

THE TRAILS PUBLIC
IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

June 30, 2016



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
TABLE OF CONTENTS**

Table of Contents1

Official Roster.....2

Report of Independent Auditors.....3

Management’s Discussion and Analysis5

Financial Statements

Statement of Net Position10

Statement of Activities.....11

Balance Sheet – Governmental Funds12

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net
Position13

Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds14

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities.....15

Budget to Actual Schedule (General Fund).....16

Notes to the Financial Statements.....17

Supplementary Information

Enhanced Series Fund – Budget to Actual27

Bond Fund – Budget to Actual28

Reserve Fund – Budget to Actual29

Supporting Schedules

Schedule of Vendors30

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 *Government Auditing Standards*31

Schedule of Findings and Responses33

Status of Prior Year’s Findings33

Exit Conference34

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
OFFICIAL ROSTER
Year ended June 30, 2016**

BOARD OF DIRECTORS

Kelly Calhoun	Chairman
John L. Murtagh	Treasurer
Rick Beltramo	Clerk

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the general fund of The Trails Public Improvement District (the "District") as of and for the year ended June 30, 2016, 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 also have audited the budgetary comparisons for the major debt service funds presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2016, 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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparisons for the major debt service funds for the year ended June 30, 2016 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's discussion and analysis on pages 6-10, 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 Vendors has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The logo for Axiom, featuring the word "Axiom" in a stylized, blue, cursive font.

Albuquerque, New Mexico
November 17, 2016

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Management of The Trails Public Improvement District (the District) offers 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, 2016. We encourage readers to consider the financial information presented here in conjunction with the financial statements and accompanying notes which follow this section.

The Trails Public Improvement District is a political subdivision of the State of New Mexico (the State) created by the City of Albuquerque (City) pursuant to the Public Improvement District Act, Sections 5-11-1 through 5-11-27, New Mexico Statutes Annotated 1978, as amended (the Act) and 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

Following are highlights from the financial statements for the fiscal year ended June 30, 2016:

- In the Statement of Net Position, the District's total net position amounted to a negative \$6,945,986.
- In the Statement of Activities, the special levy revenue amounted to \$1,033,357.
- In the Statement of Activities, the District incurred \$941,477 in debt service payments and general government expenses.
- The Developer contributed \$39,729 to the District in accordance with the Settlement Agreement (See Note 14).

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of: 1) government- wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the residual 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 TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. 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 (e.g., Special Levy revenues that have been assessed but not yet collected).

In the government-wide financial statements, the District's activities are presented as *governmental activities*. Governmental activities include the District's basic activities to reimburse the Developer for the construction of certain public infrastructure improvements 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 and outflows 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 condition.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Project Fund, the Bond Fund, and the Reserve Fund, all of which are considered to be major funds.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental funds and governmental activities. The reconciliations are on pages 13 and 15 of this report.

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 immediately following the basic financial statements.

Supplementary Information. As required by the New Mexico State Auditor, this report includes budgetary comparison schedules for each of the District's funds that have a legally adopted budget.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the district's financial position. At June 30, 2016, the District's liabilities exceeded assets by \$6,945,986.

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

	2016	2015
Current assets	\$ 1,493,717	\$ 1,356,780
Other assets	1,292,257	1,404,047
Total assets	<u>2,785,974</u>	<u>2,760,827</u>
Current liabilities	507,703	458,843
Long-term liabilities	9,224,257	9,380,752
Total liabilities	<u>9,731,960</u>	<u>9,839,595</u>
Net position – restricted	906,456	
Net position – unrestricted (deficit)	<u>(7,852,442)</u>	<u>(7,078,768)</u>
Total net position (deficit)	<u>\$ (6,945,986)</u>	<u>\$ (7,078,768)</u>

The following table presents a summary of the changes in the District's net position for the fiscal years ended June 30:

	2016	2015
Revenues:		
Special levy	\$ 1,033,357	\$ 1,019,835
Contribution from developer	39,729	56,251
Miscellaneous	1,173	86
Total revenues	<u>1,074,259</u>	<u>1,076,172</u>
Expenses:		
General government	(191,203)	(155,523)
Public works –maintenance		
Bond issuance cost		
Interest expense	<u>(750,274)</u>	<u>(761,619)</u>
Total expenditures	<u>(941,477)</u>	<u>(917,142)</u>
Change in net position	132,782	159,030
Beginning net position	<u>(7,078,768)</u>	<u>(7,237,798)</u>
Ending net position	<u>\$ (6,945,986)</u>	<u>\$ (7,078,768)</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's revenues in the governmental funds for the year ended June 30, 2016 amounted to \$1,074,259. 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 \$418,881 or 219% of the total expenditures for the fund during the year.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The following table shows the balances of the District's governmental funds at June 30, 2016:

	<u>General Fund</u>	<u>Project Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Fund Balances:					
Restricted for debt service					
Restricted for repairs & maintenance					
Unassigned	418,881	10,136	37	906,419	1,335,473
Total	<u>418,881</u>	<u>10,136</u>	<u>37</u>	<u>906,419</u>	<u>1,335,473</u>

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 2016.

