



**LOWER PETROGLYPHS PUBLIC
IMPROVEMENT DISTRICT**

FINANCIAL STATEMENTS

JUNE 30, 2016

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT

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

Board of Directors

Russell Brito	Chairman
Pamela Fanelli	Vice-Chair
Matt Butcher	Member
Jeff Garrett	Member

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Lower Petroglyphs Public Improvement District
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the budgetary comparison for the general fund of Lower Petroglyphs Public Improvement District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Lower Petroglyphs Public Improvement District
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 4 through 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 Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 21, 2016

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

As management of the Lower Petroglyphs Public Improvement District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2016. We encourage readers to consider the financial information presented here in conjunction with the financial statements and accompanying notes which follow this section.

The District is a political subdivision of State of New Mexico duly created and existing pursuant to Sections 5-11-1 through 5-11-27 NMSA 2001, as amended, City of Albuquerque (City) City Council Bill No. F/S R-13-186 and City Resolution Enactment No. R-2013-059 adopted on June 24, 2013 (the "Formation Resolution").

In addition to forming the District, the Formation Resolution also authorized the imposition and collection of a Special Levy against real property in the District, all of which will benefit from the Special Levy, to be used for the purpose, among others, of paying the principal of and interest on such bonds, as more particularly described herein.

Financial Highlights

The financial statements, which follow the Management's Discussion and Analysis, provide those significant key financial highlights for fiscal year 2016 as follows:

- In the Statement of Position, the District's total net position amounted to a deficit of \$7,522,293.
- In the Statement of Activities, the Special Levy revenue and general government expenses amounted to \$417,112 and \$94,330, respectively.
- In the Statement of Activities, the District incurred \$447,130 in interest expense and \$4,075,250 in construction expense.

Overview of Financial Statements

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

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

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

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

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

In the government-wide financial statements, the District's activities are presented in the following category:

Governmental activities – Governmental activities include the District's basic activities such as assessment of special levy and payment of administrative expenses. In the future, the District will reimburse the developer for the construction of certain public infrastructure improvements as provided in the Act and the governing documents of the District, including the Master Development Agreement among the District, the developer and the City.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The reconciliations are on pages 11 and 13, respectively.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 15 of these financial statements.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a district's financial position. The District's liabilities exceeded assets by \$7,522,293 as of June 30, 2016.

The District was formed, and may reimburse the developer, for administrative and formation costs, and the acquisition of certain public infrastructure improvements, which are anticipated to include Tierra Pintada Boulevard improvements along the Stormcloud Subdivision Units 4 and 5 and Watershed Residential Development; Traffic signals at the intersections of Tierra Pintada Boulevard and Arroyo Vista Boulevard and Ladera Drive and Arroyo Vista Boulevard; and On-site and off-site roads, sewer, water, and storm drain facilities on the Land; and associated grading, landscaping, and soft costs, which may include but are not limited to planning, design, engineering, construction, testing, construction management, inspection, fees, gross receipts taxes, contingencies, and incidental expenses for the foregoing improvements constructed and installed by the Developer.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

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

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 228,445	197,027
Total Assets	<u>228,445</u>	<u>197,027</u>
Current Liabilities	496,749	284,079
Long-term Obligations		
Outstanding	<u>7,253,989</u>	<u>3,235,763</u>
Total Liabilities	<u>7,750,738</u>	<u>3,519,842</u>
Net Position – Unrestricted (deficit)	<u>\$ (7,522,293)</u>	<u>(3,322,815)</u>

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

- Special levy amounted to \$417,112 in fiscal year 2016.
- Issuance of note for \$4,075,250 to pay for construction costs.

Change in net position. The following table presents a summary of the change in net position for fiscal years ended June 30:

	<u>2016</u>	<u>2015</u>
Expenses		
Public works – construction	\$ (4,075,250)	(2,968,150)
Interest expense	(447,130)	(296,433)
General government	<u>(94,330)</u>	<u>(265,029)</u>
Total Expenses	<u>(4,616,710)</u>	<u>(3,529,612)</u>
General Revenues		
Special levy	417,112	206,795
Interest	<u>120</u>	<u>2</u>
Total Revenues	<u>417,232</u>	<u>206,797</u>
Change in net position	<u>\$ (4,199,478)</u>	<u>(3,322,815)</u>

Financial Analysis of the Governmental Fund

The revenues in the governmental fund amounted to \$417,232 while expenditures amounted to \$4,482,542. The major expenditures of the District are the construction costs, debt service payments and administrative expenses. The general fund has unassigned fund balance of \$187,917, representing 4% of the total expenditures during the fiscal year.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

General Fund Budgetary Highlights

The District adopts an annual budget, which projects the expected expenditures (based on administrative expenses, debt service payments, and construction reimbursement estimated) and the estimated special levy for each year. There were no changes in the original budget for the fiscal year 2016.

