

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2014**

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Trails Community Development District
City of Jacksonville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Trails Community Development District, City of Jacksonville, Florida ("District") as of and for the fiscal year ended September 30, 2014, 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. Except as discussed in the following paragraphs, 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.

The District has not included the blended component unit, Special Revenue Fund – Special Purpose Entity (Winchester Forest, Inc. "SPE") in the Trails Community Development District's financial statements.

Accounting principles generally accepted in the United States of America require the Special Revenue Fund to be presented as a major governmental fund and financial information about the Special Revenue Fund to be part of the governmental activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the governmental activities and the omitted major fund is not reasonably determinable.

The District was unable to provide sufficient competent evidential matter for certain expenditures paid for by the Trustee from the Debt Service Fund. The financial information of the Debt Service Fund is part of the governmental activities and is considered a major fund.

Opinions

In our opinion, because of the omission of the Special Revenue Fund, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Special Revenue Fund and the governmental activities of the Trails Community Development District, City of Jacksonville, as of September 30, 2014, or the changes in financial position thereof for the fiscal year then ended.

In addition, in our opinion, except for the effects of not including financial information for the Special Revenue Funds, and for the effects of such adjustments, if any, as might have been determined to be necessary had the District been able to provide sufficient competent evidential matter for the selected expenditures paid for by the Trustee from the Debt Service Fund, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund, Debt Service Fund and Capital Projects Fund of the District, as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 6 and other referenced notes to the financial statements during prior fiscal years the Developer and landowner failed to pay their share of assessments. As a result, the land with delinquent assessments was transferred to the SPE created by the Trustee and debt service assessments on the property will be abated until the property is subsequently sold. As a result of these events, the District failed to make certain scheduled debt service payments in the 2009 through 2013 fiscal years. During the current fiscal year the Trustee utilized funds accumulated in the bond redemption and prepayment account to pay previous amounts owed for principal \$815,000 and interest \$209,625 and to pay down the bonds by \$485,000. However, the District did not pay for the current fiscal year debt service requirements and also failed to make its scheduled November 2014 debt service payment when due. In addition, the Trustee utilized debt service funds to pay certain expenses related to the default on the Bonds and costs related to the SPE. The District is economically dependent upon the Developer and Bondholders. Furthermore, the debt service fund had a deficit fund balance of (\$1,043,242) at September 30, 2014.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 March 17, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated March 17, 2015, on our consideration of the District's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

March 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Trails Community Development District, City of Jacksonville, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets of resources at the close of the most recent fiscal year resulting in a net position deficit balance of (\$4,189,369).
- The change in the District's total net position in comparison with the prior fiscal year was (\$408,893), a decrease. The key components of the District's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2014, the District's governmental funds reported combined ending fund balance deficit of (\$957,464), a decrease of (\$785,336) in comparison with the prior fiscal year. A portion of fund balance is restricted for capital projects, non-spendable for prepaid items, (\$1,043,242) is unassigned deficit debt service fund balance and \$81,707 is unassigned general fund balance.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual amount being 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 government'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.

The government-wide financial statements include all governmental activities that are principally supported by special assessments. The District does not have any business-type activities. The governmental activities of the District include the general government (management), maintenance, and culture and recreation functions.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category, governmental funds.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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 a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital project fund all of which are considered major funds.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, liabilities exceeded assets at the close of the most recent fiscal year.

Key components of the District's net position are reflected in the following table:

	NET POSITION SEPTEMBER 30,	
	2014	2013
Assets, excluding capital assets	\$ 999,976	\$ 2,122,335
Capital assets, net	5,984,137	6,311,809
Total assets	<u>6,984,113</u>	<u>8,434,144</u>
Due to primary government		
Liabilities, excluding long-term liabilities	2,163,482	2,529,620
Long-term liabilities	9,010,000	9,685,000
Total liabilities	<u>11,173,482</u>	<u>12,214,620</u>
Net position		
Net investment in capital assets	566,249	132,916
Restricted for:		
Debt service	-	412,322
Capital projects	237	237
Unrestricted	(4,755,855)	(4,325,951)
Total net position	<u>\$ (4,189,369)</u>	<u>\$ (3,780,476)</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The District's net position reflects its investment in capital assets (e.g. land, land improvements, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the District's net position in fiscal year 2013 represents resources that are subject to external restrictions on how they may be used.

