

**LOWER PETROGLYPHS PUBLIC
IMPROVEMENT DISTRICT**

Financial Statements

June 30, 2019



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT

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LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT

Official Roster

Year ended June 30, 2019

Board of Directors

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lower Petroglyphs Public Improvement District
and
Mr. Brian S. Colon, ESQ
New Mexico State Auditor

Report on 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund of the District, as of June 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7, 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 November 15, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Albuquerque, New Mexico
November 15, 2019

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2019

As management of the Lower Petroglyphs Public Improvement District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2019. 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 2019 as follows:

- Issuance of Refunding Bonds, Series 2018 of \$11,830,000 for a premium of \$88,486. This resulted to a recognition of deferred inflows of \$475,814 due to cancellation of portion of notes and an increase in administrative expenses by \$486,741, mainly due to issuance costs.
- In the Statements of Net Position, the District's total net position amounted to a deficit of \$11,739,776.
- In the Statements of Activities, the special levy revenue and total expenses amounted to \$933,470 and \$1,199,156, respectively.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

Governmental activities – Governmental activities include the District's basic activities to reimburse the developer for the construction of certain public infrastructure improvements as provided in the Act and the governing documents of the District, including the Development Agreement among the District, the developer and the City.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Management’s Discussion and Analysis
June 30, 2019

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. As of June 30, 2019, the District’s liabilities exceeded assets by \$11,739,776.

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.

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

	2019	2018
Current assets	\$ 1,382,375	482,563
Total assets	<u>1,382,375</u>	<u>482,563</u>
Current Liabilities	159,741	977,333
Long-term obligations outstanding	12,498,491	10,994,382
Total liabilities	<u>12,658,232</u>	<u>11,971,715</u>
Deferred inflows of resources	463,919	-
Net position (deficit)	<u>\$ (11,739,776)</u>	<u>(11,489,152)</u>

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2019

The following are significant transactions that have had an impact on the Statement of Net Position for the year ended June 30, 2019:

- Administrative expenditures and interest expense amounted to \$571,788 and \$627,368, respectively.
- Assessment of Special levy of \$933,470.

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

	<u>2019</u>	<u>2018</u>
General revenues:		
Special levy	\$ 933,470	935,610
Interest	15,062	2,759
Total revenues	<u>948,532</u>	<u>938,369</u>
Expenses:		
Public works-construction	-	(4,279,662)
Interest	(627,368)	(802,630)
General government	(571,788)	(85,047)
Total Expenditures	<u>(1,199,156)</u>	<u>(5,167,339)</u>
Change in Net Position	<u>\$ (250,624)</u>	<u>(4,228,970)</u>

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds for the year ended June 30, 2019 amounted to \$948,532 while expenditures amounted to \$2,411,900. The District's main source of revenue is the special levy assessed to properties within the District. The major expenditures of the District are debt service payments and administrative expenses. The general fund has unassigned fund balance of \$583,343, representing 467% of the total expenditures for the fund during the fiscal year.

General Fund Budgetary Highlights

The District adopts an annual budget, which projects the expected expenditures (based on administrative expenses, debt service requirements and estimated delinquency) and the interest income from funds, to determine the special levy each year. The original budget for expenditures was increased by \$62,008 mainly to account for the election expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District owns no significant capital assets. 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 Board Resolutions, the District issued its \$3,235,764 Series 2014 Subordinated Promissory Note on July 8, 2014, \$4,075,250 Series 2015 Subordinated Promissory Note on December 22, 2015, \$2,656,868 Series 2017A Subordinated Promissory Note on July 19, 2017, and \$1,622,794 Series 2017B Subordinated Promissory Note dated October 12, 2017, 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. In order to secure payment of the principal and interest of the notes, the District approved and entered into an

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2019

Indenture and Security Agreement with BOKF, NA d/b/a Bank of Albuquerque. Under the Indenture, 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.

