

THE TRAILS PUBLIC
IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

June 30, 2017



THE TRAILS PUBLIC IMPROVEMENT DISTRICT

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THE TRAILS PUBLIC IMPROVEMENT DISTRICT

Official Roster

Year ended June 30, 2017

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 comparison for the general fund of The Trails Public Improvement District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2017 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.



Albuquerque, New Mexico
October 14, 2017

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2017

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, 2017. 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, 2017:

- In the Statement of Net Position, the District's total net position amounted to a negative \$6,688,866.
- In the Statement of Activities, the special levy revenue amounted to \$1,061,132.
- In the Statement of Activities, the District incurred \$808,246 in debt service payments and general government expenses.

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 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.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2017

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 11 and 13 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.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of the district's financial position. At June 30, 2017, the District's liabilities exceeded its assets by \$6,688,866.

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,585,636	1,493,717
Other assets	1,224,963	1,292,257
Total assets	<u>2,810,599</u>	<u>2,785,974</u>
Current liabilities	275,208	351,209
Long-term liabilities	9,224,257	9,380,751
Total liabilities	<u>9,499,465</u>	<u>9,731,960</u>
Net position – restricted	908,024	906,456
Net position – unrestricted (deficit)	<u>(7,596,890)</u>	<u>(7,852,442)</u>
Total net position (deficit)	<u>\$ (6,688,866)</u>	<u>(6,945,986)</u>

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2017

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

	<u>2017</u>	<u>2016</u>
Revenues:		
Special levy	\$ 1,061,132	1,033,357
Contribution from developer	-	39,729
Interest income	4,234	1,173
Total revenues	<u>1,065,366</u>	<u>1,074,259</u>
Expenses:		
General government	(70,159)	(191,203)
Public works	-	-
Interest expense	(738,087)	(750,274)
Total expenditures	<u>(808,246)</u>	<u>(941,477)</u>
Change in net position	257,120	132,782
Beginning net position	(6,945,986)	(7,078,768)
Ending net position	<u>\$ (6,688,866)</u>	<u>(6,945,986)</u>

Financial Analysis of the District's Governmental Funds

The District's revenues in the governmental funds for the year ended June 30, 2017 amounted to \$1,109,704. 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 \$559,151 or 797% 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. The District amended the budget to decrease special levy from \$1,087,527 to \$1,061,132.

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, 2017 amounted to \$9,224,258, net of discount of \$180,743. The next principal payment of \$175,000 will be made on October 1, 2017.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Management's Discussion and Analysis
June 30, 2017

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 9).

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

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,569,229
Special levy receivable	16,407
Receivable from developer (Note 9)	<u>1,224,963</u>
Total assets	<u>2,810,599</u>
LIABILITIES	
Accounts payable	93,586
Interest payable	181,622
Revenue bonds payable, net	
Due within one year	166,494
Due in more than one year	<u>9,057,763</u>
Total liabilities	<u>9,499,465</u>
Net Position	
Restricted for debt service	908,024
Unrestricted (deficit)	<u>(7,596,890)</u>
Total net position	<u>\$ (6,688,866)</u>

See Notes to the Financial Statements

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Statement of Activities
Year Ended June 30, 2017

EXPENSES	<u>Expenses</u>	<u>Governmental Activities</u>
General government	\$ 70,159	\$ (70,159)
Interest expense	<u>738,087</u>	<u>(738,087)</u>
Total expenses	\$ <u><u>808,246</u></u>	<u>(808,246)</u>
 GENERAL REVENUES		
Special levy		1,061,132
Contribution from developer		-
Interest income		<u>4,234</u>
Total general revenues		<u>1,065,366</u>
Change in net position		257,120
Net position (deficit) beginning		<u>(6,945,986)</u>
Net position (deficit), ending		\$ <u><u>(6,688,866)</u></u>

See Notes to the Financial Statements

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Project Fund	Bond Fund	Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$ 651,037	10,168	89	907,935	1,569,229
Special levy receivable	16,407	-	-	-	16,407
Receivable from developer	1,224,963	-	-	-	1,224,963
Total Assets	\$ 1,892,407	10,168	89	907,935	2,810,599
LIABILITIES					
Accounts payable	\$ 93,586	-	-	-	93,586
<i>Total Liabilities</i>	93,586	-	-	-	93,586
DEFERRED INFLOWS					
Special levies	1,239,670	-	-	-	1,239,670
<i>Total Deferred Inflows and Liabilities</i>	1,333,256	-	-	-	1,333,256
FUND BALANCES					
Restricted for debt service	-	-	89	907,935	908,024
Restricted for project costs	-	10,168	-	-	10,168
Unassigned	559,151	-	-	-	559,151
<i>Total fund balances</i>	559,151	10,168	89	907,935	1,477,343
<i>Total liabilities, deferred inflows and fund balances</i>	\$ 1,892,407	10,168	89	907,935	2,810,599

