



**MONTECITO ESTATES  
PUBLIC IMPROVEMENT DISTRICT  
FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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, 2014**

**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

### **Report on the Financial Statements**

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 (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the major debt service funds presented as supplementary information, as defined by Governmental Accounting Standards Board, in the accompanying fund individual fund financial statements as of and for the year ended June 30, 2014, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, each major fund and the respective budgetary comparison for the general fund of Montecito Estates Public Improvement District as of June 30, 2014, 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 debt service funds for the year ended June 30, 2014 in conformity 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 discussion and analysis on pages 4 through 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 November 25, 2014 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 grant agreements 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* in considering District's internal control over financial reporting and compliance.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 25, 2014

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

As management of the Montecito Estates Public Improvement District (the "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, 2014. 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 2014 as follows:

- In the Statement of Net Position, the District's total net position increased from negative \$3,539,046 in fiscal year 2013 to a negative \$3,434,523 in fiscal year 2014.
- In the Statement of Activities, the District incurred \$347,095 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 are comprised of: 1) government-wide financial statements, 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 position presents information on all of the District's assets and liabilities, with the difference between the two 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 fiscal year reported. 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.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
JUNE 30, 2014**

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, Bond Fund and Reserve Fund, all of which are considered to be major funds. Data from the other governmental Functions/Programs are combined into a single, aggregated presentation.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 15 of these financial statements.

**Government-wide Financial Analysis**

Net position may serve over time as a useful indicator of a district's financial position. The District's liabilities exceeded assets by \$3,434,523 as of June 30, 2014.

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, 2014**

The following table presents the condensed net position at June 30:

	<u>2014</u>	<u>2013</u>
Current assets	\$ 744,452	\$ 700,352
Total assets	<u>744,452</u>	<u>700,352</u>
Current liabilities	163,018	156,090
Long-term obligations outstanding	4,015,957	4,083,308
Total liabilities	<u>4,178,975</u>	<u>4,239,398</u>
Net position - unrestricted	<u>\$ (3,434,523)</u>	<u>\$ (3,539,046)</u>

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

- Interest expense incurred in fiscal year 2014 amounted to \$293,937, including amortization of discount of \$2,649.
- The District assessed Special Levy in fiscal year 2014 of \$451,559.

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

	<u>2014</u>	<u>2013</u>
<b>Expenses</b>		
Interest expense	(293,937)	(298,486)
General government	(53,158)	(75,589)
<b>Total expenses</b>	<u>\$ (347,095)</u>	<u>\$ (374,075)</u>
<b>General Revenues</b>		
Special levy	451,559	456,120
Interest income	59	100
	<u>451,618</u>	<u>456,220</u>
Changes in net position	<u>\$ 104,523</u>	<u>\$ 82,145</u>

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

The District's revenues in the governmental funds amounted to \$451,618, while expenditures amounted to \$410,583. The major expenditures of the District are the debt service payments and administrative expenses.



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
JUNE 30, 2014**

**General Fund Budgetary Highlights**

The District adopts an annual budget, which projects the expected expenditures (based on debt service requirement, administrative expenses and estimated delinquency) and interest income from funds, to determine the amount of special levy for each year. There were no changes in the original budget for the fiscal year 2014.

**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 for the District in Resolution No. 2007-3 adopted on September 6, 2007.

The outstanding debt at June 30, 2014 is \$4,145,000. The next principal payment of \$70,000 was made on October 1, 2014.

**Requests for Information**

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2014 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 POSITION**  
**June 30, 2014**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 744,092
Special levy receivable	360
<b>Total assets</b>	<u>744,452</u>
<b>LIABILITIES</b>	
Accrued expenses - professional services	23,129
Interest payable	72,538
Revenue bonds payable, net	
Due within one year	67,351
Due in more than one year	4,015,957
<b>Total liabilities</b>	<u>4,178,975</u>
<b>NET POSITION</b>	
Unrestricted (deficit)	(3,434,523)
<b>Total net position</b>	<u><u>\$ (3,434,523)</u></u>

*See Notes to Financial Statements.*

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014**

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 293,937	\$ (293,937)
General government	53,158	(53,158)
<b>Total expenses</b>	<u>\$ 347,095</u>	<u>(347,095)</u>
General Revenues		
Special levy		451,559
Interest income		59
		<u>451,618</u>
Change in net position		104,523
Net position, beginning		<u>(3,539,046)</u>
<b>Net position, ending</b>		<u>\$ (3,434,523)</u>

*See Notes to Financial Statements.*

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014**

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 379,270	389	364,433	744,092
Special levy receivable	360	-	-	360
	<u>\$ 379,630</u>	<u>389</u>	<u>364,433</u>	<u>744,452</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities				
Accrued expenses	\$ 23,129	-	-	23,129
<b>Total liabilities</b>	<u>23,129</u>	<u>-</u>	<u>-</u>	<u>23,129</u>
Fund balances				
Restricted	-	389	364,433	364,822
Unassigned	356,501	-	-	356,501
<b>Total fund balances</b>	<u>356,501</u>	<u>389</u>	<u>364,433</u>	<u>721,323</u>
<b>Total liabilities and fund balances</b>	<u>\$ 379,630</u>	<u>389</u>	<u>364,433</u>	<u>744,452</u>