The District's net position decreased during the most recent fiscal year. The majority of the decrease is primarily the result of the abeyance of collection of certain debt service assessments which resulted in the cost of operations and depreciation expense exceeding ongoing program revenues.

Key elements of the change in net position are reflected in the following table:

	CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
	2014	2013
Revenues:		
Program revenues		
Charges for services	\$ 934,049	\$ 406,069
Operating grants and contributions	177	720
Total revenues	<u>934,226</u>	<u>406,789</u>
Expenses:		
General government	115,576	102,079
Maintenance and operations	383,547	368,214
Culture and recreation	103,681	94,443
SPE costs	239,992	36,000
Conveyance of assets	-	3,288,371
Interest	500,323	564,375
Total expenses	<u>1,343,119</u>	<u>4,453,482</u>
Change in net position	(408,893)	(4,046,693)
Net position - beginning, previously stated	(3,780,476)	515,333
Effect of adoption of GASB No. 65	-	(249,116)
Net position - beginning, as restated	<u>(3,780,476)</u>	<u>266,217</u>
Net position - ending	<u>\$ (4,189,369)</u>	<u>\$ (3,780,476)</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2014 was \$1,343,119. The majority of the costs of the District's activities were paid by program revenues. Program revenues were comprised primarily of assessments for both the current fiscal year and prior fiscal year. Program revenues increased during the fiscal year primarily as a result of an increase in prepayment revenue. The decrease in expenses is primarily due to the conveyance of roadways to the City of Jacksonville in the prior fiscal year. This was partially offset by an increase in professional and other fees related to remedial actions on delinquent assessments and default on Bond payments and expenses related to the operation of the SPE.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2014.

GENERAL BUDGETING HIGHLIGHTS (Continued)

The variance between budgeted and actual general fund revenues for the current fiscal year was not significant. The actual general fund expenditures were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2014, the District had \$8,236,351 invested in recreational facilities, equipment, and storm water management for its governmental activities. In the government-wide financial statements, depreciation of \$2,252,214 has been taken, which resulted in a net book value of \$5,984,137. As of September 30, 2014 the estimated cost to complete the project is unknown and the project has been placed on hold. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Capital Debt

At September 30, 2014, the District had \$9,010,000 in Bonds outstanding for its governmental activities and owed \$1,920,750 to Bondholders due to the nonpayment of scheduled debt service payments. More detailed information about the District's capital debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND OTHER EVENTS

The District does not anticipate any major projects or significant changes to its infrastructure maintenance program for the subsequent fiscal year. In addition, it is anticipated that the general operations of the District will increase. See Notes to financial statements for additional information related to the default on the Bonds.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide homeowners, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Trails Community Development District's Finance Department at 3434 Colwell Avenue, Suite 200, Tampa, Florida 33614.

FINANCIAL STATEMENTS

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 51,455
Assessments receivable	40,250
Prepays	3,834
Restricted assets:	
Investments	904,437
Capital assets:	
Depreciable, net	5,984,137
Total assets	6,984,113
 LIABILITIES	
Accounts payable and accrued expenses	36,690
Due to Bondholder	
Principal	190,000
Interest	1,730,750
Accrued interest payable	206,042
Non-current liabilities:	
Due within one year*	200,000
Due in more than one year	8,810,000
Total liabilities	11,173,482
 NET POSITION	
Net investment in capital assets	566,249
Restricted for:	
Capital projects	237
Unrestricted	(4,755,855)
Total net position	\$ (4,189,369)

* The missed debt service payments due for the Series 2007 Bonds are reflected in the due to Bondholder Principal account balance.