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, 2016 amounted to \$9,380,752, net of discount of \$189,248. The next principal payment of \$165,000 will be made on October 1, 2016.

CURRENTLY KNOWN FACTS AND CONDITIONS – 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 14).

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. Questions about this report or any other information about the District should be directed to the Treasurer of The Trails Public Improvement District, John L. Murtagh, Seventh Floor, Room 7057, One Civic Plaza, NW, Albuquerque, NM 87102.

FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,484,905
Special levy receivable	8,812
Receivable from developer (Note 14)	<u>1,292,257</u>
Total assets	<u>2,785,974</u>
LIABILITIES	
Accounts payable	166,493
Interest payable	184,716
Revenue bonds payable, net	
Due within one year	156,494
Due in more than one year	<u>9,224,257</u>
Total liabilities	<u>9,731,960</u>
Net Position	
Restricted for debt service	906,456
Unrestricted (deficit)	<u>(7,852,442)</u>
Total net position	<u>\$ (6,945,986)</u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2016**

EXPENSES	<u>Expenses</u>	<u>Governmental Activities</u>
General government	\$ 191,203	\$ (191,203)
Interest expense	<u>750,274</u>	<u>(750,274)</u>
Total expenses	\$ <u><u>941,477</u></u>	<u>(941,477)</u>
 GENERAL REVENUES		
Special levy		1,033,357
Contribution from developer		39,729
Miscellaneous revenue		<u>1,173</u>
Total general revenues		<u>1,074,259</u>
Change in net position		132,782
Net position (deficit) beginning		<u>(7,078,768)</u>
Net position (deficit), ending		\$ <u><u>(6,945,986)</u></u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$ 568,313	10,136	37	906,419	1,484,905
Special levy receivable	8,812	-	-	-	8,812
Receivable from developer	1,292,257	-	-	-	1,292,257
Total Assets	<u>\$ 1,869,382</u>	<u>10,136</u>	<u>37</u>	<u>906,419</u>	<u>2,785,974</u>
LIABILITIES					
Accounts payable	\$ 166,493	-	-	-	166,493
Total Liabilities	<u>166,493</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,493</u>
DEFERRED INFLOWS					
Special levies	1,284,008	-	-	-	1,284,008
Total Deferred Inflows and Liabilities	<u>1,450,501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,450,501</u>
FUND BALANCES					
Restricted for debt service	-	-	37	906,419	906,456
Restricted for project costs	-	10,136	-	-	10,136
Unassigned	418,881	-	-	-	418,881
Total fund balances	<u>418,881</u>	<u>10,136</u>	<u>37</u>	<u>906,419</u>	<u>1,335,473</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,869,382</u>	<u>10,136</u>	<u>37</u>	<u>906,419</u>	<u>2,785,974</u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position:

Fund Balance - total government funds	\$ 1,335,473
Long-term liabilities for the revenue bonds are not due and payable in the current period, and therefore are not reported in the funds	(9,380,751)
Interest Payable on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(184,716)
Receivables reported in the Statement of Net Position that are not currently available in the funds and reported in deferred inflows.	<u>1,284,008</u>
Net position of governmental activities	<u><u>\$ (6,945,986)</u></u>

