



THE TRAILS
PUBLIC IMPROVEMENT DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2014, 2013 and 2012

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

TABLE OF CONTENTS

THE TRAILS PUBLIC IMPROVEMENT DISTRICT

OFFICIAL ROSTER	1
REPORT OF INDEPENDENT AUDITORS.....	2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	4
FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Activities:	
June 30, 2014	9
June 30, 2013	10
June 30, 2012	11
Balance Sheets – Governmental Funds	
June 30, 2014	12
June 30, 2013	13
June 30, 2012	14
Reconciliation of the Balance Sheets – Governmental Funds to the Statements of Net Position	15
Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	
June 30, 2014	16
June 30, 2013	17
June 30, 2012	18
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statements of Activities	19

TABLE OF CONTENTS

THE TRAILS PUBLIC IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS (CONTINUED)

Budget to Actual Schedule (General Fund):	
June 30, 2014	20
June 30, 2013	21
June 30, 2012	22
Notes to Financial Statements	23

SUPPLEMENTARY INFORMATION

Budget to Actual Schedules	
Project Fund - June 30, 2014	32
Bond Fund - June 30, 2014	33
Reserve Fund - June 30, 2014	34
Budget to Actual Schedules:	
Project Fund - June 30, 2013	35
Bond Fund - June 30, 2013	36
Reserve Fund - June 30, 2013	37
Budget to Actual Schedules:	
Project Fund - June 30, 2012	38
Bond Fund - June 30, 2012	39
Reserve Fund - June 30, 2012	40

OTHER INFORMATION

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>	41
Schedule of Findings and Responses	43
Status of Prior Year's Findings	47
Exit Conference	48

THE TRAILS PUBLIC IMPROVEMENT DISTRICT

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund and the budgetary comparison for the general fund of The Trails Public Improvement District (the "District") as of and for the years ended June 30, 2014, 2013 and 2012, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the capital project fund and major debt service funds presented as supplementary information, as defined by Governmental Accounting Standards Board, in the accompanying fund individual fund financial statements as of and for the years ended June 30, 2014, 2013 and 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the respective budgetary comparison for the general fund of The Trails Public Improvement District as of June 30, 2014, 2013 and 2012, 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, 2014, 2013 and 2012 in conformity 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 12, 2015

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2014, 2013 AND 2012**

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, 2014, 2013 and 2012. 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 Position, the District's total net position as of June 30, 2014, 2013 and 2012 amounted to negative \$7,237,798, \$7,430,682 and \$7,401,029, respectively.
- In the Statements of Activities, the special levy revenue amounted to:
 - June 30, 2014 - \$1,019,835
 - June 30, 2013 - \$1,016,655
 - June 30, 2012 - \$ 978,004
- In the Statements of Activities, the District incurred \$1,021,719, \$815,148 and \$862,835 in debt service payments and general government expenses for each of the fiscal years ended 2014, 2013 and 2012, respectively.
- In fiscal year 2014, the Developer contributed \$194,695 to the District in accordance with the Settlement Agreement (see Note 9)

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, 2014, 2013 AND 2012**

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

The statement of activities presents information showing how the District's net position changed during the fiscal years 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 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 position may serve over time as a useful indicator of a district's financial position. The District's liabilities exceeded assets as follows:

- \$7,237,798 as of June 30, 2014
- \$7,430,682 as of June 30, 2013
- \$7,401,029 as of June 30, 2012

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2014, 2013 AND 2012**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 1,203,740	\$ 2,593,572	\$ 2,497,862
Other Assets	1,485,346	-	231,362
Total Assets	<u>2,689,086</u>	<u>2,593,572</u>	<u>2,729,224</u>
Current Liabilities	399,638	365,514	350,018
Long-term Obligations			
Outstanding	9,527,246	9,658,740	9,780,235
Total Liabilities	<u>9,926,884</u>	<u>10,024,254</u>	<u>10,130,253</u>
Net Position - Unrestricted (deficit)	<u>\$ (7,237,798)</u>	<u>\$ (7,430,682)</u>	<u>\$ (7,401,029)</u>

