011**

An exit conference was held on July 11, 2012. Attending were the following:

Representing Montecito Estates Public Improvement District:

Michael Riordan, Chairman  
Justin Horwitz, Legal Counsel

Representing Moss Adams LLP:

Jaime Rumbaoa, CPA, Senior Manager

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