



**MARIPOSA EAST PUBLIC
IMPROVEMENT DISTRICT**

**COMPILED FINANCIAL STATEMENTS
AND
INDEPENDENT ACCOUNTANTS'
COMPILATION REPORT**

June 30, 2013

atkinson

PRECISE. PERSONAL. PROACTIVE.

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Mariposa East Public Improvement District

OFFICIAL ROSTER

Year ended June 30, 2013
See Accountants' Compilation Report

BOARD OF DIRECTORS

Thomas E. Swisstack	Chairman
Tamara L. Gutierrez	Secretary-Treasurer
Chuck Wilkins	Member
Patricia A. Thomas	Member
Mark Scott	Member
Lonnie Clayton	Member
Timothy C. Crum	Member



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

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

We have compiled the accompanying governmental fund financial statements consisting of the balance sheet – governmental funds and statement of revenues, expenditures, and changes in fund balance – governmental funds and related notes of Mariposa East Public Improvement District (Mariposa PID), as of and for the year ended June 30, 2013, as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted (GAAP) in the United States of America.

The management of Mariposa PID is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

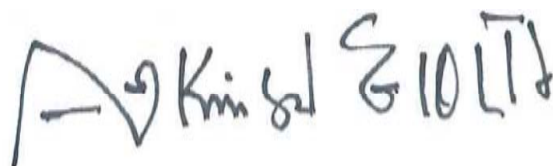
Our responsibility is to conduct the compilation in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit the government wide financial statements and associated and corresponding reconciliations and disclosures required by GAAP. If the omitted financial statement disclosures were included in the financial statements, they might influence the user's conclusions about Mariposa PID's financial position and results of operations. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Management has elected to omit the budgetary comparison schedules for the government funds required by GAAP. If the omitted budgetary comparison schedules for the government funds were included in the financial statements, they might influence the user's conclusions about Mariposa PID's financial position and results of operations. Accordingly, the financial statements are not designed for those who are not informed about such matters.

For the year ended June 30, 2013, management has omitted the Management's Discussion and Analysis that GAAP requires to be presented to supplement the basic financial statements. Such missing 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. Accordingly, these financial statements are not designed for those who are not informed about such matters.

As discussed in Notes H and I, certain conditions indicate that Mariposa PID may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Mariposa PID be unable to continue as a going concern.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", written in a cursive style.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
February 14, 2014

Mariposa East Public Improvement District

BALANCE SHEET – GOVERNMENTAL FUNDS

Year ended June 30, 2013
See Accountants' Compilation Report

	General Fund	Bond Fund	Reserve Fund	Rate Stabilization Fund	Total
Assets					
Cash and cash equivalents	\$ 149,415	\$ 1	\$ 338,193	\$ -	\$ 487,609
Receivables, net	21,578	-	-	-	21,578
Total assets	\$ 170,993	\$ 1	\$ 338,193	\$ -	\$ 509,187
Liabilities and Fund Balances					
Liabilities					
Deferred revenue	\$ 21,578	\$ -	\$ -	\$ -	\$ 21,578
Total liabilities	21,578	-	-	-	21,578
Fund Balances					
Restricted for debt service	-	1	338,193	-	338,194
Unassigned	149,415	-	-	-	149,415
Total fund balances	149,415	1	338,193	-	487,609
Total liabilities and fund balances	\$ 170,993	\$ 1	\$ 338,193	\$ -	\$ 509,187

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

Mariposa East Public Improvement District

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

Year ended June 30, 2013
See Accountants' Compilation Report

	General Fund	Bond Fund	Reserve Fund	Rate Stabilization Fund	Total
Revenues					
Property taxes	\$ 331,016	\$ -	\$ -	\$ -	\$ 331,016
Dividend income	8	3	167	-	178
Other - tax refund	15,739	-	34	-	15,773
Total revenues	346,763	3	201	-	346,967
Expenditures					
General government	(13,904)	-	-	-	(13,904)
Public works - property taxes	(60,524)	-	(2,049)	-	(62,573)
Professional services - legal	-	-	(172,954)	-	(172,954)
Professional services - administrative and audit	-	-	(12,300)	-	(12,300)
New Mexico Corp trust fees	-	-	(26,750)	-	(26,750)
Interest expense	-	(903,038)	-	-	(903,038)
Insurance	-	-	(11,622)	-	(11,622)
Total expenditures	(74,428)	(903,038)	(225,675)	-	(1,203,141)
Excess (deficiency) of revenues over (under) expenditures	272,335	(903,035)	(225,474)	-	(856,174)
Other financing sources (uses)					
Transfer in	-	903,035	-	-	903,035
Transfer out	(194,711)	-	(704,679)	(3,645)	(903,035)
Total	(194,711)	903,035	(704,679)	(3,645)	-
Net change in fund balance	77,624	-	(930,153)	(3,645)	(856,174)
Fund balances, beginning of year	71,791	1	1,268,346	3,645	1,343,783
Fund balances, ending of year	\$ 149,415	\$ 1	\$ 338,193	\$ -	\$ 487,609

