



MESA DEL SOL TAX INCREMENT

DEVELOPMENT DISTRICT 1

FINANCIAL STATEMENTS

JUNE 30, 2012, 2011 and 2010

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1

**Official Roster
As of June 30, 2012**

Board of Directors

Trudy Jones	Chairman
Debbie O'Malley	Member
Brent Dupes	<i>Ex-officio</i> Member and Treasurer
Isaac Benton	Member
Gilbert Montaña	Member
Rebecca Jackson	Member

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the governmental activities and the major fund and the budgetary comparison for the general fund of Mesa del Sol Tax Increment Development District 1 (the "District") as of and for the years ended June 30, 2012, 2011 and 2010 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2012, 2011 and 2010, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, 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 audits.

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

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 4 through 8 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 audits 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.

Mess Adams LLP

Albuquerque, New Mexico
December 14, 2012

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2012, 2011 AND 2010**

As management of the Mesa del Sol 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 years ended June 30, 2012, 2011 and 2010. 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 political subdivision of State of New Mexico duly created and existing pursuant to Tax Increment for Development Act (the "Act"), Sections 5-15-1 through 5-15-28 NMSA 1978, as amended, City of Albuquerque Council Ordinance Enactment No. O-2006-036, and City Ordinance Bill No. F/S O-06-44.

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 Tax Increment 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.

Financial Highlights

The financial statements, which follow the Management's Discussion and Analysis, provide those significant key financial highlights for fiscal years 2012, 2011 and 2010 as follows:

- In the Statements of Net Assets, the District's total net assets as of June 30, 2012, 2011 and 2010 amounted to \$1.67 million, \$1.72 million and \$0.83 million, respectively.
- In the Statements of Activities, the gross receipt tax increment revenue amounted to:
 - Fiscal 2012 - \$1.61 million
 - Fiscal 2011 - \$0.93 million
 - Fiscal 2010 - \$0.64 million.
- In the Statements of Activities the District expenditures have fluctuated between \$3.65 million in fiscal year 2010 and \$1.66 million in fiscal year 2012. The primary expenses of the District are construction expenditures and administrative expenses.

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

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2012, 2011 AND 2010**

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

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

Governmental activities – Governmental activities include the District's basic activities to reimburse the developer for the construction of certain public infrastructure improvements as provided in the Act and the governing documents of the District, including the 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 14 and 16, 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 20 of these financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a district's financial position. The District's assets exceeded liabilities as follows:

- \$1,669,926 as of June 30, 2012
- \$1,719,069 as of June 30, 2011
- \$825,059 as of June 30, 2010

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2012, 2011 AND 2010**

The District was formed, and may reimburse the developer, for the design and construction of infrastructure (consisting of Phase I University Boulevard from the northern property line to the community center and Phase I Mesa del Sol Boulevard from the community center to central park and neighborhood connector roads) and portions of other trunk infrastructure (water supply facilities, elevated storage, underground storage, water pump station, sanitary sewer pump station, reservoir, storm detention ponds, parks, proportional City off-sites, and infrastructure improvements related to the foregoing), police, fire and public safety facilities, school facilities, community centers, libraries, and other public facilities.

The following table presents the condensed net assets for the fiscal years ended June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 1,712,521	\$ 1,752,316	\$ 859,755	\$ 3,862,096
Current Liabilities	42,595	33,247	34,696	43,088
Net Assets - Unrestricted	<u>\$ 1,669,926</u>	<u>\$ 1,719,069</u>	<u>\$ 825,059</u>	<u>\$ 3,819,008</u>

The following are significant transactions that have had an impact on the Statements of Net Assets:

