



**MESA DEL SOL PUBLIC
IMPROVEMENT DISTRICT 1**

FINANCIAL STATEMENTS

JUNE 30, 2014

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1

**Official Roster
As of June 30, 2014**

Board of Directors

Rey Garduño	Chairman
Brent Dupes	Treasurer
Cilia Aglialoro	Member
Jacques Blair	Member
Jon Zaman	Member

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Mesa del Sol Public Improvement District 1
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund and the budgetary comparison for the general fund of Mesa del Sol Public Improvement District 1 (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the project fund and major debt service funds presented as supplementary information to the basic financial statements for the year ended June 30, 2014, 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Directors
Mesa del Sol Tax Increment Development District 1
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the respective budgetary comparison for the general fund of the District as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the respective budgetary comparisons for the project fund and major debt service funds referred to the above present fairly, in all material respects the budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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 November 7, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mess Adams LLP

Albuquerque, New Mexico
November 7, 2014

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2014**

As management of the Mesa del Sol Public Improvement 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, 2014. 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 1978, as amended, City of Albuquerque (City) Enactment No. 0-2003-12 and City Resolution Enactment No. R-2008-045 adopted on March 3, 2008 (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 2014 as follows:

- In the Statement of Position, the District's total net position as of June 30, 2014 amounted to negative \$4,746,660.
- Issuance of Revenue Bonds of \$5,435,000 on December 19, 2013.
- In the Statement of Activities, the Special Levy revenue and general government expenses amounted to \$386,224 and \$643,474, respectively.
- In the Statements of Activities, the District incurred \$4,650,106 and \$204,457 in construction expenses and interest expense for the fiscal year ended 2014, 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 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.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2014**

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

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

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

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

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

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

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a district's financial position. The District's liabilities exceeded assets by \$4,746,660 as of June 30, 2014.

The District was formed, and may reimburse the developer, for the design and construction of infrastructure (consisting of streets, drainage, landscaping, water and wastewater improvements and related improvements), portions of trunk infrastructure (consistent of Phases I and II of University Boulevard and Phases I and II of Mesa del Sol Boulevard, water and wastewater improvements and drainage), portions of other trunk infrastructure (water supply facilities, elevated storage, underground storage, water pump station, sanitary sewer pump station, reservoir, storm detention ponds, parks, and infrastructure improvements related to the foregoing), police, fire and safety facilities, community centers and other public facilities serving the District.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2014**

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

	<u>2014</u>		<u>2013</u>
Current assets	\$ 958,142	\$	374,644
Other assets	-		-
	<u>958,142</u>		<u>374,644</u>
Current liabilities	307,628		9,630
Long-term obligations outstanding	5,397,174		-
	<u>5,704,802</u>		<u>9,630</u>
Net Position – unrestricted (deficit)	<u>\$ (4,746,660)</u>		<u>365,014</u>

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

- Bond was issued during the fiscal year; as such interest was incurred in the amount of \$204,457, including amortization of bond discount. The proceeds from bond issuance were used to reimburse the developer for the cost of infrastructure in the amount of \$4,650,106.
- Special levy increased from \$382,327 in fiscal year 2013 to \$386,224 in fiscal year 2014.
- General government expenditures increased from \$17,313 in fiscal year 2013 to \$643,474 in fiscal year 2014, primarily due to the bond issuance costs incurred during the year.

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

	<u>2014</u>		<u>2013</u>
Expenses			
Public works – construction	\$ (4,650,106)	\$	-
General government	(643,474)		(17,313)
Interest	(204,457)		-
	<u>(5,498,037)</u>		<u>(17,313)</u>
General Revenues			
Special levy	386,224		382,327
Interest income	37		-
Dividend income	102		-
	<u>386,363</u>		<u>382,327</u>
Change in net position	<u>\$ (5,111,674)</u>		<u>365,014</u>

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2014**

Financial Analysis of the Governmental Fund

The District's revenues in the governmental funds amounted to \$388,414 while expenditures amounted to \$5,401,505. The major expenditures of the District are the construction costs, debt service payments and administrative expenses. The general fund has unassigned fund balance of \$130,144, representing 43% of the total 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 reimbursement estimated) and the estimated special levy for each year. There were no changes in the original budget for the fiscal year 2014.

