



THE TRAILS
PUBLIC IMPROVEMENT DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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THE TRAILS PUBLIC IMPROVEMENT DISTRICT

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THE TRAILS PUBLIC IMPROVEMENT DISTRICT

**Official Roster
As of June 30, 2015**

Board of Directors

Kelly Calhoun	Chairman
John L. Murtagh	Treasurer
Rick Beltrano	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, each major fund and the budgetary comparison for the general fund of The Trails Public Improvement District (the "District") as of and for the year ended June 30, 2015, 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 year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the respective budgetary comparison for the general fund of The Trails Public Improvement District as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the respective budgetary comparisons for the capital project fund and major debt service funds for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016 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
February 29, 2016

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2015**

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 year ended June 30, 2015. 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, and 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 Statement of Net Position, the District's total net position as of June 30, 2015 amounted to negative \$7,078,768.
- In the Statement of Activities, the special levy revenue amounted to \$1,019,835.
- In the Statement of Activities, the District incurred \$917,142 in debt service payments and general government expenses.
- The Developer contributed \$56,251 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, 2015**

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

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

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 11 and 13, respectively.

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

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a district's financial position. The District's liabilities exceeded assets by \$7,078,768 as of June 30, 2015.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2015**

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

	<u>2015</u>	<u>2014</u>
Current Assets	\$ 1,356,780	\$ 1,203,740
Other Assets	1,404,047	1,485,346
Total Assets	<u>2,760,827</u>	<u>2,689,086</u>
Current Liabilities	458,843	399,638
Long-term Obligations		
Outstanding	<u>9,380,752</u>	<u>9,527,246</u>
Total Liabilities	<u>9,839,595</u>	<u>9,926,884</u>
Net Position - Unrestricted (deficit)	<u>\$ (7,078,768)</u>	<u>\$ (7,237,798)</u>

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

- Administrative expenditures amounted to \$155,523 for the year ended June 30, 2015.
- Interest expense amounted to \$761,619 for the year ended June 30, 2015.
- Special levy revenue amounted to \$1,019,835 for the year ended June 30, 2015.

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

	<u>2015</u>	<u>2014</u>
Expenses		
Interest	\$ (761,619)	\$ (771,930)
General government	<u>(155,523)</u>	<u>(249,789)</u>
Total Expenses	<u>(917,142)</u>	<u>(1,021,719)</u>
General Revenues		
Special levy	1,019,835	1,019,835
Contribution from developer	56,251	194,695
Interest income	<u>86</u>	<u>73</u>
Total Revenues	<u>1,076,172</u>	<u>1,214,603</u>
Change in net position	<u>\$ 159,030</u>	<u>\$ 192,884</u>

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
JUNE 30, 2015**

Financial Analysis of the Government's Funds

The District's revenues in the governmental funds for the year ended June 30, 2015 amounted to \$1,048,156. 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. The general fund's unassigned fund balance is \$450,802 or 289% of the total expenditures for the fund during the year.

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 the fiscal year ending 2015.

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, 2015 amounted to \$9,527,246, net of discount of \$197,754. 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 year ending June 30, 2015 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
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,150,370
Special levy receivable	206,410
Receivable from developer (Note 9)	1,404,047
Total assets	<u><u>\$ 2,760,827</u></u>
LIABILITIES	
Accrued expenses - professional services	\$ 124,727
Interest payable	187,622
Revenue bonds payable	
Due within one year	146,494
Due in more than one year	9,380,752
Total liabilities	<u><u>\$ 9,839,595</u></u>
NET POSITION	
Unrestricted (deficit)	<u><u>\$ (7,078,768)</u></u>

See Notes to Financial Statements.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

	<u>Expenses</u>	<u>Governmental Activities</u>
Expenses		
Interest expense	\$ 761,619	(761,619)
General government	155,523	(155,523)
Total expenses	<u>\$ 917,142</u>	<u>(917,142)</u>
General Revenues		
Special levy		1,019,835
Contribution from developer (Note 9)		56,251
Interest income		86
Total revenues		<u>1,076,172</u>
Change in net position		159,030
Net position, beginning		<u>(7,237,798)</u>
Net position, ending		<u>\$ (7,078,768)</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$ 573,914	10,126	2	566,328	1,150,370
Special levy receivable	206,410	-	-	-	206,410
Receivable from developer	1,404,047	-	-	-	1,404,047
Total assets	\$ 2,184,371	10,126	2	566,328	2,760,827
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accrued expenses	\$ 124,727	-	-	-	124,727
Total liabilities	124,727	-	-	-	124,727
Deferred inflows of resources					
Receivables not yet available	1,608,842	-	-	-	1,608,842
Total deferred inflows of resources	1,608,842	-	-	-	1,608,842
Fund Balances					
Restricted	-	10,126	2	566,328	576,456
Unassigned	450,802	-	-	-	450,802
Total fund balances	450,802	10,126	2	566,328	1,027,258
Total liabilities, deferred inflows of resources and fund balances	\$ 2,184,371	10,126	2	566,328	2,760,827