Capital Assets and Debt Administration

The District owns no significant capital assets at June 30, 2016. It is anticipated that the District will not, in the future, own any capital assets. The capital improvements that are to be financed by the District are all to be dedicated to the City. It is anticipated that all dedications will be done by the developer directly to the City, on behalf of the District.

Pursuant to Resolution No. 2014-01 adopted on May 22, 2014, the District issued its \$3,235,764 Series 2014 Subordinated Promissory Note on July 8, 2014 and its \$4,075,250 Series 2015 Subordinated Promissory Note on December 22, 2015. Under the Indenture dated July 1, 2014, the Notes are payable from revenues received by the District in each fiscal year from the payment of the Special Levy, authorized pursuant to the Act to be levied against parcels of land within the District in accordance with the Rate and Method of Apportionment of the Special Levy for the District approved by the City in the Formation Resolution.

The outstanding debt at June 30, 2016 is \$7,311,014.

Requests for Information

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2016 is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the Chairperson of the Lower Petroglyphs Public Improvement District, Russell Brito, One Civic Plaza NW, Seventh Floor, Room 7057, Albuquerque, NM 87102.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 223,982
Special levy receivable	4,463
Total assets	<u>228,445</u>
LIABILITIES	
Accrued expenses - professional services	40,528
Interest payable	399,196
Note payable - related party	
Due within one year	57,025
Due in more than one year	7,253,989
Total liabilities	<u>7,750,738</u>
NET POSITION	
Unrestricted (deficit)	<u>\$ (7,522,293)</u>

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
General government	\$ 94,330	\$ (94,330)
Public works - construction	4,075,250	(4,075,250)
Interest	447,130	(447,130)
Total expenses	<u>\$ 4,616,710</u>	<u>(4,616,710)</u>
General Revenues		
Special levy		417,112
Interest income		120
		<u>417,232</u>
Change in net position		(4,199,478)
Net position, beginning		<u>(3,322,815)</u>
Net position, ending		<u>\$ (7,522,293)</u>

See Notes to Financial Statements.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 223,982
Special levy receivable	4,463
	<u>\$ 228,445</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accrued expenses	\$ 40,528
Total liabilities	<u>40,528</u>
Fund balance	
Restricted	-
Unassigned	<u>187,917</u>
Total fund balance	<u>187,917</u>
Total liabilities and fund balance	<u>\$ 228,445</u>

See Notes to Financial Statements.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUND TO THE STATEMENT OF NET POSITION
Year Ended June 30, 2016**

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

Fund balance - total governmental fund	\$ 187,917
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Amounts reported for governmental activities in
the Statement of Net Position are different
because:

Long-term obligations for the note payable are not due and payable in the current period, and therefore, not reported in the governmental fund.	(7,311,014)
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Interest payable on long-term debt is not accrued in the governmental fund, but rather is recognized as an expenditure when due.	<u>(399,196)</u>
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Net position of governmental activities	<u><u>\$ (7,522,293)</u></u>
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See Notes to Financial Statements.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE - GOVERNMENTAL FUND
Year Ended June 30, 2016**

	<u>General Fund</u>
Revenues	
Special levy	\$ 417,112
Interest income	120
	<u>417,232</u>
Expenditures	
Public works - construction	4,075,250
General government	94,330
Debt Service:	
Principal	-
Interest	312,962
Total expenditures	<u>4,482,542</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,065,310)</u>
Other financing sources (uses)	
Proceeds from issuance of note	4,075,250
Total	<u>4,075,250</u>
Net change in fund balance	9,940
Fund balance, beginning	<u>177,977</u>
Fund balance, ending	<u><u>\$ 187,917</u></u>

See Notes to Financial Statements.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGE IN FUND BALANCE
OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

Reconciliation of the Governmental Fund Statement of
Revenues, Expenditures, and Change in Fund Balance
to the Statement of Net Position

Net change in fund balance - total governmental fund	\$ 9,940
Amounts reported for governmental activities in the Statement of Activities are different because:	
Proceeds from note issuance are not reported as income in the Statements of Activities	(4,075,250)
Accrued interest	<u>(134,168)</u>
Change in net position of governmental activities	<u><u>\$ (4,199,478)</u></u>

See Notes to Financial Statements.

