

**WINROCK TOWN CENTER
TAX INCREMENT DEVELOPMENT
DISTRICT 1**

FINANCIAL STATEMENTS

JUNE 30, 2017



WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1

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WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1

Official Roster

As of June 30, 2017

Board of Directors

Name	Title
Diane Gibson	Chairman
Debbie Bonsignore	Treasurer
Mayling Armijo	Member
Rick Lopez	Member
Gilbert Montaña	Member

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Winrock Town Center Tax Increment Development District 1
and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the budgetary comparisons for the general fund and special revenue fund of Winrock Town Center Tax Increment Development District 1 (the "District") as of and for the year ended June 30, 2017, 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 and each major fund of the District as of June 30, 2017, and the respective changes in financial position and the budgetary comparisons for general fund and special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the beginning balance of net position of the District has been restated due to an unrecorded accrued interest and amortization of bond discount. The restatement resulted in a decrease in the beginning net position of the District of \$483,588. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 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 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 District's internal control over financial reporting and compliance.



Albuquerque, New Mexico
December 13, 2017

WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) JUNE 30, 2017

As management of the Winrock Town Center Tax Increment Development District 1 (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, 2017. 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 the State of New Mexico duly created and existing pursuant to Tax Increment for Development Act ("Act"), Sections 5-15-1 through 5-15-28 NMSA 1978, as amended, City of Albuquerque ("City") Council Ordinance Bill No. F/S O-06-44, and City Council Resolution Enactment No. R-2008-120 adopted on October 6, 2008 (the "Formation Resolution").

The purpose of the District, pursuant to the Formation Resolution, is to provide financing of the public improvements set forth in the Tax Increment Development Plan that was approved by the City and as required pursuant to the Act and Master Development Agreement among the District, the City and the developer, Winrock Partners LLC.

Financial Highlights

The financial statements, which follow the Management's Discussion and Analysis, provide those significant key financial highlights for fiscal year 2017 as follows:

- In the Statement of Net Position, the District's total net position decreased from \$916,475 (as restated) as of June 30, 2016 to a deficit of \$29,136,836 as of June 30, 2017 due to transfer of \$25,767,440 of infrastructure to other governmental entity and public improvement reimbursement to the developer of \$4,309,259 during the fiscal year.
- In the Statement of Activities, the gross receipts tax increment revenue and construction expenses amounted to \$1,863,561 and \$4,309,259, 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, 3) the budgetary comparisons for the general fund and special revenue fund and 4) notes to the financial statements.

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

The statement of net position presents information on all of the District's assets and liabilities, with the 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.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

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 receipt of gross receipts tax increment and payment of administrative expenses. The District reimburses the developer for the construction of certain public 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.

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.

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 \$29,136,836 as of June 30, 2017.

The District was formed, and reimburses the Developer, for the design and construction of public improvements related to the development of approximately 83 acres of property known as Winrock Town Center. The public improvements include the construction of roadways, water infrastructure, sanitary sewer infrastructure, storm drainage and retention infrastructure, public plazas, green energy heating sources, bus platform and four public parking structures.

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

	<u>2017</u>	<u>2016 (Restated)</u>
Current Assets	\$ 13,228,475	17,547,865
Noncurrent Assets	-	25,767,440
Current Liabilities	479,762	470,050
Noncurrent Liabilities	41,885,549	41,928,780
Total Net Position	<u>\$ (29,136,836)</u>	<u>916,475</u>

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

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

	<u>2017</u>	<u>2016 Restated</u>
Expenses		
Public works - construction	\$ (4,309,259)	-
General government	(39,669)	(694,507)
Interest Expense	<u>(2,616,807)</u>	<u>(2,567,885)</u>
	(6,965,735)	(3,262,392)
General Revenues		
Gross receipts tax increment	1,863,561	2,306,335
Dividend income	37,366	12,148
Interest income	<u>25</u>	<u>37</u>
	1,900,952	2,318,520
Other Financing Sources		
Transfers in	778,912	1,494,168
Transfer of infrastructure	<u>(25,767,440)</u>	-
Change in net position	<u>\$ (30,053,311)</u>	<u>550,296</u>

Financial Analysis of the Governmental Activities

The District's revenues in the governmental funds for the year ended June 30, 2017 amounted to \$1,900,952 while expenditures amounted to \$7,009,841. The District's main source of revenue is the gross receipts tax increment collected within the District. The major expenditures of the District are debt service payments, capital outlay and administrative expenses. The general fund has unassigned fund balance of \$407,917, representing 1,290% of the general fund expenditures 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 payments, and construction expenditures) and the estimated gross receipts tax increment and property taxes for each year. There were no significant changes between original and final budgets for the fiscal year ending June 30, 2017.