*See Notes to Financial Statements.*

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET POSITION  
Year Ended June 30, 2014**

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

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Fund balance - total governmental funds \$ 721,323

Amounts reported for governmental activities in  
the Statement of Net Position are different  
because:

Long-term obligations for revenue bonds  
are not due and payable in the current  
period, and therefore are not reported  
in the governmental funds (4,083,308)

Interest payable on long-term debt is not  
accrued in the governmental funds, but  
rather is recognized as an expenditure  
when due. (72,538)

**Net position of governmental activities** \$ (3,434,523)

*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, 2014**

	General Fund	Bond Fund	Reserve Fund	Total
<b>Revenues</b>				
Special levy	\$ 451,559	-	-	451,559
Interest income	22	1	36	59
<b>Total revenues</b>	<u>451,581</u>	<u>1</u>	<u>36</u>	<u>451,618</u>
<b>Expenditures</b>				
Current:				
General government	53,158	-	-	53,158
Debt service:				
Interest expense	-	292,425	-	292,425
Principal	-	65,000	-	65,000
<b>Total expenditures</b>	<u>53,158</u>	<u>357,425</u>	<u>-</u>	<u>410,583</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>398,423</u>	<u>(357,424)</u>	<u>36</u>	<u>41,035</u>
<b>Other financing sources (uses)</b>				
Transfer in	-	357,424	-	357,424
Transfer out	(357,392)	-	(32)	(357,424)
<b>Total</b>	<u>(357,392)</u>	<u>357,424</u>	<u>(32)</u>	<u>-</u>
<b>Net change in fund balance</b>	41,031	-	4	41,035
Fund balance, beginning	<u>315,470</u>	<u>389</u>	<u>364,429</u>	<u>680,288</u>
<b>Fund balance, ending</b>	<u>\$ 356,501</u>	<u>389</u>	<u>364,433</u>	<u>721,323</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, 2014**

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities

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Net changes in fund balances - total governmental funds \$ 41,035

Amounts reported for governmental activities in the Statement  
of Activities are different because:

Governmental funds report interest expense when  
the amount is paid, whereas the Statement of Activities  
reports interest expense on an accrual basis. (1,512)

The repayment of long-term debt consumes the  
current financial resources of the governmental  
funds. This has no effect on the net position. 65,000

Change in net position of governmental activities \$ 104,523

*See Notes to Financial Statements.*

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)  
Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
<b>Revenues</b>				
Special levy	\$ 451,559	451,559	451,559	-
Interest income	-	-	22	22
<b>Total revenues</b>	<u>451,559</u>	<u>451,559</u>	<u>451,581</u>	<u>22</u>
<b>Expenditures</b>				
Current:				
General government	74,495	74,495	53,158	21,337
<b>Total expenditures</b>	<u>74,495</u>	<u>74,495</u>	<u>53,158</u>	<u>21,337</u>
<b>Other Financing Sources (Uses)</b>				
Transfer out	-	-	(357,392)	(357,392)
<b>Total</b>	<u>-</u>	<u>-</u>	<u>(357,392)</u>	<u>(357,392)</u>
<b>Net change in fund balance</b>	377,064	377,064	41,031	(336,033)
Fund balance, beginning	<u>315,470</u>	<u>315,470</u>	<u>315,470</u>	<u>-</u>
<b>Fund balance, ending</b>	<u>\$ 692,534</u>	<u>692,534</u>	<u>356,501</u>	<u>(336,033)</u>

*See Notes to Financial Statements.*



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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 three 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 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**

Government-Wide Statements

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

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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 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.

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 the Special Levy on property is recognized in the fiscal year during 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. Amount collected after the sixty-day period is recognized as deferred inflows of resources. 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.

When both restricted and unrestricted resources are available for use, it is the District policy to use restricted first, then unrestricted resources as they are needed.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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.

**Receivables**

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2014, an allowance for uncollectible accounts was not considered necessary as all accounts are considered collectible.

**Capital Assets**

As capital assets are constructed, the ownership will be transferred to the City. 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 Government-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.

In the governmental fund financial statements, bond discounts 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.

**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, 2014**

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

**Fund Balance**

As of June 30, 2014, the 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, 2014 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, 2014**

**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, 2014 consist of the following:

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>\$ 744,092</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 Indenture also contains maintenance of Reserve Fund Requirements equal to the least of (i) the maximum annual debt service requirements on all outstanding bonds; (ii) 125% of the average annual debt service requirements of the bonds; or (iii) 10% of the aggregate principal amount of the Bonds. The District is in compliance with this requirement at June 30, 2014.