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 417,112	417,112	417,112	-
Interest income	-	-	120	120
Total revenues	417,112	417,112	417,232	120
Expenditures				
Public works - construction	-	-	4,075,250	(4,075,250)
General government	142,688	142,688	94,330	48,358
Interest	310,695	310,695	312,962	(2,267)
Total expenditures	453,383	453,383	4,482,542	(4,029,159)
Other Financing Sources (Uses)				
Proceeds from issuance of note	-	-	4,075,250	4,075,250
Total	-	-	4,075,250	4,075,250
Net change in fund balance	(36,271)	(36,271)	9,940	46,211
Fund balance, beginning	177,977	177,977	177,977	-
Fund balance, ending	\$ 141,706	141,706	187,917	46,211

See Notes to Financial Statements.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. REPORTING ENTITY

The District is a political subdivision of State of New Mexico duly created and existing pursuant to the Public Improvement District Act, NMSA 1978, §§ 5-11-1 to -27 (2001, as amended) and City of Albuquerque City Council Bill No. F/S R-13-186, Enactment No. R-2013-059, adopted on June 24, 2013 (the "Formation Resolution.")

The purpose of the District, pursuant to the resolution of the City of Albuquerque (the "City") that formed the District, is to provide financing of the infrastructure improvements set forth in the Master Development Plan that was approved by the City and as required pursuant to the Act and the Master Development Agreement among the District, the City and the developer.

The District follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The District is not a component of any other governmental entity and the District has no subordinate component units.

The District is governed by the District Board, consisting of four directors. The District Board has control over and management supervision of all affairs of the District. Directors serve six-year terms.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's policies are described below.

Basis of Presentation

Government-Wide Statements

The Statement of Net Position and Statement of Activities present financial information about reporting government as a whole. These statements include the financial activities of the overall District in its entirety. Eliminations have been made to minimize the double counting of internal transactions. District activities generally are financed through special levy taxes.

The Statement of Activities presents a comparison between direct expenses and direct revenues for each function of the District governmental activities. Direct expenses are those that are specifically associated with and clearly identifiable to a particular function. Direct revenues include special levy taxes assessed.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements

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

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

Governmental Fund

The District's General Fund is the only major fund for the fiscal year 2016. The 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.

Measurement Focus and Basis of Accounting

The Government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of when the related cash transaction takes place. On an accrual basis, revenue from the special levy tax is recognized in the fiscal year during which the taxes are earned.

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

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on the note obligations, which are recognized as expenditures when paid. Proceeds from the issuance of note obligations are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted first, then unrestricted as they are needed.

Cash Equivalents

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

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2016, an allowance for uncollectible accounts was not considered necessary as all accounts are considered collectible.

Capital Assets

As capital assets are constructed, the ownership will be transferred to the City. As a result, the District does not capitalize any capital assets on its financial statements.

Long-Term Obligations

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

Special Levy

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

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

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

The District determined that a total of zero (0) lot was subject to this exemption for fiscal year 2016. The District has no definitive information on the number of residences in the District that could in the future become subject to such exemption.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

As of June 30, 2016, the fund balances of the governmental fund are classified as follows:

Restricted – amounts than be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other government. There is no restricted fund balance at June 30, 2016.

Unassigned – all other spendable amounts.

The District has no fund balances that are classified as nonspendable, committed or assigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgets

The budget is adopted on a modified accrual basis of accounting. The legal compliance for the budget is total expenditures.

NOTE 3. DEPOSITS

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

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If the District is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the District may invest its money as provided under Section 6-10-10.1 NMSA 1978 with the New Mexico State Treasurer's investment pool for a period greater than 181 days. The State Treasurer's investment pool shall be invested as provided for State funds under Section 60-10-10 NMSA 1978. The District has not formally adopted a deposit and investment policy that limits the government's allowable deposits or investments and addresses the specific types of risk to which the government is exposed.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3. DEPOSITS (CONTINUED)

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

Cash equivalents represent investments in mutual funds, consisting of treasury bonds with maturities of less than 30 days.