Capital Assets and Debt Administration

The capital projects that are to be financed by the District are all to be dedicated to the City once completed. It is anticipated that the District will not, in the future, own any capital assets. It is anticipated that all dedications will be done by the developer directly to the City, on behalf of the District.

On July 8, 2015, the District together with District 2 issued Senior Lien Gross Receipt Tax Increment Bonds, Series 2015 with total par value of \$43,325,000 for \$41,915,242, or a discount of \$1,409,758. The Revenue Bonds bear annual interest rates ranging from 5.25% to 6%, with final maturity date of May 1, 2040. The proceeds from issuance will be primarily used to finance infrastructure projects. The bonds are generally callable with interest payable semi-annually, every May 1 and November 1. The obligations are secured by the pledge of net revenues from the District's Gross Receipts Tax Increment. The revenue bonds have outstanding balance of \$43,225,000 at June 30, 2017.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017**

Requests for Information

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2017 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 Treasurer of the Winrock Town Center Tax Increment Development District 1, Debbie Bonsignore, 100 Sun Avenue NE, Suite 210, Albuquerque, NM 87109.

WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 12,880,831
Gross receipts tax increment receivable	347,644
Total assets	<u>\$ 13,228,475</u>
LIABILITIES	
Accrued expenses - professional services	10,587
Interest payable	425,944
Revenue bonds payable, net	
Due within one year	43,231
Due in more than one year	41,885,549
Total liabilities	<u>42,365,311</u>
NET POSITION	
Restricted	12,809,971
Unrestricted (deficit)	(41,946,807)
Total net position	<u>\$ (29,136,836)</u>

See Notes to Financial Statements.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Expenses</u>	<u>Governmental Activities</u>
EXPENSES		
Public works - construction	\$ 4,309,259	\$ (4,309,259)
Interest expense	2,616,807	(2,616,807)
General government	39,669	(39,669)
Total expenses	\$ <u>6,965,735</u>	<u>(6,965,735)</u>
GENERAL REVENUES		
Gross receipts tax increment		1,863,561
Dividend income		37,366
Interest income		25
Total revenues		<u>1,900,952</u>
Excess of expenses over revenues		(5,064,783)
OTHER FINANCING RESOURCES		
Transfer in from TIDD 2		778,912
Transfer of infrastructure (Note 2)		<u>(25,767,440)</u>
Total other financing sources		<u>(24,988,528)</u>
Change in net position		(30,053,311)
Net position, beginning as previously reported		1,400,063
Restatement (Note 9)		<u>(483,588)</u>
Net position, beginning as restated		<u>916,475</u>
Net position, ending		\$ <u><u>(29,136,836)</u></u>

See Notes to Financial Statements.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Revenue Fund	Restricted Lease Reserve
ASSETS			
Cash and cash equivalents	\$ 418,504	396,889	4,817,014
Gross receipts tax increment receivable	-	347,644	
	<u>\$ 418,504</u>	<u>744,533</u>	<u>4,817,014</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	\$ 10,587	-	-
Total liabilities	<u>10,587</u>	<u>-</u>	<u>-</u>
Fund balances			
Restricted	-	744,533	4,817,014
Unassigned	407,917	-	-
Total fund balances	<u>407,917</u>	<u>744,533</u>	<u>4,817,014</u>
Total liabilities and fund balances	<u>\$ 418,504</u>	<u>744,533</u>	<u>4,817,014</u>

See Notes to Financial Statements.