Capital Assets and Debt Administration

The District owns no significant capital assets at June 30, 2014. It is anticipated that the District will not, in the future, own any capital assets. The capital improvements that are to be financed by the District are all to be dedicated to the City. It is anticipated that all dedications will be done by the developer directly to the City, on behalf of the District.

Pursuant to Resolution No. 2013-07 adopted on September 18, 2013, the District issued its \$5,435,000 Special Levy Revenue Bonds, Series 2013 (Bonds) on December 19, 2013. Under the Indenture dated December 1, 2013, the Bonds are payable from revenues received by the District in each fiscal year from the payment of the Special Levy, authorized pursuant to the Act to be levied against parcels of land within the District in accordance with the Rate and Method of Apportionment of the Special Levy for the District approved by the City in the Formation Resolution.

The outstanding debt at June 30, 2014 is \$5,397,174 (net of discount of \$37,826). The next principal payment of \$35,000 is scheduled on October 1, 2015.

Requests for Information

This narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2014 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 Mesa del Sol Public Improvement District 1, Brent Dupes, One Civic Plaza NW, P.O. Box 1293, Albuquerque, NM 87103.

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
STATEMENT OF NET POSITION
June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 807,998
Restricted cash and cash equivalents	147,336
Interest in State Treasurer Local Government Investment Pool	8
Special levy receivable	<u>2,800</u>
Total assets	<u>958,142</u>
LIABILITIES	
Interest payable	95,228
Accrued expenses - professional services	65,064
Deposit from developer	147,336
Revenue bond payable	
Due within one year	-
Due in more than one year	<u>5,397,174</u>
Total liabilities	<u>5,704,802</u>
NET POSITION	
Restricted	147,336
Unrestricted (deficit)	<u>(4,893,996)</u>
	<u>\$ (4,746,660)</u>

See Notes to Financial Statements.

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Public works - construction	\$ 4,650,106	\$ (4,650,106)
General government	643,474	(643,474)
Interest	204,457	(204,457)
Total expenses	<u>\$ 5,498,037</u>	<u>(5,498,037)</u>
General Revenues		
Special levy		386,224
Interest income		37
Dividend Income		102
		<u>386,363</u>
Change in net position		(5,111,674)
Net position, beginning		<u>365,014</u>
Net position, ending		<u>\$ (4,746,660)</u>

See Notes to Financial Statements.

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2014

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$ 341,992	\$ 910	\$ -	\$ 465,096	\$ 807,998
Restricted cash and cash equivalents	147,336	-	-	-	147,336
Interest in State Treasurer Local Government Investment Pool	8	-	-	-	8
Special levy receivable	2,800	-	-	-	2,800
	<u>\$ 492,136</u>	<u>\$ 910</u>	<u>\$ -</u>	<u>\$ 465,096</u>	<u>\$ 958,142</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accrued expenses	65,064	-	-	-	65,064
Deposit from developer	147,336	-	-	-	147,336
Total liabilities	<u>212,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,400</u>
Deferred inflows of resources					
Special levy receivable not yet available	2,256	-	-	-	2,256
Total deferred inflows of resources	<u>2,256</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,256</u>
Fund balances					
Restricted	147,336	910	-	465,096	613,342
Unassigned	130,144	-	-	-	130,144
Total fund balances	<u>277,480</u>	<u>910</u>	<u>-</u>	<u>465,096</u>	<u>743,486</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 492,136</u>	<u>\$ 910</u>	<u>\$ -</u>	<u>\$ 465,096</u>	<u>\$ 958,142</u>

See Notes to Financial Statements.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUND TO THE STATEMENT OF NET POSITION
Year ended June 30, 2014**

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

Fund balances - total governmental funds	\$ 743,486
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Long-term obligations for the revenue bonds are not due and payable in the current period, and therefore, not reported in the governmental funds.</p>	(5,397,174)
<p>Interest payable on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.</p>	(95,228)
<p>A portion of receivables reported in the Statement of Net Position is not currently available in the fund</p>	<u>2,256</u>
Net position of governmental activities	<u><u>\$ (4,746,660)</u></u>

See Notes to Financial Statements.