See Notes to the Financial Statements

STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
Revenues					
Special Levy	\$ 1,358,190	-	-	-	1,358,190
Interest Income	302	10	40	821	1,173
Dividend income	-	-	-	-	-
<i>Total Revenues</i>	<u>1,358,492</u>	<u>10</u>	<u>40</u>	<u>821</u>	<u>1,359,363</u>
Expenditures					
General government	191,203	-	-	-	191,203
Debt service					
Interest expense	-	-	744,674	-	744,674
Principal	-	-	155,000	-	155,000
<i>Total Expenditures</i>	<u>191,203</u>	<u>-</u>	<u>899,674</u>	<u>-</u>	<u>1,090,877</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,167,289</u>	<u>10</u>	<u>(899,634)</u>	<u>821</u>	<u>268,486</u>
Other financing sources (uses)					
Contribution from developer	39,729	-	-	-	39,729
Transfer in	78,195	-	899,669	339,270	1,317,134
Transfer out	<u>(1,317,134)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,317,134)</u>
Total other financing sources (uses)	<u>(1,199,210)</u>	<u>-</u>	<u>899,669</u>	<u>339,270</u>	<u>39,729</u>
Net change in fund balance	(31,921)	10	35	340,091	308,215
Fund balances, beginning of year	<u>450,802</u>	<u>10,126</u>	<u>2</u>	<u>566,328</u>	<u>1,027,258</u>
Fund balances, ending of year	<u>\$ 418,881</u>	<u>10,136</u>	<u>37</u>	<u>906,419</u>	<u>1,335,473</u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
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
JUNE 30, 2016**

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

Net Change in fund balances - total government funds	\$ 308,215
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report the effect of discounts when debt is issued, whereas these amounts are amortized in the Statement of Activities.	(8,506)
The repayment of long-term debt uses the current financial resources of the governmental funds. This has no effect on net position.	155,000
Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on an accrual basis.	2,906
Special Levy is recognized in fund financials when available to the funds, whereas the Statement of Activities reports revenue when assessments are levied.	<u>(324,833)</u>
Changes in net position of governmental activities	\$ <u><u>132,782</u></u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL - GENERAL FUND
JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Special Levy	\$ 1,039,696	1,033,356	1,358,190	324,834
Other Income	-	-	302	302
<i>Total Revenues</i>	<u>1,039,696</u>	<u>1,033,356</u>	<u>1,358,492</u>	<u>325,136</u>
Expenditures				
General government	<u>130,098</u>	<u>130,098</u>	<u>191,203</u>	<u>(61,105)</u>
<i>Total Expenditures</i>	<u>130,098</u>	<u>130,098</u>	<u>191,203</u>	<u>(61,105)</u>
Other financing sources (uses)				
Contribution from developer	-	-	39,729	39,729
Transfer in	-	-	78,195	78,195
Transfer (out)	-	-	(1,317,134)	(1,317,134)
<i>Total</i>	<u>-</u>	<u>-</u>	<u>(1,199,210)</u>	<u>(1,199,210)</u>
Net change in fund balance	909,598	903,258	(31,921)	(935,179)
Fund balances, beginning of year	<u>450,802</u>	<u>450,802</u>	<u>450,802</u>	<u>-</u>
Fund balances, end of year	\$ <u><u>1,360,400</u></u>	<u><u>1,354,060</u></u>	<u><u>418,881</u></u>	<u><u>(935,179)</u></u>

See Notes to the Financial Statements

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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 U.S. generally accepted accounting principles (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

District-Wide Statements. The Statement of Net Position and Statement of Activities present financial information about the 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 Net Position includes the District’s assets, liabilities, and the residual of these items are reported as net position for the year ending June 30, 2016.

The Statement of Activities presents comparisons 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 real property covered by the District, interest income and dividend income from the investment of funds.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Funds. 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.
- b. Project Fund – used to account for financial resources to be used for the construction of the improvement project.
- c. Bond Fund – used to account for the payment of principal and interest related to the bond obligation.
- d. Reserve Fund – used to account 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 on property is recognized in the fiscal year for which the taxes are levied.

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. For the year ending June 30, 2016, amounts of special levy receivable expected to be collected 60 days beyond the fiscal year is reported as deferred inflows. 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.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investments. Investments are stated at fair value that is determined using selected bases. Investments with managed funds are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount, which reasonably estimates fair value. The District categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset into three levels:

Level 1: inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date (June 30th of that year).

Level 2: inputs, other than quoted prices included within level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3: are unobservable inputs for an asset or liability. The District measures level 3 inputs using other valuation techniques that attempts to maximize the use of relevant observable inputs and maximizes the use of unobservable inputs.

Receivables. All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2016, an allowance for uncollectible accounts was not considered necessary as all accounts are considered collectible. In the case of foreclosure or sale, the special levy has priority over other claims.

Capital Assets. As capital assets are constructed, the ownership is 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.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Special Levy is 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. Levy amounts not available within 60 days of the reporting date are recorded as deferred inflows in the governmental financial statements.

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

Fund Balances. The District follows GASB 54. In the governmental fund financial statements, the District classifies fund balances into spendable and non-spendable classifications. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact permanently such as principal of a permanent fund. The District has no non-spendable fund balances at June 30, 2016.

