



**MARIPOSA PUBLIC
IMPROVEMENT DISTRICT**

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2012

atkinson

PRECISE. PERSONAL. PROACTIVE.

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Mariposa Public Improvement District

OFFICIAL ROSTER

Year ended June 30, 2012

BOARD OF DIRECTORS

James Jimenez	Chair
Olivia Padilla-Jackson	Secretary-Treasurer
John Castillo	Member

The terms of the Board of Directors expired at June 30, 2012. The Governing Body of the City of Rio Rancho assumed direct governance responsibility for the Mariposa Public Improvement District on September 26, 2012.



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector Balderas, New Mexico State Auditor
and the Board of Directors
Mariposa Public Improvement District
Rio Rancho, New Mexico

We were engaged to audit the accompanying financial statements and supplementary information of Mariposa Public Improvement District (District or PID) as of June 30, 2012. These financial statements are the responsibility of the District's management.

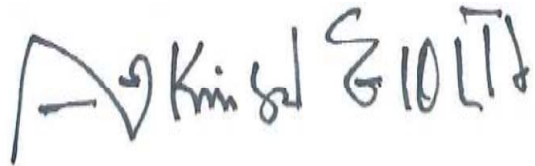
This is a first year audit of the District. In 2011, due to revenue levels of the District for that year, an agreed upon procedures engagement was performed, which is much less in scope than an audit in accordance with generally accepted auditing standards. Because we were not engaged as auditors in fiscal year 2011, we have not obtained sufficient appropriate audit evidence concerning the financial statement ending balances for the PID as of June 30, 2011 which comprises the beginning balances for the current year audit. The beginning of the year financial balances affect the determination of the results of operations for the year ending June 30, 2012. Additionally, because of major uncertainties concerning the financial balances of the District including the probable default of bond debt under current circumstances existing at June 30, 2012, we were unable to form an opinion regarding all financial statements amounts reported by the District at June 30, 2012.

Because the scope of our engagement was not sufficient and because of the significance of the financial uncertainties discussed in the preceding paragraph and more fully described in Note J, we do not express an opinion on the financial statements and supplementary information of the Mariposa Public Improvement District as of June 30, 2012.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Notes J and K to the financial statements, the Developer has announced that it will not honor its commitment to make stabilization payments on bond debt necessary to avoid default on the bond debt of the District. These conditions raise substantial doubt about the District's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 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.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 31, 2013

Mariposa Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2012

Management of the Mariposa Public Improvement District (District or PID) offers 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, 2012.

The District is a political subdivision of the State of New Mexico (the State) created by the City of Rio Rancho pursuant to the Public Improvement District Act, Sections 5-11-1 through 5-11-27, New Mexico Statutes Annotated, as amended (the Act) and Chapter 2, Article 10 of the Administrative Procedures of the City (the PID Policy).

The Formation Resolution also authorized the District to set the District Property Tax levy at the rate needed (1) to pay debt service in the next fiscal year, based on the Accumulated Revenues, and (2) fully replenish the reserve account to the reserve requirement for the Bonds. The District is also authorized to levy a District Property Tax to pay Annual Administrative Costs not to exceed \$3.00 per \$1,000 of assessed valuation on Taxable Property within the District. Lastly, the Development Agreement provides for the collection of a Facilities Fee by the District, which shall be collected by the District for each legal parcel or tract of real property within the District, at the earlier of (i) the issuance of an initial building permit by the City of Rio Rancho or (ii) the transfer of title to legal parcel of tract by the Developer to a third party. The Facilities Fee may be pledged by the District as additional security for the District Bonds.

Financial Highlights

The financial statements, which follow the Management's Discussion and Analysis, provide those significant key financial highlights for fiscal year ended June 30, 2012 as follows:

- In the Statement of Net Assets, the District's total deficit net assets were \$13,861,862.
- In the Statement of Activities the total District revenue amounted to \$664,715, while expenditures amounted to \$1,015,183.

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 statement, 2) fund financial statements, and 3) notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

Year ended June 30, 2012

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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 finance the construction of certain infrastructure improvements and on an annual basis provide funding for enhanced services providing maintenance of landscaping for the linear park, trails, and parkways.

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 reconciliation's are on pages 13 and 15, respectively.