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2014

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
Revenues					
Special levy	\$ 388,275	\$ -	\$ -	\$ -	\$ 388,275
Interest income	16	-	-	21	37
Dividend income	102	-	-	-	102
	<u>388,393</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>388,414</u>
Expenditures					
Public works - construction	-	4,650,106	-	-	4,650,106
General government	319,638	-	-	-	319,638
Debt Service:					
Interest	-	-	107,925	-	107,925
Bond issuance costs	-	-	323,836	-	323,836
Total expenditures	<u>319,638</u>	<u>4,650,106</u>	<u>431,761</u>	<u>-</u>	<u>5,401,505</u>
Excess (deficiency) of revenues over (under) expenditures	<u>68,755</u>	<u>(4,650,106)</u>	<u>(431,761)</u>	<u>21</u>	<u>(5,013,091)</u>
Other financing sources (uses)					
Bond issuance	-	-	5,435,000	-	5,435,000
Bond discount	-	-	(39,130)	-	(39,130)
Transfer in	-	4,651,016	-	465,075	5,116,091
Transfer out	(151,982)	-	(4,964,109)	-	(5,116,091)
Total	<u>(151,982)</u>	<u>4,651,016</u>	<u>431,761</u>	<u>465,075</u>	<u>5,395,870</u>
Net change in fund balances	(83,227)	910	-	465,096	382,779
Fund balances, beginning	<u>360,707</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>360,707</u>
Fund balances, ending	<u>\$ 277,480</u>	<u>\$ 910</u>	<u>\$ -</u>	<u>\$ 465,096</u>	<u>\$ 743,486</u>

See Notes to Financial Statements.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2014**

Reconciliation of the Governmental Fund Statement of
Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Net Position

Net change in fund balance - total governmental fund	\$ 382,779
Amounts reported for governmental activities in the Statement of Activities are different because:	
Proceeds from bond issuance (net of discount) are not reported as income in the Statements of Activities	(5,395,870)
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	(1,304)
Accrued interest expense	(95,228)
Special levy taxes that are not recognized in the fund balance	<u>(2,051)</u>
Change in net position of governmental activities	<u>\$ (5,111,674)</u>

See Notes to Financial Statements.

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Revenues				
Special levy	\$ 386,150	386,150	388,275	2,125
Interest income	-	-	16	16
Dividend income	-	-	102	102
Total revenues	<u>386,150</u>	<u>386,150</u>	<u>388,393</u>	<u>2,243</u>
Expenditures				
General government	327,030	327,030	319,638	7,392
Total expenditures	<u>327,030</u>	<u>327,030</u>	<u>319,638</u>	<u>7,392</u>
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(151,982)	(151,982)
Total	<u>-</u>	<u>-</u>	<u>(151,982)</u>	<u>(151,982)</u>
Net change in fund balance	59,120	59,120	(83,227)	(142,347)
Fund balance, beginning of year	360,707	360,707	360,707	-
Fund balance, end of year	<u>\$ 419,827</u>	<u>419,827</u>	<u>277,480</u>	<u>(142,347)</u>

See Notes to Financial Statements.

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. REPORTING ENTITY

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 1978, as amended, City of Albuquerque (City) Enactment No. 0-2003-12 and City Resolution Enactment No. R-2008-045 adopted on March 3, 2008 (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, Mesa del Sol, 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 served four-year terms, three of the other directors served six-year terms. Upon the expiration of the initial terms of these directors, these five directors serve six-year terms. 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 Standard Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's policies are described below.