The spendable classifications are detailed below:

Restricted Fund Balances. Net position is reported as restricted when constraints placed on net position use are (a) externally imposed by creditors such as through debt covenants, grantors, contributors, laws, or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be only for the specific purposes stipulated in the legislation.

Legal enforceability means the government can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources for the purpose specified by the legislation.

The amount of net position restricted by the District's debt covenant is \$916,592 which represents all restricted net position reported on the Statement of Net Position.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District will apply restricted resources first, and then unrestricted resources to any activity that may be satisfied by either restricted or unrestricted resources.

Unrestricted Net Position – consists of net position that does not meet the definition of “restricted” or invested in capital assets, net of related debt.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 District has adopted budgets for each year. The budget is adopted on a modified accrual (GAAP) basis of accounting. The legal level of compliance is total expenditures.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any District, 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.

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

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. All of the District's deposits are held in securities. These investments are direct obligations of the U.S. Treasury and U.S. Government.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Cash and cash equivalents at June 30, 2016 consists of the following:

	Significant Unobservable Inputs (Level 3)
	<hr/>
Cash in trust by Bank of Albuquerque in U.S. Treasury and Government Fund	\$ <u>1,484,905</u>

NOTE 4 – SPECIAL LEVY RECEIVABLES

Special Levy receivables at June 30, 2016 consist of:

Special Levy receivables	\$ 8,812
Allowance for bad debts	<u>-</u>
Total	<u>\$ 8,812</u>

NOTE 5 – 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 met this reserve requirement at June 30, 2016 with a balance of \$906,419.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - REVENUE BONDS (Continued)

The details of activity of the revenue bonds for the year ended June 30, 2016 are as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016	Due within one year
Special Levy Revenue Bonds	\$ 9,725,000	-	(155,000)	9,570,000	165,000
Unamortized bond discount	(197,754)	8,505	-	(189,249)	(8,506)
	<u>\$ 9,527,246</u>	<u>8,505</u>	<u>(155,000)</u>	<u>9,380,751</u>	<u>156,494</u>

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:

Year Ending June 30	Principal	Interest	Total Debt Service
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	220,000	675,094	895,094
2022-2026	1,380,000	3,085,728	4,465,728
2027-2031	2,000,000	2,439,313	4,439,313
2032-2036	2,895,000	1,501,369	4,396,369
2037-2039	2,340,000	281,325	2,621,325
Total	<u>\$ 9,570,000</u>	<u>10,832,963</u>	<u>20,402,963</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 6 - 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 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 assessments. The resulting deficit net position as of June 30, 2016 is \$6,945,986.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2016 to fund the debt service requirements:

Transfer Out		Transfer In Bond Fund	Transfer In General Fund	Transfer In Reserve Fund
General Fund	\$	899,669	78,195	339,270
Total	\$	899,669	78,195	339,270

NOTE 8 – 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, 2016 does not expect to incur a liability.

NOTE 9 – BUDGET VIOLATION

In violation of New Mexico state statutes, the District overspent the budget for the general fund for the year ended June 30, 2016 as follows:

Fund		Final Budget	Actual	Variance
General Fund	\$	130,098	191,203	(61,105)

NOTE 10 - INSURANCE COVERAGE

The District is exposed to various risk of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omission and natural disasters. The District is not insured through private carriers for liability, casualty, and director and officer liability. Certain actions of the Board and management are covered through the Tort Claims Act. As it applies to the District, neither any member of the Board of Directors of the District nor any person acting on behalf of the District, while acting within the scope of his authority, shall be subject to any personal liability for any action taken or omitted within that scope of authority.

NOTE 11 - SUBSEQUENT EVENTS

Events subsequent to June 30, 2016 have been evaluated by management through November 17, 2016, the date the financial statements were available for issuance. In the opinion of management, no events occurring after June 30, 2016 require adjustment or disclosure in the financial statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. The statement addresses accounting and financial reporting issues related to fair value measurements for financial reporting purposes. This statement requires disclosure to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and was effective for financial statements for periods beginning after June 15, 2015. The District adopted this statement for fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement attempts to identify, in the context of the current governmental financial reporting environment, the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The requirements of the statement was effective for periods beginning after June 15, 2015. The District adopted this statement; however, had no effect on the District's financial statements.

NOTE 13. NEW ACCOUNTING PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures*. Effective for fiscal years beginning after December 15, 2015.

The District will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The District believes that the above listed new GASB pronouncements will not have a significant financial impact to the District or in issuing its financial statements.

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 – 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 2016, \$111,790 was collected and released from the forborne special levy.

