

**MARIPOSA EAST PUBLIC
IMPROVEMENT DISTRICT**

Financial Statements

June 30, 2018



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT

Table of Contents

Official Roster.....	1
Independent Auditor’s Report.....	2
Management’s Discussion and Analysis.....	4
Financial Statements	
Statement of Net Position	8
Statement of Activities.....	9
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
Budget to Actual – General Fund.....	14
Notes to the Financial Statements.....	15
Other Information	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Status of Prior Year Audit Findings	24
Schedule of Findings and Responses	25
Exit Conference.....	26

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT

Official Roster

Year Ended June 30, 2018

BOARD OF DIRECTORS

Jack Eichorn	Chairman
Brian McCarthy	Member
Timothy Brislin	Member
Penelope Knipps	Member
Carole Jaramillo	Treasurer/Secretary

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mariposa East Public Improvement District
and
Mr. Wayne Johnson
New Mexico, State Auditor

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparison for the general fund of Mariposa East Public Improvement District ("the District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major funds of the District, as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the beginning balance of net position of the District has been restated due to error in accounting for prepaid special levy and overstatement of accrued interest. The restatement resulted in a decrease in the beginning net position of the District of \$234,010. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements, and other matters. The purpose of this 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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

The logo for Axiom, featuring the word "Axiom" in a stylized, cursive script font.

Albuquerque, New Mexico
December 7, 2018

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2018

Management of the Mariposa East Public Improvement District (the District) 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, 2018.

Mariposa East Public Improvement 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 District was created to fund certain public water and waste water infrastructure improvements for the Mariposa community located in the northern section of the City of Rio Rancho, New Mexico. The Formation Resolution also authorized the imposition and collection of a property tax against real property in the District, to be used for the purpose of paying the principal of and interest on the District's general obligation bonds. In February 2015 the District exchanged its outstanding Series 2006 general obligation bonds for Series 2014 Tax-Exempt Special Levy Revenue Bonds and Taxable Facilities Fee Revenue Bonds, Series 2014D, to resolve outstanding litigation and to convert future assessments to property owners from a general property tax to a special levy. The Series 2014A, 2014B and 2014C Bonds are now secured by a special levy against real property in the District instead of a general property tax, the Series 2014D Bonds are secured by Facilities Fee revenues which are not a lien against real property in the District.

The special levy is pledged for repayment of the bonds and is included on the property tax assessment notices sent to property owners each year by the Sandoval County Treasurer's Office. The special levy is paid to the county at the same time as property taxes, and the county remits the special levy collections to the District on a monthly basis.

FINANCIAL HIGHLIGHTS

Following are highlights from the financial statements for the fiscal year ended June 30, 2018:

- The District's total deficit net position improved from a negative \$13,891,943 (as restated) to a negative \$12,899,344 as a result of higher revenues than expenses.
- The District's total revenues amounted to \$1,911,681 while total expenses amounted to \$919,082.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of: 1) government-wide financial statements, 2) fund financial statements, 3) budgetary comparison for general fund, and 4) notes to the financial statements.

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

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

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., Special Levy revenues that have been assessed but not yet collected).

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Management’s Discussion and Analysis
For the Year Ended June 30, 2018

In the government-wide financial statements, the District’s activities are presented as *governmental activities*. Governmental activities include the District’s basic activities to service existing bond obligations and pay for general administration.

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 and outflows 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 condition.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental funds and governmental activities. The reconciliations are on pages 11 and 13 of this report.

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, and the Reserve Fund, all of which are considered to be major funds.

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 Position. At June 30, 2018, the District’s liabilities exceeded assets by \$12,899,344.

As stated earlier, the District was originally formed to construct certain water and waste water improvements for the Mariposa community. Upon completion, the improvements were transferred to the City of Rio Rancho and are therefore not recorded on the District’s general ledger. However, the District remains liable for debt service on the outstanding bonds. The bonds will be repaid over time as the District assesses and collects special levies on property owners within the District, and as the Mariposa East, L.P (the Developer) pays Facilities Fees.