Mariposa Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

Year ended June 30, 2012

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, the Bond Fund, the Reserve Fund, and the Enhanced Services 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 immediately following the basic financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a district's financial position. In the case of the District, liabilities exceeded assets by \$13,861,862.

The purpose of the District is to construct water and wastewater treatment facilities to serve the Mariposa Community.

The District's financial position is the product of several financial transactions including the net results of activities, the issuance of District bonds, construction of improvements, and payment of debt. The capital assets constructed from the bond proceeds were transferred to the City following their completion and were not recorded on the District's books. The following table presents the condensed net assets for the fiscal year ended June 30, 2012:

Current assets	\$ 1,377,650
Other assets	<u>197,441</u>
	1,575,091
Current liabilities	705,604
Long-term obligations outstanding	<u>14,731,349</u>
Total liabilities	<u>15,436,953</u>
Net assets (deficit)	<u>\$ (13,861,862)</u>

Mariposa Public Improvement District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

Year ended June 30, 2012

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

- The Property Taxes for the fiscal year amounted to \$186,353.
- Interest expense incurred related to the Revenue Bond amounted to \$928,181.
- Administrative expenses of \$87,002 for services such as trustee, legal and financial services.

Changes in net assets. The following table presents a summary of the changes in net assets for fiscal year ended June 30, 2012:

Expenses	
General government	\$ 87,002
Interest expense	<u>928,181</u>
 Total expenses	 1,015,183
 General Revenues	
Property taxes	186,353
Developer advance	478,052
Dividend income	<u>370</u>
	 <u>664,775</u>
 Change in net assets	 <u><u>\$ (350,408)</u></u>

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds amounted to \$664,725, while expenditures amounted to \$1,281,253. The major expenditures of the District are maintenance expenditures and debt service payments.

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 Property Taxes for each year. During FY12, there was one budget adjustment in the amount of \$12,500 to pay certain legal expenses due to the special circumstances related to bond restructure work. Legal expenses have been incurred in the amount of \$51,782 that have not been paid due to insufficient administrative funds at this time. The restructure of the bonds is expected to allocate funds to cover the work related to these restructure legal services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

Year ended June 30, 2012

Capital Assets and Debt Administration

The capital assets were transferred to the City of Rio Rancho and therefore they are not recorded on the District's financial statements.

Pursuant to resolutions adopted on May 12, 2006 and June 14, 2006, the District issued its \$16,000,000 Public Improvement District General Obligation Bonds, Series 2006 on June 21, 2006. Under the Indenture dated as of June 1, 2006, the Bonds are payable from revenues received by the District in each Fiscal Year from the payment of District Property Taxes authorized pursuant to the Act to be levied against parcels of land within the District in amounts and at rates necessary to pay the bonded indebtedness of the District, with a priority co-equal to and independent of the lien of general ad valorem property taxes. Under the Indenture, the District has agreed to repay the Bonds from (i) the District Property Tax revenues, (ii) all money and investments in the Pledged Revenue Fund, the Bond Fund and the Reserve Fund, and (iii) revenues of the District Facilities Fee on deposit in the Rate Stabilization Fund, any funds held in the Issuance and Expenses Fund (collectively, the "Pledged Revenues"). The outstanding debt at the end of fiscal year June 30, 2012 amounted to \$15,084,158 (net of unamortized bond discount).

Currently Known Facts and Conditions

While delinquencies are relatively low, the more significant problem stems from the number of properties sold and developed versus the amounts that were built into the initial financial projections. To date, approximately 107 properties have been developed. This number of properties does not generate sufficient Property Tax revenues to pay the annual debt service on its own without a rate increase. Additionally, in June 2012, the Developer notified the District that it would no longer be able to make the stabilization payment, as required by the Development Agreement. See the subsequent events section and Notes J and K for more information about what the District is doing to try to resolve this situation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Financial Services Department, City of Rio Rancho, 3200 Civic Center Circle NE, Rio Rancho, New Mexico 87144.

Mariposa Public Improvement District

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,331,586
Receivables, net	46,064
Bond issuance costs, net	<u>197,441</u>
 Total assets	 1,575,091
 Liabilities	
Interest payable	301,013
Accrued expenses	51,782
Revenue bonds payable, net	
Due within one year	352,809
Due in more than one year	<u>14,731,349</u>
 Total liabilities	 <u>15,436,953</u>
 Net Assets	
Restricted for debt service	1,268,347
Unrestricted (deficit)	<u>(15,130,209)</u>
	 <u><u>\$ (13,861,862)</u></u>

The accompanying notes are an integral part of this financial statement.