See notes to the financial statements

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

<u>Functions/Programs</u>	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:				
Governmental activities:				
General government	\$ 115,576	\$ 165,843	\$ -	\$ 50,267
Maintenance and operations	383,547	-	-	(383,547)
Culture and recreation	103,681	298	-	(103,383)
SPE costs	239,992	216,830	-	(23,162)
Interest	500,323	551,078	177	50,932
Total governmental activities	<u>1,343,119</u>	<u>934,049</u>	<u>177</u>	<u>(408,893)</u>
				Change in net position (408,893)
				Net position - beginning (3,780,476)
				<u>\$ (4,189,369)</u>

See notes to the financial statements

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
ASSETS				
Cash and cash equivalents	\$ 51,455	\$ -	\$ -	\$ 51,455
Investments	-	903,877	560	904,437
Assessments receivable	40,250	-	-	40,250
Prepays	3,834	-	-	3,834
Total assets	<u>\$ 95,539</u>	<u>\$ 903,877</u>	<u>\$ 560</u>	<u>\$ 999,976</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 9,998	\$ 26,369	\$ 323	\$ 36,690
Debt service - current portion	-	1,920,750	-	1,920,750
Total liabilities	<u>9,998</u>	<u>1,947,119</u>	<u>323</u>	<u>1,957,440</u>
Fund balances:				
Nonspendable:				
Prepaid items	3,834	-	-	3,834
Restricted for:				
Capital projects	-	-	237	237
Unassigned	81,707	(1,043,242)	-	(961,535)
Total fund balances	<u>85,541</u>	<u>(1,043,242)</u>	<u>237</u>	<u>(957,464)</u>
Total liabilities and fund balances	<u>\$ 95,539</u>	<u>\$ 903,877</u>	<u>\$ 560</u>	<u>\$ 999,976</u>

See notes to the financial statements

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

Fund balance - governmental funds \$ (957,464)

Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position of the government as a whole.

Cost of capital assets	8,236,351	
Accumulated depreciation	<u>(2,252,214)</u>	5,984,137

Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.

Accrued interest payable	(206,042)	
Bonds payable less matured principal	<u>(9,010,000)</u>	(9,216,042)

Net position of governmental activities		<u><u>\$ (4,189,369)</u></u>
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See notes to the financial statements

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
REVENUES				
Assessments	\$ 165,843	\$ 164,675	\$ -	\$ 330,518
Assessments - prepayments	-	386,403	-	386,403
Assessments - SPE	184,184	-	-	184,184
Investment earnings	-	177	-	177
Miscellaneous	298	32,646	-	32,944
Total revenues	<u>350,325</u>	<u>583,901</u>	<u>-</u>	<u>934,226</u>
EXPENDITURES				
Current:				
General government	99,624	15,952	-	115,576
Maintenance and operations	89,575	-	-	89,575
Culture and recreation	56,647	-	-	56,647
SPE costs	-	239,992	-	239,992
Debt Service:				
Principal	-	675,000	-	675,000
Interest	-	529,438	-	529,438
Capital outlay	13,334	-	-	13,334
Total expenditures	<u>259,180</u>	<u>1,460,382</u>	<u>-</u>	<u>1,719,562</u>
Excess (deficiency) of revenues over (under) expenditures	91,145	(876,481)	-	(785,336)
Fund balances - beginning	<u>(5,604)</u>	<u>(166,761)</u>	<u>237</u>	<u>(172,128)</u>
Fund balances - ending	<u>\$ 85,541</u>	<u>\$ (1,043,242)</u>	<u>\$ 237</u>	<u>\$ (957,464)</u>

See notes to the financial statements

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	(785,336)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is eliminated and capitalized as capital assets.		13,334
Depreciation of capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.		(341,006)
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.		675,000
Change in accrued interest from current period to prior period affects the change in net position as reported on the statement of activities; however, accrued interest is not reported on the fund financial statements.		29,115
Change in net position of governmental activities	<u>\$</u>	<u>(408,893)</u>

See notes to the financial statements

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

Trails Community Development District ("District") was established on September 12, 2006, pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by City of Jacksonville Ordinance 2006-861-E. The Act provides, among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District is governed by the Board of Supervisors ("Board"), which is composed of five members. The Supervisors are elected on an at large basis by the qualified electors within the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes. As of September 30, 2014, two of the Supervisors are affiliated with D.R. Horton, Inc. - Jacksonville ("Developer") and two with the SPE.