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL - ENHANCED SERVICES FUND
JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Other Income	\$ -	-	10	10
<i>Total Revenues</i>	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
Expenditures				
General government	-	-	-	-
Debt service				
Interest expense	-	-	-	-
Principal	-	-	-	-
<i>Total Expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
<i>Total</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	10	10
Fund balances, beginning of year	<u>10,126</u>	<u>10,126</u>	<u>10,126</u>	<u>-</u>
Fund balances, end of year	<u>\$ 10,126</u>	<u>10,126</u>	<u>10,136</u>	<u>10</u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL - BOND FUND
JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Other Income	\$ -	-	40	40
<i>Total Revenues</i>	<u>-</u>	<u>-</u>	<u>40</u>	<u>40</u>
Expenditures				
Debt service				
Interest expense	744,675	744,675	744,674	1
Principal	155,000	155,000	155,000	-
<i>Total Expenditures</i>	<u>899,675</u>	<u>899,675</u>	<u>899,674</u>	<u>1</u>
Other financing sources (uses)				
Transfer in	-	-	899,669	899,669
<i>Total</i>	<u>-</u>	<u>-</u>	<u>899,669</u>	<u>899,669</u>
Net change in fund balance	(899,675)	(899,675)	35	35
Fund balances, beginning of year	<u>2</u>	<u>2</u>	<u>2</u>	<u>-</u>
Fund balances, end of year	\$ <u><u>(899,673)</u></u>	<u><u>(899,673)</u></u>	<u><u>37</u></u>	<u><u>35</u></u>

See Notes to the Financial Statements

**STATE OF NEW MEXICO
THE TRAILS PUBLIC IMPROVEMENT DISTRICT
BUDGET TO ACTUAL - RESERVE FUND
JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Other Income	\$ -	-	821	821
<i>Total Revenues</i>	<u>-</u>	<u>-</u>	<u>821</u>	<u>821</u>
Expenditures				
General government	-	-	-	
Debt service				
Interest expense	-	-	-	-
Principal	-	-	-	-
<i>Total Expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Transfer in	54,395	-	339,270	339,270
<i>Total</i>	<u>54,395</u>	<u>-</u>	<u>339,270</u>	<u>339,270</u>
Net change in fund balance	54,395	-	340,091	340,091
Fund balances, beginning of year	566,328	566,328	566,328	-
Fund balances, end of year	\$ <u>620,723</u>	<u>566,328</u>	<u>906,419</u>	<u>340,091</u>

See Notes to the Financial Statements

OTHER INFORMATION

STATE OF NEW MEXICO
 THE TRAILS PUBLIC IMPROVEMENT DISTRICT
 SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (EXCLUDING GRT)
 FOR THE YEAR ENDED JUNE 30, 2016

<i>Agency Number</i>	<i>Agency Name</i>	<i>Agency Type</i>	<i>RFB#/RFPH (If applicable)</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for veterans' preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
10006	The Trails Public Improvement District	Special District	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

COMPLIANCE SECTION

INDEPENDENT AUDITOR’S REPORT 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
Albuquerque, New Mexico
and Mr. Timothy Keller
New Mexico State Auditor

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 comparisons of the general fund of The Trails Public Improvement District (the “District”), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and the budgetary comparisons of the District, presented as supplemental information, and have issued our report thereon dated November 17, 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or deficiencies 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 are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2009-003.

The District's Responses to Findings

The District's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Albuquerque, New Mexico
November 17, 2016

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENT FINDINGS

2009-003: Budget, Compliance and Other Matters

CONDITION

The General Fund for the year ended June 30, 2016 was overspent by \$61,105. No progress has been made related to this finding.

CRITERIA

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

CAUSE

Budget amendments were not completed to account for over expenditures.

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 budgeted for additional expenses related to the settlement agreement management in its FY 2017 budget. The Accountant will prepare quarterly budget to actual schedules to help management monitor the budget closer commencing with the quarter ended Sept 2016.

PRIOR YEAR FINDINGS

2009-002 Late Audit Report	Resolved
2009-003 Budget	Repeated

**THE TRAILS PUBLIC IMPROVEMENT DISTRICT
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2016**

EXIT CONFERENCE

An exit conference was held on December 7, 2016 which was attended by the following:

The Trails Public Improvement District

Kelly Calhoun, Board Member
Dee Brescia, Brescia Consulting

Axiom Certified Public Accountants and Business Advisors LLC

Chris Garner, Partner

Financial Statement Presentation

The financial statements were prepared from the original books and records of The Trails Public Improvement District as of June 30, 2016 by Axiom. However, the contents of the financial statements remain the responsibility of management.