Cash and cash equivalents (including restricted) at June 30, 2016 consist of the following:

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>\$ 223,982</u>
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NOTE 4. SUBORDINATED PROMISSORY NOTES - RELATED PARTY

On July 8, 2014 and December 22, 2015, the District issued promissory notes in the principal amounts of \$3,235,764 and \$4,075,250, respectively, to Western Albuquerque Land Holdings LLC, the developer. The notes are reimbursement obligations of the District in connection with the Infrastructure Development and Acquisition Agreement by and between the City of Albuquerque, New Mexico, the District and the developer in order to fund costs of formation of the District and the acquisition of certain infrastructure improvements benefitting the District.

The 2014 and 2015 revenue notes bear an annual interest of 8% with final maturities on April 1, 2022 and April 1, 2032, respectively. The notes are secured by the pledge of net revenues from District Special Levy.

Interest payment and principal payments of the revenue notes are serviced by revenues generated from the Special Levy.

Annual debt service requirements to maturity for the note are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 57,025	522,464	579,489
2018	543,485	333,958	877,443
2019	686,316	190,391	876,707
2020	738,260	133,832	872,092
2021	794,191	77,570	871,761
2022-2026	416,487	3,954,968	4,371,455
2027-2031	3,247,636	1,109,980	4,357,616
2032	827,614	41,595	869,209
	<u>\$ 7,311,014</u>	<u>6,364,758</u>	<u>13,675,772</u>

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5. DEFICIT NET POSITION

The total net position balance is in a deficit position of \$7,522,293 at June 30, 2016. This is due to the fact that the capital assets acquired with note proceeds were transferred to another governmental agency. This resulted in the recognition of long-term debt with no related asset on the District's financial statement. The long-term debt will be repaid with future special levy taxes.

NOTE 6. BUDGET VIOLATION

In violation of New Mexico state statutes, the District overspent the budget for the year ended June 30, 2016 as follows:

<u>Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	\$ 453,383	4,482,542	(4,029,159)

**REPORT OF INDEPENDENT AUDITORS 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
 Lower Petroglyphs Public Improvement District
 and
 Mr. Timothy Keller
 New Mexico State Auditor
 Santa Fe, New Mexico

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, the major fund, and the budgetary comparison of the general fund of Lower Petroglyphs Public Improvement District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the District's basic financial statements.

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 District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

To the Board of Directors
Lower Petroglyphs Public Improvement District
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and response as item 2015-002.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of finding and response. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
October 21, 2016

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
SCHEDULE OF FINDING AND RESPONSE
JUNE 30, 2016**

2015-002: Budget, Compliance and Other Matters

CONDITION

The District overspent its budget by \$4,029,159 for the year ended June 30, 2016. In the fiscal year 2016 budget, the District provided information about the cost of infrastructure; however, it did not contain specific information as to the project construction cost expected to be incurred for the current year.

CRITERIA

According to NMSA 6-3-1 to 6-3-25, expenditures are to be within the budgeted amounts.

CAUSE

The District did not include its budgeted amount for the project construction cost of \$4,075,250 in its fiscal year 2016 budget.

EFFECT

The District is not in compliance with the requirements of NMSA 6-3-1 to 6-3-25 and there is increased risk that unauthorized transactions could occur.

RECOMMENDATION

Overspending of the budget should not occur and therefore the District needs to develop an annual operating budget each year. We recommend that all budget adjustments be approved prior to spending and budget to actual reviews be made on a timely basis.

MANAGEMENT'S RESPONSE

The District will implement procedures to ensure that expenditures are made within budgeted amounts. The Accountant is assigned to monitor budget to actual schedule and expected to complete this before the end of the next fiscal year.

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
SCHEDULE OF PRIOR YEAR'S FINDINGS
JUNE 30, 2016**

2015-001	No General Ledger Maintained	Resolved
2015-002	The District overspent its budget	Modified and repeated

Lower Petroglyphs Public Improvement District
 SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
 For the Year Ended June 30, 2016
 Prepared by Agency Staff Name: Dee Brescia, Accountant Date: June 30, 2016

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
N/A								

**LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2016**

An exit conference was held on October 19, 2016. Attending were the following:

Representing Lower Petroglyphs Public Improvement District:

Russell Brito, Chairperson

Justin Horwitz, Legal Counsel (Rodey, Dickason, Sloan, Akin & Robb P.A.)

Dee Brescia, Brescia Consulting

Representing Moss Adams LLP:

Jaime Rumbaoa, CPA, Senior Manager

The financial statements were prepared with the assistance of Moss Adams LLP.