Basis of Presentation

Government-Wide Statements

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

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

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 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.

Capital Project Fund:

- b. Project Fund – used to account for financial resources to be used for the construction of the improvement project.

Debt Service Funds:

- c. Bond Fund – used to account for the payment of principal and interest related to the bonds obligation.
- d. 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 the special levy tax is recognized in the fiscal year during which the taxes are earned.

The governmental fund statements are reported using the current resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. The District considers all revenues reported in the governmental 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.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 2014 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 Government-wide financial statements. Payments of principal and interest are reported as expenditures in the fund financial statements.

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

In the governmental fund financial statements, bond discounts 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.

Special Levy

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

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Transfers

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

Fund Balance

As of June 30, 2014, the fund balances of the governmental funds are classified as follows:

Restricted – amounts than be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other government. The restricted fund balances at June 30, 2014 relate to debt service as imposed by creditors and to the deposit made by the developer in accordance with the Depository Agreement (see Note 6).

Unassigned – all other spendable amounts.

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

Use of Estimates

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

Budgets

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

NOTE 3. DEPOSITS

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

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3. DEPOSITS (CONTINUED)

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, 2014 consist of the following:

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>\$ 955,334</u>
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NOTE 4. INTEREST IN STATE TREASURER LOCAL GOVERNMENT INVESTMENT POOL

The investments 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, 2014, the LGIP weighted average maturity was 59 days.

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

For the additional GASB 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, 2014.

MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5. REVENUE BONDS

On December 19, 2013, the District issued Revenue Bonds with a par value of \$5,435,000 for \$5,395,870, or a discount of \$39,130. The proceeds from issuance were primarily used in the construction of infrastructure project. The bonds are generally callable with interest payable semi-annually, every April 1 and October 1. The obligations are secured by the pledge of net revenues from District Special Levy.

The Indenture of Trust and Security Agreement (Bond Indenture) dated December 1, 2013 with Bank of Albuquerque (as Trustee) contains special mandatory and optional redemption. The special mandatory redemption, triggers when: (a) on or after the completion of the project, moneys are transferred from the Project Fund to the Prepayment Account of the Bond Fund, and (b) the prepayment in whole or in part of any Special Levy by the owner of the Property and the deposit of such prepayment amounts to the Prepayment Account of the Bond Fund. The optional redemption is available for principal maturing after October 1, 2023. No events occurred that triggered special mandatory 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, 2014.

The Revenue Bonds bear annual interest ranging from 5.75% to 7.25%, with final maturity on October 1, 2043. The amount payable in the Statement of Net Position of \$5,397,174 is net of unamortized bond discount of \$37,826 at June 30, 2014.

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ -	380,912	380,912
2016	35,000	379,403	414,403
2017	40,000	377,175	417,175
2018	50,000	374,444	424,444
2019	55,000	371,353	426,353
2020 – 2024	425,000	1,791,359	2,216,359
2025 – 2029	675,000	1,607,688	2,282,688
2030 – 2034	945,000	1,321,213	2,266,213
2035 – 2039	1,330,000	912,231	2,242,231
2040 – 2044	1,880,000	325,525	2,205,525
	<u>\$ 5,435,000</u>	<u>7,841,303</u>	<u>13,276,303</u>

Interest payment and principal payments of the revenue bonds are serviced by revenues generated from the Special Levy and are paid from the Bond Fund.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6. DEPOSITORY AGREEMENT

On December 1, 2013, the District entered into a Depository Agreement with the Developer and the Trustee. Under the agreement, the Developer deposited an amount of \$147,336 to an escrow account under the name of the District to reduce the risk of default in the payment of Special Levy installments associated with the Developer’s concentrated ownership of parcels subject to lien of the Special Levy. This agreement shall terminate upon the earlier of (a) the payment or the provision for payment in full of all of the Outstanding Bonds as provided in the Indenture or (b) the receipt by the District of evidence satisfactory to it that the Developer no longer the owner of more than 23 single family residential lots in the first phase of the development or (c) the transfer of all amounts deposited hereunder as a result of the draw from the account.