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

	<u>2018</u>	<u>2017</u>
Current assets	\$ 2,547,938	1,660,543
Total assets	<u>2,547,938</u>	<u>1,660,543</u>
Current liabilities	1,090,370	858,219
Long-term liabilities	13,743,153	14,460,257
Total liabilities	<u>14,833,523</u>	<u>15,318,476</u>
Deferred inflows	613,759	-
Net position – restricted	1,019,211	605,227
Net position – unrestricted	<u>(13,918,555)</u>	<u>(14,263,160)</u>
Total net position	<u>\$ (12,899,344)</u>	<u>(13,657,933)</u>

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Changes in Net Position. The District's net position increased \$992,599 mostly as a result of collections of certain amounts from special levies and facilities fee.

The following table presents a summary of the changes in the District's net position for the fiscal years ended June 30:

	<u>2018</u>	<u>2017</u>
Revenues:		
Special levy	\$ 1,473,474	1,166,752
Miscellaneous	438,207	246,180
Total revenues	<u>1,911,681</u>	<u>1,412,932</u>
Expenses:		
General government	69,002	63,814
Interest expense	850,080	890,421
Total expenses	<u>919,082</u>	<u>954,235</u>
Change in net position	992,599	458,697
Net position, beginning	(13,657,933)	(13,942,415)
Restatement	(234,010)	(174,215)
Net position, beginning as restated	<u>(13,891,943)</u>	<u>(14,116,630)</u>
Ending net position	<u>\$ (12,899,344)</u>	<u>(13,657,933)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

As stated earlier, the District does not own any capital assets but remains responsible for paying debt service on bonds that were issued to construct certain assets that were subsequently transferred to the City of Rio Rancho.

In February 2015, the District finalized a bond exchange transaction wherein the District's Series 2006 general obligation bonds were replaced with three separate series of 2014 special levy revenue bonds and one series of taxable Facilities Fee revenue bonds. Certain proceeds of the bonds were combined with contributions from property owners to pay unpaid interest on the 2006 bonds and to redeem the 2006 bonds. As a result of the bond exchange, prior litigation related to the 2006 bonds was dismissed and the District is able to move forward with development of the Mariposa community. Also, property owners are now subject to a special levy instead of a property tax. The new Series 2014A, 2014B and 2014C bonds are secured by a pledge of the special levy collections.

At June 30, 2018, the District's outstanding bonds totaled \$14,254,205 (net of unamortized discount)

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

For fiscal year 2018, revenues for all governmental funds totaled \$1,932,925, while expenditures totaled \$1,228,132. Revenues increased by \$532,906 due to higher facilities fee while expenditures decreased by \$120,509 due to lower debt payments during the year.

The following table shows the balances of the District's governmental funds at June 30, 2018:

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Fund balances:	\$			
Restricted for debt service	-	423,754	595,457	1,019,211
Unassigned	861,541	-	-	861,541
Total	<u>\$ 861,541</u>	<u>423,754</u>	<u>595,457</u>	<u>1,880,752</u>

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2018

General Fund Budgetary Highlights

Total budgeted revenues is lower than actual amount by \$46,544 while budgeted expenditures is higher than actual amount by \$192,925.

The District adopts an annual budget, which projects the expected General Fund and Bond Fund expenditures (based on debt service requirement, administrative expenses, and estimated delinquency) and interest income, to determine the amount of the special levy for each year. The District did not amend the Bond Fund budget during the year to cover the additional principal payments made and therefore the District received an audit finding for exceeding its budgetary authorization. The District had sufficient resources on hand to cover the additional expenditures.

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. Questions about this report or any other information about the District should be directed to the Financial Services Department of the City of Rio Rancho, 3200 Civic Center Circle NE, Rio Rancho, New Mexico 87144.

FINANCIAL STATEMENTS

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,495,573
Special levy receivable	<u>52,365</u>
Total assets	<u>2,547,938</u>
LIABILITIES	
Accounts payable	12,878
Interest payable	566,440
Revenue bonds payable, net	
Due within one year	511,052
Due in more than one year	<u>13,743,153</u>
Total liabilities	<u>14,833,523</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned special levy	<u>613,759</u>
Total liabilities and deferred inflows of resources	<u>15,447,282</u>
Net Position	
Restricted for debt service	1,019,211
Unrestricted (deficit)	<u>(13,918,555)</u>
Total net position	<u>\$ (12,899,344)</u>

See notes to the financial statements.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Statement of Activities
For the Year Ended June 30, 2018

