

SALTILLO PUBLIC
IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

June 30, 2017



SALTILLO PUBLIC IMPROVEMENT DISTRICT

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SALTILLO PUBLIC IMPROVEMENT DISTRICT

Official Roster

Year ended June 30, 2017

Board of Directors

Michael Riordan	Chairman
Cilia Aglialoro	Clerk
Rex Wilson	Treasurer
Jon Zaman	Member
Scott Gardy	Member

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Saltillo Public Improvement District
and Mr. Timothy Keller
New Mexico State Auditor

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6, 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 October 9, 2017 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* in considering the District's internal control over financial reporting and compliance.



Albuquerque, New Mexico
October 9, 2017

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2017

As management of the Saltillo Public Improvement District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2017. 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-2007-150 adopted on November 19, 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 2017 as follows:

- In the Statements of Net Position, the District's total net position amounted to a deficit of \$3,290,013.
- In the Statements of Activities, the special levy revenue amounted to \$524,124.
- In the Statements of Activities, the District incurred \$397,798 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 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 reimburse the developer for the construction of certain public infrastructure improvements as provided in the Act and the governing documents of the District, including the Development Agreement among the District, the developer and the City.

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2017

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 10 and 12, respectively.

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 14 of these financial statements.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a district's financial position. As of June 30, 2017, the District's liabilities exceeded its assets by \$3,290,013.

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,084,859	1,037,535
Total assets	<u>1,084,859</u>	<u>1,037,535</u>
Current Liabilities	109,580	107,421
Long-term obligations outstanding	4,265,292	4,347,343
Total liabilities	<u>4,374,872</u>	<u>4,464,764</u>
Net position – restricted	71,563	71,073
Net position – unrestricted (deficit)	(3,361,576)	(3,488,302)
Total net position (deficit)	<u>\$ (3,290,013)</u>	<u>(3,417,229)</u>

The following are significant transactions that have had an impact on the Statement of Net Position for the year ended June 30, 2017:

- Administrative expenditures and interest expense amounted to \$63,449 and \$334,349, respectively.
- Assessment of Special levy of \$524,124.

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2017

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

	<u>2017</u>	<u>2016</u>
General revenues:		
Special levy	\$ 524,124	528,263
Interest	891	86
Total revenues	<u>525,015</u>	<u>528,349</u>
Expenses:		
Interest	(334,349)	(340,734)
General government	(63,449)	(63,782)
Total Expenditures	<u>(397,798)</u>	<u>(404,516)</u>
Change in Net Position	<u>\$ 127,217</u>	<u>123,833</u>

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds for the year ended June 30, 2017 amounted to \$529,162. The District's main source of revenue is the special levy assessed to properties within the District. The major expenditures of the District are debt service payments and administrative expenses. The general fund has unassigned fund balance of \$563,592, representing 888% of the total expenditures of the general fund during the fiscal year.

General Fund Budgetary Highlights

The District adopts an annual budget, which projects the expected expenditures (based on administrative expenses, debt service requirements and estimated delinquency) and the interest income from funds, to determine the special levy each year. There were no significant changes between original and final budgets for fiscal years ending 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District owns no significant capital assets. The District is expected to transfer all public infrastructure improvements owned by the District to the City.

Pursuant to Resolution No. 2008-2 adopted on April 25, 2008, the District issued its \$4,805,000 Special Levy Revenue Bonds, Series 2008 (Bonds) on May 20, 2008. Under the Indenture dated as of May 1, 2008, the Bonds are payable from revenues received by the District in each fiscal year from the payment of the Special Levy, authorized pursuant to the Act to be levied against parcels of land within the District in accordance with the Rate and Method of Apportionment of the Special Levy for the District approved by the City in the Formation Resolution and approved the District to Resolution No. 2008-1 adopted on March 12, 2008.

The outstanding debt at June 30, 2017 amounted to \$4,325,000. The next principal payment of \$90,000 was made on October 1, 2017.

REQUESTS FOR INFORMATION

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2017 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 Treasurer of the Saltillo Public Improvement District, Rex Wilson, P.O. Box 17, Albuquerque, NM 87103.