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

Mariposa East Public Improvement District

NOTES TO COMPILED FINANCIAL STATEMENTS

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE A - REPORTING ENTITY

Mariposa East 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, 2013 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 responsibility of all affairs of the District. The City Council for the City of Rio Rancho has assumed Board responsibilities for Mariposa PID as of September 26, 2012.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The fund financial statements consisting of the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds 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

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.

Governmental Funds. The District reports all governmental funds in a major-fund type presentation:

- 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.

NOTES TO COMPILED FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

1. Basis of Presentation - Continued

- b. Rate Stabilization Fund – used to account for funds 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 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. 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 \$331,016 for the fiscal year ended June 30, 2013.

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

NOTES TO COMPILED FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Property Taxes - Continued

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.

7. Transfers

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

8. 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, 2013.

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 \$338,194 which represents all restricted net assets. These assets are principally 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.

NOTES TO COMPILED FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. 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.

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, 2013, the District's deposits were not exposed to custodial risk due to:

Total deposits	\$ 487,609
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Invested in US Treasury instruments – all Mariposa deposits are in the Invesco Treasury Portfolio Money Market account. These investments are direct obligations of the US Treasury or repurchase agreements backed by Treasury obligations.

Mariposa East Public Improvement District

NOTES TO COMPILED FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE D - GENERAL OBLIGATION BONDS

Under modified accrual accounting, bond principal is not recorded in years subsequent to issuance. The following information is provided on the bond obligation to present additional information on the 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 District is struggling financially due to the lack of home sales. At the direction of the bond holders, Mariposa did not pay their September 1, 2012 principal payment. This is not considered a default because Mariposa had the funds to make the principal payment on time. The bond holders wanted to defer the payment for one year to preserve the trust estate for restructuring. Due to lawsuits filed by the residents of Mariposa, the restructuring of the bonds was delayed. The lawsuits have been dropped so that the bond can be restructured. Mariposa did make the interest payments but had to pay a higher amount than was budgeted due to the principal payment not being made.

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 bond indenture requires continuous reporting including the filings of an annual budget with the local government division of DFA, State of New Mexico. Property tax revenues are currently providing approximately 20% of required principal and interest bond servicing on an annual basis.

The details of activity of the revenue bonds for the year ended June 30, 2013 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, 6/30/2012	\$ -	\$ -	\$ -	\$ 2,025,000	\$ 2,655,000	\$ 10,650,000	\$ 15,330,000
Payments	-	-	-	-	-	-	-
Balance, 6/30/2013	<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, 2013 is net of unamortized bond discount of \$221,461.

Mariposa East Public Improvement District

NOTES TO COMPILED FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE D - 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>
2014	\$ 745,000	\$ 882,550	\$ 1,627,550
2015	405,000	850,925	1,255,925
2016	425,000	828,100	1,253,100
2017	450,000	804,038	1,254,038
2018	475,000	778,006	1,253,006
2019-2023	2,805,000	3,435,575	6,240,575
2024-2028	3,745,000	2,471,850	6,216,850
2029-2033	6,280,000	1,129,200	7,409,200
	<u>\$ 15,330,000</u>	<u>\$ 11,180,244</u>	<u>\$ 26,510,244</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>
Special Levy Revenue Bonds	\$ 15,675,000	\$ -	\$ -	\$ 15,675,000	\$ 745,000
Unamortized bond discount	(245,842)	-	24,381	(221,461)	(24,381)
	<u>\$ 15,429,158</u>	<u>\$ -</u>	<u>\$ 24,381</u>	<u>\$ 15,453,539</u>	<u>\$ 720,619</u>

NOTE E - INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2013 to fund the debt service requirements:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 194,711	\$ -
Reserve Fund	704,679	-
Rate Stabilization Fund	3,645	-
Bond Fund	-	903,035
	<u>\$ 903,035</u>	<u>\$ 903,035</u>

NOTES TO COMPILED FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE F - INSURANCE COVERAGE

The District has no buildings, equipment, infrastructure or other tangible assets. The District has no employees. Certain actions of the Board and management are covered through the Tort Claims Act which states, in part, that 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.