Mariposa Public Improvement District

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
General government	\$ 87,002	\$ (87,002)
Interest expense	928,181	(928,181)
	<hr/>	<hr/>
Total expenses	<u>\$ 1,015,183</u>	(1,015,183)
General Revenues		
General property tax		186,353
Developer stabilization payments		478,052
Dividend income		370
		<hr/>
		664,775
		<hr/>
Change in net assets		(350,408)
Net assets (deficit), beginning		<hr/> (13,511,454)
Net assets (deficit), ending		<u>\$ (13,861,862)</u>

The accompanying notes are an integral part of this financial statement.

Mariposa Public Improvement District

BALANCE SHEET – GOVERNMENTAL FUNDS

Year ended June 30, 2012

	General Fund	Bond Fund	Reserve Fund	Rate Stabilization Fund	Total
Assets					
Cash and cash equivalents	\$ 59,594	\$ 1	\$ 1,268,346	\$ 3,645	\$ 1,331,586
Receivables, net	46,064	-	-	-	46,064
Total assets	\$ 105,658	\$ 1	\$ 1,268,346	\$ 3,645	\$ 1,377,650
Liabilities and Fund Balances					
Liabilities					
Accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue	33,867	-	-	-	33,867
Total Liabilities	33,867	-	-	-	33,867
Fund Balances					
Restricted for debt service	-	1	1,268,346	-	1,268,347
Unassigned	71,791	-	-	3,645	75,436
Total fund balances	71,791	1	1,268,346	3,645	1,343,783
Total liabilities and fund balances	\$ 105,658	\$ 1	\$ 1,268,346	\$ 3,645	\$ 1,377,650

The accompanying notes are an integral part of this financial statement.

Mariposa Public Improvement District

**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

Year ended June 30, 2012

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

Fund balance - total governmental funds	\$ 1,343,783
Amounts reported for governmental activities in the the Statement of Net Assets are different because:	
Bond issuance costs in the governmental activities are not financial resources and therefore, not reported in the funds	197,441
Long-term liabilities for the revenue bonds, are not due and payable in the current period, and therefore are not reported in the funds	(15,084,158)
Accrued interest payable	(301,013)
Accrued expenses - long-term	(51,782)
Receivables reported in the Statement of Net Assets that are not currently available in the funds	<u>33,867</u>
Net assets of governmental activities	<u>\$ (13,861,862)</u>

The accompanying notes are an integral part of this financial statement.

Mariposa Public Improvement District

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS**

Year ended June 30, 2012

	General Fund	Bond Fund	Reserve Fund	Rate Stabilization Fund	Total
Revenues					
Property taxes	\$ 185,120	\$ -	\$ -	\$ -	\$ 185,120
Developer stabilization payments	25,000	-	-	453,052	478,052
Dividend income	8	2	329	31	370
Total revenues	210,128	2	329	453,083	663,542
Expenditures					
General government	35,219	-	-	-	35,219
Public works	-	-	-	-	-
Debt service					
Interest expense	-	912,525	-	-	912,525
Principal	-	345,000	-	-	345,000
Total expenditures	35,219	1,257,525	-	-	1,292,744
Excess (deficiency) of revenues over (under) expenditures	174,909	(1,257,523)	329	453,083	(629,202)
Other financing sources (uses)					
Transfer in	-	1,257,523	-	-	1,257,523
Transfer out	(191,528)	-	(284)	(1,065,711)	(1,257,523)
Total	(191,528)	1,257,523	(284)	(1,065,711)	-
Net change in fund balance	(16,619)	-	45	(612,628)	(629,202)
Fund balances, beginning of year	88,410	1	1,268,301	616,273	1,972,985
Fund balances, ending of year	<u>\$ 71,791</u>	<u>\$ 1</u>	<u>\$ 1,268,346</u>	<u>\$ 3,645</u>	<u>\$ 1,343,783</u>

The accompanying notes are an integral part of this financial statement.