On October 17, 2018, the District issued \$11,830,000 Special Levy Refunding Revenue Bonds for \$11,918,486 or a premium of \$88,486. The District used of the bond issuance proceeds in combination with issuance of promissory note of \$582,217 (Series 2018 Note) to the developer for the redemption of the Series 2014, 2015, 2017A and 2017B Notes.

The outstanding debt at June 30, 2019 is \$12,412,217.

REQUESTS FOR INFORMATION

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2019 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 Chairman of the Lower Petroglyphs Public Improvement District, Vicente Quevedo, One Civic Plaza NW, PO Box 1293, Albuquerque, NM 87103.

FINANCIAL STATEMENTS

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,374,070
Special levy receivable	8,305
Total assets	<u>1,382,375</u>
LIABILITIES	
Accounts payable	4,962
Accrued expenses - professional services	11,327
Interest payable	143,452
Long-term debt	
Due within one year	271,896
Due in more than one year	12,226,595
Total liabilities	<u>12,658,232</u>
DEFERRED INFLOWS OF RESOURCES	
Gain on debt refunding	<u>463,919</u>
NET POSITION	
Restricted	782,743
Unrestricted (deficit)	\$ <u>(12,522,519)</u>
	<u>(11,739,776)</u>

See Notes to Financial Statements.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Statement of Activities
Year Ended June 30, 2019

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
General government	\$ 571,788	\$ (571,788)
Interest	627,368	(627,368)
Total expenses	<u>\$ 1,199,156</u>	<u>(1,199,156)</u>
General Revenues		
Special levy		933,470
Interest income		15,062
		<u>948,532</u>
Change in net position		(250,624)
Net position, beginning (deficit)		<u>(11,489,152)</u>
Net position, ending (deficit)		<u>\$ (11,739,776)</u>

See Notes to Financial Statements.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT

Balance Sheet – Governmental Funds

June 30, 2019

	General Fund	Bond Fund	Reserve Fund	Total
ASSETS				
Cash and cash equivalents	\$ 591,327	7,446	775,297	1,374,070
Special levy receivable	8,305	-	-	8,305
	<u>\$ 599,632</u>	<u>7,446</u>	<u>775,297</u>	<u>1,382,375</u>
LIABILITIES				
Accounts payable	\$ 4,962	-	-	4,962
Accrued expenses	11,327	-	-	11,327
Total Liabilities	<u>16,289</u>	<u>-</u>	<u>-</u>	<u>16,289</u>
FUND BALANCES				
Restricted for debt service	-	7,446	775,297	782,743
Unassigned	583,343	-	-	583,343
Total fund balances	<u>583,343</u>	<u>7,446</u>	<u>775,297</u>	<u>1,366,086</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 599,632</u>	<u>7,446</u>	<u>775,297</u>	<u>1,382,375</u>

See Notes to the Financial Statements.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Position
Year Ended June 30, 2019

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

Fund balance - total governmental funds	\$	1,366,086
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Long-term obligations for the notes payable are not due and payable in the current period, and therefore, not reported in the governmental funds.</p>		(12,498,491)
<p>Deferred inflows related to debt refundings are applicable to future reporting period and, therefore are not reported in the governmental funds.</p>		(463,919)
<p>Interest payable on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.</p>		<u>(143,452)</u>
Net position of governmental activities	\$	<u><u>(11,739,776)</u></u>

See Notes to Financial Statements.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Statement of Revenues, Expenditures and Changes
In Fund Balances – Governmental Funds
Year Ended June 30, 2019

