



**THE TRAILS**  
**PUBLIC IMPROVEMENT DISTRICT**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2011, 2010 and 2009**

**MOSS ADAMS**<sub>LLP</sub>

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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**THE TRAILS PUBLIC IMPROVEMENT DISTRICT**

**Official Roster  
As of June 30, 2011**

**Board of Directors**

Jon Zaman

Chairman

Cilia Aglialoro

Secretary - Treasurer

Michael Riordan

Member

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
The Trails Public Improvement District  
and  
Mr. Timothy Keller  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities and each major fund and the budgetary comparison for the general fund of The Trails Public Improvement District (the "District") as of and for the years ended June 30, 2011, 2010 and 2009, 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 capital project fund and major debt service funds presented as supplementary information in the fund statements for the years ended June 30, 2011, 2010 and 2009, 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, each major fund and the respective budgetary comparison for the general fund of The Trails Public Improvement District as of June 30, 2011, 2010 and 2009, 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 addition, in our opinion, the respective budgetary comparisons for the capital project fund and major debt service funds for the years ended June 30, 2011, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
The Trails Public Improvement District  
and  
Mr. Timothy Keller  
New Mexico State Auditor  
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015, 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.

Accounting principles generally accepted in the United States of America require that the management's 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
April 3, 2015

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2011, 2010 AND 2009**

As management of The Trails Public Improvement District (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, 2011, 2010 and 2009. 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-2008-019 adopted on February 4, 2008, the "Formation Resolution."

The purpose of the District, pursuant to the resolution of the City that formed the District, is to provide financing of the infrastructure improvements set forth in the Master Plan that was approved by the City and as required pursuant to the Act and the Development Agreement among the District, the City the Trails, LLC (Developer).

*Financial Highlights*

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

- In the Statements of Net Assets, the District's total net assets as of June 30, 2011, 2010 and 2009 amounted to negative \$7,516,723, \$8,604,344 and \$7,844,155, respectively.
- In the Statements of Activities, the special levy revenue amounted to:
  - June 30, 2011 - \$ 958,844
  - June 30, 2010 - \$ 69,583
  - June 30, 2009 - No special levy was assessed.
- In the Statements of Activities, the District incurred \$872,169, \$833,615 and \$743,799 in debt service payments and general government expenses for each of the fiscal years ended 2011, 2010 and 2009, respectively.
- The District spent \$7,126,056 for construction expenditures for the year ended June 30, 2009.
- In fiscal year 2011, the Developer contributed \$1 million to the District in accordance with the Depository Agreement.

*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 TRAILS PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
JUNE 30, 2011, 2010 AND 2009**

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.

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 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 15 and 19, 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 23 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 liabilities exceeded assets as follows:

- \$7,516,723 as of June 30, 2011
- \$8,604,344 as of June 30, 2010
- \$7,844,155 as of June 30, 2009



**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
JUNE 30, 2011, 2010 AND 2009**

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 2,503,049	\$ 1,375,422	\$ 2,107,779
Other Assets	240,175	248,989	257,803
Total Assets	<u>2,743,224</u>	<u>1,624,411</u>	<u>2,365,582</u>
Current Liabilities	256,723	234,037	223,524
Long-term Obligations			
Outstanding	10,003,224	9,994,718	9,986,213
Total Liabilities	<u>10,259,947</u>	<u>10,228,755</u>	<u>10,209,737</u>
Net Assets - Unrestricted (deficit)	<u>\$ (7,516,723)</u>	<u>\$ (8,604,344)</u>	<u>\$ (7,844,155)</u>

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

- Administrative expenditures amounted to \$66,112, \$27,558 and \$50,176 for the years ended June 30, 2011, 2010 and 2009, respectively.
- Interest expense amounted to \$806,057, \$806,057 and \$693,623 for the years ended June 30, 2011, 2010 and 2009, respectively.
- Special levy revenue amounted to \$958,844 and \$69,583 for the years ended June 30, 2011 and 2010. No special levy was assessed for the year ended June 30, 2009.
- Construction expenditure amounted to \$7,126,056 for the year ended June 30, 2009. For the year ended June 30, 2011, the Developer contributed \$1 million as triggered by events in accordance with the Depository Agreement.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Expenses</b>			
Public works - construction	\$ -	-	(7,126,056)
Interest	(806,057)	\$ (806,057)	\$ (693,623)
General government	(66,112)	(27,558)	(50,176)
<b>Total Expenses</b>	<u>(872,169)</u>	<u>(833,615)</u>	<u>(7,869,855)</u>
<b>General Revenues</b>			
Special levy	958,844	69,583	-
Contribution from Developer	1,000,000	-	-
Interest income	946	-	-
Dividend income	-	13,843	25,700
<b>Total Revenues</b>	<u>1,959,790</u>	<u>73,426</u>	<u>25,700</u>
Change in net assets	<u>\$ 1,087,621</u>	<u>\$ (760,189)</u>	<u>\$ (7,844,155)</u>

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
JUNE 30, 2011, 2010 AND 2009**

**Financial Analysis of the Government's Funds**

The District's revenues in the governmental funds for the years ended June 30, 2011, 2010 and 2009 amounted to \$356,448; \$7,952 and \$25,700, respectively. The District's main source of revenue is the special levy assessed to properties within the District. The major expenditures of the District are debt service payments and administrative expenses.