See Notes to the Financial Statements

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Reconciliation of the Balance Sheet – Governmental Funds
To the Statement of Net Position
June 30, 2017

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

Fund Balance - total government funds	\$ 1,477,343
Long-term liabilities for the revenue bonds are not due and payable in the current period, and therefore are not reported in the funds	(9,224,257)
Interest payable on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(181,622)
Receivables reported in the Statement of Net Position that are not currently available in the funds and reported in deferred inflows.	<u>1,239,670</u>
Net position of governmental activities	\$ <u><u>(6,688,866)</u></u>

See Notes to the Financial Statements

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Statement of Revenues, Expenditures, and Changes
In Fund Balances – Governmental Funds
Year Ended June 30, 2017

	<u>General Fund</u>	<u>Project Fund</u>	<u>Bond Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Revenues					
Special levy	\$ 1,105,470	-	-	-	1,105,470
Interest income	1,179	32	121	2,902	4,234
<i>Total Revenues</i>	<u>1,106,649</u>	<u>32</u>	<u>121</u>	<u>2,902</u>	<u>1,109,704</u>
Expenditures					
General government	70,159	-	-	-	70,159
Debt service					
Principal	-	-	165,000	-	165,000
Interest	-	-	732,675	-	732,675
<i>Total Expenditures</i>	<u>70,159</u>	<u>-</u>	<u>897,675</u>	<u>-</u>	<u>967,834</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,036,490</u>	<u>32</u>	<u>(897,554)</u>	<u>2,902</u>	<u>141,870</u>
Other financing sources (uses)					
Contribution from developer	-	-	-	-	-
Transfer in	-	-	897,606	-	897,606
Transfer out	(896,220)	-	-	(1,386)	(897,606)
<i>Total other financing sources (uses)</i>	<u>(896,220)</u>	<u>-</u>	<u>897,606</u>	<u>(1,386)</u>	<u>-</u>
Net change in fund balance	140,270	32	52	1,516	141,870
Fund balances, beginning of year	<u>418,881</u>	<u>10,136</u>	<u>37</u>	<u>906,419</u>	<u>1,335,473</u>
Fund balances, ending of year	<u>\$ 559,151</u>	<u>10,168</u>	<u>89</u>	<u>907,935</u>	<u>1,477,343</u>

See Notes to the 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, 2017

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	\$	141,870
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report the effect of discounts when debt is issued, whereas these amounts are amortized in the Statement of Activities.</p>		(8,506)
<p>The repayment of long-term debt uses the current financial resources of the governmental funds. This has no effect on net position.</p>		165,000
<p>Governmental funds report interest expense when the amount is paid, whereas the Statement of Activities reports interest on an accrual basis.</p>		3,094
<p>Special Levy is recognized in fund financials when available to the funds, whereas the Statement of Activities reports revenue when assessments are levied.</p>		<u>(44,338)</u>
Changes in net position of governmental activities	\$	<u><u>257,120</u></u>

See Notes to the Financial Statements

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Budget to Actual (General Fund)
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special levy	\$ 1,087,527	1,061,132	1,105,470	44,338
Interest income	-	-	1,179	1,179
<i>Total Revenues</i>	<u>1,087,527</u>	<u>1,061,132</u>	<u>1,106,649</u>	<u>45,517</u>
Expenditures				
General government	157,150	157,150	70,159	86,991
<i>Total Expenditures</i>	<u>157,150</u>	<u>157,150</u>	<u>70,159</u>	<u>86,991</u>
Other financing sources (uses)				
Contribution from developer	-	-	-	-
Transfer in	-	-	-	-
Transfer (out)	-	-	(896,220)	(896,220)
<i>Total</i>	<u>-</u>	<u>-</u>	<u>(896,220)</u>	<u>(896,220)</u>
Net change in fund balance	930,377	903,982	140,270	(763,712)
Fund balances, beginning of year	418,881	418,881	418,881	-
Fund balances, end of year	\$ <u>1,349,258</u>	<u>1,322,863</u>	<u>559,151</u>	<u>(763,712)</u>

See Notes to the Financial Statements

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

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, 2017.