FINANCIAL STATEMENTS

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,081,894
Receivable, net	<u>2,965</u>
Total assets	<u>1,084,859</u>
LIABILITIES	
Accounts payable	27,135
Interest payable	82,445
Revenue bonds payable, net	
Due within one year	87,051
Due in more than one year	<u>4,178,241</u>
Total liabilities	<u>4,374,872</u>
Net Position	
Restricted for debt service	71,563
Unrestricted (deficit)	<u>(3,361,576)</u>
Total net position	\$ <u><u>(3,290,013)</u></u>

See Notes to the Financial Statements

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Statement of Activities
Year Ended June 30, 2017

EXPENSES	<u>Expenses</u>	<u>Governmental Activities</u>
General government	63,449	(63,449)
Interest expense	<u>334,349</u>	<u>(334,349)</u>
Total expenses	\$ <u>397,798</u>	(397,798)
 GENERAL REVENUES		
Special levy		524,124
Miscellaneous revenue		<u>891</u>
Total revenues		<u>525,015</u>
Change in net position		127,217
Net position (deficit) beginning		<u>(3,417,229)</u>
Net position (deficit), ending		\$ <u>(3,290,013)</u>

See Notes to the Financial Statements

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Balance Sheet – Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 587,762	71,563	422,569	1,081,894
Special levy receivable	2,965	-	-	2,965
Total Assets	\$ 590,727	71,563	422,569	1,084,859
LIABILITIES				
Accounts payable	\$ 27,135	-	-	27,135
Total Liabilities	27,135	-	-	27,135
DEFERRED INFLOWS				
Special levies	-	-	-	-
Total Liabilities and Deferred Inflows	27,135	-	-	27,135
FUND BALANCES				
Restricted for debt service	-	71,563	422,569	494,132
Unassigned	563,592	-	-	563,592
Total fund balances	563,592	71,563	422,569	1,057,724
Total liabilities, deferred inflows and fund balances	\$ 590,727	71,563	422,569	1,084,859

See Notes to the Financial Statements

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Postion
June 30, 2017

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

Fund Balance - total government funds	\$ 1,057,724
Long-term liabilities for the revenue bonds are not due and payable in the current period, and therefore are not reported in the funds	(4,265,292)
Accrued interest payable	<u>(82,445)</u>
Net position of governmental activities	<u><u>\$ (3,290,013)</u></u>

See Notes to the Financial Statements

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Statement of Revenues, Expenditures and Changes
In Fund Balances – Governmental Funds
Year Ended June 30, 2017

	General Fund	Bond Fund	Reserve Fund	Total
Revenues				
Special Levy	\$ 528,271	-	-	528,271
Dividend income	399	91	401	891
Total Revenues	528,670	91	401	529,162
Expenditures				
General government	63,449	-	-	63,449
Debt service				
Principal	-	85,000	-	85,000
Interest	-	333,022	-	333,022
Total Expenditures	63,449	418,022	-	481,471
Excess (deficiency) of revenues over (under) expenditures	465,221	(417,931)	401	47,691
Other financing sources (uses)				
Transfer in	-	418,421	-	418,421
Transfer out	(418,020)	-	(401)	(418,421)
Total other financing sources (uses)	(418,020)	418,421	(401)	-
Net change in fund balance	47,201	490	-	47,691
Fund balances, beginning	516,391	71,073	422,569	1,010,033
Fund balances, ending	\$ 563,592	71,563	422,569	1,057,724

See Notes to the Financial Statements

**SALTILLO 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, 2017**

**Reconciliation of the Governmental Funds Statement of
 Revenues, Expenditures, and Changes in Fund Balance
 to the Statement of Net Position:**

Net Change in fund balances - total government funds	\$	47,691
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on an accrual basis.</p>		(1,327)
<p>The repayment of long-term debt uses the current financial resources of the governmental funds. This has no effect on net position.</p>		85,000
<p>A portion of receivables reported in the Statement of Net Position that is not currently available in the funds</p>		<u>(4,147)</u>
Changes in net position of governmental activities	\$	<u><u>127,217</u></u>