**General Fund Budgetary Highlights**

The District adopts an annual budget, which projects the expected expenditures (based on administrative expenses, debt service requirements and estimated delinquency) and the interest income from funds, to determine the special levy each year. There were no significant changes between original and final budgets for fiscal years ending 2011 and 2010. No budget was adopted for the fiscal year 2009.

**Capital Assets and Debt Administration**

The purpose of the District is to provide for improvements on water system, wastewater system, transportation, storm sewer, park and recreation. The project was completed on August 21, 2008 and was transferred through bill of sale to the City. As a result, the District does not account for the asset created by the construction. It should be noted that the resources needed to repay this debt must be provided from other sources such as the Special Levy revenue collected from property owners within the District to liquidate liabilities.

Pursuant to Resolution No. 2008-2 adopted on March 11, 2008, the District issued its \$10,235,000 Special Levy Revenue Bonds, Series 2008 (Bonds) on August 21, 2008. Under the Bond Indenture dated August 1, 2008, 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 and approved the District to Resolution No. 2008-3 adopted on April 1, 2008.

The outstanding debt at June 30, 2011 amounted to \$10,003,224, net of discount of \$231,776. The first principal payment was made on October 1, 2011.

**Special Levy Delinquencies**

Due to economic conditions, the District experienced significant delinquencies on the assessment special levy from 2010 through 2014, mainly for the lots owned by the Developer. The District has commenced judicial foreclosure proceedings to collect special levy installment. See Note 10 for related subsequent events.

**Requests for Information**

This narrative overview and analysis of the financial activities of the District for the fiscal years ending June 30, 2011, 2010 and 2009 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 Trails Public Improvement District, Cilia Aglialoro, P.O. Box 17, Albuquerque, NM 87103.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2011, 2010, and 2009**

	Governmental Activities		
	2011	2010	2009
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,834,233	1,309,180	2,107,779
Special levy receivable	668,816	66,242	-
Bond issuance costs	240,175	248,989	257,803
<b>Total assets</b>	<b>\$ 2,743,224</b>	<b>1,624,411</b>	<b>2,365,582</b>
<b>LIABILITIES</b>			
Accrued expenses - professional services	\$ 59,539	36,853	26,340
Interest payable	197,184	197,184	197,184
Revenue bonds payable			
Due within one year	106,495	-	-
Due in more than one year	9,896,729	9,994,718	9,986,213
<b>Total liabilities</b>	<b>\$ 10,259,947</b>	<b>10,228,755</b>	<b>10,209,737</b>
<b>NET ASSETS</b>			
Unrestricted (deficit)	\$ (7,516,723)	(8,604,344)	(7,844,155)

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2011**

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 806,057	(806,057)
General government	66,112	(66,112)
<b>Total expenses</b>	<u>\$ 872,169</u>	<u>(872,169)</u>
General Revenues		
Special levy		958,844
Contribution from Developer (Note 5)		1,000,000
Interest income		946
<b>Total revenues</b>		<u>1,959,790</u>
Change in net assets		1,087,621
Net assets, beginning		<u>(8,604,344)</u>
<b>Net assets, ending</b>		<u>(7,516,723)</u>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2010**

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 806,057	(806,057)
General government	27,558	(27,558)
<b>Total expenses</b>	<u>\$ 833,615</u>	<u>(833,615)</u>
General Revenues		
Special levy		69,583
Dividend income		3,843
<b>Total revenues</b>		<u>73,426</u>
Change in net assets		(760,189)
Net assets, beginning		<u>(7,844,155)</u>
<b>Net assets, ending</b>		<u>(8,604,344)</u>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2009**