- Administrative expense expenditure ranging from \$45,767 in fiscal year 2010 to \$59,234 in fiscal year 2012.
- Construction expenditures amounted to \$3.6 million in fiscal year 2010 and \$1.6 million in fiscal year 2012, resulting from reimbursement to the Developer.
- Gross receipt tax increment revenue of \$642,009 in fiscal year 2010, \$931,817 in fiscal year 2011 and \$1,607,578 in fiscal year 2012.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expenses				
Public works – construction	\$ (1,600,000)	\$ -	\$ (3,600,000)	\$ -
General government	(59,234)	(41,252)	(45,767)	(184,887)
Total Expenses	<u>(1,659,234)</u>	<u>(41,252)</u>	<u>(3,645,767)</u>	<u>(184,887)</u>
General Revenues				
Gross receipt tax increment	1,607,578	931,817	642,009	3,988,770
Interest income	2,028	3,398	7,605	6,021
Dividend income	485	47	2,204	9,104
	<u>1,610,091</u>	<u>935,262</u>	<u>651,818</u>	<u>4,003,895</u>
Change in net assets	<u>\$ (49,143)</u>	<u>\$ 894,010</u>	<u>\$ (2,993,949)</u>	<u>\$ 3,819,008</u>

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2012, 2011 AND 2010**

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds for the years ended June 30, 2012, 2011 and 2010 amounted to \$2.07 million, \$0.47 million and \$0.81 million, respectively. The major expenditures of the District are construction expenditures, debt service payments, and administrative expenses. In fiscal years 2012 and 2010, the District issued revenue bonds of \$3.6 million and \$1.6 million, respectively, to reimburse the Developer for the infrastructure projects.

The District's main source of revenue for the fiscal years ended June 30, 2012, 2011 and 2010 has been gross receipt tax increment. Various public entities have pledged gross receipts tax increment to the District. The City of Albuquerque dedicated 67% of its gross receipts tax increment. Bernalillo County dedicated all of the third one-eighth and all of the one-sixteenth county gross receipts tax increment. The New Mexico State Board of Finance, on behalf of the state of New Mexico, dedicated 75% of the state's portion of gross receipts tax increment. Given that prior to the formation of the District there was no significant commercial activity within the District, most all commercial activities currently attributable to the District have generated gross receipts tax increment. In addition to gross receipts tax increment, the city and county jurisdictions dedicated property tax increment. During the fiscal years ended June 30, 2012, 2011 and 2010, 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.

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 gross receipts tax increment each year. There were no significant changes between original and final budgets for fiscal years ending 2012, 2011 and 2010.

Capital Assets and Debt Administration

The District owns no significant capital assets at June 30, 2012, 2011 or 2010. 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.

In October 2009, the District issued a Taxable Short-Term Revenue Bond, Series 2009A, with a face amount of \$3,600,000, bearing an interest rate of 5%. The bond was issued to reimburse the Developer for a portion of the cost of certain public infrastructure improvements. The bond was redeemed in October 2009.

In December 2011, the District issued a Taxable Short-Term Revenue Bond, Series 2011, with a face amount of \$1,600,000, bearing an interest rate of 5%. The bond was issued to reimburse the Developer for a portion of the cost of certain public infrastructure improvements. The bond was redeemed in December 2011.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2012, 2011 AND 2010**

The bonds were issued in amounts that corresponded to existing increment monies held by the District, so that upon completion of the issuance and redemption, the proceeds of the financing had partially reimbursed the Developer and the District had expended currently held increment that had been accumulated for the purposes of that reimbursement. This method of financing is in furtherance of the District's power to "borrow money within the limits of the Tax Increment for Development Act to fund the construction, operation and maintenance of public improvements until dedicated to the governing body" under NMSA 1978, §5-15-12(A)(14).

See page 25 for a description of the District's subsequent issuance of a bond.

Requests for Information

This narrative overview and analysis of the financial activities of the District for the fiscal years ending June 30, 2012, 2011 and 2010 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 Tax Increment Development District 1, Brent Dupes, One Civic Plaza NW, P.O. Box 1293, Albuquerque, NM 87103.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
 STATEMENTS OF NET ASSETS
 June 30, 2012, 2011 and 2010**

	<u>Governmental Activities</u>		
	2012	2011	2010
ASSETS			
Cash and cash equivalents	\$ 395,527	1,148,663	374,232
Interest in State Treasurer Local Government Investment Pool	992,840	139,971	7,536
Gross receipt tax increment receivable	324,154	463,682	477,987
Total assets	\$ 1,712,521	1,752,316	859,755
LIABILITIES			
Accrued expenses - professional services	\$ 42,595	33,247	34,696
Total liabilities	42,595	33,247	34,696
NET ASSETS			
Unrestricted	\$ 1,669,926	1,719,069	825,059

