

**MONTECITO ESTATES**  
**PUBLIC IMPROVEMENT**  
**DISTRICT**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

# MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT

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# MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT

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## **INTRODUCTORY SECTION**

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**

**Official Roster  
As of June 30, 2016**

**Board of Directors**

Cilia Agliodoro	Chair
Keith Reed	Vice Chair
Pam Fanelli	Treasurer
Tom Minicucci	Clerk
Melissa Lozoya	Member

## **FINANCIAL SECTION**

**Independent Auditor's Report**

6200 Uptown Blvd NE  
Suite 400

Albuquerque, NM 87110  
505.338.0800

Mr. Timothy Keller, State Auditor and  
The Board of Directors  
Montecito Estates Public Improvement District

**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and budgetary comparison for the general fund of Montecito Estates Public Improvement District (the "District"), as of and for the year ended June 30, 2016, 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 Government Accounting Standards Board, in the accompanying individual fund financial statements as of and for the year ended June 30, 2016, 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 misstatements, 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 of 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.

Mr. Timothy Keller, State Auditor and  
The Board of Directors  
Montecito Estates Public Improvement District

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, and the respective budgetary comparison for the general fund of Montecito Estates Public Improvement District as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance 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, 2016 in accordance with accounting principles generally accepted in the United State of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 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 Information*

The schedule of vendor information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.



Mr. Timothy Keller, State Auditor and  
The Board of Directors  
Montecito Estates Public Improvement District

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued a report dated December 8, 2016, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the District's internal control over financial reporting and compliance.

*Ricci & Company LLC*

Albuquerque, New Mexico  
December 8, 2016

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

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 ended June 30, 2016. 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 2016 as follows:

- In the Statement of Net Position, the District's total net position increased from negative \$3,365,729 in fiscal year 2015 to a negative \$3,258,673 in fiscal year 2016.
- In the Statement of Activities, the District incurred \$339,077 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.

**MONTECITO ESTATES PUBLIC IMPROVEMNET DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2016**

The statement of activities presents information showing how the District's net position changed during the fiscal years 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.

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 13 and 15, respectively.

Information is presented separately in the governmental fund balance sheet 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 17 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 \$3,258,673 as of June 30, 2016.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2016**

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 resourced 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.

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

	2016	2015
Current assets	\$ 769,883	740,947
Total assets	<u>769,883</u>	<u>740,947</u>
Current liabilities	162,303	163,069
Long-term obligations outstanding	<u>3,866,253</u>	<u>3,943,607</u>
Total liabilities	<u>4,028,556</u>	<u>4,106,676</u>
Net position – unrestricted (deficit)	<u>\$ (3,258,673)</u>	<u>(3,365,729)</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 2016 amounted to \$283,959, including amortization of discount.
- The District assessed a Special Levy in fiscal year 2016 of \$445,500.

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

	2016	2015
<b>Expenses</b>		
Interest expense	(283,959)	(289,125)
General government	<u>(55,118)</u>	<u>(95,724)</u>
<b>Total expenses</b>	<u>\$ (339,079)</u>	<u>(384,849)</u>
<b>General Revenues</b>		
Special levy	445,500	453,580
Other	<u>633</u>	<u>63</u>
	<u>446,133</u>	<u>453,643</u>
Changes in net position	<u>\$ 107,054</u>	<u>68,794</u>



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2016**

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

The District's revenues in the governmental funds amounted to \$446,133, while expenditures amounted to \$412,743. The major expenditures of the District are the debt service payments and administrative expenses.

**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 the interest income from funds, to determine the special levy for each year. There were no changes in the original budget for the fiscal year 2016.