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Public works - construction	\$ 7,126,056	(7,126,056)
Interest expense	693,623	(693,623)
General government	50,176	(50,176)
<b>Total expenses</b>	<u>\$ 7,869,855</u>	<u>(7,869,855)</u>
General Revenues		
Dividend income		<u>25,700</u>
Change in net assets		(7,844,155)
Net assets, beginning		<u>-</u>
<b>Net assets, ending</b>		<u><u>(7,844,155)</u></u>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
June 30, 2011**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 311,972	10,119	605,735	906,407	1,834,233
Special levy receivable	668,816	-	-	-	668,816
<b>Total assets</b>	<b>\$ 980,788</b>	<b>10,119</b>	<b>605,735</b>	<b>906,407</b>	<b>2,503,049</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accrued expenses	\$ 59,539	-	-	-	59,539
Deferred revenue	668,816	-	-	-	668,816
<b>Total liabilities</b>	<b>728,355</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>728,355</b>
Fund Balances					
Restricted	-	10,119	605,735	906,407	1,522,261
Unassigned	252,433	-	-	-	252,433
<b>Total fund balances</b>	<b>252,433</b>	<b>10,119</b>	<b>605,735</b>	<b>906,407</b>	<b>1,774,694</b>
<b>Total liabilities and fund balances</b>	<b>\$ 980,788</b>	<b>10,119</b>	<b>605,735</b>	<b>906,407</b>	<b>2,503,049</b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
June 30, 2010**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 9,973	10,111	381,566	907,530	1,309,180
Special levy receivable	66,242	-	-	-	66,242
<b>Total assets</b>	<b>\$ 76,215</b>	<b>10,111</b>	<b>381,566</b>	<b>907,530</b>	<b>1,375,422</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accrued expenses	\$ 36,853	-	-	-	36,853
Deferred revenue	65,474	-	-	-	65,474
<b>Total liabilities</b>	<b>102,327</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>102,327</b>
Fund Balances					
Restricted	-	10,111	381,566	907,530	1,299,207
Unassigned	(26,112)	-	-	-	(26,112)
<b>Total fund balances</b>	<b>(26,112)</b>	<b>10,111</b>	<b>381,566</b>	<b>907,530</b>	<b>1,273,095</b>
<b>Total liabilities and fund balances</b>	<b>\$ 76,215</b>	<b>10,111</b>	<b>381,566</b>	<b>907,530</b>	<b>1,375,422</b>

See Notes to Financial Statements.



**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
June 30, 2009**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 23,649	10,090	1,162,337	911,703	2,107,779
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accrued expenses	\$ 26,340	-	-	-	26,340
Fund Balances					
Restricted	-	10,090	1,162,337	911,703	2,084,130
Unassigned	(2,691)	-	-	-	(2,691)
<b>Total fund balances</b>	(2,691)	10,090	1,162,337	911,703	2,081,439
<b>Total liabilities and fund balances</b>	\$ 23,649	10,090	1,162,337	911,703	2,107,779