See Notes to the Financial Statements

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Budget to Actual (General Fund)
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Special Levy	\$ 524,952	524,952	528,271	3,319
Dividend income	-	-	399	399
Total Revenues	524,952	524,952	528,670	3,718
Expenditures				
General government	125,953	125,953	63,449	62,504
Public works	-	-	-	-
Total Expenditures	125,953	125,953	63,449	62,504
Other financing sources (uses)				
Transfer in	-	-	-	-
Transfer (out)	-	-	(418,020)	(418,020)
Total	-	-	(418,020)	(418,020)
Net change in fund balance	398,999	398,999	47,201	(351,798)
Fund balances, beginning of year	516,391	516,391	516,391	-
Fund balances, end of year	\$ 915,390	915,390	563,592	(351,798)

SALTILLO PUBLIC IMPROVEMENT DISTRICT

Notes to the Financial Statements

June 30, 2017

NOTE 1. REPORTING ENTITY

Saltillo Public Improvement District (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-2007-150 adopted on November 19, 2007.

The District was created to fund the infrastructure project, comprising of road construction and storm sewer improvements. The District consists of approximately 138 acres of property located in the City with a Special Levy on all of the 652 single family residential lots.

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. Two of the initially appointed directors of the District served four-year terms, two of the other directors served six-year terms. Upon the expiration of the initial terms of these directors, these four directors serve six-year terms. The remaining director is the Secretary of the Department of Finance and Administration, or her designee. Officers not appointed pursuant to the Formation Resolution may be elected by the Directors.

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 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 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.

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 special levy is recognized in the fiscal year during which the taxes are earned.

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 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, 2017, 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 District-wide financial statements. Payments of principal and interest are reported as expenditures in the fund financial statements.

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

The Special Levy is to be billed and collected by Bernalillo County in the same manner and at the same time as general ad valorem property taxes. Assessments are made as of January 1 of each year, with one-half of the taxes on that assessment due the following November 10 and one-half due April 10 of the next calendar year. The Special Levy installment due November 10 becomes delinquent on December 11, while the April 10 installment becomes delinquent on May 11. The Special Levy shall be subject to foreclosure by the District at any time after six months following written notice of delinquency to the owner of the real property to which the delinquency applies. The lien shall include delinquencies, penalties and interest thereon at a rate not to exceed the maximum legal rate of interest per year and penalties otherwise applicable.

The New Mexico State Legislature, pursuant to Section 7-37-5.4, NMSA 1978, enacted a law providing an exemption from the imposition of special levies in Public Improvement Districts for the principal place of residence for a disabled veteran, as defined in the legislation. The law extends the exemption to surviving spouses provided (1) the spouse and the disabled veteran were married at the time of the disabled veteran's death, (2) the surviving spouse continues to occupy the property continuously after the disabled veteran's death as the spouse's principal place of residence and (3) the surviving spouse has remained unmarried since the time of the disabled veteran's death.

The District determined that a total of 18 lots were subject to this exemption for fiscal year 2017 and the District did not seek to collect the Special Levy on those properties. This resulted in a \$14,904 reduction in the Special Levy that could be collected from property within the District. The District took such reduction into account in determining its fiscal year 2017 Special Levy requirement. The fiscal year 2017 Special Levy due on the regular property tax bills, together with the available account balances, was sufficient to cover the scheduled debt service payments due on the Bonds and the District administrative expenses. The District has no definitive information on the number of residences in the District that could in the future become subject to such exemption.

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

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

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

Unassigned – All other spendable amounts.

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

SALTILLO PUBLIC IMPROVEMENT DISTRICT

Notes to the Financial Statements

June 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 District may invest its money as provided under Section 6-10-10.1 NMSA 1978 with the New Mexico State Treasurer's investment pool for a period greater than 181 days. The State Treasurer's investment pool shall be invested as provided for State funds under Section 60-10-10 NMSA 1978. The District has not formally adopted a deposit and investment policy that limits the government's allowable deposits or investments and addresses the specific types of risk to which the government is exposed.