	General Fund	Bond Fund	Reserve Fund	Total
Revenues				
Special levy	\$ 933,470	-	-	933,470
Interest income	3,193	3,072	8,797	15,062
Total revenues	936,663	3,072	8,797	948,532
Expenditures				
General government	125,016	-	-	125,016
Debt Service				
Principal	-	381,481	-	381,481
Interest	-	1,458,631	-	1,458,631
Bond issuance cost	-	446,772	-	446,772
Total expenditures	125,016	2,286,884	-	2,411,900
Excess (deficiency) of revenues over (under) expenditures	811,647	(2,283,812)	8,797	(1,463,368)
Other financing sources (uses)				
Transfer in	-	-	766,500	766,500
Transfer out	(694,144)	(72,356)	-	(766,500)
Issuance of refunding bonds	-	11,830,000	-	11,830,000
Issuance of refunding note	-	582,217	-	582,217
Premium on refunding bonds	-	88,486	-	88,486
Refunding of notes	-	(10,137,089)	-	(10,137,089)
Total other financing sources (uses)	(694,144)	2,291,258	766,500	2,363,614
Net change in fund balance	117,503	7,446	775,297	900,246
Fund balances, beginning	465,840	-	-	465,840
Fund balances, ending	\$ 583,343	7,446	775,297	1,366,086

See Notes to the Financial Statements.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2019

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	\$	900,246
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on an accrual basis.</p>		817,158
<p>Bond proceeds provide financial resources to the governmental funds while repayment of principal consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts and deferred amount on refundings when debt is first issued; these amounts are deferred and amortized in the statement of activities.</p>		
Principal repayments		381,481
Issuance of refunding bonds		(11,830,000)
Issuance of refunding note		(582,217)
Premium on refunding bonds		(88,486)
Refunding of debt		10,137,089
Amortization of premium and deferred inflows on debt refunding		14,105
A portion of receivables reported in the Statement of Net Position that is not currently available in the funds		-
		<hr/>
Change in net position of governmental activities	\$	<u><u>(250,624)</u></u>

See Notes to the Financial Statements.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Budget to Actual Schedule (General Fund)
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 933,315	933,470	933,470	-
Interest income	-	-	3,193	3,193
Total revenues	<u>933,315</u>	<u>933,470</u>	<u>936,663</u>	<u>3,193</u>
Expenditures				
Current:				
General government	73,961	140,202	125,016	15,186
Construction - public works	-	-	-	-
Total expenditures	<u>73,961</u>	<u>140,202</u>	<u>125,016</u>	<u>15,186</u>
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(694,144)	(694,144)
Total	<u>-</u>	<u>-</u>	<u>(694,144)</u>	<u>(694,144)</u>
Net change in fund balance	859,354	793,268	117,503	(675,765)
Fund balance, beginning	<u>465,840</u>	<u>465,840</u>	<u>465,840</u>	<u>-</u>
Fund balance, ending	<u>\$ 1,325,194</u>	<u>1,259,108</u>	<u>583,343</u>	<u>(675,765)</u>

See Notes to Financial Statements.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT

Notes to the Financial Statements

June 30, 2019

NOTE 1. REPORTING ENTITY

Lower Petroglyphs Public Improvement District (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 five 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 on property covered by the District and interest income.

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.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Governmental Funds. The District reports the following major governmental funds:

- a. General Fund – is the District’s primary operating fund. It accounts for all the financial resources of the general government except those required to be accounted for in another fund.

Debt Service Funds:

- b. Bond Fund – used to account for the payment of principal and interest related to the bonds obligation
- c. Reserve Fund –accounts for funds to be used in accordance with the bond indenture in situations whereby the bond fund does not have sufficient funds to pay for debt service payments.

Measurement Focus and Basis of Accounting

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

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

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

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

Receivables. All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2019, an allowance for uncollectible accounts was not considered necessary as all accounts are considered collectible.

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

Long-Term Obligations. In the Government-wide financial statements, long-term debts are reported as liabilities. Long-term obligations of the governmental funds payable from the general revenues of the District are reported in the District-wide financial statements. Payments of principal and interest are reported as expenditures in the fund financial statements while proceeds from issuance of the debt are recognized as other financing sources.