Mariposa 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, 2012

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

Net change in fund balances - total governmental funds	\$ (629,202)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental fund reports the effect of issuance costs and discounts, whereas these amounts are deferred and amortized in the Statement of Activities.	(21,983)
Property taxes portion not recognized in the fund balances - change in deferred revenue.	1,234
The repayment of long-term debt consumes the current financial resources of the governmental funds. This has no effect on net assets.	345,000
Change in accrued interest payable.	6,325
Accrued expenses not recorded in the governmental fund.	<u>(51,782)</u>
Change in net assets of governmental activities	<u>\$ (350,408)</u>

The accompanying notes are an integral part of this financial statement.

Mariposa Public Improvement District

GENERAL FUND – BUDGET AND ACTUAL

Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 194,013	\$ 194,013	\$ 185,120	\$ (8,893)
Developer stabilization payments	12,500	25,000	25,000	-
Dividend income	25	25	8	(17)
Total revenues	206,538	219,038	210,128	(8,910)
Expenditures				
General government	25,060	37,560	35,219	2,341
Total expenditures	25,060	37,560	35,219	2,341
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	(269,000)	(269,000)	(191,528)	77,472
Total	(269,000)	(269,000)	(191,528)	77,472
Net change in fund balance	(87,522)	(87,522)	(16,619)	70,903
Fund balances, beginning of year	88,410	88,410	88,410	-
Fund balances, end of year	\$ 888	\$ 888	\$ 71,791	\$ 70,903

The accompanying notes are an integral part of this financial statement.

Mariposa Public Improvement District

RATE STABILIZATION FUND – BUDGET AND ACTUAL

Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Facility fee	\$ 24,000	\$ 24,000	\$ -	\$ (24,000)
Developer advance	350,000	350,000	453,052	103,052
Dividend income	-	-	31	31
Total revenues	374,000	374,000	453,083	79,083
Expenditures				
General government	-	-	-	-
Total expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfer in	269,000	269,000	-	269,000
Transfer out	(1,257,525)	(1,257,525)	(1,065,711)	(2,323,236)
Total	(988,525)	(988,525)	(1,065,711)	(2,054,236)
Net change in fund balance	(614,525)	(614,525)	(612,628)	(1,975,153)
Fund balances, beginning of year	616,273	616,273	616,273	-
Fund balances, end of year	\$ 1,748	\$ 1,748	\$ 3,645	\$ (1,975,153)

The accompanying notes are an integral part of this financial statement.

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2012

NOTE A - REPORTING ENTITY

Mariposa Public Improvement District (the District, PID, or Mariposa) is a political subdivision of the State of New Mexico duly created and existing pursuant to Sections 5-11-1 through 5-11-127 NMSA 1978, as amended, Chapter 2, Article 10 of the City of Rio Rancho (the City) Administrative Policies and Procedures entitled Public Improvement District Guidelines and Application Procedures, and City Resolution No. 105, Enactment No. 04-103 adopted on November 10, 2004.

The District was created to fund public infrastructure improvements (the Mariposa Project) for the Mariposa community, consisting of approximately 1,525 gross acres of real property located in the City of Rio Rancho, of which approximately 1,249 acres were initially subject to the District Property Tax Levy.

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 at June 30, 2012 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 either four years or six years.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (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.

1. Basis of Presentation

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

1. Basis of Presentation - Continued

The Statement of Activities presents 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 Property Taxes levied on the assessed valuation of taxable property within the District, and dividends 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. It includes proceeds from the Administrative Property Tax.
- b. Rate Stabilization Fund – used to account for funds to be received from the developer.
- c. Bond Fund – used to pay annual bond principal and interest payments.
- d. Reserve Fund – required reserves per the bond agreement are tracked in the reserve fund.

2. 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 Property Taxes are recognized in the fiscal year for which the taxes are levied.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Measurement Focus and Basis of Accounting - Continued

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

3. Cash Equivalents

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

4. Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

5. Capital Assets

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

6. Long-Term Obligations

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

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

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Long-Term Obligations - Continued

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.

7. Property Taxes

The District imposes Property Taxes, which secures the payment of the debt service on the District's General Obligation Bonds. Property Tax Revenue amounted to \$186,353 for the fiscal year ended June 30, 2012.

The Debt Service Property Tax shall cease to be levied following the payment of all schedule interest, principal, and premium, if any, for the Bonds.