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

- Administrative expenditures amounted to \$249,789, \$33,561 and \$63,247 for the years ended June 30, 2014, 2013 and 2012, respectively. The increase in 2014 was due to legal expenses incurred in connection with the settlement with the developer (see Note 9).
- Interest expense amounted to \$771,930, \$781,587 and \$799,588 for the years ended June 30, 2014, 2013 and 2012, respectively.
- Special levy revenue amounted to \$1,019,835, \$1,016,655 and \$978,004 for the years ended June 30, 2014, 2013 and 2012, respectively.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expenses			
Interest	\$ (771,930)	\$ (781,587)	\$ (799,588)
General government	(249,789)	(33,561)	(63,247)
Total Expenses	<u>(1,021,719)</u>	<u>(815,148)</u>	<u>(862,835)</u>
General Revenues			
Special levy	1,019,835	1,016,655	978,004
Contribution from developer	194,695	-	-
Interest income	73	202	525
Total Revenues	<u>1,214,603</u>	<u>1,016,857</u>	<u>978,529</u>
Change in net position	<u>\$ 192,884</u>	<u>\$ 201,709</u>	<u>\$ 115,694</u>

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2014, 2013 AND 2012**

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds for the years ended June 30, 2014, 2013 and 2012 amounted to \$978,823, \$467,069 and \$601,142, 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 2014, 2013 and 2012.

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, 2014 amounted to \$9,658,741, net of discount of \$206,259. The next principal payment was made on October 1, 2015.

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. On March 31, 2014, the District entered into a Settlement Agreement with the Developer (see Note 9).

Requests for Information

This narrative overview and analysis of the financial activities of the District for the fiscal years ending June 30, 2014, 2013 and 2012 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, John L. Murtagh, Seventh Floor, Room 7057, One Civic Plaza, NW, Albuquerque, NM 87102.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENTS OF NET POSITION
June 30, 2014, 2013, and 2012

	Governmental Activities		
	2014	2013	2012
ASSETS			
Cash and cash equivalents	\$ 1,051,231	997,297	1,342,666
Special levy receivable	152,509	1,596,275	1,155,196
Receivable from developer (Note 9)	1,485,346	-	-
Bond issuance costs	-	-	231,362
Total assets	\$ 2,689,086	2,593,572	2,729,224
LIABILITIES			
Accrued expenses - professional services	\$ 77,896	51,335	38,495
Interest payable	190,247	192,684	195,028
Revenue bonds payable			
Due within one year	131,495	121,495	116,495
Due in more than one year	9,527,246	9,658,740	9,780,235
Total liabilities	\$ 9,926,884	10,024,254	10,130,253
NET POSITION			
Unrestricted (deficit)	\$ (7,237,798)	(7,430,682)	(7,401,029)

See Notes to Financial Statements.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 771,930	(771,930)
General government	249,789	(249,789)
Total expenses	<u>\$ 1,021,719</u>	<u>(1,021,719)</u>
General Revenues		
Special levy		1,019,835
Contribution from developer (Note 9)		194,695
Interest income		73
Total revenues		<u>1,214,603</u>
Change in net position		192,884
Net position, beginning		<u>(7,430,682)</u>
Net position, ending		<u>(7,237,798)</u>

See Notes to Financial Statements.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 781,587	(781,587)
General government	33,561	(33,561)
Total expenses	<u>\$ 815,148</u>	<u>(815,148)</u>
General Revenues		
Special levy		1,016,655
Interest income		202
Total revenues		<u>1,016,857</u>
Change in net position		201,709
Net position, beginning, as previously reported		(7,401,029)
Effect of adoption of GASB 65 (Note 10)		<u>(231,362)</u>
Net position, beginning, as restated		<u>(7,632,391)</u>
Net position, ending		<u><u>(7,430,682)</u></u>