NOTE G - ACCRUAL ITEMS AFFECTING FINANCIAL STATUS OF MARIPOSA EAST PID AT JUNE 30, 2013

The financial statements are prepared on a modified accrual basis. Certain significant obligations exist for the PID that are not recorded in the government funds financial statements as follows:

Accrued Interest

Reserve funds, as well as a lesser amount of general funds, were used to pay interest expense on outstanding bonds. The amount of interest paid during the year was \$903,130. The principal payment due in FY13 of \$365,000 was delayed due to a forbearance agreement put in place. Accrued interest due at June 30, 2013 is not recorded in the government fund financials at June 30, 2013 as it is not considered to require expendable resources in the near term. The amount of the accrued interest at June 30, 2013 is \$301,102. Bond principal reported in Note D is also not recorded.

Accrued Professional Fees

The PID is incurring significant legal fees in relation to the financial status of the PID and the associated nonpayment of bond principal and ongoing restructuring attempts for outstanding bond obligations. Amounts were paid from reserve funds during the year totaling \$172,959 to legal counsel for bond holders as approved by bond holders for legal services in connection with bond restructuring. Amounts owing to the PID's legal counsels are accumulating and total \$206,411 at June 30, 2013. This amount is unpaid and are not recorded at June 30, 2013 due to the modified accrual basis of accounting. There is informal discussion that these amounts will be paid upon culmination of a bond restructure arrangement.

NOTE H - GOING CONCERN

Due to the circumstances described in Notes D and G 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, 2014.

NOTES TO COMPILED FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013
See Accountants' Compilation Report

NOTE H - GOING CONCERN - CONTINUED

The PID Board, the Bond investors, and the Developer are in discussions about possible actions that may assist the PID to continue. A supplemental indenture agreement No. 1 was reached between Mariposa East PID and the Bank of Albuquerque, NA trustee dated August 1, 2012 which was a forbearance agreement for the trustee and PID Board to not apply remedies available to them in the event of default of the bonds and to effect the transfer of High Desert Land in exchange for release from replenishment responsibilities.

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 I - SUBSEQUENT EVENTS

Events subsequent to June 30, 2013 have been evaluated by management through February 14, 2014, the date the financial statements were available for issuance. The lawsuits by the homeowners were dropped in order for the restructuring of the bonds to occur. A forbearance agreement dated August 1, 2012 authorizes the District Board and Trustee to forbear from remedies for tax collection deficiencies in relation to required bond obligation. The forbearance agreement is in effect pending the closing of a restructuring agreement. A restructuring draft agreement dated August 13, 2013 relates to the proposed restructuring of Mariposa PID bonds whereby the original 2006 bonds will be replaced with 2013 or later bonds secured by special levy revenues rather than general obligation property taxes and amounts that homeowners will be responsible for was capped. The restructuring agreement is not final, but all parties are negotiating in good faith at the date of the financial statements.

Mariposa East Public Improvement District

EXIT CONFERENCE

Year ended June 30, 2013
See Accountants' Compilation Report

An exit conference was held on November 25, 2013. Attending were the following:

Representing Mariposa East Public Improvement District:

Thomas Swisstack
Marta Ortiz

Mayor/City of Rio Rancho
Acting Financial Services Director

Representing Atkinson & Co., Ltd.:

Martin Mathisen, CPA, CGFM

Audit Director/Shareholder

The Balance Sheet – Governmental Funds were prepared with the assistance of Atkinson & Co., Ltd. Mariposa East Public Improvement District is responsible for their content.