Cash held by the District include cash on deposit with a financial institution. Deposits are secured by Federal depository insurance and U.S. Treasuries. Under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50% (102% for overnight deposits) of the uninsured balance. Market values of all cash and deposits approximate the cost of those assets.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2017, the District's deposits were not exposed to custodial risk, because the District cash is invested in a Government Money Market Fund. These investments are direct obligations of the US Government. Cash and cash equivalents invested in a Government Market Fund consist of the following:

	<u>2017</u>
Held in trust by Wells Fargo in Government Money Market Fund	\$ <u>1,081,894</u>

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 4. REVENUE BONDS

On May 20, 2008, the District issued its Special Levy Revenue Bond, Series 2008 with total par value of \$4,805,000 for \$4,718,510 at a discount of \$86,490. The proceeds from issuance were primarily used in the construction of the infrastructure 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 of the District Special Levy.

The Bond Indenture contains special mandatory and optional redemption. The special mandatory redemption, which started on October 1, 2008, triggers when: (a) on or after the completion of the project, funds 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 starting 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, 2017.

The Revenue Bonds bear annual interest of 7.625%, with final maturity on October 1, 2037. The following are the changes for Revenue Bonds during the year:

		<u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30</u>
Special Levy Revenue Bonds	\$	4,410,000	-	(85,000)	4,325,000
Unamortized bond discount		(62,657)	2,949	-	(59,708)
	\$	<u>4,347,343</u>	<u>2,949</u>	<u>(85,000)</u>	<u>4,265,292</u>

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>
2018	\$	90,000	326,350	416,350
2019		95,000	319,297	414,297
2020		105,000	311,672	416,672
2021		110,000	303,475	413,475
2022		120,000	294,706	414,706
2023 – 2027		755,000	1,315,122	2,070,122
2028 – 2032		1,085,000	968,566	2,053,566
2033 – 2037		1,575,000	466,841	2,041,841
2038		390,000	14,868	404,868
	\$	<u>4,325,000</u>	<u>4,320,897</u>	<u>8,645,897</u>

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

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 5. DEFICIT NET POSITION

The total net position balance is in a deficit position. This is due to the fact that the capital assets acquired with bond proceeds were transferred to another governmental agency. This resulted in the recognition of long-term debt with no related asset on the District’s financial statement. The long term debt will be repaid with future special levy taxes. The resulting deficit net position as of June 30, 2017 is \$3,290,013.

NOTE 6. ARBITRAGE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on the revenue bonds and at June 30, 2017 does not expect to incur a liability.

NOTE 7. INTERFUND TRANSFERS

For the year ended June 30, 2017, the District transfers were made to fund debt service payments and administrative expenses. The following transfers were made during the year:

<u>Transfer Out</u>	<u>Transfer In Bond Fund</u>
General Fund	\$ 418,020
Reserve Fund	401
	<u>\$ 418,421</u>

NOTE 8. INSURANCE COVERAGE

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

OTHER INFORMATION

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

To the Board of Directors
Saltillo Public Improvement District
and Mr. Timothy Keller
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparison of the general fund of Saltillo Public Improvement District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 9, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 or significant deficiencies. However, material weaknesses or deficiencies may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Albuquerque, New Mexico
October 9, 2017

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Schedule of Findings and Responses
Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS

No matters were reported.

SALTILLO PUBLIC IMPROVEMENT DISTRICT
Exit Conference
Year Ended June 30, 2017

EXIT CONFERENCE

An exit conference was held on September 27, 2017 which was attended by the following:

Saltillo Public Improvement District

Cilia Agliadoro, Board Member

Jill Sweeney, Legal Counsel (Sherman & Howard)

Dee Brescia, Accountant

Axiom Certified Public Accountants and Business Advisors LLC

Jaime Rumbaoa, CPA, CITP, CFE, CISA, Partner

The financial statements were prepared with the assistance of Axiom CPAs and Business Advisors LLC.