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
RECONCILIATION OF THE BALANCE SHEETS -  
GOVERNMENTAL FUNDS TO THE  
STATEMENTS OF NET ASSETS  
Years Ended June 30, 2011, 2010 and 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Reconciliation of the Governmental Fund Balances Sheets to the Statements of Net Assets:			
<b>Fund balances - total governmental funds</b>	\$ 1,774,694	1,273,095	2,081,439
Amounts reported for governmental activities in the Statements of Net Assets are different because:			
Bond issuance costs in the governmental activities are not financial resources and therefore, not reported in the governmental funds.	240,175	248,989	257,803
Long-term obligations for the revenue bonds are not due and payable in the current period, and therefore, not reported in the governmental funds.	(10,003,224)	(9,994,718)	(9,986,213)
Interest payable on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(197,184)	(197,184)	(197,184)
A portion of receivables reported in the Statement of Net Assets is not currently available in the funds.	668,816	65,474	-
<b>Net assets of governmental activities</b>	<u>\$ (7,516,723)</u>	<u>(8,604,344)</u>	<u>(7,844,155)</u>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2011**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
<b>Revenues</b>					
Special levy	\$ 355,502		-	-	355,502
Interest income	22	8	197	719	946
<b>Total revenues</b>	<u>355,524</u>	<u>8</u>	<u>197</u>	<u>719</u>	<u>356,448</u>
<b>Expenditures</b>					
Current:					
General government	66,112		-	-	66,112
Debt service:					
Interest	-		788,737	-	788,737
<b>Total expenditures</b>	<u>66,112</u>	<u>-</u>	<u>788,737</u>	<u>-</u>	<u>854,849</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>289,412</u>	<u>8</u>	<u>(788,540)</u>	<u>719</u>	<u>(498,401)</u>
<b>Other financing sources (uses)</b>					
Contribution from developer	-	-	1,000,000	-	1,000,000
Transfer in	-		12,709	-	12,709
Transfer out	(10,867)		-	(1,842)	(12,709)
<b>Total</b>	<u>(10,867)</u>	<u>-</u>	<u>1,012,709</u>	<u>(1,842)</u>	<u>1,000,000</u>
<b>Net change in fund balances</b>	278,545	8	224,169	(1,123)	501,599
Fund balances, beginning	(26,112)	10,111	381,566	907,530	1,273,095
<b>Fund balances, ending</b>	<u>\$ 252,433</u>	<u>10,119</u>	<u>605,735</u>	<u>906,407</u>	<u>1,774,694</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2010**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
<b>Revenues</b>					
Special levy	\$ 4,109	-	-	-	4,109
Dividend income	28	21	1,951	1,843	3,843
<b>Total revenues</b>	<u>4,137</u>	<u>21</u>	<u>1,951</u>	<u>1,843</u>	<u>7,952</u>
<b>Expenditures</b>					
Current:					
General government	27,558		-	-	27,558
Debt service:					
Interest	-		788,738	-	788,738
<b>Total expenditures</b>	<u>27,558</u>	<u>-</u>	<u>788,738</u>	<u>-</u>	<u>816,296</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(23,421)</u>	<u>21</u>	<u>(786,787)</u>	<u>1,843</u>	<u>(808,344)</u>
<b>Other financing sources (uses)</b>					
Transfer in	-		6,016	-	6,016
Transfer out	-		-	(6,016)	(6,016)
<b>Total</b>	<u>-</u>	<u>-</u>	<u>6,016</u>	<u>(6,016)</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>(23,421)</u>	<u>21</u>	<u>(780,771)</u>	<u>(4,173)</u>	<u>(808,344)</u>
Fund balances, beginning	<u>(2,691)</u>	<u>10,090</u>	<u>1,162,337</u>	<u>911,703</u>	<u>2,081,439</u>
<b>Fund balances, ending</b>	<u>\$ (26,112)</u>	<u>10,111</u>	<u>381,566</u>	<u>907,530</u>	<u>1,273,095</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended June 30, 2009**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
<b>Revenues</b>					
Dividend income	\$ 260	9,188	10,237	6,015	25,700
<b>Expenditures</b>					
Current:					
General government	50,176	-	-	-	50,176
Public works - construction	-	7,126,056	-	-	7,126,056
Debt service:					
Interest	-	-	482,006	-	482,006
Bond issuance costs	-	-	265,148	-	265,148
<b>Total expenditures</b>	<b>50,176</b>	<b>7,126,056</b>	<b>747,154</b>	<b>-</b>	<b>7,923,386</b>
Excess (deficiency) of revenues over (under) expenditures	(49,916)	(7,116,868)	(736,917)	6,015	(7,897,686)
Other financing sources (uses)					
Bond issuance	-	-	10,235,000	-	10,235,000
Bond discount	-	-	(255,875)	-	(255,875)
Transfer in	47,225	7,126,958	-	905,688	8,079,871
Transfer out	-	-	(8,079,871)	-	(8,079,871)
Total	47,225	7,126,958	1,899,254	905,688	9,979,125
<b>Net change in fund balances</b>	<b>(2,691)</b>	<b>10,090</b>	<b>1,162,337</b>	<b>911,703</b>	<b>2,081,439</b>
Fund balances, beginning	-	-	-	-	-
Fund balances, ending	\$ (2,691)	10,090	1,162,337	911,703	2,081,439

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
RECONCILIATION OF THE STATEMENTS OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE  
STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2011, 2010, and 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Reconciliation of the Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statements of Net Assets:			
<b>Net change in fund balances - total governmental funds</b>	<b>\$ 501,599</b>	<b>(808,344)</b>	<b>2,081,439</b>
Amounts reported for governmental activities in the Statements of Activities are different because:			
Governmental funds report the effect of issuance costs and discounts when debt is issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(17,320)	(17,319)	506,590
Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on an accrual basis.	-	-	(197,184)
Proceeds from bond issuance that is not reported as income in the Statement of Activities			(10,235,000)
Special levy is recognized in fund financials when available to the funds, whereas the Statement of Activities reports revenue when assessments are levied.			
	<u>603,342</u>	<u>65,474</u>	<u>-</u>
<b>Change in net assets of governmental activities</b>	<b>\$ <u>1,087,621</u></b>	<b><u>(760,189)</u></b>	<b><u>(7,844,155)</u></b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)  
 Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special levy	\$ 958,844	958,844	355,502	(603,342)
Interest income	-	-	22	22
<b>Total Revenues</b>	<b>958,844</b>	<b>958,844</b>	<b>355,524</b>	<b>(603,320)</b>
<b>Expenditures</b>				
Current:				
General government	55,106	55,106	66,112	(11,006)
<b>Total Expenditures</b>	<b>55,106</b>	<b>55,106</b>	<b>66,112</b>	<b>(11,006)</b>
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	-	-
Transfer out	-	-	(10,867)	(10,867)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(10,867)</b>	<b>(10,867)</b>
<b>Net Change in Fund Balances</b>	<b>903,738</b>	<b>903,738</b>	<b>278,545</b>	<b>(625,193)</b>
Fund Balances, beginning of year	(26,112)	(26,112)	(26,112)	-
<b>Fund Balances, end of year</b>	<b>\$ 877,626</b>	<b>877,626</b>	<b>252,433</b>	<b>(625,193)</b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)  
 Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Special levy	\$ 69,583	69,583	4,109	(65,474)
Dividend income	-	-	28	28
<b>Total Revenues</b>	<u>69,583</u>	<u>69,583</u>	<u>4,137</u>	<u>(65,446)</u>
<b>Expenditures</b>				
Current:				
General government	47,607	47,607	27,558	20,049
<b>Total Expenditures</b>	<u>47,607</u>	<u>47,607</u>	<u>27,558</u>	<u>20,049</u>
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
<b>Total</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	21,976	21,976	(23,421)	(45,397)
Fund Balances, beginning of year	(2,691)	(2,691)	(2,691)	-
<b>Fund Balances, end of year</b>	<u>\$ 19,285</u>	<u>19,285</u>	<u>(26,112)</u>	<u>(45,397)</u>