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**MARIPOSA EAST PUBLIC
IMPROVEMENT DISTRICT**

**INDEPENDENT ACCOUNTANTS'
REPORT ON APPLYING
AGREED-UPON PROCEDURES**

June 30, 2013

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RECEIVED
DEC 9 2013
STATE AUDITOR

RECEIVED
MAR 12 2014
STATE AUDITOR

Mariposa East Public Improvement District

OFFICIAL ROSTER

Year ended June 30, 2013

BOARD OF DIRECTORS

Thomas E. Swisstack	Chairman
Tamara L. Gutierrez	Secretary-Treasurer
Chuck Wilkins	Member
Patricia A. Thomas	Member
Mark Scott	Member
Lonnie Clayton	Member
• Timothy C. Crum	Member



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by Mariposa East Public Improvement District (District or Mariposa) and New Mexico State Auditor (State Auditor), solely to assist the users in evaluating the District's financial reporting to the State Auditor relating to its Cash, Capital Assets, Revenue, Expenditures, Journal Entries and Budget information and its compliance with Section 12-6-3B(6) NMSA 1978 and Section 2.2.2.16 NMAC as of and for the year ended June 30, 2013. The District's management is responsible for Mariposa's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In accordance with Tier 6 of the Audit Act – Section 12-6-3 B(6) and Section 2.2.2.16 NMAC, we performed the following procedures:

1. Cash

- a) Determine whether bank reconciliations are being performed in a timely manner and whether all bank and investment statements for the fiscal year are complete and on-hand. For purposes of performing our procedures, "timely" means completion of the bank reconciliations within one month after the last day of the reporting month and "complete" means that statements for bank and investment accounts are all accounted for by the District.
- b) Perform a random test of bank reconciliations for accuracy. Also trace ending balances to the general ledger, supporting documentation and the financial reports submitted to DFA-Local Government Division. For purposes of performing our procedures, "accuracy" means that reconciling items agree to deposit slips and subsequent bank or investment statements.

- c) Determine whether the local public body's financial institutions have provided it with the 50% of pledged collateral on all uninsured deposits as required by Section 6-10-17 NMSA 1978, NM Public Money Act, if applicable.

Results of Procedures 1(a) – 1(c)

We obtained a list from management of all bank and investment accounts, and the corresponding statements for the fiscal year ended June 30, 2013 as described below:

<u>Account No.</u>	<u>Description</u>	<u>Fund</u>	<u>GL Balance</u>
81-8635-01-3	Pledged Revenue	Pledged revenue fund	\$ 137,756
81-8635-02-1	Principal Account	Bond fund	1
81-8635-03-9	Interest Account	Bond fund	-
81-8635-04-7	Prepayment Account	Bond fund	-
81-8635-07-0	Reserve Fund	Reserve fund	338,193
81-8635-09-6	Rate Stabilization	Stabilization fund	-
81-8635-10-4	Admin Account	Administration fund	11,659
Total			\$ 487,609

Mariposa is doing monthly bank reconciliations in a timely and accurate manner. We noted no instances of noncompliance in performing procedures 1(a) - 1(c).

2. Capital Assets

Verify that the local public body is performing a yearly inventory as required by Section 12-6-10 NMSA 1978.

Results of Procedure 2

The District has no capital assets and accordingly Section 12-6-10 NMSA 1978 is not applicable.

3. Debt

If the local public body has any debt, verify that the required payments were made during the year. If the debt agreement requires reserves, verify that the local public body is in compliance with those requirements.

Results of Procedure 3

The District is struggling financially due to the lack of home sales. At the direction of the bond holders, Mariposa did not pay their September 1, 2012 principal payment. This is not considered a default because Mariposa had the funds to make the principal payment on time. The bond holders wanted to defer the payment for one year to preserve the trust estate for restructuring. Due to lawsuits filed by the residents of Mariposa, the restricting of the bonds was delayed. Now that the lawsuits have been dropped, the bond can be restructured. Mariposa did make the interest payments but had to pay a higher amount than was budgeted due to the principal payment not being made. See attachment to Question 3 - Debt for Expanded Details.

4. Revenues

Identify the nature and amount of revenue from sources by reviewing the budget, agreements, rate schedules, and underlying documentation.

- a) Perform an analytical review; test actual revenue compared to budgeted revenue for the year for each type of revenue. For purposes of performing our analytical procedures, we inquired of District management for explanations of all variances of budget to actual of more than 10% for each revenue type.

Test 50% of the total amount of revenues for the following attributes:

- b) Amount recorded in the general ledger agrees to the supporting documentation and the bank statement. For purposes of our procedures, we selected a random sample of recorded revenue transactions to achieve a minimum of 50% coverage.
- c) Proper recording of classification, amount, and period per review of supporting documentation and the general ledger. Perform this revenue work on the same accounting basis that the local public body keeps its accounting records on, cash basis, modified accrual basis, or accrual basis.