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
General government	\$ 69,002	(69,002)
Interest expense	850,080	(850,080)
Total expenses	<u>\$ 919,082</u>	<u>(919,082)</u>
General Revenues		
Special levy		\$ 1,473,474
Facilities fee		422,400
Dividend income		15,807
<i>Total general revenues</i>		<u>1,911,681</u>
Change in net position		992,599
Net position (deficit), beginning as previously reported		(13,657,933)
Restatement (Note 8)		<u>(234,010)</u>
Net position (deficit), beginning as restated		<u>(13,891,943)</u>
Net position (deficit), ending		<u><u>\$ (12,899,344)</u></u>

See notes to the financial statements.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Balance Sheet - Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,476,362	423,754	595,457	2,495,573
Special levy receivable	<u>52,365</u>	<u>-</u>	<u>-</u>	<u>52,365</u>
Total assets	<u>\$ 1,528,727</u>	<u>423,754</u>	<u>595,457</u>	<u>2,547,938</u>
LIABILITIES				
Accounts payable	\$ 12,878			12,878
DEFERRED INFLOWS OF RESOURCES				
Unearned special levy	\$ 613,759			613,759
Special levy taxes not available	<u>40,549</u>	<u>-</u>	<u>-</u>	<u>40,549</u>
<i>Total deferred inflows of resources</i>	<u>654,308</u>	<u>-</u>	<u>-</u>	<u>654,308</u>
FUND BALANCES				
Restricted for debt service	-	423,754	595,457	1,019,211
Unassigned	<u>861,541</u>	<u>-</u>	<u>-</u>	<u>861,541</u>
<i>Total fund balances</i>	<u>861,541</u>	<u>423,754</u>	<u>595,457</u>	<u>1,880,752</u>
<i>Total liabilities, deferred inflows of resources and fund balances</i>	<u>\$ 1,528,727</u>	<u>423,754</u>	<u>595,457</u>	<u>2,547,938</u>

See notes to the financial statements.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2018

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

Fund Balance - total government funds	\$	1,880,752
Long-term liabilities for the revenue bonds are not due and payable in the current period, and therefore are not reported in the funds		(14,254,205)
Interest Payable not recorded in the funds		(566,440)
Receivables reported in the Statement of Net Position that are not currently available in the funds and reported in deferred inflows		<u>40,549</u>
Net position of governmental activities	\$	<u><u>(12,899,344)</u></u>

See notes to the financial statements.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Revenues				
Special levy taxes	\$ 1,494,718	-	-	1,494,718
Dividend income	8,276	1,278	6,253	15,807
Facilities fee	-	422,400	-	422,400
<i>Total revenues</i>	<u>1,502,994</u>	<u>423,678</u>	<u>6,253</u>	<u>1,932,925</u>
Expenditures				
General government	69,002	-	-	69,002
Debt service				
Interest expense	-	714,130	-	714,130
Principal payments	-	445,000	-	445,000
<i>Total expenditures</i>	<u>69,002</u>	<u>1,159,130</u>	<u>-</u>	<u>1,228,132</u>
Excess (deficiency) of revenues over (under) expenditures	1,433,992	(735,452)	6,253	704,793
Other financing sources (uses)				
Transfer in	-	1,155,149	-	1,155,149
Transfer out	(1,143,183)	-	(11,966)	(1,155,149)
<i>Total other financing sources (uses)</i>	<u>(1,143,183)</u>	<u>1,155,149</u>	<u>(11,966)</u>	<u>-</u>
Net change in fund balance	290,809	419,697	(5,713)	704,793
Fund balances, beginning as previously reported	993,522	4,057	601,170	1,598,749
Restatement (Note 8)	(422,790)	-	-	(422,790)
Fund balances, beginning as restated	<u>570,732</u>	<u>4,057</u>	<u>601,170</u>	<u>1,175,959</u>
Fund balances, end of year	<u>\$ 861,541</u>	<u>423,754</u>	<u>595,457</u>	<u>1,880,752</u>

See notes to the financial statements.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

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

Net Change in fund balances - total government funds	\$	704,793
Amounts reported for governmental activities in the Statement of Activities are different because:		
The repayment of long-term debt uses the current financial resources of the governmental funds. This has no effect on net position		445,000
Change in special levy tax receivable - deferred inflows of resources		(21,245)
Amortization of bond discount		(8,948)
Change in accrued interest payable		<u>(127,001)</u>
Changes in net position of governmental activities	\$	<u><u>992,599</u></u>

See notes to the financial statements.