The Board has the final responsibility for:

1. Allocating and levying assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment (Operating-type special assessments for maintenance and debt service are treated as charges for services.) and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments

Assessments, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operation and maintenance assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. Operation and maintenance special assessments are imposed upon all benefitting lands in the District. Debt service special assessments are imposed upon certain lots and lands described in each resolution imposing the special assessment for each series of Bonds issued by the District.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The District reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for the annual payment of principal and interest on the Bonds.

Capital Projects Fund

This fund accounts for the financial resources to be used for the acquisition or construction of major infrastructure within the District financed with the Bonds. There was no activity in the capital projects fund during the current fiscal year.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to Bond covenants or other contractual restrictions.

Deposits and Investments

The District's cash on hand and demand deposits are considered to be cash and cash equivalents.

The District has adopted a written investment policy. All investments comply with the requirements of the written investment policy. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury;
- e) Short-term Bond Funds.

In addition, surplus funds may be deposited into certificates of deposit which are insured. Any unspent proceeds are required to be held in investments allowed in the Bond Indenture.

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Stormwater	25
Equipment	5-10
Recreational facilities	20

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the fund financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized ratably over the life of the Bonds. Bonds payable are reported net of applicable premiums or discounts. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s). For example, the District would record deferred outflows of resources on the statement of net position related to debit amounts resulting from current and advance refundings resulting in the defeasance of debt (i.e. when there are differences between the reacquisition price and the net carrying amount of the old debt).

Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s). For example, when an asset is recorded in the governmental fund financial statements, but the revenue is unavailable, the District reports a deferred inflow of resources on the balance sheet until such times as the revenue becomes available.

Fund Equity/Net Position

In the fund financial statements, governmental funds report non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

The District can establish limitations on the use of fund balance as follows:

Committed fund balance – Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action (resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance – Includes spendable fund balance amounts established by the Board of Supervisors that are intended to be used for specific purposes that are neither considered restricted nor committed. The Board may also assign fund balance as it does when appropriating fund balance to cover differences in estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally temporary and normally the same formal action need not be taken to remove the assignment.

The District first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Fund Equity/Net Position (Continued)

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the District's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETARY INFORMATION

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) A public hearing is conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

The District's cash balances were covered by federal depository insurance or by a collateral pool pledged to the State Treasurer, except for amounts held in money market accounts in the Bond Trust Accounts held in the Debt Service and Capital Projects Funds. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments

The District's investments were held as follows at September 30, 2014:

	Fair Value	Credit Risk	Weighted Average Maturities
US Bank Money Market Account - Managed	\$ 904,437	N/A	N/A
Total Investments	<u>\$ 904,437</u>		

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk – The District does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

However, the Bond Indenture limits the type of investments held using unspent proceeds.

NOTE 5 – CAPITAL ASSETS

Total infrastructure improvements for the District were estimated to cost approximately \$27.3 million. Of that amount approximately \$8.6 million was funded from Series 2006 Bond Anticipation Note and Series 2007 Bonds; and the remainder of the project is anticipated to be funded by a future Developer. Approximately \$13.9 million of infrastructure improvements have been completed to date, of which \$3,401,921 in water and sewer facilities and \$3,288,371 million in roadways improvements were conveyed to other governmental entities in a prior year. In addition, \$940,672 in recreational facilities was donated to the District by the Developer in a prior fiscal year. As of September 30, 2014 the estimated cost to complete the project is unknown and the project has been placed on hold. The District has not yet determined if a liability exists for deferred obligations.

Capital asset activity for the fiscal year ended September 30, 2014 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Governmental activities</u>				
Capital assets, being depreciated				
Stormwater	\$ 7,266,354	\$ -	\$ -	\$ 7,266,354
Recreational facilities	940,672	-	-	940,672
Equipment	15,991	13,334	-	29,325
Total capital assets, being depreciated	<u>8,223,017</u>	<u>13,334</u>	<u>-</u>	<u>8,236,351</u>
Less accumulated depreciation for:				
Stormwater	1,743,924	290,654	-	2,034,578
Recreational facilities	164,618	47,034	-	211,652
Equipment	2,666	3,318	-	5,984
Total accumulated depreciation	<u>1,911,208</u>	<u>341,006</u>	<u>-</u>	<u>2,252,214</u>
Total capital assets, being depreciated, net	<u>6,311,809</u>	<u>(327,672)</u>	<u>-</u>	<u>5,984,137</u>
Governmental activities capital assets, net	<u>\$ 6,311,809</u>	<u>\$ (327,672)</u>	<u>\$ -</u>	<u>\$ 5,984,137</u>