Results of Procedures 4(a) – 4(c)

See Schedules of Revenues and Expenditures – Budget and Actual (Cash Basis) on pages 7 through 11 of this report.

We randomly selected the following items for procedures 4(b) – 4(c) and obtained 71% coverage of total revenue as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
01/24/13	Monthly Tax Collection	\$ 80,832
04/23/13	Monthly Tax Collection	80,199
06/24/13	Monthly Tax Collection	68,455
01/24/13	Levy Income	6,475
04/23/13	Levy Income	5,181
06/24/13	Levy Income	5,453
Total		<u>\$ 246,595</u>

For these selected items, revenue recorded agreed with supporting documentation and the trust ledgers. There were proper descriptions and classification in support documents.

5. Expenditures

Select a sample of cash disbursements and test for attributes a) and b) below. We tested 20 transactions and at least 50% of the total amount of expenditures for the following attributes:

- a) Determine that amount recorded as disbursed agrees to adequate supporting documentation. Verify that amount, payee, date, and description agree to the vendor's invoice, purchase order, contract, and cancelled check, as appropriate.
- b) Determine that disbursements were properly authorized and approved in compliance with the budget, legal requirements and established policies and procedures. For purposes of performing our procedures, disbursements were considered to be properly authorized if they contained evidence of review such as sign off on invoices or approval through correspondence.

- c) Determine that the bid process (or request for proposal process if applicable), purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1 NMAC) and Regulations Governing the Per Diem and Mileage Act (2.42.2 NMAC).

Results of Procedures 5(a) – 5(c)

We selected the following cash disbursements (representing 98% of the total expenditures of \$1,203,141) and performed the procedures described in 5(a) – 5(c) above:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
9/4/12	Interest Payment	\$ 451,519
10/22/12	Reesco-Phase 1	2,049
12/4/12	Legal Expense	21,401
12/4/12	Legal Expense	5,832
12/4/12	Trustee Council Fee	9,750
12/19/12	Meast Holdings Inc. Insurance	11,522
1/28/13	Legal Expense	25,739
1/28/13	Legal Expense	31,266
1/28/13	Trust Administration	21,400
2/26/13	Audit	5,350
3/1/13	Interest Payment	451,519
3/7/13	Legal Expense	7,955
3/11/13	Audit	1,926
4/8/13	Legal Expense	46,470
4/24/13	Audit	3,418
5/10/13	Tax Expense	60,523
5/14/13	Legal Expense	7,972
5/14/13	Legal Expense	2,215
5/14/13	Legal Expense	17,871
6/10/13	Annual Trustee Fee	3,210
	Total	<u>\$ 1,188,907</u>

The District is not required to follow the Procurement Code in accordance with NMSA 5-11-10 D. or the Per Diem and Mileage Act as the District has no employees. No other instances of noncompliance were noted as a result of performing the procedures described in 5(a) – 5(c).

6. Journal Entries

If non-routine journal entries, such as adjustments or reclassifications, are posted to the general ledger, test significant items forth following attributes:

- a) Journal entries appear reasonable and have supporting documentation.
- b) The local public body has procedures that require journal entries to be reviewed and there is evidence the reviews are being performed.

Results of Procedure 6

We noted the District did maintain a general ledger for the fiscal year ending June 30, 2013, but did not have any journal entries.

7. Budget

Obtain the original fiscal year budget and all budget amendments made throughout the fiscal year and perform the following:

- a) Verify, through a review of the minutes and correspondence, that the original budget and subsequent budget adjustments were approved by the local public body's governing body and DFA-LGD.
- b) Determine if the total actual expenditures exceeded the final budget at the legal level of budgetary control; if so, report a compliance finding.
- c) From the original and approved budgets and general ledger, prepare a schedule of revenues and expenditures – budget and actual on the budgetary basis used by the local public body (cash, accrual, or modified accrual basis) for each individual fund.

Results of Procedure 7

See Schedules of Revenues and Expenditures – Budget and Actual (Cash Basis) in pages 7 through 11 of this report.

- Legal expense – Actual legal expense was higher than budgeted legal expense by \$172,954 or 100%. Management indicated this variance was due to a lawsuit from the residents and the restructuring of the bond.