MARIPOSA PUBLIC IMPROVEMENT DISTRICT
Budget to Actual Schedule (General Fund)
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Special levy	\$ 1,456,450	1,456,450	1,494,718	38,268
Dividends	-	-	8,276	8,276
Total revenues	<u>1,456,450</u>	<u>1,456,450</u>	<u>1,502,994</u>	<u>46,544</u>
Expenditures				
Current:				
General government	<u>242,898</u>	<u>261,927</u>	<u>69,002</u>	<u>192,925</u>
Total expenditures	<u>242,898</u>	<u>261,927</u>	<u>69,002</u>	<u>192,925</u>
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	<u>(1,143,183)</u>	<u>(1,143,183)</u>
Total	<u>-</u>	<u>-</u>	<u>(1,143,183)</u>	<u>(1,143,183)</u>
Net change in fund balance	1,213,552	1,194,523	290,809	(903,714)
Fund balance, beginning	<u>570,732</u>	<u>570,732</u>	<u>570,732</u>	<u>-</u>
Fund balance, ending	<u>\$ 1,784,284</u>	<u>1,765,255</u>	<u>861,541</u>	<u>(903,714)</u>

See Notes to the Financial Statements.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT

Notes to the Financial Statements

June 30, 2018

NOTE 1. 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.

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, 2018 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.

NOTE 2. 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.

Basis of Presentation

District-Wide Statements. The Statement of Net Position and Statement of Activities present financial information about the 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 property taxes. The Statement of Net Position includes the District's assets, liabilities, deferred outflows of resources and deferred inflows of resources and the residual of these items are reported as net position as of June 30, 2018.

The Statement of Activities presents comparison between direct expenses and direct revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and clearly identifiable to a particular function. Direct revenues include property taxes on real property covered by 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 five percent of the corresponding total for all governmental funds combined.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 assessment of Special levy.

Debt service funds:

- b. Bond Fund – used to pay annual bond principal and interest payments.
- c. Reserve Fund – required reserves per the bond agreement are tracked in the reserve fund.

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 property taxes is recognized in the fiscal year for which the taxes are levied.

The governmental fund statements are reported using the current resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. 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.

Deferred Outflows/Inflows of Resources. In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Also, in addition to liabilities, the Statement of Financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows in the governmental funds regarding property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts became available.

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.

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

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.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT

Notes to the Financial Statements

June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Bond discount is deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as expense as they are incurred.

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

Special Levy Assessments. The District imposes special levy assessments, which secures the payment of the debt service on the District's Special Levy Revenue bonds Series 2014A, 2014B, and 2014C. The Taxable Series 2014D Bonds are payable from Facilities Fee revenues paid by the Developer as it sells parcels to unaffiliated third parties. Special levy tax revenue amounted to \$1,166,752 for the fiscal year ended June 30, 2018.

The Debt Service special levy assessment shall cease to be levied following the payment of all scheduled interest, principal, and premium, if any, for the Series 2014A, 2014B and 2014C bonds.

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

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

The District determined that a total of 5 lots were subject to this exemption for fiscal year 2018 and the District did not seek to collect the Special Levy on those properties. This resulted in a \$4,550 reduction in the Special Levy that could be collected from property within the District. The District took such reduction into account in determining its fiscal year 2018 Special Levy requirement. The fiscal year 2018 Special Levy due on the regular property tax bills, together with the available account balances, was sufficient to cover the scheduled debt service payments due on the Bonds and the District administrative expenses. The District has no definitive information on the number of residences in the District that could in the future become subject to such exemption.

Prepaid special levies are recognized as deferred inflows of resources and is amortized over the remaining term of the bonds which is the period the special levy is expected to be assessed.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Facilities fee. Facilities fee is a one-time payment for lots/tract sold within the District, imposed in accordance with the Development Agreement. It is payable and collected at the earlier of: (a) the transfer of lot or tract by the Developer to a third party or (b) the issuance of a building permit for such a lot or tract. Facilities fee equals to \$2,400 for each residential lot, and \$0.25 per buildable square foot for commercial parcel.