The Property Taxes are billed and collected by Sandoval 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 Property Tax installment due November 10 becomes delinquent on December 11, while the April 10 installment becomes delinquent on May 11. The District Property Taxes 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.

8. Transfers

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

9. Fund Balances

The District followed GASB 54 during the current fiscal year. In the governmental fund financial statements the District classifies fund balances into spendable and non-spendable classifications. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact permanently such as principal of a permanent fund. The District has no non-spendable fund balances at June 30, 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Fund Balances - Continued

The spendable classifications are detailed below:

Restricted Fund Balances

Net assets are reported as restricted when constraints placed on net asset use are (a) externally imposed by creditors such as through debt covenants, grantors, contributors, laws, or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be only for the specific purposes stipulated in the legislation.

Legal enforceability means the government can be impelled by an external party, such as citizens, public interest groups, or the judiciary to use resources for the purpose specified by the legislation.

The amount of net assets restricted by enabling legislation is \$1,268,346 which represents all restricted net assets reported on page 12. These assets are retained in the reserve fund to be used for debt service.

Unrestricted Assets – consist of net assets that do not meet the definition of “restricted” or invested in capital assets, net of related debt. Restricted resources are first applied where both restricted and unrestricted resources are available.

10. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

11. Budgets

The District has adopted budgets for each year. The budget is adopted on a modified accrual basis of accounting. The legal level of compliance is total expenditures.

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE C - 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 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.

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.

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, 2012, the District's deposits were exposed to custodial risk as follows:

Total deposits	\$ 1,331,586
Transaction account guarantee	<u>(1,331,586)</u>
	<u>\$ -</u>

NOTE D - PROPERTY TAX RECEIVABLES

Property Tax receivables at June 30, 2012 consist of:

Property tax receivables	\$ 47,704
Allowance for bad debts	<u>(1,640)</u>
	<u>\$ 46,064</u>

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE D - PROPERTY TAX RECEIVABLES - CONTINUED

The amount estimated to be available after 60 days from year-end reported as deferred revenue in governmental funds was \$33,867.

NOTE E - GENERAL OBLIGATION BONDS

On June 21, 2006, the District issued General Obligation Bonds, Series 2006 with total par value of \$16,000,000 for \$15,680,000, or a discount of \$320,000. The proceeds from issuance were primarily used in the construction of the Mariposa Project. The bonds are generally callable with interest payable semi-annually, every March 1 and September 1. The obligations are secured by the pledge of net revenues from the District Property Taxes.

The Indenture contains special mandatory and optional redemption, ranging from 100% to 102% of the principal amount. The special mandatory redemption, which started on September 1, 2010, triggers when: (a) on or after the completion of the project, moneys are transferred from the Construction Fund to the Prepayment Account of the Bond Fund, and (b) the prepayment in whole or in part of any Property Taxes 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 September 1, 2016. No events occurred that have triggered special mandatory redemption.

The details of activity of the revenue bonds for the year ended June 30, 2012 are as follows:

	General Obligation Revenue Bonds, Series 2006						Total
Interest rate	3.60%	3.75%	4.00%	5.20%	6.00%	6.30%	
Maturity date	9/1/2006	9/1/2007	9/1/2009	9/1/2016	9/1/2021	9/1/2032	
Balance, 6/30/11	\$ -	\$ -	\$ -	\$ 2,370,000	\$ 2,655,000	\$ 10,650,000	\$ 15,675,000
Payments	-	-	-	(345,000)	-	-	(345,000)
Balance, 6/30/12	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,025,000</u>	<u>\$ 2,655,000</u>	<u>\$ 10,650,000</u>	<u>\$ 15,330,000</u>

The balance of revenue bonds at June 30, 2012 in the Statement of Net Assets is net of unamortized bond discount of \$245,842.

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE E - GENERAL OBLIGATION 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>
2013	\$ 365,000	\$ 893,000	\$ 1,258,000
2014	380,000	872,513	1,252,513
2015	405,000	850,925	1,255,925
2016	425,000	828,100	1,253,100
2017	450,000	804,037	1,254,037
2018-2022	2,655,000	3,593,331	6,248,331
2023-2027	3,530,000	2,690,100	6,220,100
2028-2032	4,730,000	1,459,500	6,189,500
2033	2,390,000	71,700	2,461,700
	<u>\$ 15,330,000</u>	<u>\$ 12,063,206</u>	<u>\$ 27,393,206</u>

Interest payment and principal payments of the general obligation bonds are serviced by revenues generated from the District Property Taxes and are paid from the Bond Fund.