8. Capital Outlay Expenditures - Does Not Apply to Mariposa East Public Improvement District

9. Other

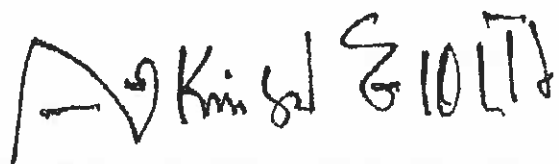
If information comes to the IPA's attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. The findings must include the required content per Section 2.2.2.10(I)(3)(C) NMAC.

Results of Procedure 9

No information was noted requiring reporting in the area of fraud illegal acts, noncompliance or any internal control deficiencies.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the District, bond investors, and Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 27, 2013

Mariposa East Public Improvement District

**SCHEDULE OF REVENUES AND EXPENDITURES –
BUDGET TO ACTUAL (CASH BASIS) PLEDGED REVENUE FUND**

Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Special levy	\$ 222,112	\$ 222,112	\$ 319,337	\$ 97,225
Dividend income	25	25	7	(18)
Miscellaneous (property tax refund)	-	-	15,739	15,739
Total revenues	222,137	222,137	335,083	112,946
Expenditures				
Property tax	-	-	60,524	(60,524)
Total expenditures	-	-	60,524	(60,524)
Other Financing Sources (Uses)				
Transfer out	(280,000)	(280,000)	(194,711)	85,289
Total other financing sources (uses)	(280,000)	(280,000)	(194,711)	85,289
Net change in fund balances	(57,863)	(57,863)	79,848	258,759
Fund balances, beginning of year	57,907	57,907	57,907	-
Fund balances, end of year	\$ 44	\$ 44	\$ 137,755	\$ 258,759

Mariposa East Public Improvement District

**SCHEDULE OF REVENUES AND EXPENDITURES –
BUDGET TO ACTUAL (CASH BASIS) BOND FUND**

Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Dividend income	\$ -	\$ -	\$ 3	\$ 3
Interest income	-	-	-	-
Total revenues	-	-	3	3
Expenditures				
Debt service - interest	893,000	893,000	903,038	(10,038)
Debt service - principal	365,000	365,000	-	365,000
Other	-	-	-	-
Total expenditures	1,258,000	1,258,000	903,038	354,962
Other Financing Sources (Uses)				
Transfer in	1,258,645	1,258,645	903,035	(355,610)
Total other financing sources (uses)	1,258,645	1,258,645	903,035	(355,610)
Net change in fund balances	645	645	-	(710,569)
Fund balances, beginning of year	-	-	1	(1)
Fund balances, end of year	<u>\$ 645</u>	<u>\$ 645</u>	<u>\$ 1</u>	<u>\$ (710,570)</u>

Mariposa East Public Improvement District

**SCHEDULE OF REVENUES AND EXPENDITURES –
BUDGET TO ACTUAL (CASH BASIS) RESERVE FUND**

Year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest income	\$ 250	\$ 250	\$ 201	\$ (49)
Total revenues	250	250	201	(49)
Bond holder approved expenditures	-	-	225,675	(225,675)
Other Financing Sources (Uses)				
Transfer out	(975,000)	(975,000)	(704,679)	270,321
Total other financing sources (uses)	(975,000)	(975,000)	(704,679)	270,321
Net change in fund balances	(974,750)	(974,750)	(930,153)	495,947
Fund balances, beginning of year	1,268,346	1,268,346	1,268,346	-
Fund balances, end of year	<u>\$ 293,596</u>	<u>\$ 293,596</u>	<u>\$ 338,193</u>	<u>\$ 495,947</u>

Mariposa East Public Improvement District

**SCHEDULE OF REVENUES AND EXPENDITURES –
BUDGET TO ACTUAL (CASH BASIS) STABILIZATION FUND**

Year ended June 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Facility fee	\$ -	\$ -	\$ -	\$ -
Dividend income	-	-	-	-
Interest income	-	-	-	-
Total revenues	-	-	-	-
Expenditures				
Debt service - interest	-	-	-	-
Other	-	-	-	-
Total expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	(3,645)	(3,645)	(3,645)	-
Total other financing sources (uses)	(3,645)	(3,645)	(3,645)	-
Net change in fund balances	(3,645)	(3,645)	(3,645)	-
Fund balances, beginning of year	3,645	3,645	3,645	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Mariposa East Public Improvement District