*See Notes to Financial Statements.*



**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)  
 Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special levy	\$ -	-	-	-
Dividend income	-	-	260	260
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>260</b>	<b>260</b>
<b>Expenditures</b>				
Current:				
General government	-	-	50,176	(50,176)
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>50,176</b>	<b>(50,176)</b>
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	47,225	47,225
Transfer out	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>47,225</b>	<b>47,225</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>(2,691)</b>	<b>(2,691)</b>
Fund Balances, beginning of year	-	-	-	-
<b>Fund Balances, end of year</b>	<b>\$ -</b>	<b>-</b>	<b>(2,691)</b>	<b>(2,691)</b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**NOTE 1. REPORTING ENTITY**

The Trails Public Improvement District (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 (the "City") Enactment No. 0-2003-12 and City Resolution Enactment No. R 2008-019 adopted on February 4, 2008.

The District was created to fund public infrastructure improvements ("Project"), which encompasses approximately 255 acres of land consisting of lots or bulk of tracts that support 2,319 single family homes and multifamily residential units. The Project includes improvements on water system, wastewater system, transportation, storm sewer, park and recreation.

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 Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's policies are described below.

**Basis of Presentation**

Government-Wide Statements

The Statement of Net 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 special levy.

The Statement of Activities presents a comparison between direct expenses and direct revenues for each function of the District governmental activities. Direct expenses are those that are specifically associated with and clearly identifiable to a particular function. Direct revenues include special levy on property covered by the District, interest income and dividend income from the investment of funds.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

Fund Financial Statements

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

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

Governmental Fund

The District reports the following major governmental funds:

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

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 special levy is recognized in the fiscal year during which the taxes are earned.

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

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**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 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, 2011, 2010 and 2009 an allowance for uncollectible accounts was not considered necessary as all accounts are considered collectible.

**Capital Assets**

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

**Long-Term Obligations**

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

Bond discount, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the bonds.

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

**Special Levy**

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

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Special Levy is to be billed and collected by Bernalillo County in the same manner and at the same time as general ad valorem property taxes. Assessments are made as of January 1 of each year, with one-half of the taxes on that assessment due the following November 10 and one-half due April 10 of the next calendar year. The Special Levy installment due November 10 becomes delinquent on December 11, while the April 10 installment becomes delinquent on May 11. The Special Levy shall be subject to foreclosure by the District at any time after six months following written notice of delinquency to the owner of the real property to which the delinquency applies. The lien shall include delinquencies, penalties and interest thereon at a rate not to exceed the maximum legal rate of interest per year and penalties otherwise applicable.

**Transfers**

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

**Fund Balance**

As of June 30, 2011, 2010 and 2009, 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.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**NOTE 3. DEPOSITS (CONTINUED)**

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

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

Cash equivalents represent investments in mutual funds, consisting of treasury bonds with maturities of less than 30 days. Cash and cash equivalents at June 30 consist of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	\$ 1,834,233	1,309,180	2,107,779

**NOTE 4. REVENUE BONDS**

On August 21, 2008, the District issued Revenue Bonds with a par value of \$10,235,000 for \$9,979,125, or a discount of \$255,875. The proceeds from issuance were primarily used in the construction of the 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's Special Levy.

The Indenture of Trust and Security Agreement (Bond Indenture) dated August 1, 2008 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, 2018. No events occurred that triggered special mandatory redemption.