Bond premium is recognized and amortized over the life of the bonds using the straight-line method. Bonds payable includes unamortized bond premium.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources. In the government-wide financial statements, the difference between reacquisition price for the new debt and the carrying value of the old debt on refunded debt transactions is recorded as deferred inflows of resources and amortized over the shorter of the remaining life of the old debt or the life of the new debt.

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 10 lots were subject to this exemption for fiscal year 2019 and the District did not seek to collect the Special Levy on those properties. This resulted in an \$8,275 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 2019 Special Levy requirement. The fiscal year 2019 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 promissory notes 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.

Fund Balance. As of June 30, 2019, 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.

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.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

NOTE 3. DEPOSITS

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

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If the District is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the District may invest its money as provided under Section 6-10-10.1 NMSA 1978 with the

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

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

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, 2019 consist of the following:

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	\$ <u>1,374,070</u>
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NOTE 4. LONG-TERM DEBT

On July 8, 2014 and December 22, 2015, the District issued promissory notes in the principal amounts of \$3,235,764 (Series 2014) and \$4,075,250 (Series 2015), respectively, to Western Albuquerque Land Holdings LLC, developer and a Delaware limited liability company by the District. 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 Series 2014 and Series 2015 revenue notes bear an annual interest of 8% with final maturities on April 1, 2022 and April 1, 2032, respectively.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 4. LONG-TERM DEBT (CONTINUED)

On July 19, 2017 and October 12, 2017, the District issued promissory notes in the principal amounts of \$2,656,868 (Series 2017A) and \$1,622,794 (Series 2017B), respectively, to 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 the acquisition of certain infrastructure improvements benefitting the District. The Series 2017A note bears annual interest of 8% with final maturity on July 1, 2053. The Series 2017B note bears no interest.

On October 17, 2018, the District issued \$11,830,000 Special Levy Refunding Revenue Bonds, Series 2018 for \$11,918,486 or a premium of \$88,486. The District used of the bond issuance proceeds in combination with issuance of promissory note of \$582,217 (Series 2018 Note) to the developer for the redemption of the Series 2014, 2015, 2017A and 2017B Notes. As a result of the refunding, the District decreased its total debt service requirements by \$8,465,715 which resulted in an economic gain (difference between the present values of debt service payments on the old and new debt) of \$2,304,970. The Bonds bear annual interest ranging from 3.5% to 5%, with final maturity on October 1, 2048, with interest payable semi-annually, every April and October 1. The Series 2018 Note bears no interest and matures on October 1, 2026. The obligations are secured by the pledge of net revenues of the District Special Levy. The revenue bonds shall have first priority over the Series 2018 Note.

The Indenture also contains maintenance of Reserve Fund Requirements equal to the least of (i) the maximum annual debt service requirements on all outstanding bonds; (ii) 125% of the average annual debt service requirements of the bonds; or (iii) 10% of the aggregate principal amount of the Bonds. The District is in compliance with this reserve requirement at June 30, 2019.

The following are the changes for the long-term debt during the year:

	<u>July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30</u>
Direct borrowings:				
Series 2014 Note	\$ 2,639,470	-	(2,639,470)	-
Series 2015 Note	4,075,250	-	(4,075,250)	-
Series 2017A Note	2,656,868	-	(2,656,868)	-
Series 2017B Note	1,622,794	-	(1,622,794)	-
Series 2018 Note	-	582,217	-	582,217
Special Levy Refunding				
Revenue Bonds, Series 2018	-	11,830,000	-	11,830,000
Bond premium	-	88,486	(2,212)	86,274
	<u>\$ 10,994,382</u>	<u>12,500,703</u>	<u>(10,996,594)</u>	<u>12,498,491</u>