**SCHEDULE OF REVENUES AND EXPENDITURES –
BUDGET TO ACTUAL (CASH BASIS) ADMINISTRATION FUND**

Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Tax collections	\$ 18,509	\$ 18,509	\$ 23,876	\$ 5,367
Developer advance	-	-	-	-
Interest income	-	-	1	1
Total revenues	18,509	18,509	23,877	5,368
Expenditures				
General government	15,210	15,210	13,904	(1,306)
Total expenditures	15,210	15,210	13,904	(1,306)
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	3,299	3,299	9,973	6,674
Fund balances, beginning of year	1,687	1,687	1,687	-
Fund balances, end of year	\$ 4,986	\$ 4,986	\$ 11,660	\$ 6,674

Mariposa East Public Improvement District
SCHEDULE OF FINDINGS AND RESPONSES

Year ended June 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

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

13-01 Late Submission of Auditor Recommendation and Contract (Compliance – Other)

PRIOR YEAR FINDING

12-01 Late Compliance Reports (Compliance – Other) – Modified and Repeated

Mariposa East Public Improvement District

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

Year ended June 30, 2013

13-01 Late Submission of Auditor Recommendation and Contract (Compliance – Other)

CONDITION

Mariposa East Public Improvement District submitted its audit contract and auditor recommendation to the State Auditor after the statutory deadline.

CRITERIA

2.2.2.8 (G)(6)(c) NMAC required that auditor recommendations and completed audit contracts for local government agencies be submitted by July 1st.

CAUSE

Administrative issues caused the recommendation and contract to be submitted after the deadline.

EFFECT

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

RECOMMENDATION

We recommend that the District begins preparing the required submissions well in advance of the deadline to ensure that the required information is submitted correctly and timely. A calendar appointment reminder can be considered.

MANAGEMENT'S RESPONSE

The District concurs that the Auditor Recommendation and Contract was submitted after the July 1st deadline only after receiving notification from the State Auditor declining the original contract submitted. The District will make every attempt necessary to ensure that all future Contracts are properly submitted in accordance with Section 2.2.2.8(G)(6)(c) of the Audit Rule.

Mariposa East Public Improvement District

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

Year ended June 30, 2013

12-01 Late Compliance Reports (Compliance – Other)

CONDITION

The compliance reports for the year ending June 30, 2013 consisting of Tier 6 procedures documentation and compiled financial statements were not submitted by the deadline of December 2, 2013 to the Office of the State Auditor. Complete reports were submitted to the State Auditor's Office on February 20, 2014.

CRITERIA

2.2.2 NMAC specifies the deadline for submission of audit reports and other compliance reports are due no later than December 1st. 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 that the District had a Tier 6 Agreed-Upon Procedures engagement. The auditors did submit the Agreed-Upon Procedure report on time but it was missing the compilation report. The requirements of a Tier 6 Engagement were not fully understood during the engagement. The auditors received notice of the missing compilation report on December 18th and made necessary corrections.

EFFECT

The District is not in compliance with Section 2.2.2.9 (E) NMAC of the Audit Rule. The information contained in the final reports was not available to stakeholders until a later date.

RECOMMENDATION

We recommend that all requested information and propose work product be submitted by the audit firm to be approved by the District well in advance of September 1, 2014.

MANAGEMENT'S RESPONSE

The District's independent auditors submitted an Agreed-Upon Procedures (AUP) engagement to the State Auditor on December 1st. The District was notified on December 18th that the engagement should have included a compilation of the District's financial statements in accordance with Section 12-6-3(B)(6) NMSA 1978. The District relied upon the expertise of the independent auditor that a Tier 4 AUP engagement was all that was required. The District and auditors will work closely to determine which Tier system should be implemented for all future audits.

Mariposa East Public Improvement District

EXIT CONFERENCE

Year ended June 30, 2013

An exit conference was held on November 25, 2013. Attending were the following:

Representing Mariposa East Public Improvement District:

Thomas Swisstack
Marta Ortiz

Mayor/City of Rio Rancho
Acting Financial Services Director

Representing Atkinson & Co., Ltd.:

Martin Mathisen, CPA, CGFM

Audit Director/Shareholder

The Schedules of Revenues and Expenditures – Budget to Actual were prepared with the assistance of Atkinson & Co., Ltd. Mariposa East Public Improvement District is responsible for their content.