**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, 2016 was \$4,000,000.

Subsequent to June 30, 2016, the District authorized the refunding of the outstanding Series 2007 Bonds through the issuance of \$3,955,000 in Special Levy Refunding Revenue Bonds, Series 2016, dated October 1, 2016 with principal payments due annually beginning October 1, 2016 through October 1, 2037. As of the date of this report, the Series 2007 Bonds have been fully redeemed and are no longer outstanding. The debt service payments on the Series 2016 Bonds will be lower than the debt service payments on the Series 2007 Bonds and the Special levy will be reduced for fiscal year 2017 and subsequent fiscal years.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
June 30, 2016**

**Requests for Information**

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2016 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 Chairperson of the Montecito Estates Public Improvement District, c/o Cilia Aglialoro, City of Albuquerque, One Civic Plaza NW, Suite 1080B, Albuquerque, NM 87102.

## **FINANCIAL STATEMENTS**

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 764,549
Special levy receivable	5,334
Total assets	<u>769,883</u>
<b>LIABILITIES</b>	
Accrued expenses - professional services	\$ 14,951
Interest payable	70,000
Revenue bonds payable, net	
Due within one year	77,351
Due in more than one year	3,866,254
Total liabilities	<u>4,028,556</u>
<b>NET POSITION</b>	
Unrestricted (deficit)	<u>(3,258,673)</u>
<b>Total net position</b>	<u><u>\$ (3,258,673)</u></u>

See Notes to Financial Statements.



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2016**

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 283,959	(283,959)
General government	55,118	(55,118)
Total expenses	<u>\$ 339,077</u>	<u>(339,077)</u>
General Revenues		
Special Levy		445,500
Other		633
Total revenues		<u>446,133</u>
Change in net position		107,056
Net position, beginning of year		<u>(3,365,729)</u>
<b>Net position, end of year</b>		<u><u>(3,258,673)</u></u>

See Notes to Financial Statements.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30,2016**

	General Fund	Bond Fund	Reserve Fund	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 399,400	404	364,745	764,549
Special levy receivable	5,334	-	-	5,334
<b>Total assets</b>	<b>\$ 404,734</b>	<b>404</b>	<b>364,745</b>	<b>769,883</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities				
Accrued expenses	\$ 14,951	-	-	14,951
<b>Total liabilities</b>	<b>14,951</b>	<b>-</b>	<b>-</b>	<b>14,951</b>
<b>FUND BALANCES</b>				
Restricted	-	404	364,745	365,149
Unassigned	389,783	-	-	389,783
<b>Total fund balances</b>	<b>389,783</b>	<b>404</b>	<b>364,745</b>	<b>754,932</b>
<b>Total liabilities and fund balances</b>	<b>\$ 404,734</b>	<b>404</b>	<b>364,745</b>	<b>769,883</b>

See Notes to Financial Statements.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET -  
 GOVERNMENTAL FUNDS TO THE  
 STATEMENT OF NET POSITON  
 Year Ended June 30, 2016**

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

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**Fund balances - total governmental funds** \$ 754,932

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

Long-term obligations for the revenue bonds  
 are not due and payable in the current period, and  
 therefore, not reported in the governmental funds. (3,943,605)

Interest payable on long-term debt is not accrued  
 in the governmental funds, but rather is recognized  
 as an expenditure when due. (70,000)

**Net position of governmental activities** \$ (3,258,673)

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, 2016

	General Fund	Bond Fund	Reserve Fund	Total
<b>REVENUES</b>				
Special levy	\$ 445,500	-	-	445,500
Interest	255	16	362	633
<b>Total revenues</b>	<b>\$ 445,755</b>	<b>16</b>	<b>362</b>	<b>446,133</b>
<b>EXPENDITURES</b>				
Current:				
General government	55,118	-	-	55,118
Debt service:				
Principal	-	75,000	-	75,000
Interest	-	282,625	-	282,625
<b>Total expenditures</b>	<b>55,118</b>	<b>357,625</b>	<b>-</b>	<b>412,743</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)</b>				
Expenditures	390,637	(357,609)	362	33,390
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	357,623	-	357,623
Transfers out	(357,582)	-	(41)	(357,623)
<b>Total</b>	<b>(357,582)</b>	<b>357,623</b>	<b>(41)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>33,055</b>	<b>14</b>	<b>321</b>	<b>33,390</b>
Fund balances, beginning of year	356,728	390	364,424	721,542
<b>Fund balances, end of year</b>	<b>\$ 389,783</b>	<b>404</b>	<b>364,745</b>	<b>754,932</b>