See Notes to Financial Statements.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 799,588	(799,588)
General government	63,247	(63,247)
Total expenses	<u>\$ 862,835</u>	<u>(862,835)</u>
General Revenues		
Special levy		978,004
Interest income		525
Total revenues		<u>978,529</u>
Change in net position		115,694
Net position, beginning		<u>(7,516,723)</u>
Net position, ending		<u>(7,401,029)</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEETS
GOVERNMENTAL FUNDS
June 30, 2014**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$ 411,357	10,125	1	629,748	1,051,231
Special levy receivable	152,509	-	-	-	152,509
Receivable from developer	1,485,346	-	-	-	1,485,346
Total assets	\$ 2,049,212	10,125	1	629,748	2,689,086
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accrued expenses	\$ 77,896	-	-	-	77,896
Total liabilities	77,896	-	-	-	77,896
Deferred inflows of resources					
Receivables not yet available	1,637,077	-	-	-	1,637,077
Total deferred inflows of resources	1,637,077	-	-	-	1,637,077
Fund Balances					
Restricted	-	10,125	1	629,748	639,874
Unassigned	334,239	-	-	-	334,239
Total fund balances	334,239	10,125	1	629,748	974,113
Total liabilities, deferred inflows of resources and fund balances	\$ 2,049,212	10,125	1	629,748	2,689,086

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEETS
GOVERNMENTAL FUNDS
June 30, 2013**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$ 233,647	10,124	1	753,525	997,297
Special levy receivable	1,596,275	-	-	-	1,596,275
Total assets	\$ 1,829,922	10,124	1	753,525	2,593,572
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accrued expenses	\$ 51,335	-	-	-	51,335
Total liabilities	51,335	-	-	-	51,335
Deferred inflows of resources					
Special levy receivable not yet available	1,595,990	-	-	-	1,595,990
Total deferred inflows of resources	1,595,990	-	-	-	1,595,990
Fund Balances					
Restricted	-	10,124	1	753,525	763,650
Unassigned	182,597	-	-	-	182,597
Total fund balances	182,597	10,124	1	753,525	946,247
Total liabilities, deferred inflows of resources and fund balances	\$ 1,829,922	10,124	1	753,525	2,593,572

See Notes to Financial Statements.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEETS
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$ 426,628	10,122	11	905,905	1,342,666
Special levy receivable	1,155,196	-	-	-	1,155,196
Total assets	\$ 1,581,824	10,122	11	905,905	2,497,862
LIABILITIES AND FUND BALANCES					
Liabilities					
Accrued expenses	\$ 38,495	-	-	-	38,495
Deferred revenue	1,046,203	-	-	-	1,046,203
Total liabilities	1,084,698	-	-	-	1,084,698
Fund Balances					
Restricted	-	10,122	11	905,905	916,038
Unassigned	497,126	-	-	-	497,126
Total fund balances	497,126	10,122	11	905,905	1,413,164
Total liabilities and fund balances	\$ 1,581,824	10,122	11	905,905	2,497,862

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEETS -
GOVERNMENTAL FUNDS TO THE
STATEMENTS OF NET POSITION
Years Ended June 30, 2014, 2013 and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Reconciliation of the Governmental Fund Balances Sheets to the Statements of Net Position:			
Fund balances - total governmental funds	\$ 974,113	946,247	1,413,164
Amounts reported for governmental activities in the Statements of Net Position are different because:			
Bond issuance costs in the governmental activities are not financial resources and therefore, not reported in the governmental funds.	-	-	231,362
Long-term obligations for the revenue bonds are not due and payable in the current period, and therefore, not reported in the governmental funds.	(9,658,741)	(9,780,235)	(9,896,730)
Interest payable on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(190,247)	(192,684)	(195,028)
A portion of receivables reported in the Statement of Net Position is not currently available in the funds.	1,637,077	1,595,990	1,046,203
Net Position of governmental activities	<u>\$ (7,237,798)</u>	<u>(7,430,682)</u>	<u>(7,401,029)</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, 2014