Unrestricted Fund	Debt Service Reserve	Bond Fund	Surplus Fund	Total
1,059,251	4,314,287	-	1,874,886	12,880,831
	-	-	-	347,644
1,059,251	4,314,287	-	1,874,886	13,228,475
-	-	-	-	10,587
-	-	-	-	10,587
1,059,251	4,314,287	-	1,874,886	12,809,971
-	-	-	-	407,917
1,059,251	4,314,287	-	1,874,886	13,217,888
				-
1,059,251	4,314,287	-	1,874,886	13,228,475

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

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

Fund balance - total governmental funds	\$ 13,217,888
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Long-term obligations for revenue bonds are not due and payable in the current period, and therefore, not reported in the governmental funds</p>	(41,928,780)
<p>Interest payable on long-term debt is not accrued in the governmental funds, but rather is recognized as expenditure when due</p>	(425,944)
	<hr/>
Net position of governmental activities	\$ <u>(29,136,836)</u>

See Notes to Financial Statements.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Revenue Fund	Restricted Lease Reserve
Revenues			
Gross receipts tax increment	\$ -	1,863,561	-
Dividend income	744	1,476	18,645
Interest income	25	-	-
Total revenues	769	1,865,037	18,645
Expenditures			
Current			
General government	31,602	8,067	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	-	-	-
Total expenditures	31,602	8,067	-
Excess (deficiency) of revenues over (under) expenditures	(30,833)	1,856,970	18,645
Other financing sources (uses)			
Transfer in	-	25,152	-
Transfer out	(20,248)	(1,935,922)	-
Total	(20,248)	(1,910,770)	-
Net change in fund balance	(51,081)	(53,800)	18,645
Fund balance, beginning	458,998	798,333	4,798,369
Fund balance, ending	\$ 407,917	744,533	4,817,014

See Notes to Financial Statements.

Unrestricted Fund	Debt Service Reserve	Bond Fund	Surplus Fund	Total
-	-	-	-	1,863,561
4,478	8,401	118	3,504	37,366
-	-	-	-	25
4,478	8,401	118	3,504	1,900,952
-	-	-	-	39,669
-	-	100,000	-	100,000
-	-	2,560,913	-	2,560,913
4,309,259	-	-	-	4,309,259
4,309,259	-	2,660,913	-	7,009,841
(4,304,781)	8,401	(2,660,795)	3,504	(5,108,889)
-	-	2,660,795	174,286	2,860,233
-	(25,151)	-	(100,000)	(2,081,321)
-	(25,151)	2,660,795	74,286	778,912
(4,304,781)	(16,750)	-	77,790	(4,329,977)
5,364,032	4,331,037	-	1,797,096	17,547,865
1,059,251	4,314,287	-	1,874,886	13,217,888

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

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

Net changes in fund balances - total governmental funds	\$ (4,329,977)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Transfer of capital assets that is only recognized in the Statement of Activities upon transfer, fund recognized the expense as incurred	(25,767,440)
The repayment of long-term debt consumes current financial resources of the governmental funds. This has no effect on the net position in the Statement of Activities	100,000
Government funds report the effect of the discount and the related current year amortization, whereas the amount is deferred and amortized in the Statement of Net Position	(56,769)
Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on accrual basis	<u>875</u>
Change in net position of governmental activities	<u>\$ (30,053,311)</u>

See Notes to Financial Statements.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gross receipt tax increment	\$ -	-	-	-
Dividend income	-	-	744	744
Interest income	-	-	25	25
Total revenues	<u>-</u>	<u>-</u>	<u>769</u>	<u>769</u>
Expenditures				
Current:				
General government	83,198	83,198	31,602	51,596
Total expenditures	<u>83,198</u>	<u>83,198</u>	<u>31,602</u>	<u>51,596</u>
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(20,248)	(20,248)
Total	<u>-</u>	<u>-</u>	<u>(20,248)</u>	<u>(20,248)</u>
Net change in fund balance	(83,198)	(83,198)	(51,081)	32,117
Fund balance, beginning	<u>458,998</u>	<u>458,998</u>	<u>458,998</u>	<u>-</u>
Fund balance, ending	<u>\$ 375,800</u>	<u>375,800</u>	<u>407,917</u>	<u>32,117</u>