See Notes to Financial Statements.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Public works - construction	\$ 1,600,000	\$ (1,600,000)
General government	59,234	(59,234)
Total expenses	<u>\$ 1,659,234</u>	<u>(1,659,234)</u>
General Revenues		
Gross receipt tax increment		\$ 1,607,578
Interest income		2,028
Dividend income		485
		<u>1,610,091</u>
Change in net assets		(49,143)
Net assets, beginning		<u>1,719,069</u>
Net assets, ending		<u>\$ 1,669,926</u>

See Notes to Financial Statements.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
General government	\$ 41,252	\$ (41,252)
Total expenses	<u>\$ 41,252</u>	<u>(41,252)</u>
General Revenues		
Gross receipt tax increment		\$ 931,817
Interest income		3,398
Dividend income		47
		<u>935,262</u>
Change in net assets		894,010
Net assets, beginning		<u>825,059</u>
Net assets, ending		<u>\$ 1,719,069</u>

See Notes to Financial Statements.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Public works - construction	\$ 3,600,000	\$ (3,600,000)
General government	45,767	(45,767)
Total expenses	<u>\$ 3,645,767</u>	<u>(3,645,767)</u>
General Revenues		
Gross receipt tax increment		\$ 642,009
Interest income		7,605
Dividend income		2,204
		<u>651,818</u>
Change in net assets		(2,993,949)
Net assets, beginning		<u>3,819,008</u>
Net assets, ending		<u>\$ 825,059</u>

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
BALANCE SHEETS
GOVERNMENTAL FUND
June 30, 2012, 2011 and 2010**

	General Fund		
	2012	2011	2010
ASSETS			
Cash and cash equivalents	\$ 395,527	1,148,663	374,232
Interest in State Treasurer Local Government Investment Pool	992,840	139,971	7,536
Gross receipt tax increment receivable	324,154	463,682	477,987
Total assets	<u>\$ 1,712,521</u>	<u>1,752,316</u>	<u>859,755</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Liabilities			
Accrued expenses	\$ 42,595	33,247	34,696
Deferred income	-	463,682	-
Total liabilities	<u>42,595</u>	<u>496,929</u>	<u>34,696</u>
FUND BALANCE			
Fund Balance			
Restricted	129	771	1,018
Unassigned	1,669,797	1,254,616	824,041
Total fund balance	<u>1,669,926</u>	<u>1,255,387</u>	<u>825,059</u>
Total liabilities and fund balance	<u>\$ 1,712,521</u>	<u>1,752,316</u>	<u>859,755</u>

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
RECONCILIATION OF THE BALANCE SHEETS -
GOVERNMENTAL FUND TO THE
STATEMENTS OF NET ASSETS
Years Ended June 30, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Reconciliation of the Governmental Fund Balance Sheets to the Statements of Net Assets:			
Fund balance - total governmental fund	\$ 1,669,926	1,255,387	825,059
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
A portion of receivables reported in the Statement of Net Assets is not currently available in the fund.	-	463,682	-
Net assets of governmental activities	\$ 1,669,926	1,719,069	825,059

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
Years Ended June 30, 2012, 2011 and 2010**

	General Fund		
	2012	2011	2010
Revenues			
Gross receipt tax increment	\$ 2,071,260	468,135	803,031
Interest income	2,028	3,398	7,605
Dividend income	485	47	2,204
Total revenues	<u>2,073,773</u>	<u>471,580</u>	<u>812,840</u>
Expenditures			
Current:			
Public works - construction	1,600,000	-	3,600,000
General government	59,234	41,252	45,767
Debt service			
Principal	1,600,000	-	3,600,000
Total expenditures	<u>3,259,234</u>	<u>41,252</u>	<u>7,245,767</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,185,461)</u>	430,328	<u>(6,432,927)</u>
Other financing sources (uses)			
Proceeds from bond issuance	1,600,000	-	3,600,000
Transfer in	-	-	-
Transfer out	-	-	-
Total	<u>1,600,000</u>	<u>-</u>	<u>3,600,000</u>
Net change in fund balance	414,539	430,328	(2,832,927)
Fund balance, beginning	<u>1,255,387</u>	<u>825,059</u>	<u>3,657,986</u>
Fund balance, ending	<u>\$ 1,669,926</u>	<u>1,255,387</u>	<u>825,059</u>