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
Revenues					
Special levy	\$ 978,750	-	-	-	978,750
Interest income	12	1	2	58	73
Total revenues	<u>978,762</u>	<u>1</u>	<u>2</u>	<u>58</u>	<u>978,823</u>
Expenditures					
Current:					
General government	249,789	-	-	-	249,789
Debt service:					
Principal	-	-	130,000	-	130,000
Interest	-	-	765,863	-	765,863
Total expenditures	<u>249,789</u>	<u>-</u>	<u>895,863</u>	<u>-</u>	<u>1,145,652</u>
Excess (deficiency) of revenues over (under) expenditures	<u>728,973</u>	<u>1</u>	<u>(895,861)</u>	<u>58</u>	<u>(166,829)</u>
Other financing sources (uses)					
Contribution from developer	-	-	-	194,695	194,695
Transfer in	-	-	895,861	-	895,861
Transfer out	(577,331)	-	-	(318,530)	(895,861)
Total	<u>(577,331)</u>	<u>-</u>	<u>895,861</u>	<u>(123,835)</u>	<u>194,695</u>
Net change in fund balances	151,642	1	-	(123,777)	27,866
Fund balances, beginning	182,597	10,124	1	753,525	946,247
Fund balances, ending	<u>\$ 334,239</u>	<u>10,125</u>	<u>1</u>	<u>629,748</u>	<u>974,113</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, 2013**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
Revenues					
Special levy	\$ 466,867	-	-	-	466,867
Interest income	41	2	4	155	202
Total revenues	<u>466,908</u>	<u>2</u>	<u>4</u>	<u>155</u>	<u>467,069</u>
Expenditures					
Current:					
General government	33,561		-	-	33,561
Debt service:					
Principal	-	-	125,000	-	125,000
Interest	-		775,425	-	775,425
Total expenditures	<u>33,561</u>	<u>-</u>	<u>900,425</u>	<u>-</u>	<u>933,986</u>
Excess (deficiency) of revenues over (under) expenditures	<u>433,347</u>	<u>2</u>	<u>(900,421)</u>	<u>155</u>	<u>(466,917)</u>
Other financing sources (uses)					
Transfer in	-		900,411	-	900,411
Transfer out	(747,876)		-	(152,535)	(900,411)
Total	<u>(747,876)</u>	<u>-</u>	<u>900,411</u>	<u>(152,535)</u>	<u>-</u>
Net change in fund balances	(314,529)	2	(10)	(152,380)	(466,917)
Fund balances, beginning	497,126	10,122	11	905,905	1,413,164
Fund balances, ending	<u>\$ 182,597</u>	<u>10,124</u>	<u>1</u>	<u>753,525</u>	<u>946,247</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, 2012**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
Revenues					
Special levy	\$ 600,617	-	-	-	600,617
Interest income	131	3	84	307	525
Total revenues	<u>600,748</u>	<u>3</u>	<u>84</u>	<u>307</u>	<u>601,142</u>
Expenditures					
Current:					
General government	63,247	-	-	-	63,247
Debt service:					
Principal	-	-	115,000	-	115,000
Interest	-	-	784,425	-	784,425
Total expenditures	<u>63,247</u>	<u>-</u>	<u>899,425</u>	<u>-</u>	<u>962,672</u>
Excess (deficiency) of revenues over (under) expenditures	<u>537,501</u>	<u>3</u>	<u>(899,341)</u>	<u>307</u>	<u>(361,530)</u>
Other financing sources (uses)					
Transfer in	-	-	293,617	-	293,617
Transfer out	(292,808)	-	-	(809)	(293,617)
Total	<u>(292,808)</u>	<u>-</u>	<u>293,617</u>	<u>(809)</u>	<u>-</u>
Net change in fund balances	244,693	3	(605,724)	(502)	(361,530)
Fund balances, beginning	252,433	10,119	605,735	906,407	1,774,694
Fund balances, ending	<u>\$ 497,126</u>	<u>10,122</u>	<u>11</u>	<u>905,905</u>	<u>1,413,164</u>