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, 2016**

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

---

**Net change in fund balances - total governmental funds** \$ 33,390

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 on  
an accrual basis. (1,334)

The repayment of long-term debt consumes the current financial  
resources of the governmental funds. This has no effect on  
the net position. 75,000

**Change in net position of governmental activities** \$ 107,056

See Notes to Financial Statements

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)  
 Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Special levy	\$ 445,500	445,500	445,500	-
Other	-	-	255	255
<b>Total revenues</b>	<b>445,500</b>	<b>445,500</b>	<b>445,755</b>	<b>255</b>
<b>EXPENDITURES</b>				
Current				
General government	101,129	101,129	55,118	46,011
<b>Total expenditures</b>	<b>101,129</b>	<b>101,129</b>	<b>55,118</b>	<b>46,011</b>
Other financing sources (uses)				
Transfers out	-	-	(357,582)	(357,582)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(357,582)</b>	<b>(357,582)</b>
<b>Net Change in Fund Balances</b>	<b>344,371</b>	<b>344,371</b>	<b>33,055</b>	<b>(403,338)</b>
Fund Balance, beginning of year	356,728	356,728	356,728	
<b>Fund Balance, end of year</b>	<b>\$ 701,099</b>	<b>701,099</b>	<b>389,783</b>	<b>(403,338)</b>

See Notes to Financial Statements.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**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 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.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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

**Basis of Presentation (continued)**

Government-Wide Statements

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 special levy on property covered by the District, interest income and dividend income from the investment of funds.

Fund Financial Statements

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

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

Governmental Funds

The District reports the following major governmental funds:

- a) General Fund - is the District's primary operating fund. It accounts for all the financial resources of the general government except those required to be accounted for in another fund.

Debt Service Funds:

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



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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

**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.

**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, 2016, 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.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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

**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).

**Fund Balance**

As of June 30, 2016, 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, 2016 relate to debt service reserves as imposed by creditors.

Unassigned - all other spendable amounts.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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

**Fund Balance (continued)**

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.

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.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**NOTE 3. DEPOSITS (CONTINUED)**

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, 2016 consist of the following:

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	\$ 764,549
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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, 2016.

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 \$56,396 at June 30, 2016.

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**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>
2017	\$ 80,000	277,200	357,200
2018	90,000	271,250	361,250
2019	95,000	264,775	359,775
2020	100,000	257,950	357,950
2021	105,000	250,775	355,775
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>\$ 4,000,000</u>	<u>3,815,000</u>	<u>7,815,000</u>

Interest and principal payments of the revenue bonds are serviced by revenue generated from the Special Levy and are paid from the Bond fund. The following are the changes in Revenue Bonds during the year:

	July 1	Increases	Decreases	June 30
Special Levy Revenue Bonds	\$ 4,075,000	-	(75,000)	4,000,000
Unamortized Bond Discount	(59,042)	2,650	-	(56,396)
	<u>\$ 4,015,958</u>	<u>2,650</u>	<u>(75,000)</u>	<u>3,943,604</u>

These bonds were refunded subsequent to year end. See Note 8.

**NOTE 5. DEFICIT NET POSITION**

The total net position balance is a deficit of \$3,258,673. 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 longterm debt will be repaid with future Special Levy taxes.

**NOTE 6. INTERFUND TRANSFERS**

The following transfers were made for the year ended June 30, 2016 to fund the debt service requirements:

<u>Transfer out - General Fund</u>	<u>Transfer out - Reserve Fund</u>	<u>Transfer in - Bond Fund</u>
\$ (357,582)	\$ (41)	\$ 357,623

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**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 officer liability.