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUND TO THE
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Net Assets:			
Net change in fund balances - total governmental fund	\$ 414,539	430,328	(2,832,927)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Proceeds from bond issuance are not reported as income in the Statement of Activities	(1,600,000)	-	(3,600,000)
The repayment of short-term debt consumes the current financial resources of the governmental funds. This has no effect on the net assets.	1,600,000	-	3,600,000
Gross receipt taxes that are not recognized in the fund balances	<u>(463,682)</u>	<u>463,682</u>	<u>(161,022)</u>
Change in net assets of governmental activities	<u>\$ (49,143)</u>	<u>894,010</u>	<u>(2,993,949)</u>

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
 Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Gross receipt tax increment	\$ 1,000,000	1,000,000	2,071,260	1,071,260
Interest income	-	-	2,028	2,028
Dividend income	-	-	485	485
Total Revenues	1,000,000	1,000,000	2,073,773	1,073,773
Expenditures				
Public works - construction	-	1,600,000	1,600,000	-
General government	129,000	128,000	59,234	68,766
Debt Service				
Principal	-	1,600,000	1,600,000	-
Total Expenditures	129,000	3,328,000	3,259,234	68,766
Other Financing Sources (Uses)				
Proceeds from bond issuance	-	1,600,000	1,600,000	-
Total	-	1,600,000	1,600,000	-
Net Change in Fund Balance	871,000	(728,000)	414,539	1,142,539
Fund Balances, beginning of year	1,255,387	1,255,387	1,255,387	-
Fund Balances, end of year	\$ 2,126,387	527,387	1,669,926	1,142,539

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
 Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gross receipt tax increment	\$ 2,400,000	2,400,000	468,135	(1,931,865)
Property tax increment	70,000	70,000	-	(70,000)
Interest income	-	-	3,398	3,398
Dividend income	-	-	47	47
Total Revenues	2,470,000	2,470,000	471,580	(1,998,420)
Expenditures				
Public works - construction	-	-	-	-
General government	129,000	129,000	41,252	87,748
Debt service				
Principal	-	-	-	-
Total Expenditures	129,000	129,000	41,252	87,748
Other Financing Sources (Uses)				
Proceeds from bond issuance	-	-	-	-
Total	-	-	-	-
Net Change in Fund Balance	2,341,000	2,341,000	430,328	(1,910,672)
Fund Balances, beginning of year	825,059	825,059	825,059	-
Fund Balances, end of year	\$ 3,166,059	3,166,059	1,255,387	(1,910,672)

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
 Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gross receipt tax increment	\$ 2,400,000	2,400,000	803,031	(1,596,969)
Property tax increment	50,000	50,000	-	(50,000)
Interest income	-	-	7,605	7,605
Dividend income	-	-	2,204	2,204
Total Revenues	2,450,000	2,450,000	812,840	(1,637,160)
Expenditures				
Public works - construction	3,000,000	3,600,000	3,600,000	-
General government	126,000	126,000	45,767	80,233
Debt service				
Principal	3,000,000	3,600,000	3,600,000	-
Total Expenditures	6,126,000	7,326,000	7,245,767	80,233
Other Financing Sources (Uses)				
Proceeds from bond issuance	3,000,000	3,600,000	3,600,000	-
Total	3,000,000	3,600,000	3,600,000	-
Net Change in Fund Balance	(676,000)	(1,276,000)	(2,832,927)	(1,556,927)
Fund Balances, beginning of year	3,657,986	3,657,986	3,657,986	-
Fund Balances, end of year	\$ 2,981,986	2,381,986	825,059	(1,556,927)

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012, 2011 AND 2010**

NOTE 1. REPORTING ENTITY

The District is political subdivision of State of New Mexico duly created and existing pursuant to Tax Increment for Development Act (the "Act"), Sections 5-15-1 through 5-15-28 NMSA 1978, as amended, City of Albuquerque Council Ordinance Enactment No. O-2006-036, and City Ordinance Bill No. F/S O-06-44.