During fiscal year 2017, GASB Statement No. 77, *Tax Abatement Disclosures*, became effective. The District does not have any agreements that require disclosures under the standards.

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

Fund Balance. As of June 30, 2018, the fund balances of governmental funds are classified as follows:

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

Unassigned – All other spendable amounts.

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

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.

Unrestricted Assets – consist of net position 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.

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.

Budgets. The District has adopted a budget for the fiscal year 2018. The budget is adopted on a modified accrual (GAAP) basis of accounting. The legal level of compliance is total expenditures.

NOTE 3. DEPOSITS AND INVESTMENTS

The District is authorized under the provision of Chapter 6, Article 10, paragraph 10, NMSA 1978, annotated, to deposit its money in banks, savings and loan associations, and/or credit unions whose accounts are insured by an agency of the United States.

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings, and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If the District is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the 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.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

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

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, 2018, the District's deposits were not exposed to custodial risk due to:

Bank of Albuquerque – Money Market Account \$ 2,495,573

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.

NOTE 4. REVENUE 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 February 26, 2015, the District issued \$12,592,358 of 2014 Series Special Levy Refunding Revenue Bonds and \$2,580,968 of 2014 Series Taxable Refunding Revenue Bonds, with interest rates of 5.90% and 5.00%, respectively. The Series 2014A, 2014B and 2014C matures on September 1, 2032 while Series 2014D matures on March 1, 2032. The proceeds from the issuance of the 2014 series bonds were used to redeem \$15,173,000 of the 2006 series bonds. The District has placed \$163,303 in an escrow account. The funds in this account will be held until September 1, 2016, which is the redemption date of the un-exchanged 2006 series GO Bonds. As a result of the refunding transaction, the District increased its total debt service requirements by \$857,866, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$609,760.

The Indenture of Trust and Security Agreement (Bond Indenture) dated November 1, 2014 with Bank of Albuquerque (as Trustee) contains special mandatory and optional redemption by meeting specified criteria. No events occurred that triggered special mandatory or optional redemption.

The Bond Indenture also contains maintenance of Reserve Fund Requirements equal to the least of (i) the maximum annual debt service requirements on all outstanding bonds; (ii) 125% of the average annual debt service requirements of the bonds; or (iii) 10% of the aggregate principal amount of the Bonds. The District is in compliance with this requirement at June 30, 2018.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 4. REVENUE BONDS (CONTINUED)

The details of activity of revenue bonds for the year ended June 30, 2018 are follows:

	<u>Balance</u> <u>6/30/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2018</u>	<u>Due</u> <u>within</u> <u>one year</u>
Special Levy Revenue Bonds					
Series 2014A	\$ 1,020,000	-	(55,000)	965,000	43,000
Series 2014B	4,630,000	-	(390,000)	4,240,000	192,000
Series 2014C	6,595,000	-	-	6,595,000	285,000
Series 2014D	2,580,968	-	-	2,580,968	-
Total Bonds	<u>14,825,968</u>	<u>-</u>	<u>(445,000)</u>	<u>14,380,968</u>	<u>520,000</u>
Less: Unamortized Discount	<u>(135,711)</u>	<u>-</u>	<u>8,948</u>	<u>(126,763)</u>	<u>-</u>
	<u>\$ 14,690,257</u>	<u>-</u>	<u>(436,052)</u>	<u>14,254,205</u>	<u>520,000</u>

The Taxable Series 2014D bond was initially issued as capital appreciation bonds, with all principal and interest due on May 1, 2032. Interest accrued on each compounding date (September 1 of each year) in accordance with the definition of Accreted Value in the Master Indenture.

The debt service requirements are as follows:

Year Ending June 30	Principal	Interest	Total Debt Service
2019	\$ 520,000	680,860	1,200,860
2020	555,000	649,148	1,204,148
2021	585,000	615,518	1,200,518
2022	622,000	579,911	1,201,911
2023	657,000	542,181	1,199,181
2024-2028	3,900,000	2,065,000	5,965,000
2029-2033	<u>7,541,968</u>	<u>3,855,810</u>	<u>11,397,778</u>
Total	<u>\$ 14,380,968</u>	<u>8,988,428</u>	<u>23,369,396</u>

The Series 2014A, 2014B and 2014C are secured by the pledge of net revenues from special levy while the Series 2014D is secured by the pledge of net revenues from facilities fee.

