



**REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES FOR**

**MESA DEL SOL TAX INCREMENT
DEVELOPMENT DISTRICTS 2-5**

JUNE 30, 2016

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

TABLE OF CONTENTS

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5

| | |
|--|----------|
| OFFICIAL ROSTER | 1 |
| REPORT OF INDEPENDENT AUDITORS..... | 2 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS..... | 4 |
| FINANCIAL STATEMENTS | |
| Statement of Net Position | 8 |
| Statement of Activities | 9 |
| Balance Sheet – Governmental Fund | 10 |
| Statement of Revenues, Expenditures, and Change in Fund Balance – Governmental Fund..... | 11 |
| Budget to Actual Schedule (General Fund) | 12 |
| Notes to Financial Statements | 13 |
| OTHER INFORMATION | |
| Schedule of Vendor Information for Purchases Exceeding \$60,000 (Excluding GRT)..... | 18 |
| 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 <i>Government Auditing Standards</i> | 19 |
| Schedule of Findings and Responses | 21 |
| Exit Conference | 23 |

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5

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

Board of Directors

| | |
|-----------------|-----------|
| Pat Davis | Chairman |
| Gilbert Montaña | Member |
| Rick Lopez | Member |
| Klarissa Peña | Member |
| Dan Lewis | Member |
| Brent Dupes | Treasurer |

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Mesa del Sol Tax Increment Development Districts 2-5
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison for the general fund of Mesa del Sol Tax Increment Development Districts 2-5 (the "Districts") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Districts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Districts' 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 opinion.

To the Board of Directors
Mesa del Sol Tax Increment Development Districts 2-5
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2017, on our consideration of the Districts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Districts' internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
July 21, 2017

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

As management of the Mesa del Sol Tax Increment Development Districts 2-5 (the "Districts"), we offer readers of the Districts' financial statements this narrative overview and analysis of the financial activities of the Districts for the fiscal year ending June 30, 2016. We encourage readers to consider the financial information presented here in conjunction with the financial statements and accompanying notes which follow this section.

The Districts are a 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 Districts, pursuant to the resolution of the City of Albuquerque (the "City") that formed the Districts, 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 Districts, 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 year 2016 as follows:

- In the Statement of Net Position, the Districts' total net position as of June 30, 2016 amounted to \$345,235.
- In the Statement of Activities, the property tax increment amounted to \$350,237.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Districts' basic financial statements. The Districts' 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 Districts' finances in a manner similar to a private sector business.

The statement of net position presents information on all of the Districts' 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 Districts are improving or deteriorating.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2016**

The statement of activities presents information showing how the Districts' 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.

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

Governmental activities – Governmental activities include the Districts' 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 Districts, including the Master Development Agreement among the Districts, 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 Districts use 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 Districts' near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is typically 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 did not require a reconciliation to facilitate this comparison between governmental funds and governmental activities as of June 30, 2016.

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 13 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 Districts' assets exceeded liabilities by \$345,235 as of June 30, 2016.

The Districts were 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 (consisting 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

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2016**

foregoing), police, fire and public safety facilities, community centers, libraries and other public facilities serving the Districts.

The following table presents the condensed net position as of June 30:

| | <u>2016</u> |
|---------------------|-------------------|
| Current Assets | \$ 350,601 |
| Current Liabilities | <u>5,366</u> |
| Net Position | <u>\$ 345,235</u> |

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

| | <u>2016</u> |
|-------------------------|-------------------|
| Expenses | |
| General government | <u>(5,366)</u> |
| Total expenses | <u>\$ (5,366)</u> |
| General Revenues | |
| Property tax increment | 350,237 |
| Dividend income | <u>364</u> |
| | <u>350,601</u> |
| Changes in net position | <u>\$ 345,235</u> |

Financial Analysis of the Government's Funds

The Districts' revenues in the governmental fund amounted to \$350,237, while expenditures amounted to \$5,366. The major expenditures of the Districts are general government expenditures.

The Districts' main source of revenues for the fiscal year ended June 30, 2016 was property tax increment. The city dedicated property tax increment of 67%.

General Fund Budgetary Highlights

The Districts adopt an annual budget, which projects the expected expenditures (based on administrative expenses, debt service payments, and construction expenditure reimbursement) and the estimated property taxes for each year. The Districts did not adopt an annual budget for FY16 which resulted in an over expenditure of \$5,366.