NOTE 7. DEFICIT NET POSITION

The total net position balance is in a deficit position. This is due to the fact that the capital assets acquired with bond proceeds were transferred to another governmental agency. This resulted in the recognition of long-term debt with no related asset on the District’s financial statement. The long-term debt will be repaid with future special levy taxes.

NOTE 8 INTERFUND TRANSFERS

For the year ended June 30, 2014, the District transfers were made to fund debt service payments, capital project and administrative expenses. The following transfers were made for the year ended June 30, 2014:

	<u>Transfer in</u>		Total
	Project Fund	Reserve Fund	
<u>Transfer Out</u>			
Bond Fund	\$ 4,499,034	465,075	4,964,109
General Fund	151,982	-	151,982
	<u>\$ 4,651,016</u>	<u>465,075</u>	<u>5,116,091</u>

NOTE 9. 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.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)
 Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures				
Public works - construction	5,174,011	5,174,011	4,650,106	523,905
General government	-	-	-	-
Total expenditures	5,174,011	5,174,011	4,650,106	523,905
Other Financing Sources (Uses)				
Transfer in	-	-	4,651,016	4,651,016
Transfer out	-	-	-	-
Total	-	-	4,651,016	-
Net change in fund balance	(5,174,011)	(5,174,011)	910	5,174,921
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ (5,174,011)	(5,174,011)	910	5,174,921

See Notes to Financial Statements.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
 BUDGET TO ACTUAL SCHEDULE (BOND FUND)
 Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Special levy	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures				
Interest	101,588	101,588	107,925	(6,337)
Bond issuance costs	414,563	414,563	323,836	90,727
Total expenditures	516,151	516,151	431,761	84,390
Other Financing Sources (Uses)				
Bond issuance	-	-	5,435,000	5,435,000
Bond discount	-	-	(39,130)	(39,130)
Transfer in	-	-	-	-
Transfer out	-	-	(4,964,109)	(4,964,109)
Total	-	-	431,761	431,761
Net change in fund balance	(516,151)	(516,151)	-	516,151
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ (516,151)	(516,151)	-	516,151

See Notes to Financial Statements.

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)
 Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Interest income	\$ -	-	21	21
Total revenues	-	-	21	21
Expenditures				
General government	-	-	-	-
Bond issuance costs	-	-	-	-
Total expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfer in	-	-	465,075	465,075
Transfer out	-	-	-	-
Total	-	-	465,075	465,075
Net change in fund balance	-	-	465,096	465,096
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	-	465,096	465,096

See Notes to Financial Statements.

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

To the Board of Directors
Mesa del Sol Public Improvement District 1
and
Mr. Hector Balderas
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 and each major fund, and the budgetary comparison of the general fund of Mesa del Sol Public Improvement District 1 (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements. We have also audited the budgetary comparisons for the capital project fund and the major debt service funds presented as supplementary information to the basic financial statements for the year ended June 30, 2014, as listed in the table of contents, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

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

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

To the Board of Directors
Mesa del Sol Public Improvement District 1
and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Mess Adams LLP

Albuquerque, New Mexico
November 7, 2014

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
STATUS OF PRIOR YEAR'S FINDING
YEAR ENDED JUNE 30, 2014**

13-01 Late Submission of IPA Recommendation Form and Audit Contract Cleared

**MESA DEL SOL PUBLIC IMPROVEMENT DISTRICT 1
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2014**

An exit conference was held on November 5, 2014. Attending were the following:

Representing Mesa Del Sol Public Improvement District 1:

Brent Dupes, Treasurer

Representing Moss Adams LLP:

Jaime Rumbaoa, CPA, Senior Manager

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