The Revenue Bonds bear annual interest of 7%, with final maturity on October 1, 2037. The amount payable in the Statement of Net Position is net of unamortized bond discount of \$61,691 at June 30, 2014.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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>
2015	\$ 70,000	287,700	357,700
2016	75,000	282,625	357,625
2017	80,000	277,200	357,200
2018	90,000	271,250	361,250
2019	95,000	264,775	359,775
2020 - 2024	575,000	1,212,225	1,787,225
2025 - 2029	805,000	972,825	1,777,825
2030 - 2034	1,130,000	637,700	1,767,700
2035 - 2038	1,225,000	179,025	1,404,025
	<u>\$ 4,145,000</u>	<u>4,385,325</u>	<u>8,530,325</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	\$ 4,210,000	-	(65,000)	4,145,000
Unamortized bond discount	(64,341)	2,649	-	(61,692)
	<u>\$ 4,145,659</u>	<u>2,649</u>	<u>(65,000)</u>	<u>4,083,308</u>

**NOTE 5. DEFICIT NET POSITION**

The total net position balance is a deficit of \$3,434,523. This is due to the fact that the capital assets acquired with bond proceeds were transferred to another governmental agency. This resulted in the recognition of long-term debt with no related asset on the District's financial statement. The long-term debt will be repaid with future Special Levy assessments.

**NOTE 6. INTERFUND TRANSFERS**

The following transfers were made for the year ended June 30, 2014 to fund the debt service requirements:

<u>Transfer Out</u>	<u>Transfer In</u>
	Bond Fund
General Fund	\$ 357,392
Reserve Fund	32
	<u>\$ 357,424</u>

**NOTE 7. 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 Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Revenues</b>				
Interest income	\$ -	-	1	1
<b>Total revenues</b>	-	-	1	1
<b>Expenditures</b>				
Debt Service:				
Interest expense	292,425	292,425	292,425	-
Principal	65,000	65,000	65,000	-
<b>Total expenditures</b>	357,425	357,425	357,425	-
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	357,424	357,424
<b>Total</b>	-	-	357,424	357,424
<b>Net change in fund balance</b>	(357,425)	(357,425)	-	357,425
Fund balance, beginning	389	389	389	-
<b>Fund balance, ending</b>	\$ (357,036)	(357,036)	389	357,425

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)  
 Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Revenues</b>				
Interest income	\$ -	-	36	36
<b>Total revenues</b>	-	-	36	36
<b>Other Financing Sources (Uses)</b>				
Transfer out	-	-	(32)	(32)
<b>Total</b>	-	-	(32)	(32)
<b>Net change in fund balance</b>	-	-	4	4
Fund balance, beginning	364,429	364,429	364,429	-
<b>Fund balance, ending</b>	<u>\$ 364,429</u>	<u>364,429</u>	<u>364,433</u>	<u>4</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 Balderas  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the budgetary comparison for the general fund of the Montecito Estates Public Improvement District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the related budgetary comparisons of the debt service funds, presented as supplementary information, and have issued our report thereon dated November 25, 2014.

**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.

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2008-001 that we consider to be a significant deficiency.

### **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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-001.

### **District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 25, 2014

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2014**

**2008-001      No General Ledger Maintained (Significant Deficiency)**

CONDITION

The District did not maintain a general ledger for the fiscal year ended June 30, 2014.

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  
JUNE 30, 2014**

**2013-001: Late Submission of IPA Recommendation Form and Audit Contract, Compliance and Other Matters**

CONDITION

The IPA Recommendation Form and Audit Contract for the fiscal year ending June 30, 2014 were submitted to the State Auditor's Office in July 2014.

CRITERIA

2.2.2.8(G)(6)(c) NMAC Audit Rule 2014 requires that signed IPA Recommendation Form for Audits and the completed audit contract be submitted to the State Auditor's Office by May 15, 2014.

CAUSE

The District was not aware of the Audit Rule requirements in regard to the deadline for the submission of the forms.

EFFECT

The District is not in compliance with Section 2.2.2.8 (G)(6)(c) of the NMAC, Audit Rule 2014.

RECOMMENDATION

The District should continue to work towards providing the IPA Recommendation Form and Audit Contract on a timely basis in accordance with the due date set by NMAC Audit Rule.

MANAGEMENT'S RESPONSE

Management was not aware of the requirement to submit the IPA Recommendation Form and Audit Contract by a certain date. In the future, we will ensure that these forms are submitted to the State Auditor's Office before the deadline.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF PRIOR YEAR'S AUDIT FINDING  
JUNE 30, 2014**

08-01	No General Ledger Maintained	Revised and Repeated as 2008-001
13-01	Late Submission of IPA Recommendation Form and Audit Contract	Revised and Repeated as 2013-001

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2014**

An exit conference was held on November 20, 2014. Attending were the following:

Representing Montecito Estates Public Improvement District:

Michael Riordan, Chairman  
Donald Monnheimer, Legal Counsel

Representing Moss Adams LLP:

Jaime Rumbaoa, CPA, Senior Manager

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