Capital Assets and Debt Administration

The Districts own no significant capital assets at June 30, 2016. It is anticipated that the Districts will not, in the future, own any capital assets. The capital improvements that are to be financed by the Districts 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 Districts.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2016**

Requests for Information

This narrative overview and analysis of the financial activities of the Districts for the fiscal year ending June 30, 2016 is designed to give its readers a general overview of the Districts' 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 Districts 2-5, Brent Dupes, 5700 University West Blvd. SE, #310, Albuquerque, NM 87106.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
STATEMENT OF NET POSITION
June 30, 2016

| | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Interest in State Treasurer Local Government Investment Pool | \$ 322,442 |
| Property tax increment receivable | 28,159 |
| Total assets | <u>350,601</u> |
| LIABILITIES | |
| Accrued expenses | 5,366 |
| Total liabilities | <u>5,366</u> |
| NET POSITION | |
| Unrestricted | <u>\$ 345,235</u> |

See Notes to Financial Statements.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

| | <u>Expenses</u> | <u>Governmental Activities</u> |
|-----------------------------|-----------------|------------------------------------|
| Expenses | | |
| General government | \$ 5,366 | \$ (5,366) |
| Total expenses | <u>\$ 5,366</u> | <u>(5,366)</u> |
| General Revenues | | |
| Property tax increment | | 350,237 |
| Dividend income | | <u>364</u> |
| | | <u>350,601</u> |
| Change in net position | | 345,235 |
| Net position, beginning | | <u>-</u> |
| Net position, ending | | <u>\$ 345,235</u> |

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
BALANCE SHEET-GOVERNMENTAL FUND
Year Ended June 30, 2016**

| | <u>General Fund</u> |
|--|-------------------------|
| ASSETS | |
| Interest in State Treasurer Local Government Investment Pool | \$ 322,442 |
| Property tax increment receivable | 28,159 |
| | <u>\$ 350,601</u> |
| LIABILITIES AND FUND BALANCE | |
| Liabilities | |
| Accrued expenses | \$ 5,366 |
| Total liabilities | <u>5,366</u> |
| Fund balance | |
| Unassigned | <u>345,235</u> |
| Total fund balance | <u>345,235</u> |
| Total liabilities and fund balance | <u>\$ 350,601</u> |

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE-GOVERNMENTAL FUND
Year Ended June 30, 2016**

| | <u>General Fund</u> |
|---|--------------------------|
| Revenues | |
| Property tax increment | \$ 350,237 |
| Dividend income | 364 |
| Total revenues | <u>350,601</u> |
| Expenditures | |
| Current: | |
| General government | 5,366 |
| Total expenditures | <u>5,366</u> |
| Excess of revenues over expenditures | <u>345,235</u> |
| Net change in fund balance | 345,235 |
| Fund balance, beginning | <u>-</u> |
| Fund balance, ending | <u><u>\$ 345,235</u></u> |

See Notes to Financial Statements.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
 Year Ended June 30, 2016**

| | Budgeted Amounts | | Actual | Variance with |
|-----------------------------------|------------------|-------|------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues | | | | |
| Property tax increment | \$ - | \$ - | \$ 350,237 | \$ 350,237 |
| Dividend income | - | - | 364 | 364 |
| Total revenues | - | - | 350,601 | 350,601 |
| Expenditures | | | | |
| Current: | | | | |
| General government | - | - | 5,366 | (5,366) |
| Total expenditures | - | - | 5,366 | (5,366) |
| Net change in fund balance | - | - | 345,235 | 345,235 |
| Fund balance, beginning | - | - | - | - |
| Fund balance, ending | \$ - | \$ - | \$ 345,235 | \$ 345,235 |

See Notes to Financial Statements.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. REPORTING ENTITY

The Districts are a political subdivision of the 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 Districts, pursuant to the resolution of the City of Albuquerque (the "City") that formed the Districts, 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 Districts, the City and the developer, Mesa del Sol, LLC.

The Districts follow 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 Districts are not a component of any other governmental entity and the Districts have no subordinate component units.

The Districts are governed by the Districts' Board, consisting of five voting member and one ex officio, a nonvoting member. The Districts' Board has control over and management supervision of all affairs of the Districts. The five voting members are composed of the City Councilor from District 6, President and Vice President of the City Council, City's Deputy Chief Administrative Officer, Secretary of Finance and Administration or his designee and a representative from the developer (non-voting).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Districts have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Districts' 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 Districts in its entirety. Eliminations have been made to minimize the double counting of internal transactions. The Districts' activities generally are financed through property taxes increment.