NOTE 5. INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2018 to fund the debt service requirements:

<u>Transfer out</u>	<u>Transfer In</u> <u>Bond Fund</u>
General	\$ 1,143,183
Reserve Fund	<u>11,966</u>
Total	<u>\$ 1,155,149</u>

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 6. DEFICIT NET POSITION

The total net position balance is in a deficit position. This is due to the fact that the capital assets acquired with bond proceeds were transferred to another governmental agency. This resulted in the recognition of long-term debt with no related asset on the District's financial statement. The long-term debt will be repaid with future Special Levy revenue collections, and, in the case of the Taxable Series 2014D Bond, Facilities Fee revenue collections.

NOTE 7. 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 8. RESTATEMENT

The net position at June 30, 2017 did not include deferral of prepaid special levy of \$422,790 and overstatement of interest accrual of \$188,780. To correct these errors, the beginning balance of the fund balances and net position was reduced by \$422,790 and \$234,010, respectively.

OTHER INFORMATION

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

To the Board of Directors
Mariposa East Public Improvement District
and
Mr. Wayne Johnson
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and budgetary comparison of the general fund of the Mariposa East Public Improvement District (“the District”), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 7, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be significant deficiency.

Compliance and Other Matters

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

District's Response to Finding

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

Purpose of this Report

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



Albuquerque, New Mexico
December 7, 2018

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Status of Prior Year Audit Findings
Year Ended June 30, 2018

PRIOR YEAR FINDINGS

No prior year findings.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT
Schedule of Findings and Responses
Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS

2018-001 – Restatement of Net Position (Significant Deficiency)

Condition: The net position at June 30, 2017 did not include deferral of prepaid special levy of \$422,790 and overstatement of interest accrual of \$188,780.

Criteria: In accordance with generally accepted accounting principles (GASB Statement No. 34), all transactions including liabilities should be reflected in the financial statements.

Effect: The District's beginning balance of fund balances and net position was overstated by \$422,790 and \$234,010, respectively.

Cause: The District allows owners to prepay all special levy and these payments since the restructuring were recorded as income as they are received. For the interest accrual, some payments were not properly reflected in the prior years.

Recommendation: We recommend the District work ensure that all accounts and transactions are properly reflected in the financial statements.

Management Response: Management agrees with this finding. The PID governing documents allow for prepayment of the special levy. To date seventy-nine (79) prepayments have been received. These prepayments were recorded as revenue in the fiscal year they were received, however, it was determined that the prepayment revenue should be amortized and recognized over the life of the bonds for which the special assessment is levied. In the future, a spreadsheet will be used to track, on an ongoing basis, the earned and unearned amounts on each prepayment. The PID treasurer will obtain parcel and prepayment information from the PID special levy consultant annually in August following the fiscal year end for all prepayments made in the fiscal year just closed. This information will be used to determine the amortized amount of the prepayment revenue for the fiscal year just closed and the unearned amounts projected through the life of the bonds and special levy. An entry will be made to record these amounts in the general ledger and subsequently reported on financial statements.

Timeline: Beginning with August 2019 and each August thereafter.

Responsible parties: The PID's tax levy consultant will provide information on the parcels and prepayments. The PID's treasurer will maintain the spreadsheet to track the prepayments and prepare the entry for the general ledger posting.

MARIPOSA EAST PUBLIC IMPROVEMENT DISTRICT

Exit Conference

Year Ended June 30, 2018

EXIT CONFERENCE

An exit conference was held on December 6, 2018 which was attended by the following:

Mariposa East Public Improvement District

Jack Eichorn, Chairman

Carole Jaramillo, Treasurer/Secretary

Maria Martinez, Financial Analyst

Axiom Certified Public Accountants and Business Advisors LLC

Jaime Rumbaoa, Partner

Financial Statement Presentation

The financial statements were prepared from the original books and records of Mariposa East Public Improvement District as of June 30, 2018 by Axiom CPAs Business Advisors LLC. However, the contents of the financial statements remain the responsibility of management.