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
Year Ended June 30, 2015**

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

Fund balances - total governmental funds \$ 1,027,258

Amounts reported for governmental activities in
the Statement of Net Position are different
because:

Long-term obligations for the revenue bonds
are not due and payable in the current period, and
therefore, not reported in the governmental funds. (9,527,246)

Interest payable on long-term debt is not accrued
in the governmental funds, but rather is recognized
as an expenditure when due. (187,622)

A portion of receivables reported in the Statement of
Net Position is not currently available in the funds. 1,608,842

Net Position of governmental activities \$ (7,078,768)

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
Revenues					
Special levy	\$ 1,048,070	-	-	-	1,048,070
Interest income	23	1	3	59	86
Total revenues	<u>1,048,093</u>	<u>1</u>	<u>3</u>	<u>59</u>	<u>1,048,156</u>
Expenditures					
Current:					
General government	155,523	-	-	-	155,523
Debt service:					
Principal	-	-	140,000	-	140,000
Interest	-	-	755,739	-	755,739
Total expenditures	<u>155,523</u>	<u>-</u>	<u>895,739</u>	<u>-</u>	<u>1,051,262</u>
Excess (deficiency) of revenues over (under) expenditures	<u>892,570</u>	<u>1</u>	<u>(895,736)</u>	<u>59</u>	<u>(3,106)</u>
Other financing sources (uses)					
Contribution from developer (Note 9)	56,251	-	-	-	56,251
Transfer in	-	-	895,737	-	895,737
Transfer out	(832,258)	-	-	(63,479)	(895,737)
Total	<u>(776,007)</u>	<u>-</u>	<u>895,737</u>	<u>(63,479)</u>	<u>56,251</u>
Net change in fund balances	116,563	1	1	(63,420)	53,145
Fund balances, beginning	<u>334,239</u>	<u>10,125</u>	<u>1</u>	<u>629,748</u>	<u>974,113</u>
Fund balances, ending	<u>\$ 450,802</u>	<u>10,126</u>	<u>2</u>	<u>566,328</u>	<u>1,027,258</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

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

Net change in fund balances - total governmental funds	\$	53,145
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report the effect of discounts when debt debt is issued, whereas these amounts are amortized in the Statement of Activities.		(8,505)
Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on an accrual basis.		2,625
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.		140,000
Special levy is recognized in fund financials when available to the funds, whereas the Statement of Activities reports revenue when assessments are levied.		(28,235)
		<hr/>
Change in net position of governmental activities	\$	<u>159,030</u>

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL SCHEDULE (GENERAL FUND)
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ 1,019,835	1,019,835	1,048,070	28,235
Interest income	-	-	23	23
Total Revenues	1,019,835	1,019,835	1,048,093	28,258
Expenditures				
Current:				
General government	113,747	113,747	155,523	(41,776)
Total Expenditures	113,747	113,747	155,523	(41,776)
Other Financing Sources (Uses)				
Contribution from developer	-	-	56,251	56,251
Transfer in	-	-	-	-
Transfer out	-	-	(832,258)	(832,258)
Total	-	-	(776,007)	(776,007)
Net Change in Fund Balances	906,088	906,088	116,563	(789,525)
Fund Balances, beginning of year	334,239	334,239	334,239	-
Fund Balances, end of year	\$ 1,240,327	1,240,327	450,802	(789,525)

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015**

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, 2015**

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, 2015, 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, 2015**

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, 2015, 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, 2015**

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, 2015 consist of the following:

Held in trust by Bank of Albuquerque in U.S. Treasury Fund	<u>\$ 1,150,370</u>
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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 did not meet this reserve requirement at June 30, 2015 with a shortfall of \$339,373 due unscheduled draws that were made.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

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>
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	205,000	691,297	896,297
2021 - 2025	1,280,000	3,187,709	4,467,709
2026 - 2030	1,860,000	2,588,888	4,448,888
2031 - 2035	2,685,000	1,717,594	4,402,594
2036 - 2039	3,010,000	488,638	3,498,638
	<u>\$ 9,725,000</u>	<u>11,577,638</u>	<u>21,302,638</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. The following are the changes for Revenue Bonds during the year:

	July 1	Increases	Decreases	June 30
Special Levy Revenue Bonds	\$ 9,865,000	-	(140,000)	9,725,000
Unamortized bond discount	(206,259)	8,505	-	(197,754)
	<u>\$ 9,658,741</u>	<u>8,505</u>	<u>(140,000)</u>	<u>9,527,246</u>

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 expensed as incurred as all capital assets are designated transfer 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 is \$7,078,768.