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.

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.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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, 2017, 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.

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.

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, 2017, 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, 2017

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.

The New Mexico State Legislature, pursuant to Section 7-37-5.4, NMSA 1978, enacted a law providing an exemption from the imposition of special levies in Public Improvement Districts for the principal place of residence for a disabled veteran, as defined in the legislation. The law extends the exemption to surviving spouses provided (1) the spouse and the disabled veteran were married at the time of the disabled veteran's death, (2) the surviving spouse continues to occupy the property continuously after the disabled veteran's death as the spouse's principal place of residence and (3) the surviving spouse has remained unmarried since the time of the disabled veteran's death.

The District determined that a total of 5 lots were subject to this exemption for fiscal year 2017 and the District did not seek to collect the Special Levy on those properties. This resulted in a \$3,103 reduction in the Special Levy that could be collected from property within the District. The District took such reduction into account in determining its fiscal year 2017 Special Levy requirement. The fiscal year 2017 Special Levy due on the regular property tax bills, together with the available account balances, was sufficient to cover the scheduled debt service payments due on the Bonds and the District administrative expenses. The District has no definitive information on the number of residences in the District that could in the future become subject to such exemption.

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

Fund Balance. As of June 30, 2017, 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 TRAILS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Cash and cash equivalents at June 30, 2017 consists of the following:

Cash in trust by Bank of Albuquerque in U.S. Treasury and Government Fund	\$ <u>1,569,229</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 met this reserve requirement at June 30, 2017 with a balance of \$907,935.

The details of activity of the revenue bonds for the year ended June 30, 2017 are as follows:

	<u>Balance</u> <u>6/30/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2017</u>
Special Levy Revenue Bonds	\$ 9,570,000	-	(165,000)	9,405,000
Unamortized bond discount	(189,249)	8,506	-	(180,743)
	<u>\$ 9,380,751</u>	<u>8,506</u>	<u>(165,000)</u>	<u>9,224,257</u>

The Revenue Bonds bear annual interest ranging from 7.50% to 7.75%, with final maturity on October 1, 2038.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 4 – REVENUE BONDS (Continued)

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>
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	235,000	657,746	892,746
2023-2027	1,485,000	2,975,519	4,460,519
2028-2032	2,155,000	2,278,306	4,433,306
2033-2037	3,120,000	1,268,288	4,388,288
2038-2039	1,620,000	127,875	1,747,875
Total	\$ 9,405,000	10,100,287	19,505,287

Interest payment and principal payments of the revenue bonds are serviced by revenues generated from the Special Levy and are paid from the Bond Fund.

NOTE 5 – DEFICIT NET POSITION

The total net position balance is in a deficit position. This is due to the fact that the capital assets acquired with bond proceeds were 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, 2017 is \$6,688,866.

NOTE 6 – INTERFUND TRANSFERS

The following transfers were made for the year ended June 30, 2017 to fund the debt service requirements:

<u>Transfer Out</u>	<u>Transfer In Bond Fund</u>
General Fund	\$ 896,220
Reserve Fund	1,386
	\$ 897,606

NOTE 7 – ARBITRAGE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on the revenue bonds and at June 30, 2017 does not expect to incur a liability.

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 8 - 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 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 2016, \$67,924 was collected and released from the forborne special levy.

OTHER INFORMATION

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 comparison of the general fund of The Trails Public Improvement District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2017.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
October 14, 2017

THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Schedule of Findings and Responses
Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR FINDINGS

2015-002 Budget, Compliance and Other Matters	Resolved
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THE TRAILS PUBLIC IMPROVEMENT DISTRICT
Exit Conference
Year Ended June 30, 2017

An exit conference was held on October 2, 2017 which was attended by the following:

The Trails Public Improvement District

Kelly Calhoun, Chairman

Jill Sweeney, Legal Counsel (Sherman & Howard)

Dee Brescia, Accountant (Brescia Consulting)

Axiom Certified Public Accountants and Business Advisors LLC

Jaime Rumbaoa, Partner

Financial Statement Presentation

The financial statements were prepared with the assistance of Axiom CPAs and Business Advisors LLC.