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 Tax Increment 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 six 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, two of the other directors served six-year terms. Upon the expiration of the initial terms of these directors, these four directors serve six-year terms. The remaining director is the Secretary of the Department of Finance and Administration, or her designee. 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 Assets 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 gross receipt 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 receipt tax increment, interest income and dividend income from the investment of funds.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012, 2011 AND 2010**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements

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

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

Governmental Fund

The District's General Fund is the only major fund for the fiscal years 2012, 2011 and 2010. The General Fund is the District's primary operating fund. It accounts for all the financial resources of the general government except those required to be accounted for in another fund.

There were no other funds created during fiscal years 2012, 2011 and 2010.

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 gross receipt tax increment 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. 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 policy to use restricted first, then unrestricted as they are needed.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012, 2011 AND 2010**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012, 2011 and 2010 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.

Gross Receipt Tax Increment

The District's main source of revenue for the fiscal years ended June 30, 2012, 2011 and 2010 has been gross receipt tax increment. Various public entities have pledged gross receipts tax increment to the District. The City of Albuquerque dedicated 67% of its gross receipts tax increment. Bernalillo County dedicated all of the third one-eighth and all of the one-sixteenth county gross receipts tax increment. The New Mexico State Board of Finance, on behalf of the state of New Mexico, dedicated 75% of the state's portion of gross receipts tax increment. Given that prior to the formation of the District there was no significant commercial activity within the District, most all commercial activities currently attributable to the District have generated 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. In addition to gross receipts tax increment, the city and county jurisdictions dedicated property tax increment. During the fiscal years ended June 30, 2012, 2011 and 2010, 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

As there is only one governmental fund during the fiscal years, there were no transfers in from (out to) other governmental funds. If in the future, there are transfers between governmental funds, they will be recorded as other financing sources (uses).

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012, 2011 AND 2010**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

As of June 30, 2012, 2011 and 2010, 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 nonspendable, committed or assigned.

Use of Estimates

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

Budgets

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

NOTE 3. DEPOSITS

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

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

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012, 2011 AND 2010**

NOTE 3. DEPOSITS (CONTINUED)

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

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, 2012, 2011 and 2010, the District's deposits were exposed to custodial risk as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total deposits	\$ 395,527	\$ 1,148,663	\$ 374,232
FDIC insurance	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>
Uninsured and uncollateralized	<u>\$ 145,527</u>	<u>898,663</u>	<u>124,232</u>

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, 2012, 2011 and 2010, the LGIP weighted average maturities are 60 days, 36 days and 50 days, respectively.

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 years ended June 30, 2012, 2011 and 2010.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012, 2011 AND 2010**

NOTE 5. REVENUE BONDS

In October 2009, the District issued a Taxable Short-Term Revenue Bond, Series 2009A, with a face amount of \$3,600,000, bearing an interest rate of 5%. The bond was issued to reimburse the Developer for a portion of the cost of certain public infrastructure improvements. The bond was redeemed in October 2009.

In December 2011, the District issued a Taxable Short-Term Revenue Bond, Series 2011, with a face amount of \$1,600,000, bearing an interest rate of 5%. The bond was issued to reimburse the Developer for a portion of the cost of certain public infrastructure improvements. The bond was redeemed in December 2011.

The bonds were issued in amounts that corresponded to existing increment monies held by the District, so that upon completion of the issuance and redemption, the proceeds of the financing had partially reimbursed the Developer and the District had expended currently held increment that had been accumulated for the purposes of that reimbursement. This method of financing is in furtherance of the District's power to "borrow money within the limits of the Tax Increment for Development Act to fund the construction, operation and maintenance of public improvements until dedicated to the governing body" under NMSA 1978, §5-15-12(A)(14).