	<u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30</u>	<u>Due in 1 year</u>
General Obligation					
Revenue Bonds	\$ 15,675,000	\$ -	\$ (345,000)	\$ 15,330,000	\$ 365,000
Unamortized bond discount	(258,032)	-	12,190	(245,842)	(12,190)
	<u>\$ 15,416,968</u>	<u>\$ -</u>	<u>\$ (332,810)</u>	<u>\$ 15,084,158</u>	<u>\$ 352,810</u>

NOTE F - DEFICIT NET ASSETS

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

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE G - INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2012 to fund the debt service requirements:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 191,528	\$ 1,257,523
Reserve Fund	284	-
Rate Stabilization Fund	<u>1,065,711</u>	<u>-</u>
	<u>\$ 1,257,523</u>	<u>\$ 1,257,523</u>

NOTE H - 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, 2012 does not expect to incur a liability.

NOTE I - INSURANCE COVERAGE

The District has no buildings, equipment, infrastructure or other tangible assets. Certain actions of the Board and management are covered through the Tort Claims Act. Neither member of the Board of Directors of the District nor any person acting on behalf of the District, while acting within the scope of their authority, shall be subject to any personal liability for any action taken or omitted within that scope of authority. Accordingly, the District is not insured through private carriers for liability, casualty, and director and officer liability.

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE J - DISCLAIMER OF OPINION

During June 2012, High Desert Investment Corporation, the community developer of the Mariposa development announced it would not honor its commitment to make any necessary stabilization payments in relation to bond payments on infrastructure debt.

Total lots sold to date in Mariposa are far short of levels included in feasibility studies and recent lot sales are almost none since the economic crisis of 2008-9. Without stabilization payments made to service periodic bond principal and interest payments, the bonds could default during 2013. The pull out of the developer has created a complex set of uncertainties between Residents, the Developer, the Bond investors, and the Governing Body of the City of Rio Rancho who is the governing body of the PID. The PID structure allows an increase in property tax to current home owners to meet bond obligations, but the amount of increase needed is unreasonably large. To date, the Bond investors have not demanded an increase in tax to meet needed bond service payments. The Developer has turned over 800 acres of Mariposa land in exchange for consideration against its stabilization commitment, but the ultimate value of this asset, its liquidity, and its application in this matter is uncertain. Negotiations between Bond investors and other parties are continuing. A lawsuit has been filed as of the date of these financial statements by homeowners against the Developer and the PID. The ultimate resolution of the bond debt or litigation against the Mariposa governing body, or the Developer or others is unknown at this time.

The PID financial uncertainties and the lack of beginning audited balances existing at June 30, 2012, the date of the financial statements were the basis for a disclaimer of opinion on the financial statements of Mariposa Public Improvement District financial statements reported in the Report of Independent Certified Public Accountants on page 3 and 4.

NOTE K - GOING CONCERN

Due to the circumstances described in Note J to the financial statements, specifically the financial difficulties of the PID in relation to its bond payments and the low level of homeowners and homeowner sales, there is concern about the ability of the PID to continue to exist for periods after June 30, 2012.

The PID Board, the Bond investors, and the Developer are in discussions about possible actions that may assist the PID to continue, to restructure or liquidate in a manner that is of most satisfaction to stakeholders of the PID.

Mariposa Public Improvement District

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

NOTE K - GOING CONCERN - CONTINUED

These conditions raise substantial doubt about the PID's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that PID will continue as a going concern and the financials do not include any adjustments that might result from the outcome of this going concern uncertainty.

NOTE L - SUBSEQUENT EVENTS

Events subsequent to June 30, 2012 have been evaluated by management through January 31, 2013, the date the financial statements were available for issuance. The City of Rio Rancho Governing Body became the governing board of the District, due to the expiration of the terms of the existing Board members. Additionally, the District's legal counsel continued negotiations with bond holders to restructure the bonds due the notice by the Developer of its inability to continue to contribute to the Stabilization Fund and in light of the significantly lower than anticipated Property Tax Revenues. The District entered into a forbearance agreement that allowed the District to utilize the Debt Reserve Fund to fund the cost of transferring title of the Developers remaining real property in Mariposa to a special purpose entity to protect bond holder interests. A notice to bondholders was issued by the Trustee dated December 21, 2012.