NOTE 5 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs as follows:

Governmental activities:	
Maintenance and operation	\$ 293,972
Culture and recreation	47,034
Total depreciation expense - governmental activities	<u>\$ 341,006</u>

NOTE 6 – LONG-TERM LIABILITIES

On January 1, 2007, the District issued \$10,935,000 of Special Assessment Bonds Series 2007 due May 1, 2038, with a fixed interest rate of 5.375%. The Bonds were issued to retire all of the District’s outstanding Special Assessment Bond Anticipation Notes, Series 2006; finance a portion of the costs of the Series 2007 Project and pay the costs of issuance of the Series 2007 Bonds. Interest is to be paid semiannually on each May 1 and November 1. Principal on the Bonds is to be paid serially commencing May 1, 2009 through May 1 2038.

The Series 2007 Bonds are subject to redemption at the option of the District prior to their maturity. The Bonds are subject to extraordinary mandatory redemption prior to their selected maturity in the manner determined by the Bond Registrar if certain events occurred as outlined in the Bond Indenture.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agrees to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements.

During prior fiscal years the Developer and landowner failed to pay their share of assessments. As a result, the land with delinquent assessments was transferred to the SPE created by the Trustee and debt service assessments on the property will be abated until the property is subsequently sold. As a result of these events, the District failed to make certain scheduled debt service payments in the 2009 through 2013 fiscal years. During the current fiscal year the Trustee utilized funds accumulated in the bond redemption and prepayment account to pay previous amounts owed for principal (\$815,000) and interest (\$209,625) and to pay down the Bonds by \$485,000. However, the District did not pay for the current fiscal year debt service requirements and also failed to make its scheduled November 2014 debt service payment when due. The total amount owed has been accrued on the fund financial statements as \$190,000 due for principal and \$1,730,750 due for interest. The failure by the District to pay its debt service is considered an event of default. In addition, the Trustee utilized debt service funds to pay certain expenses related to the default on the Bonds and costs related to the SPE. See Note13 – Subsequent Events for additional information subsequent to fiscal year end.

Changes in long-term liability activity for the fiscal year ended September 30, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2007	\$ 10,500,000	\$ -	\$ 1,300,000	\$ 9,200,000	\$ 390,000
Governmental activity long-term liabilities	<u>\$ 10,500,000</u>	<u>\$ -</u>	<u>\$ 1,300,000</u>	<u>\$ 9,200,000</u>	<u>\$ 390,000</u>

* The missed debt service principal is included in the Due Within One Year amount.

NOTE 6 – LONG-TERM LIABILITIES (Continued)

At September 30, 2014, the scheduled debt service requirements on the long - term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2015	\$ 390,000 *	\$ 2,219,875 *	\$ 2,609,875
2016	210,000	483,750	693,750
2017	225,000	472,463	697,463
2018	235,000	460,369	695,369
2019	250,000	447,738	697,738
2020-2024	1,475,000	2,021,000	3,496,000
2025-2029	1,925,000	1,578,906	3,503,906
2030-2034	2,515,000	1,002,169	3,517,169
2035-2038	1,975,000	268,481	2,243,481
Total	<u>\$ 9,200,000</u>	<u>\$ 8,954,751</u>	<u>\$ 18,154,751</u>

* The missed debt service payments due for the Series 2007 Bonds are reflected in the principal and interest amounts.

NOTE 7 – DEVELOPER TRANSACTIONS

The Developer owns a significant portion of land within the District; therefore, assessment revenues in the general and debt service funds include the assessments levied on those lots owned by the Developer. During the prior years, the Developer and a major landowner, BSHW Winchester Ridge did not pay a significant portion of their assessments. During a prior fiscal year, BSHW Winchester Ridge, LLC, a former significant landowner, sold all of its assessable property within the District's boundaries back to the Developer. The assessable property included an area of platted lots and an area of unplatted raw land. In a prior fiscal year, the District entered into a settlement agreement with the Developer regarding the remaining delinquent assessment and the unplatted parcel was transferred to the SPE – see Note 8. – Other Information.