NOTE 6. 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.

NOTE 7. SUBSEQUENT EVENT

In December 2012, the District issued a Taxable Short-Term Revenue Bond, Series 2012, with a face amount of \$1,800,000, bearing an interest rate of 5%. The bond was issued to reimburse the Developer for a portion of the cost of certain public infrastructure improvements. The bond was redeemed in December 2012.

**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 Tax Increment Development District 1
and
Mr. Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities and the major fund, and budgetary comparison of the general fund of Mesa del Sol Tax Increment Development District 1 (the "District") as of and for the years ended June 30, 2012, 2011 and 2010 and have issued our report thereon dated December 14, 2012. We conducted our audits 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 09-01 and 09-04.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the District, the Commissioners, the State Auditor, and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

Mess Adams LLP

Albuquerque, New Mexico
December 14, 2012

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
SCHEDULE OF FINDINGS AND RESPONSES
YEARS ENDED JUNE 30, 2012, 2011 AND 2010**

09-01: Late Audit Report, Compliance and Other Matters

CONDITION

The audit reports for the years ending June 30, 2012, 2011 and 2010 were not submitted by the deadline of December 1 for each fiscal year. These reports were submitted to the State Auditor's Office in December 2012.

CRITERIA

2.2.2 NMAC, Audit Rule 2012, specifies the deadline for submission of audit reports. Section 2.2.2.9 A (1)(e) stipulates that District reports are due no later than December 1. Further, Section 2.2.2.9 A (2) requires that submission of a late audit report shall be reported as current year audit finding in the audit report.

CAUSE

The District did not receive the audit contract until November 2012.

EFFECT

The District is not in compliance with Section 2.2.2.9 A (1)(e) of the NMAC, Audit Rule 2012.

RECOMMENDATION

Management should continue to work towards providing the timely completion of the audit report.

MANAGEMENT'S RESPONSE

The District will ensure in the future that the audits are submitted to the State Auditor's Office by the due date.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEARS ENDED JUNE 30, 2012, 2011 AND 2010**

09-04: Uncollateralized Bank Deposits, Compliance and Other Matters

CONDITION

The District's cash balances on deposit at Bank of America exceeded the FDIC limit by \$145,527, \$898,663 and \$124,232 at June 30, 2012, 2011 and 2010, respectively, and were not collateralized by the bank.

CRITERIA

The Public Money statutes, 6-10-16 and 6-10-17 NMSA 1978 require the District's bank account be collateralized in an amount equal to one half of the public monies in excess of the FDIC insured amount. The Public Money statutes do not differentiate between "collected" and "uncollected" funds.

CAUSE

The District only became aware in December 2010 about the collateral requirement.

EFFECT

The District has cash on deposit at the bank that is at risk of loss in case of bank failure.

RECOMMENDATION

We recommend that the District coordinate with its bank to collateralize the District's accounts pursuant to the Public Money Statutes. If the bank fails to comply with the Public Money Statutes within the ten days provided by 6-10-17.1 NMSA 1978, the District should withdraw its fund from the bank within the next ten days.

MANAGEMENT'S RESPONSE

The District has initiated the process of causing the account to comply with any collateralization requirements. Beginning February 2012, all of the District funds have been deposited in the New MexiGrow Local Government Investment Pool managed by the New Mexico State Treasurer's Office. As of December 14, 2012, the cash balances on deposit at Bank of America are less than the FDIC insurance limit.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
YEARS ENDED JUNE 30, 2012, 2011 AND 2010**

09-01	Late Audit Report	Updated and repeated as 09-01
09-02	No General Ledger Maintained	Resolved
09-03	Budget	Resolved
09-04	Uncollateralized Bank Deposits	Updated and repeated as 09-04

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICT 1
EXIT CONFERENCE
YEARS ENDED JUNE 30, 2012, 2011 AND 2010**

An exit conference was held on December 14, 2012. Attending were the following:

Representing Mesa Del Sol Tax Increment Development 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.