The Bond 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, 2011, 2010 and 2009.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**NOTE 4. REVENUE BONDS (CONTINUED)**

The Revenue Bonds bear annual interest ranging from 7.50% to 7.75%, with final maturity on October 1, 2038. The amounts outstanding in the Statements of Net Assets are net of unamortized bond discount of \$231,776, \$240,282, and \$248,787 at June 30, 2011, 2010 and 2009, respectively.

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>
2012	115,000	784,425	899,425
2013	125,000	775,425	900,425
2014	130,000	765,862	895,862
2015	140,000	755,738	895,738
2016	155,000	744,675	899,675
2017 - 2021	955,000	3,525,228	4,480,228
2022 - 2026	1,380,000	3,085,728	4,465,728
2027 - 2031	2,000,000	715,172	2,740,172
2032 - 2036	2,895,000	1,501,369	4,396,369
2037 - 2039	2,340,000	281,325	12,621,325
	<u>\$ 10,235,000</u>	<u>14,659,087</u>	<u>24,894,087</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.

**NOTE 5. DEPOSITORY AGREEMENT**

On March 21, 2011, the District drawn an amount of \$1 million from the line of credit established by the Developer in favor of the Trustee in accordance with the Depository Agreement dated August 1, 2008. The District had experienced significant delinquencies on its special levies which prompted the draw from the line of credit to meet its debt service payments as provided in the Bond Indenture. The amount was recognized as contribution from Developer in the Statement of Activities for the year ended June 30, 2011.

**NOTE 6. DEFICIT NET ASSETS**

The total net assets 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. The resulting deficit net assets as of June 30 are as follows:

2011	\$ (7,516,723)
2010	(8,604,344)
2009	(7,844,155)

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**NOTE 7. ARBITRAGE**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on the revenue bonds and at June 30, 2011, 2010 and 2009 does not expect to incur a liability.

**NOTE 8. INTERFUND TRANSFERS**

For the years ended June 30, 2011, 2010 and 2009 the District transfers were made to fund debt service payments, construction costs and administrative expenses. The following transfers were made for the years ended June 30:

2011:

	<u>Transfer In</u> Bond Fund
<u>Transfer Out</u>	
General Fund	\$ 10,867
Reserve Fund	1,842
	<u>\$ 12,709</u>

2010:

	<u>Transfer In</u> Bond Fund
<u>Transfer Out</u>	
Reserve Fund	\$ 6,016
	<u>\$ 558,763</u>

2009:

	<u>Transfer In</u> Bond Fund
<u>Transfer Out</u>	
General Fund	\$ 47,225
Project Fund	7,126,958
Reserve Fund	905,688
	<u>\$ 8,079,871</u>



**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011, 2010 AND 2009**

**NOTE 9. BUDGET VIOLATIONS**

In violation of New Mexico state statutes, the District overspent the budget for the following funds for the years ended June 30, 2011 and 2009:

<u>Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
2011:			
General Fund	\$ 55,106	66,112	(11,006)
2009:			
General Fund	\$ -	50,176	(50,176)
Project Fund	\$ -	7,126,056	(7,126,056)
Bond Fund	\$ -	747,154	(747,154)

**NOTE 10. SUBSEQUENT EVENTS**

On March 31, 2014, the District entered into a Settlement Agreement with the Trustee and with the Developer. As part of the agreement, the Developer agreed to make an initial payment of \$925,000, forbearance of the remaining delinquent special levies (related to fiscal years from 2010 through 2014) in the amount of \$1,485,346, and dismissal of the Foreclosure Actions in order to permit the Developer to continue development and to complete the Project.