See Notes to Financial Statements.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
BUDGET TO ACTUAL SCHEDULE (REVENUE FUND)
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gross receipt tax increment	\$ 2,023,500	2,023,500	1,863,561	(159,939)
Dividend income	900	900	1,476	576
Interest income	70	70	-	(70)
Total revenues	<u>2,024,470</u>	<u>2,024,470</u>	<u>1,865,037</u>	<u>(159,433)</u>
Expenditures				
Current				
General government	8,392	8,392	8,067	325
Total expenditures	<u>8,392</u>	<u>8,392</u>	<u>8,067</u>	<u>325</u>
Other Financing Sources (Uses)				
Transfer in	-	-	25,152	25,152
Transfer out	(2,038,055)	(2,038,055)	(1,935,922)	102,133
Total	<u>(2,038,055)</u>	<u>(2,038,055)</u>	<u>(1,910,770)</u>	<u>127,285</u>
Net change in fund balance	(21,977)	(21,977)	(53,800)	(31,823)
Fund balance, beginning	<u>798,333</u>	<u>798,333</u>	<u>798,333</u>	<u>-</u>
Fund balance, ending	<u>\$ 776,356</u>	<u>776,356</u>	<u>744,533</u>	<u>(31,823)</u>

See Notes to Financial Statements.

WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. REPORTING ENTITY

Winrock Town Center Tax Increment Development District 1 (the "District") is a political subdivision of the State of New Mexico duly created and existing pursuant to Tax Increment for Development Act ("TIDD Act"), Sections 5-15-1 through 5-15-28 NMSA 1978, as amended, City of Albuquerque ("City") Council Ordinance Bill No. F/S O-06-44, and City Council Resolution Enactment No. R-2008-120 adopted on October 6, 2008 (the "Formation Resolution").

The purpose of the District, pursuant to the Formation Resolution, is to provide financing of the public improvements set forth in the Tax Increment Development Plan that was approved by the City and as required pursuant to the Act and Master Development Agreement among the District, the City and the developer, Winrock Partners LLC.

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. Two of the initially appointed directors of the District serve four-year terms, and the other three directors serve six-year terms. Upon the expiration of the initial terms of these directors, the District either shall hold an election of new directors by majority vote of owners and qualified resident electors in accordance with the TIDD Act, or governance of the District shall revert to the City Council. Officers not appointed pursuant to the Formation Resolution may be elected by the Directors.

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 the reporting government as a whole. These statements include the financial activities of the overall District in its entirety. Eliminations have been made to minimize the double counting of internal transactions. District activities generally are financed through gross receipts 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 gross receipts tax increment, as well as interest and dividend income from the investment of funds.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 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.
- b. Revenue Fund - was established as a temporary holding fund. Monthly the Gross Receipts Tax distribution for the District get deposited into this account. The funds from this account are applied to pay off obligated debt. Any additional fund in the account after paying obligations are then transferred to the surplus fund.
- c. Restricted Lease Reserve - is used to deposit funds at closing from leasers which are then moved to the unrestricted fund.
- d. Unrestricted Fund - is used to pay any requisitions that are submitted for projects within District 1 and District 2.
- e. Debt Service Reserve Fund - was established from bond proceeds in which funds are placed to be applied to pay debt if pledged revenues are insufficient to satisfy the debt service requirements. The money that meets that requirement is invested. Semiannually a reserve evaluation is completed and any excess fund are then transferred into the revenue fund.
- f. Bond Fund - is used to service the principal and interest payments for the bonds.
- g. Surplus Fund - is used to deposit funds remaining after operation and maintenance expenses and other mandated distributions to redeem all or a portion of the bonds.

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 gross receipts tax increment is recognized in the fiscal year during which the taxes are earned.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (continued)

The governmental fund statements are reported using the current resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. 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 bond obligations, which are recognized as expenditures when paid. Proceeds from the issuance of bond 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 one year or less when purchased to be cash equivalents.

Receivables

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

Capital Assets

As capital assets construction is completed, the ownership will be transferred to the City. As a result, the District does not capitalize any fully constructed capital assets on its financial statements. During the fiscal year, the District dedicated the capital assets related to the infrastructure.