NOTE 8 – OTHER INFORMATION

Bond Default and SPE

As discussed in Note 6 – Long Term Liabilities, due to the non-collection of assessments from the Developer and previous landowner, the District did not make certain schedule debt service payments. The failure to make debt service payments when due is considered an event of default. Pursuant to the Bond Indenture, the Trustee, on behalf of the Bondholders, has access to the funds held on deposit in the trust accounts. As a result of the default and the Modification and Settlement Agreement with the Developer, a SPE was created by the Trustee (“Trustee”) in a prior fiscal year to own and maintain the property subject to delinquent Series 2007 assessments. The SPE accepted unplatted lots owned by the Developer in lieu of foreclosure. In addition, an agreement was entered into between the District and the SPE, whereby, debt service assessments on the Bond would be forborne but continue to constitute a lien on the property.

In October 2012, the District entered into an agreement with the SPE whereby no operations and maintenance assessments would be assessed on property owned by the SPE. In lieu of assessment, the SPE agreed to fund the actual expenses of the District to the extent that expenditures exceed special assessment levied and collected by the District. During the fiscal year ended September 30, 2014, \$184,184 was received from the SPE by the general fund to help cover the operations and maintenance costs of the District. The agreement between the SPE and the District states that in the event funds are no longer available in the trust accounts and another funding source has not been secured or changes affecting the delinquent lands results in increased risk to the SPE or related parties, the SPE may convey the lands to the District.

NOTE 8 – OTHER INFORMATION (Continued)

Bond Default and SPE (Continued)

Furthermore, the SPE collected \$32,646 in logging fees which were deposited into the Series 2007 Revenue Trust Account. During the current fiscal year this amount was determined to be retained in the debt service fund to offset SPE expenditures from the trust statements and thus the amount was recognized as miscellaneous revenues.

NOTE 9 – CONCENTRATION

The District's activity is dependent upon the continued involvement of the Developer, Bondholder and future owners of the land with the delinquent assessments, the loss of which could have a material adverse effect on the District's operations.

NOTE 10 – DEFICIT FUND EQUITY

The debt service fund had a deficit fund balance of (\$1,043,242) at September 30, 2014. It is unclear how the deficit will be covered as the District's SPE has not sold the land to-date.

NOTE 11 – MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. The District has not filed any claims under this commercial coverage during the last three years.

NOTE 13 – SUBSEQUENT EVENTS

Debt service non-payment

As a result of significant delinquent assessments and abeyance of certain debt service assessments, the District did not have all of the necessary funds available to make the scheduled debt service payment. As a result, the November 2014 scheduled debt service interest payment of \$247,250 was not made when due. A partial payment of \$72,563 was subsequently made on December 22, 2014.

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted</u>	Actual	Variance with
	<u>Original & Final</u>	Amounts	Final Budget - Favorable (Unfavorable)
REVENUES			
Assessments	\$ 326,169	\$ 165,843	\$ (160,326)
Assessments - SPE	-	184,184	184,184
Miscellaneous	-	298	298
Total revenues	<u>326,169</u>	<u>350,325</u>	<u>24,156</u>
EXPENDITURES			
Current:			
General government	104,575	99,624	4,951
Maintenance and operations	126,049	89,575	36,474
Culture and recreation	70,545	56,647	13,898
Capital outlay	25,000	13,334	11,666
Total expenditures	<u>326,169</u>	<u>259,180</u>	<u>66,989</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	91,145	<u>\$ 91,145</u>
Fund balances - beginning		<u>(5,604)</u>	
Fund balances - ending		<u>\$ 85,541</u>	

See notes to required supplementary information

**TRAILS COMMUNITY DEVELOPMENT DISTRICT
CITY OF JACKSONVILLE, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The District is required to establish a budgetary system and an approved Annual Budget for the General Fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2014.

The variance between budgeted and actual general fund revenues for the current fiscal year was not significant. The actual general fund expenditures were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year.