On March 27, 2013, pursuant to Section 5.8(c) of the Bond Indenture, the Trustee made an unscheduled draw on the Reserve Fund in the amount of \$152,234 in order to pay a portion of the debt service due in April 1, 2013. Section 5.8(e) of the Bond Indenture provides for the reimbursement of the Reserve Fund to the Reserve Fund Requirement from proceeds from the foreclosure of delinquent Special levy installments from future Special levy installs to the extent that such portion of installment payments is not required for the timely payment of debt service.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)  
 Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special levy	\$ -	-	-	-
Interest income	-	-	8	8
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>8</b>
<b>Expenditures</b>				
Current:				
Public works - construction	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>8</b>
Fund Balances, beginning of year	10,111	10,111	10,111	-
<b>Fund Balances, end of year</b>	<b>\$ 10,111</b>	<b>10,111</b>	<b>10,119</b>	<b>8</b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
BUDGET TO ACTUAL SCHEDULE (BOND FUND)  
Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special levy	\$ -	-	-	-
Interest income	-	-	197	197
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>197</b>	<b>197</b>
<b>Expenditures</b>				
Debt Service:				
Interest	1,183,106	1,183,106	788,737	394,369
Principal	115,000	115,000	-	115,000
<b>Total Expenditures</b>	<b>1,298,106</b>	<b>1,298,106</b>	<b>788,737</b>	<b>509,369</b>
<b>Other Financing Sources (Uses)</b>				
Contribution from developer	-	-	1,000,000	1,000,000
Transfer in	-	-	12,709	12,709
Transfer out	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,012,709</b>	<b>1,012,709</b>
<b>Net Change in Fund Balances</b>	<b>(1,298,106)</b>	<b>(1,298,106)</b>	<b>224,169</b>	<b>1,522,275</b>
Fund Balances, beginning of year	381,566	381,566	381,566	-
<b>Fund Balances, end of year</b>	<b>\$ (916,540)</b>	<b>(916,540)</b>	<b>605,735</b>	<b>1,522,275</b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)  
 Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ -	-	-	-
Dividend income	-	-	719	719
<b>Total Revenues</b>	-	-	719	719
<b>Other Financing Sources (Uses)</b>				
Transfer out	-	-	(1,842)	(1,842)
<b>Total</b>	-	-	(1,842)	(1,842)
<b>Net Change in Fund Balances</b>	-	-	(1,123)	(1,123)
Fund Balances, beginning of year	907,530	907,530	907,530	-
<b>Fund Balances, end of year</b>	\$ 907,530	907,530	906,407	(1,123)

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)  
 Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special levy	\$ -	-	-	-
Dividend income	-	-	21	21
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>21</b>
<b>Expenditures</b>				
Current:				
Public works - construction	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>21</b>
Fund Balances, beginning of year	10,090	10,090	10,090	-
<b>Fund Balances, end of year</b>	<b>\$ 10,090</b>	<b>10,090</b>	<b>10,111</b>	<b>21</b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
BUDGET TO ACTUAL SCHEDULE (BOND FUND)  
Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ -	-	-	-
Dividend income	-	-	1,951	1,951
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>1,951</b>	<b>1,951</b>
<b>Expenditures</b>				
Debt Service:				
Interest	1,183,107	1,183,107	788,738	394,369
Principal	-	-	-	-
<b>Total Expenditures</b>	<b>1,183,107</b>	<b>1,183,107</b>	<b>788,738</b>	<b>394,369</b>
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	6,016	6,016
Transfer out	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>6,016</b>	<b>6,016</b>
<b>Net Change in Fund Balances</b>	<b>(1,183,107)</b>	<b>(1,183,107)</b>	<b>(780,771)</b>	<b>402,336</b>
Fund Balances, beginning of year	1,162,337	1,162,337	1,162,337	-
<b>Fund Balances, end of year</b>	<b>\$ (20,770)</b>	<b>(20,770)</b>	<b>381,566</b>	<b>402,336</b>

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)  
 Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ -	-	-	-
Dividend income	-	-	1,843	1,843
<b>Total Revenues</b>	-	-	1,843	1,843
<b>Other Financing Sources (Uses)</b>				
Transfer out	-	-	(6,016)	(6,016)
<b>Total</b>	-	-	(6,016)	(6,016)
<b>Net Change in Fund Balances</b>	-	-	(4,173)	(4,173)
Fund Balances, beginning of year	911,703	911,703	911,703	-
<b>Fund Balances, end of year</b>	\$ 911,703	911,703	907,530	(4,173)

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)  
 Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Special levy	\$ -	-	-	-
Dividend income	-	-	9,188	9,188
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>9,188</b>	<b>9,188</b>
<b>Expenditures</b>				
Current:				
Public works - construction	-	-	7,126,056	(7,126,056)
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>7,126,056</b>	<b>(7,126,056)</b>
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	7,126,958	7,126,958
Transfer out	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>7,126,958</b>	<b>7,126,958</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>10,090</b>	<b>10,090</b>
Fund Balances, beginning of year	-	-	-	-
<b>Fund Balances, end of year</b>	<b>\$ -</b>	<b>-</b>	<b>10,090</b>	<b>10,090</b>

*See Notes to Financial Statements.*



**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
BUDGET TO ACTUAL SCHEDULE (BOND FUND)  
Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Interest income	\$ -	-	-	-
Dividend income	-	-	10,237	10,237
<b>Total Revenues</b>	-	-	10,237	10,237
<b>Expenditures</b>				
Debt Service:				
Interest	-	-	482,006	482,006
Bond issuance cost	-	-	265,148	265,148
<b>Total Expenditures</b>	-	-	747,154	(747,154)
<b>Other Financing Sources (Uses)</b>				
Bond issuance	-	-	10,235,000	10,235,000
Bond discount	-	-	(255,875)	(255,875)
Transfer in	-	-	-	-
Transfer out	-	-	(8,079,871)	(8,079,871)
<b>Total</b>	-	-	1,899,254	1,899,254
<b>Net Change in Fund Balances</b>	-	-	1,162,337	1,162,337
Fund Balances, beginning of year	-	-	-	-
<b>Fund Balances, end of year</b>	\$ -	-	1,162,337	1,162,337