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, 2014, 2013, and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Reconciliation of the Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statements of Net Position:			
Net change in fund balances - total governmental funds	\$ 27,866	(466,917)	(361,530)
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.	(8,505)	(8,505)	(17,319)
Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on an accrual basis.	2,438	2,343	2,156
The repayment of long-term debt consumes current financial resources of the governmental funds. This has no effect on the net position in the Statement of Activities	130,000	125,000	115,000
Special levy is recognized in fund financials when available to the funds, whereas the Statement of Activities reports revenue when assessments are levied.	41,085	549,788	377,387
Change in net position of governmental activities	<u>\$ 192,884</u>	<u>201,709</u>	<u>115,694</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
 Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 1,019,835	1,019,835	978,750	(41,085)
Interest income	-	-	12	12
Total Revenues	<u>1,019,835</u>	<u>1,019,835</u>	<u>978,762</u>	<u>(41,073)</u>
Expenditures				
Current:				
General government	118,848	118,848	249,789	(130,941)
Total Expenditures	<u>118,848</u>	<u>118,848</u>	<u>249,789</u>	<u>(130,941)</u>
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(577,331)	(577,331)
Total	<u>-</u>	<u>-</u>	<u>(577,331)</u>	<u>(577,331)</u>
Net Change in Fund Balances	900,987	900,987	151,642	(749,345)
Fund Balances, beginning of year	<u>182,597</u>	<u>182,597</u>	<u>182,597</u>	<u>-</u>
Fund Balances, end of year	<u>\$ 1,083,584</u>	<u>1,083,584</u>	<u>334,239</u>	<u>(749,345)</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
 Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Special levy	\$ 1,016,655	1,016,655	466,867	(549,788)
Dividend income	-	-	41	41
Total Revenues	1,016,655	1,016,655	466,908	(549,747)
Expenditures				
Current:				
General government	115,917	115,917	33,561	82,356
Total Expenditures	115,917	115,917	33,561	82,356
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(747,876)	(747,876)
Total	-	-	(747,876)	(747,876)
Net Change in Fund Balances	900,738	900,738	(314,529)	(1,215,267)
Fund Balances, beginning of year	497,126	497,126	497,126	-
Fund Balances, end of year	\$ 1,397,864	1,397,864	182,597	(1,215,267)

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
 Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 978,004	978,004	600,617	(377,387)
Dividend income	-	-	131	131
Total Revenues	<u>978,004</u>	<u>978,004</u>	<u>600,748</u>	<u>(377,256)</u>
Expenditures				
Current:				
General government	72,892	72,892	63,247	9,645
Total Expenditures	<u>72,892</u>	<u>72,892</u>	<u>63,247</u>	<u>9,645</u>
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(292,808)	(292,808)
Total	<u>-</u>	<u>-</u>	<u>(292,808)</u>	<u>(292,808)</u>
Net Change in Fund Balances	905,112	905,112	244,693	(660,419)
Fund Balances, beginning of year	<u>252,433</u>	<u>252,433</u>	<u>252,433</u>	<u>-</u>
Fund Balances, end of year	<u>\$ 1,157,545</u>	<u>1,157,545</u>	<u>497,126</u>	<u>(660,419)</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014, 2013 AND 2012**

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 three directors. The District Board has control over and management supervision of all affairs of the District. Directors serve six-year terms.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's policies are described below.

Basis of Presentation

Government-Wide Statements

The Statement of Net Position and Statement of Activities present financial information about 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, 2014, 2013 AND 2012**

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, 2014, 2013 AND 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amount collected after the sixty-day period is recognized as deferred inflows of resources. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on the bond obligations, which are recognized as expenditures when paid. Proceeds from the issuance of bond obligations are reported as other financing sources.

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

Cash Equivalents

The District considers all highly liquid debt instruments with original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2014, 2013 and 2012 an allowance for uncollectible accounts was not considered necessary as all accounts are considered collectible. In the case of foreclosure or sale, the special levy has priority over other claims.

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, 2014, 2013 AND 2012**

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, 2014, 2013 and 2012, 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, 2014, 2013 AND 2012**

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>2014</u>	<u>2013</u>	<u>2012</u>
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	\$ 1,051,231	997,297	1,342,666

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 made an unscheduled draws on the Reserve Fund in the amount of \$338,084 and \$152,234 in 2014 and 2013, respectively. As a result, the Reserve Fund has a shortfall of \$275,940 and \$152,163 at June 30, 2014 and 2013, respectively. The District is in compliance with the reserve requirement at June 30, 2012.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014, 2013 AND 2012**