The Statement of Activities presents a comparison between direct expenses and direct revenues for each function of the Districts governmental activities. Direct expenses are those that are specifically associated with and clearly identifiable to a particular function. Direct revenues include property taxes increment, as well as dividend income from the investment of funds.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Districts 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 Districts' General Fund is the only major fund for the fiscal year 2016. The General Fund is the Districts' 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 year 2016.

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, revenues from property taxes increment are 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 Districts consider 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 inflow of resources. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on the bond obligations, which are recognized as expenditures when paid. Proceeds from the issuance of bond obligations are reported as other financing sources.

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

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

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

Capital Assets

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

Property Tax Increment

The city dedicated property tax increment of 67% (of the operating mills). Assessments of property taxes are made by Bernalillo County 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.

Transfers

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

Fund Balance

As of June 30, 2016, the fund balance of the governmental funds is classified as follows:

Unassigned – all other spendable amounts.

The Districts have no fund balances that are classified as restricted, 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.

MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3. DEPOSITS

The Districts are 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 Districts 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 Districts are 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 Districts may invest their 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 Districts have 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.

NOTE 4. INTEREST IN STATE TREASURER LOCAL GOVERNMENT INVESTMENT POOL

The investments of \$322,442 at June 30, 2016 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, 2016, the LGIP weighted average maturity was 44 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 STO as of and for the year ended June 30, 2016.

NOTE 5. INSURANCE COVERAGE

The Districts are 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 Districts are not insured through private carriers for liability, casualty and director and office liability.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6. OTHER MATTER

A default judgment was entered against Mesa del Sol, LLC on September 27, 2015 in favor of the lienholder (PNC) on approximately 2,632 acres of land known as Mesa del Sol which are included in the Districts. The property is currently held by the Court appointed Receiver (Land Advisors Organization) who is responsible for the management and sale of the property. The increment monies currently held at the Districts will remain with the Districts until the Districts Board approves a new bond issuance.

**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 Districts 2-5
and
Mr. Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund, and budgetary comparison of the general fund of Mesa del Sol Tax Increment Development Districts 2-5 (the "Districts") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Mesa del Sol Tax Increment Development Districts 2-5's basic financial statements, and have issued our report thereon dated July 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Districts' 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 Districts' internal control. Accordingly, we do not express an opinion on the effectiveness of Districts' 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 Tax Increment Development Districts 2-5
and
Mr. Timothy Keller
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 Districts' 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 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 2016-001 and 2016-002.

Districts' Response to Finding

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

Purpose of this Report

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

Mess Adams LLP

Albuquerque, New Mexico
July 21, 2017

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

2016-001: Late Audit Report, Compliance and Other Matters

CONDITION

The audit report for the year ending June 30, 2016 was not submitted by the deadline of December 15, 2016. These reports were submitted to the State Auditor's Office in July 2017. The Districts are expected to meet the deadline for the fiscal year 2017 audit.

CRITERIA

2.2.2 NMAC, Audit Rule 2016, specifies the deadline for submission of audit reports. Section 2.2.2.9 A (1)(g) stipulates that District reports are due no later than December 5. 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

There were delays in getting the signed audit contract.

EFFECT

The Districts are not in compliance with Section 2.2.2.9 A (1)(g) of the NMAC, Audit Rule 2016.

RECOMMENDATION

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

MANAGEMENT'S RESPONSE

The Board agrees with the recommendation and has instructed the Treasurer to work together with the external auditor and financial consultant to ensure that audit reports are submitted to the Office of State Auditor by the due date for the fiscal year 2017.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

2016-002: Budget, Compliance and Other Matters

CONDITION

The Districts did not adopt a budget for fiscal year 2016 which resulted in overspending general government expenditures by \$5,366.

CRITERIA

According to NMSA 6-3-1 to 6-3-25, a budget should be submitted and approved by the state budget division for each fiscal year. Expenditures are to be within the budgeted amounts.

CAUSE

The Districts did not adopt a budget for FY16, because they were not segregated from District 1 at the beginning of the fiscal year.

EFFECT

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

RECOMMENDATION

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

MANAGEMENT'S RESPONSE

Due to the uncertainty of receiving property tax increment during FY16, the Districts did not adopt a budget. The Districts have adopted a budget for fiscal year 2017.

**MESA DEL SOL TAX INCREMENT DEVELOPMENT DISTRICTS 2-5
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2016**

An exit conference was held on July 17, 2017. Attending were the following:

Representing Mesa Del Sol Tax Increment Development Districts 2-5:

Brent Dupes, Treasurer

Representing Moss Adams LLP:

Ryan Loveland, Senior Manager

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