*See Notes to Financial Statements.*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)  
 Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest income	\$ -	-	-	-
Dividend income	-	-	6,015	6,015
<b>Total Revenues</b>	-	-	6,015	6,015
<b>Other Financing Sources (Uses)</b>				
Transfer in	-	-	905,688	905,688
Transfer out	-	-	-	-
<b>Total</b>	-	-	905,688	905,688
<b>Net Change in Fund Balances</b>	-	-	911,703	911,703
Fund Balances, beginning of year	-	-	-	-
<b>Fund Balances, end of year</b>	\$ -	-	911,703	911,703

*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  
The Trails Public Improvement District  
and  
Mr. Timothy Keller  
New Mexico State Auditor  
Santa Fe, New Mexico

We have audited the financial statements of the governmental activities and each major fund and the budgetary comparison of the general fund of The Trails Public Improvement District (the "District") as of and for the years ended June 30, 2011, 2010 and 2009 and have issued our report thereon dated April 3, 2015. We have also audited the budgetary comparisons for the capital project fund and major debt service funds presented as supplementary information in the fund statements for the years ended June 30, 2011, 2010 and 2009, as listed in the table of contents.

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 audit, we considered District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 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. However, we

To the Board of Directors  
The Trails Public Improvement District  
and  
Mr. Timothy Keller  
New Mexico State Auditor  
Santa Fe, New Mexico

identified certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting as item 09-01. 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.

#### **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 instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 09-02 and 09-03.

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  
April 3, 2015

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
YEARS ENDED JUNE 30, 2011, 2011 AND 2009**

**09-01: No General Ledger Maintained (Significant Deficiency)**

CONDITION

The District did not maintain a general ledger for the years ended June 30, 2011, 2010 and 2009.

CRITERIA

State Audit Rule 2.2.2.10 I, Section 12-6-5, NMSA 1978 states that any violation of good accounting practices be included in the annual audit report.

EFFECT

There is an increased risk of misstatements and/or budget overages occurring and not being detected and corrected in a timely manner.

CAUSE

The District has minimal transaction activity and uses the monthly trust statements from the Trustee to track transactions.

RECOMMENDATION

We recommend that the District implement a basic general ledger software package as soon as it is practical.

MANAGEMENT'S RESPONSE

The Board agrees with the recommendation. The Board has hired a financial consultant in 2014 to prepare general ledger as well as to monitor budget every quarter.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEARS ENDED JUNE 30, 2011, 2010 AND 2009**

**09-02: Late Audit Report, Compliance and Other Matters**

CONDITION

The audit reports for the years ending June 30, 2011, 2010 and 2009 were not submitted by the deadline of December 1 for each fiscal year. These reports were submitted to the State Auditor's Office in April 2015.

CRITERIA

2.2.2 NMAC, Audit Rule 2011, 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 delay was due to the delinquencies on the special levy as such the District delayed the audit until resources are available to pay for the fees.

EFFECT

The District is not in compliance with Section 2.2.2.9 A (1)(e) of the NMAC, Audit Rule 2011.

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 trustee to ensure that audits are submitted to the State's Auditor by the due date or in a timely manner.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEARS ENDED JUNE 30, 2011, 2010 AND 2009**

**09-03: Budget, Compliance and Other Matters**

CONDITION

The District did not prepare a budget for fiscal year 2009 and incurred expenditures of \$50,176, \$7,126,056 and \$747,154 for the General, Project and Bond Funds, respectively. In addition, the General Fund for the year ended June 30, 2011 was overspent by \$11,006.

CRITERIA

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

CAUSE

The District did not realize the need to have an approved budget for the year ended June 30, 2009.

EFFECT

The District is 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 District needs to develop an 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

The District will implement procedures to ensure that expenditures are made within budgeted amounts.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT  
EXIT CONFERENCE  
YEARS ENDED JUNE 30, 2011, 2010 AND 2009**

An exit conference was held on March 27, 2015. Attending were the following:

Representing The Trails Public Improvement District:

Cilia Agliodoro, Treasurer  
Dee Brescia, Brescia Consulting

Representing Moss Adams LLP:

Jaime Rumbaoa, CPA/CITP, CISA, CFE, Senior Manager

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