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 Position are net of unamortized bond discount of \$206,259, \$214,765, and \$223,270 at June 30, 2014, 2013 and 2012, 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>
2015	\$ 140,000	755,738	895,738
2016	155,000	744,675	899,675
2017	165,000	732,675	897,675
2018	175,000	719,925	894,925
2019	190,000	706,237	896,237
2020 - 2024	1,190,000	3,282,062	4,472,062
2025 - 2029	1,725,000	2,727,806	4,452,806
2030 - 2034	2,495,000	1,918,319	4,413,319
2035 - 2039	3,630,000	745,938	4,375,938
	<u>\$ 9,865,000</u>	<u>12,333,375</u>	<u>22,198,375</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. DEFICIT NET POSITION

The total net position balance is in a deficit position. This is due to the fact that the capital assets acquired with bond proceeds were transferred to another governmental agency. This resulted in the recognition of long-term debt with no related asset on the District's financial statement. The long-term debt will be repaid with future special levy taxes. The resulting deficit net position as of June 30 are as follows:

2014	\$ (7,237,798)
2013	(7,430,682)
2012	(7,401,029)

NOTE 6. 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, 2014, 2013 and 2012 does not expect to incur a liability.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014, 2013 AND 2012**

NOTE 7. INTERFUND TRANSFERS

For the years ended June 30, 2014, 2013 and 2012 the District transfers were made to fund debt service payments, and administrative expenses. The following transfers were made for the years ended June 30:

2014:

<u>Transfer Out</u>	<u>Transfer In</u> Bond Fund
General Fund	\$ 577,331
Reserve Fund	318,530
	<u>\$ 895,861</u>

2013:

<u>Transfer Out</u>	<u>Transfer In</u> Bond Fund
General Fund	\$ 747,876
Reserve Fund	152,535
	<u>\$ 900,411</u>

2012:

<u>Transfer Out</u>	<u>Transfer In</u> Bond Fund
General Fund	\$ 292,808
Reserve Fund	809
	<u>\$ 293,617</u>

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014, 2013 AND 2012**

NOTE 8. BUDGET VIOLATIONS

In violation of New Mexico state statutes, the District overspent the budget for the general fund for the year ended June 30, 2014 as follows:

<u>Fund</u>		<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	\$	118,848	249,789	(130,941)

NOTE 9. SETTLEMENT AGREEMENT

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 (Forborne Special Levy), and dismissal of the Foreclosure Actions in order to permit the Developer to continue development and to complete the Project. Of the initial payment, \$373,826, \$291,926 and \$259,248 went to fund delinquent taxes, fees and expenses and reserve account deposit, respectively. At each closing on the sale of one or more development units by the developer to the retail buyer, a portion of the owner’s closing proceeds shall be paid to the Trustee as payment of that portion of the Forborne Special Levy that encumbers the development unit sold. The parties agree that the District shall forbear collection and enforcement of the Forborne Special Levy and the exercise of other rights and remedies the District may have against the Developer and/or the Property until the occurrence of the earliest of (i) a Monetary default (failure to pay, failure to perform, bankruptcy or receivership, reorganization or dissolution and additional liens); or (ii) all retail units have been sold to retail buyers and each release price has been received by the Trustee on behalf of the Bondholders (Forbearance Termination Date).

In accordance with the Settlement Agreement, the Developer is also obligated to establish an escrow for \$100,000 for the purpose of funding the fees and expenses related to the inclusion of Tract 9 Parcel into the District’s boundary that currently estimated to be incurred, and should the Initial Escrow Fund be insufficient, the Developer shall also provide additional monies to fund any remaining fees and expenses. This deposit was not recorded in the District’s financial statements as any unused balance will be returned to the Developer.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014, 2013 AND 2012**

NOTE 10. ACCOUNTING CHANGE

The accompanying financial statements reflect the implementation of GASB Statements Nos. 63 and 65 as of and for the year ended June 30, 2013. Significant impacts of GASB Statement No. 63 include changing the title of the statement of net assets to the statement of net position and reformatting the statement of net position to add separate sections for deferred inflows of resources and deferred outflows of resources, appropriate. Significant impacts of GASB Statement No. 65 include reclassifying as deferred inflows of resources and deferred outflows of resources certain balances that were previously reported as assets and liabilities. GASB Statement No. 65 also required that debt issuance costs be reported as expenses when incurred. The retroactive effects of implementing this change in reporting debt issuance costs resulted in a restatement of beginning net position as set forth below:

	Governmental <u>Activities</u>
Net position/(deficit) at beginning of year, as previously reported	\$(7,401,029)
Adjustment to recognize debt issuance costs as an expense of prior periods	<u>(231,362)</u>
Net position/(deficit) at beginning of year, as restated	<u>\$(7,632,391)</u>

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)
 Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	1	1
Total Revenues	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Expenditures				
Current:				
Public works - construction	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	-	-	1	1
Fund Balances, beginning of year	<u>10,124</u>	<u>10,124</u>	<u>10,124</u>	<u>-</u>
Fund Balances, end of year	<u>\$ 10,124</u>	<u>10,124</u>	<u>10,125</u>	<u>1</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL SCHEDULE (BOND FUND)
Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	2	2
Total Revenues	-	-	2	2
Expenditures				
Debt Service:				
Principal	140,000	140,000	130,000	10,000
Interest	760,988	760,988	765,863	(4,875)
Total Expenditures	900,988	900,988	895,863	5,125
Other Financing Sources (Uses)				
Transfer in	-	-	895,861	895,861
Transfer out	-	-	-	-
Total	-	-	895,861	895,861
Net Change in Fund Balances	(900,988)	(900,988)	-	900,988
Fund Balances, beginning of year	1	1	1	-
Fund Balances, end of year	\$ (900,987)	(900,987)	1	900,988

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)
 Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Dividend income	-	-	58	58
Total Revenues	-	-	58	58
Other Financing Sources (Uses)				
Contribution from developer	-	-	194,695	194,695
Transfer out	-	-	(318,530)	(318,530)
Total	-	-	(123,835)	(123,835)
Net Change in Fund Balances	-	-	(123,777)	(123,777)
Fund Balances, beginning of year	753,525	753,525	753,525	-
Fund Balances, end of year	\$ 753,525	753,525	629,748	(123,777)

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)
 Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Dividend income	-	-	2	2
Total Revenues	-	-	2	2
Expenditures				
Current:				
Public works - construction	-	-	-	-
Total Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total	-	-	-	-
Net Change in Fund Balances	-	-	2	2
Fund Balances, beginning of year	10,122	10,122	10,122	-
Fund Balances, end of year	\$ 10,122	10,122	10,124	2

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL SCHEDULE (BOND FUND)
Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	4	4
Total Revenues	-	-	4	4
Expenditures				
Debt Service:				
Principal	130,000	130,000	125,000	5,000
Interest	770,737	770,737	775,425	(4,688)
Total Expenditures	900,737	900,737	900,425	312
Other Financing Sources (Uses)				
Transfer in	-	-	900,411	900,411
Transfer out	-	-	-	-
Total	-	-	900,411	900,411
Net Change in Fund Balances	(900,737)	(900,737)	(10)	900,727
Fund Balances, beginning of year	11	11	11	-
Fund Balances, end of year	\$ (900,726)	(900,726)	1	900,727

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)
 Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	155	155
Total Revenues	<u>-</u>	<u>-</u>	<u>155</u>	<u>155</u>
Other Financing Sources (Uses)				
Transfer out	-	-	(152,535)	(152,535)
Total	<u>-</u>	<u>-</u>	<u>(152,535)</u>	<u>(152,535)</u>
Net Change in Fund Balances	-	-	(152,380)	(152,380)
Fund Balances, beginning of year	905,905	905,905	905,905	-
Fund Balances, end of year	<u>\$ 905,905</u>	<u>905,905</u>	<u>753,525</u>	<u>(152,380)</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)
 Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	3	3
Total Revenues	-	-	3	3
Expenditures				
Current:				
Public works - construction	-	-	-	-
Total Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total	-	-	-	-
Net Change in Fund Balances	-	-	3	3
Fund Balances, beginning of year	-	-	10,119	10,119
Fund Balances, end of year	\$ -	-	10,122	10,122