Long-Term Obligations

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

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

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

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gross Receipts Tax Increment

The District's main source of revenue for the fiscal year ended June 30, 2017 has been gross receipts tax increment. Various public entities have pledged gross receipts tax increment to the District. The City of Albuquerque dedicated 70% of its gross receipts tax increment. Bernalillo County dedicated 67% of its gross receipts tax increment. The New Mexico State Board of Finance, on behalf of the State of New Mexico, dedicated 57% of the state's portion of gross receipts tax increment. The gross receipts tax increment is assessed on a monthly basis and distributed to the District in the same manner as distributions are made under the provisions of the State Tax Administration Act. The District relies on the New Mexico Taxation and Revenue Department for the calculations of the gross receipt tax increment. Due to confidentiality, the District has no access to the tenants' and vendors' filing of gross receipts tax within the District.

In addition to the gross receipts tax increment, the City has dedicated property tax increment. During the fiscal year ended June 30, 2017, the District received no property tax increment revenues. Property tax increment for that period has not yet been paid to the District and the District is in the process of working with the relevant parties, including the Bernalillo County Treasurer and Assessor to quantify the amount payable in relation to property tax increment.

Transfers

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

Fund Balance

As of June 30, 2017, 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.

Budgets

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

WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 includes 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.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. As of June 30, 2017, the District's bank deposits of \$140,258 are fully covered by the FDIC insurance limit of \$250,000.

Cash and cash equivalents totaling \$12,462,327 consist of treasury bonds with maturities of less than 3 months. Cash and cash equivalents at June 30, 2017 are held in trust by Bank of Albuquerque in U.S. Treasury Fund.

NOTE 4. INTEREST IN STATE TREASURER LOCAL GOVERNMENT INVESTMENT POOL

The investments of \$278,246 of the District consist of an interest in the New MexiGROW Local Government Investment Pool ("LGIP") managed by the New Mexico State Treasurer's Office ("STO"). The STO is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) through 6-10-10(O) and Sections 6- 10-10(1)A and E NMSA 1978.

In general, state statutes require that all deposits held by STO be collateralized at a minimum level of 50 percent. Collateral pledged to secure these investments is monitored by the STO, and the STO issues separate financial statements that disclose the collateral pledged securities.

Interest Rate Risk. The State Investment Pool does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2017, the GLIP WAM (R) was 58 days and WAM (F) was 106 days.

Credit Risk. The LGIP Pool is rated AAAM by Standard & Poor's.

For the additional GASB Statement No. 40 disclosure information regarding funds held by the State Treasurer, the reader should refer to the separate audit report for the State Treasurer's Office as of and for the year ended June 30, 2017.

WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. 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 officer liability. Certain actions of the Board and management are covered through the Tort Claims Act. As it applies to the District, neither any member of the Board of Directors of the 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.

NOTE 6. REVENUE BONDS

On July 8, 2015, the District together with District 2 issued Senior Lien Gross Receipt Tax Increment Bonds, Series 2015 with total par value of \$43,325,000 for \$41,915,242, or a discount of \$1,409,758. The Revenue Bonds bear annual interest rates ranging from 5.25% to 6%, with final maturity date of May 1, 2040. The proceeds from issuance will be primarily used to finance infrastructure projects. The bonds are generally callable with interest payable semi-annually, every May 1 and November 1. The obligations are secured by the pledge of net revenues from the District's Gross Receipts Tax Increment.

The Indenture of Trust and Security Agreement (Bond Indenture) dated June 1, 2015 with Bank of Albuquerque (as Trustee) contains special mandatory and optional redemption by meeting specified criteria. No events occurred that triggered special mandatory or optional redemption.

The Indenture also contains maintenance of Reserve Fund Requirements equal to the least of (i) the maximum annual debt service requirements on all outstanding bonds; (ii) 125% of the average annual debt service requirements of the bonds; or (iii) 10% of the aggregate principal amount of the Bonds. The District is in compliance with this requirement at June 30, 2017.