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 Supervisors
Trails Community Development District
City of Jacksonville, Florida

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, (except as discussed in the explanatory paragraphs), the financial statements of the governmental activities and each major fund of Trails Community Development District, City of Jacksonville, Florida ("District") as of and for the fiscal year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our opinion thereon dated March 17, 2015, which includes explanatory paragraphs regarding the adverse opinion for the omission of the Special Revenue Fund and the qualified opinion for the Debt Service Fund due to the lack of sufficient competent evidential matter, and an emphasis of a matter paragraph.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses 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 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*.

We noted other matters involving the internal control over financial reporting and compliance that we have reported to management of the District in a separate letter dated March 17, 2015.

The District's responses to the findings identified in our audit are described in the accompanying Management Letter. We did not audit the District's responses 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.

March 17, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY
RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Supervisors
Trails Community Development District
City of Jacksonville, Florida

We have examined Trails Community Development District, City of Jacksonville, Florida's ("District") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2014. Management is responsible for District's compliance with those requirements. Our responsibility is to express an opinion on District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on District's compliance with specified requirements.

In our opinion, the District did not comply, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2014.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, management, and the Board of Supervisors of Trails Community Development District, City of Jacksonville, Florida and is not intended to be and should not be used by anyone other than these specified parties.

March 17, 2015



**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Board of Supervisors
Trails Community Development District
City of Jacksonville, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of Trails Community Development District ("District") as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated March 17, 2015, which includes explanatory paragraphs regarding the adverse opinion for the omission of the Special Revenue Funds and the qualified opinion for the Debt Service Fund due to the lack of sufficient competent evidential matter, and an emphasis of a matter paragraph.

Auditor's Responsibility

Except as discussed in the explanatory paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 17, 2015, should be considered in conjunction with this management letter.

Purpose of this Letter

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General of the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, as applicable, management, and the Board of Supervisors of Trails Community Development District, City of Jacksonville, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Trails Community Development District, City of Jacksonville, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

March 17, 2015

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2014-01 Financial Condition Assessment:

Observation: The District's financial conditions are deteriorating. A former major landowner and the Developer failed to pay their share of assessments in the prior fiscal years. As a result, the District was unable to make certain required debt service payments during the current and prior fiscal years, and utilized amounts from the reserve account to pay a portion of the interest payments in the prior fiscal year. In addition, the debt service fund reported a deficit fund balance at the end of the fiscal year. The previous year's findings are all the result of the current condition of the District and as a result of these conditions the previous year findings are no longer considered relevant as they cannot be addressed until the financial condition of the District improves.

Recommendation: The District should take the necessary steps to alleviate the deteriorating financial conditions.

Management Response: The District has taken every available measure to comply with the trust indenture. The District and the Trustee, on behalf of the bondholders, are working to alleviate this issue. As described in Note 8, during a prior year a SPE took title to the land subject special assessment lien for resale or development. The operation and maintenance assessments relating to the land are the responsibility of the SPE. Until the land is developed or sold to another developer the District's financial condition will remain the same.

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2012-01: Omission of a Major Fund

Current Status: The finding is a result of the default on the Bonds, see finding 2014-01 above. Finding will not be repeated.

2012-02: No Supporting Documentation Provided for Certain Expenditures

Current Status: The finding is a result of the default on the Bonds, see finding 2014-01 above. Finding will not be repeated.

2009-01, 2010-01, 2011-01, 2009-03 Financial Condition Assessment:

Current Status: See finding 2014-01 Financial Condition Assessment above.

2009-02, 2010-02, 2011-02, 2009-04 Reserve Requirement

Current Status: The finding is a result of the default on the Bonds, see finding 2014-01 above.

2010-03, 2011-03, 2010-05 Bondholder Consent

Current Status: The finding is a result of the default on the Bonds, see finding 2014-01 above.

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

REPORT TO MANAGEMENT (Continued)

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2013, except as noted above.

2. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2014, except as noted above.

3. Noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2014, except as noted above.

4. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
5. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2014 financial audit report.
6. In connection with our audit, we determined that the District has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes. Due to significant unpaid delinquent assessments, the District did not have sufficient funds to make certain scheduled debt service payments, and as a result, these payments were not made. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and determined that deteriorating financial conditions were noted. See Findings section above for additional information. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.