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL SCHEDULE (BOND FUND)
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	84	84
Total Revenues	-	-	84	84
Expenditures				
Debt Service:				
Principal	125,000	125,000	115,000	(10,000)
Interest	780,113	780,113	784,425	4,312
Total Expenditures	905,113	905,113	899,425	5,688
Other Financing Sources (Uses)				
Transfer in	-	-	293,617	293,617
Transfer out	-	-	-	-
Total	-	-	293,617	293,617
Net Change in Fund Balances	(905,113)	(905,113)	(605,724)	299,389
Fund Balances, beginning of year	605,735	605,735	605,735	-
Fund Balances, end of year	\$ (299,378)	(299,378)	11	299,389

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)
 Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	307	307
Total Revenues	-	-	307	307
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(809)	(809)
Total	-	-	(809)	(809)
Net Change in Fund Balances	-	-	(502)	(502)
Fund Balances, beginning of year	906,407	906,407	906,407	-
Fund Balances, end of year	\$ 906,407	906,407	905,905	(502)

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, 2014, 2013 and 2012 and have issued our report thereon dated October 12, 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, 2014, 2013 and 2012, 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 identified certain deficiency in

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

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 2009-001. 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 are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2009-002, 2009-003 and 2014-001.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were 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
October 12, 2015

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEARS ENDED JUNE 30, 2014, 2013 AND 2012**

2009-001: No General Ledger Maintained (Significant Deficiency)

CONDITION

The District did not maintain a general ledger for the years ended June 30, 2013 and 2012.

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.

CAUSE

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

EFFECT

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

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, 2014, 2013 AND 2012**

2009-002: Late Audit Report, Compliance and Other Matters

CONDITION

The audit reports for the years ending June 30, 2014, 2013 and 2012 were not submitted by the deadline of December 1 for each fiscal year. These reports were submitted to the State Auditor's Office in October 2015.

CRITERIA

2.2.2 NMAC, Audit Rule 2014, 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 2014.

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 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, 2014, 2013 AND 2012**

2009-003: Budget, Compliance and Other Matters

CONDITION

The General Fund for the year ended June 30, 2014 was overspent by \$130,941.

CRITERIA

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

CAUSE

Significant legal fees were incurred as a result of the Settlement Agreement entered into with the Developer in 2014.

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
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEARS ENDED JUNE 30, 2014, 2013 AND 2012**

2014-001: Reserve Valuation Requirements, Compliance and Other Matters

CONDITION

The District made an unscheduled draws on the Reserve Fund in the amount of \$338,084 and \$152,234 in 2014 and 2013, respectively. As a result, the Reserve Fund has a shortfall of \$275,940 and \$152,163 at June 30, 2014 and 2013, respectively.

CRITERIA

The Indenture of Trust and Security Agreement requires maintenance of Reserve Fund. Reserve fund requirement means an amount, on the date of issuance of the Bonds, which amount may be recalculated from the time to time to take into account the redemption or defeasance of Bonds, equal to the least of (i) the maximum Annual Debt Service requirements on all Outstanding Bonds; (ii) 125% of the average annual debt service requirement on the Bonds; or (iii) 10% of the aggregate principal amount of the Bonds.

CAUSE

Due to special levy delinquencies, a draw from Reserve Fund is made to pay a portion of the debt service requirements.

EFFECT

The District is not in compliance with the requirements of the Indenture of Trust and Security Agreement entered into in conjunction with the issuance of the revenue bonds.

RECOMMENDATION

We recommend that the District complies with the Reserve Fund Valuation requirements.

MANAGEMENT'S RESPONSE

The District will ensure that it will meet the required Reserve Fund level to comply with the Indenture of Trust and Security Agreement.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATUS OF PRIOR YEAR'S FINDINGS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012**

09-01	No General Ledger Maintained	Resolved
09-02	Late Audit Report	Updated and repeated as 2009-002
09-03	Budget Overspending	Updated and repeated as 2009-003

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
EXIT CONFERENCE
YEARS ENDED JUNE 30, 2014, 2013 AND 2012**

An exit conference was held on October 2, 2015. Attending were the following:

Representing The Trails Public Improvement District:

Kelly Calhoun, Chairman
John L. Murtagh, 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.