SUPPLEMENTARY INFORMATION

Mariposa Public Improvement District

BOND FUND – BUDGET AND ACTUAL

Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Dividend Income	\$ -	\$ -	\$ 2	\$ 2
Total revenues	-	-	2	2
Expenditures				
Debt service				
Interest expense	912,525	912,525	912,525	-
Principal	345,000	345,000	345,000	-
Total expenditures	1,257,525	1,257,525	1,257,525	-
Other financing sources (uses)				
Transfer in	1,257,775	1,257,775	1,257,523	(252)
Total	1,257,775	1,257,775	1,257,523	(252)
Net change in fund balance	250	250	-	(250)
Fund balances, beginning of year	1	1	1	-
Fund balances, end of year	\$ 251	\$ 251	\$ 1	\$ (250)

Mariposa Public Improvement District

RESERVE FUND – BUDGET AND ACTUAL

Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Dividend income	\$ 250	\$ 250	\$ 329	\$ 79
Total revenues	250	250	329	79
Other financing sources (uses)				
Transfer out	(250)	(250)	(284)	(34)
Total	(250)	(250)	(284)	(34)
Net change in fund balance	-	-	45	45
Fund balances, beginning of year	1,268,300	1,268,300	1,268,301	-
Fund balances, end of year	<u>\$ 1,268,300</u>	<u>\$ 1,268,300</u>	<u>\$ 1,268,346</u>	<u>\$ 45</u>



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**INDEPENDENT AUDITORS' 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**

Mr. Hector Balderas, New Mexico State Auditor
and the Board of Directors
Mariposa Public Improvement District
Rio Rancho, New Mexico

We were engaged to audit the financial statements and supplementary information of Mariposa Public Improvement District (District or PID), as of and for the year ended June 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We disclaimed an opinion on the PID financial statements for the year ended June 30, 2012, due to insufficient scope of engagement and major financial uncertainties existing at June 30, 2012.

Internal Control over Financial Reporting

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

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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

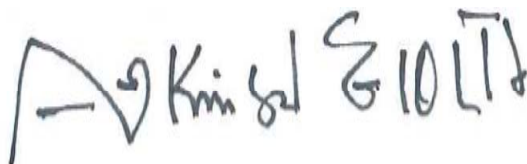
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and 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 is required to be reported under *Government Auditing Standards*.

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

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

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

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 31, 2013

Mariposa Public Improvement District

SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2012

FINANCIAL STATEMENTS

Type of auditor's report issued: Disclaimer

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements: No

FINANCIAL STATEMENT FINDINGS

None

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

12-01 Late Audit Report

PRIOR YEAR FINDINGS

None this is a first year audit.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year ended June 30, 2012

12-01 Late Audit Report (Compliance – Other)

CONDITION

The audit reports for the year ending June 30, 2012 were not submitted by the deadline of December 1, 2012. These reports were submitted to the State Auditor's Office on February 19, 2013.

CRITERIA

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

CAUSE

This is a first year audit for the District. The District is not a complex organization, however, the audit documentation is obtained from numerous sources including outside contractors. It has taken time for the auditors to determine what audit documentation was needed, compile the documentation, determine beginning fund balances, and who was to provide it.

EFFECT

The District is not in compliance with Section 2.2.2.9 A (1)(d) of the Audit Rule.

RECOMMENDATION

We recommend the District and auditors work closely to determine what documentation is needed and who is to provide it.

MANAGEMENT'S RESPONSE

The District and auditors will work closely to determine what audit documentation is needed. Management does not expect this to be a continuing finding.

Mariposa Public Improvement District

EXIT CONFERENCE

Year ended June 30, 2012

An exit conference was held on January 31, 2013. Attending were the following:

Representing Mariposa Public Improvement District:

James Babin, Acting City Manager
Tamara Gutierrez, District Treasurer
Olivia Padilla-Jackson, City Financial Services Director

Representing Atkinson & Co. Ltd.:

Martin Mathisen, CPA, CGFM, Director

The financial statements were prepared by Atkinson & Co., Ltd. with the assistance of Mariposa Public Improvement District.

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