The details of activity of the revenue bonds for the year ended June 30, 2017 are as follows:

	<u>July 1 (Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30</u>
Special Levy Revenue Bonds	\$ 43,325,000	-	(100,000)	43,225,000
Unamortized bond discount	(1,352,989)	-	56,769	(1,296,220)
	<u>\$ 41,972,011</u>	<u>-</u>	<u>(43,231)</u>	<u>41,928,780</u>

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 100,000	2,555,663	2,655,663
2019	100,000	2,550,413	2,650,413
2020	150,000	2,545,163	2,695,163
2021	300,000	2,537,288	2,837,288
2022	405,000	2,521,538	2,926,538
2023 – 2027	3,900,000	12,158,200	16,058,200
2028 – 2032	8,000,000	10,615,750	18,615,750
2033 – 2037	13,865,000	7,553,100	21,418,100
2038 – 2040	16,405,000	2,271,600	18,676,600
	<u>\$ 43,225,000</u>	<u>45,308,715</u>	<u>88,533,715</u>

Interest payment and principal payments of the revenue bonds are serviced by revenues generated from the gross receipts tax increment and are paid from the Bond Fund.

WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. ARBITRAGE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on the revenue bonds and at June 30, 2016 does not expect to incur a liability.

NOTE 8. INTERFUND ACTIVITY

Operating Transfers for the year ended June 30, 2017 are as follows:

Fund	Transfers in	Transfers out
General Fund	-	(20,248)
Revenue Fund	25,152	(1,935,922)
Debt Service	-	(25,151)
Bond Fund	2,660,795	-
Surplus Fund	174,286	(100,000)
	\$ 2,860,233	(2,081,321)

The transfer in for Bond Fund includes amount from District 2 of \$778,912.

NOTE 9. RESTATEMENT

The net position at June 30, 2016 did not include accrual of interest of \$426,819 and amortization of discount of \$56,769. To correct this error, the beginning balance of net position for the entity wide financial statements has been decreased by \$483,588. The effect on the change on the net position for the year ended June 30, 2016 is a decrease of the same amount.

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
Winrock Town Center Tax Increment Development District 1
and
Mr. Wayne Johnson
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, each major fund and the budgetary comparisons for the general fund and special revenue fund of the Winrock Town Center Tax Increment Development District 1 (the “District”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 13, 2017.

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. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

District's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
December 13, 2017

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENT FINDINGS

2017-001 – Restatement of Net Position (Significant Deficiency)

Condition: The District did not record accrual of interest on bonds of \$426,819 and amortization of discount of \$56,769 for the financial statements as of and for the year ended June 30, 2016.

Criteria: In accordance with generally accepted accounting principles (specifically GASB Statement No. 34 in relation to the recording of transactions under full accrual of accounting for entity-wide financial statements), all transactions including liabilities should be reflected in the financial statements.

Effect: The District's net position and changes in net position as of and for the year ended June 30, 2016 is overstated by \$483,588.

Cause: The District overlooked the unrecorded transactions during the review of the financial statements.

Recommendation: We recommend that the District perform a more thorough review of financial statement prior to their release to ensure that all audited balances tie to the entity's trial balance to ensure that all adjusting entries are reflected in the financial statements. As outlined in the management representation letter, management assumes all responsibility for non-audit services such as financial statement preparation.

Management response: We agree with the above finding. The District's Accountant performed a detailed review of this financial report to ensure that all transactions and adjustments are captured in the financial statements. As such, we consider this resolved in December 2017. In addition, the Treasurer will review financial statements before submission.

PRIOR YEAR FINDINGS

No matters were reported.

**WINROCK TOWN CENTER TAX INCREMENT DEVELOPMENT DISTRICT 1
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2017**

Exit Conference

An exit conference was held on December 13, 2017. The following were in attendance:

Winrock Town Center Tax Increment Development District 1:

Debbie Bonsignore, Treasurer

Karla Candelaria, Accountant

Axiom Certified Public Accountants and Business Advisors LLC

Jaime Rumbaoa, Partner

Financial Statement Presentation

The financial statements were prepared with the assistance of Axiom Certified Public Accountants and Business Advisors LLC but remain the responsibility of management at Winrock Town Center Tax Increment Development District 1.