**NOTE 8. SUBSEQUENT EVENT**

On September 21, 2016 the District authorized the issuance and sale of Special Levy Refunding Revenue Bonds, Series 2016 in a par amount of \$3,955,000, dated October 1, 2016, for the purpose of refunding the outstanding Series 2007 Special Levy Revenue Bonds. The Series 2016 Bonds are payable annually beginning October 1, 2017 through October 1, 2037. As of the date of this report, the Series 2007 Bonds have been fully redeemed and are no longer outstanding. The debt service payments on the Series 2016 Bonds will be lower than the debt service payments on the Series 2007 Bonds, and the special levy will be reduced for fiscal year 2017 and subsequent fiscal years.

**SUPPLEMENTARY INFORMATION**



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (BOND FUND)  
 Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest income	\$ -	-	16	16
<b>Total revenues</b>	-	-	16	16
<b>EXPENDITURES</b>				
Debt service:				
Interest expense	75,000	75,000	75,000	-
Principal	282,625	282,625	282,625	-
<b>Total expenditures</b>	357,625	357,625	357,625	-
Other financing sources (uses)				
Transfers in	-	-	357,623	357,623
<b>Total</b>	-	-	357,623	357,623
<b>Net Change in Fund Balances</b>	(357,625)	(357,625)	14	357,639
Fund Balance, beginning of year	390	390	390	-
<b>Fund Balance, end of year</b>	\$ (357,235)	(357,235)	404	357,639

See Notes to Financial Statements.



**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)  
 Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Interest income	\$ -	-	362	362
<b>Total revenues</b>	-	-	362	362
<b>Other financing sources (uses)</b>				
Transfers out	-	-	(41)	(41)
<b>Total</b>	-	-	(41)	(41)
<b>Net Change in Fund Balances</b>	-	-	321	321
Fund Balance, beginning of year	364,424	364,424	364,424	-
<b>Fund Balance, end of year</b>	<b>\$ 364,424</b>	<b>364,424</b>	<b>364,745</b>	<b>321</b>

See Notes to Financial Statements.

## **OTHER INFORMATION**

# Ricci & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS  
6200 UPTOWN BLVD. NE - SUITE 400  
ALBUQUERQUE, NM 87110

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards***

### **Independent Auditor's Report**

Mr. Timothy Keller, State Auditor and  
The Board of Directors  
Montecito Estates Public Improvement District

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, 2016, 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 supplemental information, and have issued our report thereon dated December 8, 2016.

### **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.

Mr. Timothy Keller, State Auditor and  
The Board of Directors  
Montecito Estates Public Improvement District

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 over that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

*Ricci & Company LLC*

Albuquerque, New Mexico  
December 8, 2016

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS  
June 30, 2016**

**A. PRIOR YEAR AUDIT FINDINGS**

None

**B. CURRENT YEAR FINDINGS**

None

VILLAGE OF PECOS, NEW MEXICO  
 VENDOR SCHEDULE  
 JUNE 30, 2016

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFP# (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
10002	Montecito Estates	Public Improvement Districts											

*Note: There were no purchases exceeding \$60,000 (excluding GRT) for the year ended June 30, 2016  
 No vendors are required to be listed in this schedule*

**MONTECITO ESTATES PUBLIC IMPROVEMENT DISTRICT  
EXIT CONFERENCE  
Year Ended June 30, 2016**

**EXIT CONFERENCE**

An exit conference was held on December 12, 2016, to discuss the annual financial report. Attending were the following:

Representing Montecito Estates Public Improvement District:

Celia Agliadoro, Chairperson  
Luis Carrasco, Esq., Rodey Law Firm, Legal Counsel  
Dee Brescia, Accountant

Representing Ricci & Company, LLC:

Wayne Brown, Partner  
Paul Donisthorpe, Manager

**PREPARATION OF FINANCIAL STATEMENTS**

The financial statements were prepared with the assistance of Ricci & Company, LLC from the books and records of the Montecito Estates Public Improvement District. The financial statements and related footnotes remain the responsibility of management.