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, 2015 does not expect to incur a liability.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7. INTERFUND TRANSFERS

For the year ended June 30, 2015, the District transfers were made to fund debt service payments, and administrative expenses. The following transfers were made for the year:

<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	Bond Fund
Reserve Fund	\$ 832,258
	63,479
	<u>\$ 895,737</u>

NOTE 8. BUDGET VIOLATION

In violation of New Mexico state statutes, the District overspent the budget for the general fund for the year ended June 30, 2015 as follows:

<u>Fund</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	Budget		
General Fund	\$ 113,747	155,523	(41,776)

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). For the fiscal year 2015, \$81,299 was collected and released from the forborne special levy.

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. The balance in the escrow account was not recorded in the District’s financial statements as any unused balance will be returned to the Developer.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (PROJECT FUND)
 Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	1	1
Total Revenues	-	-	1	1
Expenditures				
Current:				
Public works - construction	-	-	-	-
Total Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total	-	-	-	-
Net Change in Fund Balances	-	-	1	1
Fund Balances, beginning of year	10,125	10,125	10,125	-
Fund Balances, end of year	\$ 10,125	10,125	10,126	1

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL SCHEDULE (BOND FUND)
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	3	3
Total Revenues	-	-	3	3
Expenditures				
Debt Service:				
Principal	155,000	155,000	140,000	15,000
Interest	750,488	750,488	755,739	(5,251)
Total Expenditures	905,488	905,488	895,739	9,749
Other Financing Sources (Uses)				
Transfer in	-	-	895,737	895,737
Transfer out	-	-	-	-
Total	-	-	895,737	895,737
Net Change in Fund Balances	(905,488)	(905,488)	1	905,489
Fund Balances, beginning of year	1	1	1	-
Fund Balances, end of year	\$ (905,487)	(905,487)	2	905,489

See Notes to Financial Statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 BUDGET TO ACTUAL SCHEDULE (RESERVE FUND)
 Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Special levy	\$ -	-	-	-
Interest income	-	-	59	59
Total Revenues	-	-	59	59
Other Financing Sources (Uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(63,479)	(63,479)
Total	-	-	(63,479)	(63,479)
Net Change in Fund Balances	-	-	(63,420)	(63,420)
Fund Balances, beginning of year	629,748	629,748	629,748	-
Fund Balances, end of year	\$ 629,748	629,748	566,328	(63,420)

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the budgetary comparison for the general fund of The Trails Public Improvement District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the related budgetary comparisons of the capital project fund and debt service funds, presented as supplementary information, and have issued our report thereon dated February 29, 2016.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 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
February 29, 2016

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

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

CONDITION

The audit report for the year ending June 30, 2015 was not submitted by the deadline of December 15, 2015. These reports were submitted to the State Auditor's Office in February 2016. The District is expected to meet the deadline for the fiscal year 2016 audit.

CRITERIA

2.2.2 NMAC, Audit Rule 2015, 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 5. Further, Section 2.2.2.9 A (2) requires that submission of a late audit report shall be reported as current year audit finding in the audit report.

CAUSE

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 2015.

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)
YEAR ENDED JUNE 30, 2015**

2009-003: Budget, Compliance and Other Matters

CONDITION

The General Fund for the year ended June 30, 2015 was overspent by \$41,776. For fiscal year 2016, the District will be working on getting budget amendment as necessary.

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 received funds from the Developer for expenditures related to the inclusion of a track of lot to the district that was not included in the original budget. The District will implement procedures to ensure that expenditures are made within budgeted amounts. The Accountant is assigned to monitor budget to actual schedules and expected to complete this by June 2016.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2015**

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

CONDITION

Reserve Fund has a shortfall of \$339,373 at June 30, 2015 due to the delinquencies on the special levy. The District has started monitoring the monthly reserve balance.

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 work to ensure that it will meet the required Reserve Fund level to comply with the Indenture of Trust and Security Agreement. However, this finding is something that is beyond the control of the District, and dependent on the timely collection of the special levies.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATUS OF PRIOR YEAR'S FINDINGS
YEAR ENDED JUNE 30, 2015**

2009-001	No General Ledger Maintained	Resolved
2009-002	Late Audit Report	Updated and repeated as 2009-002
2009-003	Budget Overspending	Updated and repeated as 2009-003
2014-001	Reserve Valuation	Updated and repeated as 2014-001

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2015**

An exit conference was held on February 26, 2016. 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.