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 4. LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the Special Levy Refunding Revenue Bonds, Series 2018 are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 215,000	570,047	785,047
2021	200,000	562,285	762,285
2022	205,000	554,185	759,185
2023	215,000	545,785	760,785
2024	220,000	537,085	757,085
2025-2029	1,255,000	2,531,403	3,786,403
2030-2034	1,590,000	2,189,000	3,779,000
2035-2039	2,025,000	1,739,375	3,764,375
2040-2044	2,590,000	1,165,250	3,755,250
2045-2049	3,315,000	430,625	3,745,625
	<u>\$ 11,830,000</u>	<u>10,825,040</u>	<u>22,655,040</u>

Annual debt service requirements to maturity for the Series 2018 Note are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 56,896	-	56,896
2021	76,793	-	76,793
2022	79,206	-	79,793
2023	76,814	-	76,814
2024	79,815	-	79,815
2025-2027	212,693	-	212,693
	<u>\$ 582,217</u>	<u>-</u>	<u>582,217</u>

NOTE 5. DEFICIT NET POSITION

The total net position balance is in a deficit position of \$11,739,776 as of June 30, 2019. This is due to the fact that the capital assets acquired with note proceeds were transferred to the City. 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. INTERFUND TRANSFERS

For the year ended June 30, 2019, the District transfers were made to fund debt service payments and administrative expenses. The following transfers were made during the year:

<u>Transfer Out</u>	<u>Transfer In Reserve Fund</u>
General Fund	\$ 694,144
Bond Fund	72,356
	<u>\$ 766,500</u>

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 7. INSURANCE COVERAGE

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

Section 5-11-25 NMSA 1978 provides that neither any member of the board of directors of a district nor any person acting on behalf of the district, while acting within the scope of his authority, shall be subject to any personal liability for any action taken or omitted within that scope of authority. In addition, the Development Agreement provides that the Developer will indemnify and will hold the City, the District, and their respective agents and employees against any liabilities, claims, costs and expenses incurred in any challenge or proceeding relevant to the formation, operation and administration of the District.

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
Lower Petroglyphs Public Improvement District
and
Mr. Brian S. Colon, ESQ
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparison of the general fund of Lower Petroglyphs Public Improvement District (the “District”), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated November 15, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* as item 2019-001 in schedule of findings and responses.

Purpose of this Report

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



Albuquerque, New Mexico
November 15, 2019

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Schedule of Findings and Responses
Year Ended June 30, 2019

I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Non-compliance material to financial statements noted?

Yes No

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Schedule Findings and Responses
Year Ended June 30, 2019

II – Financial Statements Finding

2019-001: Budget, Other non-compliance

CONDITION

The District cost of issuance for Bond Fund was overspent by \$117,326, actual amount of \$446,772 compared to budgeted amount of \$329,446.

CRITERIA

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

CAUSE

The District did not consider the underwriter's fee in connection with the issuance of refunding bonds during the preparation of the annual budget.

EFFECT

The District is not in compliance with the requirements of NMSA 6-3-1 to 6-3-25.

RECOMMENDATION

For unusual transactions such as refunding of funds, the District needs to work with its external auditors to ensure that all expenditures are considered in the annual budget.

MANAGEMENT'S RESPONSE

The District will implement procedures to ensure that expenditures are made within budgeted amounts. This should be in place no later than June 30, 2020.

Person Responsible: Accountant

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT
Schedule of Prior Year Findings
Year Ended June 30, 2019

There were no prior year findings.

LOWER PETROGLYPHS PUBLIC IMPROVEMENT DISTRICT

Exit Conference

Year Ended June 30, 2019

EXIT CONFERENCE

An exit conference was held on October 28, 2019, which was attended by the following:

Lower Petroglyphs Public Improvement District

Vicente Quevedo, Chairman

Jenica Jacobi, Legal Counsel (Rodey Law Firm)

Peter Kelton, Legal Counsel (Rodey Law Firm)

Dee Brescia, Accountant (Brescia Consulting)

Axiom Certified Public Accountants and Business Advisors LLC

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

Financial Statement Presentation

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