

Financial Statements

September 30, 2019

**Trails Community
Development District**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Trails Community Development District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the *Trails Community Development District* (the "District"), as of and for the year ended September 30, 2019, and the related notes to 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

The District's 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 principles 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 September 30, 2019, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page 3, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Notes 5 and 6, the District's financial condition has deteriorated. Due to the deteriorating financial condition, there were insufficient funds to operate the District. As a result, certain scheduled debt service payments in prior years were not made when due. As a result of these events, the District failed to make certain scheduled debt service payments in the 2009 through 2014 fiscal years. Beginning in 2014, the District was being funded, in part, by the SPE for its operation and maintenance expenditures. During the prior fiscal year, the SPE was dissolved and the unplatted land sold to a developer.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2020, on our consideration of the District's internal control over financial reporting and 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 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.

McDiarmid Davis

Orlando, Florida
March 30, 2020

Our discussion and analysis of the *Trails Community Development District's* (the "District") financial accomplishments provide an overview of the District's financial activities for the year ended September 30, 2019. Please read it in conjunction with the District's Independent Auditor's Report, financial statements and accompanying notes.

This information is being presented to provide additional information regarding the activities of the District and to meet the disclosure requirements of Government Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

Financial Highlights

- The liabilities of the District exceeded its assets at September 30, 2019 by \$6,594,446, a decrease in the net position of \$96,444 in comparison with the prior year.
- At September 30, 2019, the District's governmental funds reported fund balances of \$(2,772,900), a decrease of \$6,209 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the *Trails Community Development District's* financial statements. The District's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to 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, liabilities, and deferred inflows/outflows of resources, with the difference between the three 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 assessment revenues. The District does not have any business-type activities. The governmental activities of the District include general government, maintenance and operations, and culture and recreation related 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.

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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The 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 projects fund which are considered to be 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 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

Statement of Net Position

The District's net position was \$(6,594,446) at September 30, 2019. The analysis that follows focuses on the net position of the District's governmental activities.

	2019	2018
Assets, excluding capital assets	\$ 1,743,648	\$ 1,938,080
Capital Assets, being depreciated, net	4,274,496	4,614,731
Total assets	6,018,144	6,552,811
Liabilities, excluding long-term liabilities	4,722,590	4,910,813
Long-term liabilities	7,890,000	8,140,000
Total liabilities	12,612,590	13,050,813
Net Position:		
Net investment in capital assets	(1,143,392)	(803,157)
Restricted for capital projects	-	569
Unrestricted	(5,451,054)	(5,695,414)
Total net position	\$ (6,594,446)	\$ (6,498,002)

The following is a summary of the District's governmental activities for the fiscal years ended September 30, 2019 and 2018.

	2019	2018
Revenues:		
Program revenues	\$ 1,032,356	\$ 903,986
General revenues	3,632	1,562
Total revenues	1,035,988	905,548
Expenses:		
General government	102,428	109,859
Maintenance and operations	410,426	391,582
Culture and recreation	125,078	116,060
Interest on long-term debt	494,500	494,500
Total expenses	1,132,432	1,112,001
Change in net position	(96,444)	(206,453)
Net position, beginning	(6,498,002)	(6,291,549)
Net position, ending	\$ (6,594,446)	\$ (6,498,002)

As noted above and in the statement of activities, the cost of all governmental activities during the year ended September 30, 2019 was \$1,132,432. The majority of these costs are maintenance and operations and interest on long-term debt.

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At September 30, 2019, the District's governmental funds reported combined ending fund balances of \$(2,772,900). Of this total, \$12,503 is nonspendable, and \$(2,785,403) is unassigned.

The fund balance of the general fund increased by \$87,912 in the current year due to an increase in assessments received and a decrease in actual expenditures. The fund balance of the debt service fund decreased by \$93,552 in the current year due to delinquent debt service assessments. The fund balance in the capital projects fund did not change significantly.

General Fund Budgetary 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. There were no budget amendments to the September 30, 2019 general fund budget. The legal level of budgetary control is at the fund level.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2019, the District had \$4,274,496 invested in capital assets. More detailed information about the District's capital assets is presented in the notes to financial statements.

Capital Debt

At September 30, 2019, the District had \$9,200,000 in bonds outstanding, including matured bonds payable of \$1,310,000. More detailed information about the District's capital debt is presented in the notes to financial statements.

Requests for Information

If you have questions about this report or need additional financial information, contact the *Trails Community Development District's* Finance Department at 12750 Citrus Park Lane, Suite 115, Tampa, Florida 33625.

FINANCIAL STATEMENTS

Trails Community Development District
Statement of Net Position
September 30, 2019

	Governmental Activities
Assets:	
Cash	\$ 495,151
Prepaid costs	12,503
Other receivables	191
Restricted assets:	
Temporarily restricted investments	1,235,803
Capital Assets:	
Capital assets being depreciated, net	4,274,496
Total assets	6,018,144
Liabilities:	
Accounts payable and accrued expenses	18,488
Accrued interest payable	206,042
Matured bonds payable	1,310,000
Matured interest payable	3,188,060
Noncurrent liabilities:	
Due within one year	265,000
Due in more than one year	7,625,000
Total liabilities	12,612,590
Net Position:	
Net investment in capital assets	(1,143,392)
Unrestricted	(5,451,054)
Total net position	\$ (6,594,446)

Trails Community Development District
Statement of Activities
Year Ended September 30, 2019

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 102,428	\$ 60,605	\$ -	\$ -	\$ (41,823)
Maintenance and operations	410,426	242,842	-	-	(167,584)
Culture and recreation	125,078	74,007	-	-	(51,071)
Interest on long-term debt	494,500	624,284	30,610	8	160,402
Total governmental activities	\$ 1,132,432	\$ 1,001,738	\$ 30,610	\$ 8	(100,076)
General Revenues:					
Miscellaneous income					3,632
Total general revenues					3,632
Change in net position					(96,444)
Net position, beginning					(6,498,002)
Net position, ending					\$ (6,594,446)

Trails Community Development District
Balance Sheet
Governmental Funds
September 30, 2019

	General	Debt Service	Capital Projects	Total Governmental Funds
Assets:				
Cash	\$ 495,151	\$ -	\$ -	\$ 495,151
Investments	-	1,235,803	-	1,235,803
Other receivables	124	67	-	191
Due from other funds	-	13	-	13
Prepaid costs and deposits	12,503	-	-	12,503
Total assets	\$ 507,778	\$ 1,235,883	\$ -	\$ 1,743,661
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 18,488	\$ -	\$ -	\$ 18,488
Due to other funds	13	-	-	13
Matured bonds payable	-	1,310,000	-	1,310,000
Matured interest payable	-	3,188,060	-	3,188,060
Total liabilities	18,501	4,498,060	-	4,516,561
Fund Balances:				
Nonspendable	12,503	-	-	12,503
Unassigned	476,774	(3,262,177)	-	(2,785,403)
Total fund balances	489,277	(3,262,177)	-	(2,772,900)
Total liabilities, deferred inflows and fund balances	\$ 507,778	\$ 1,235,883	\$ -	

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 in the funds. 4,274,496

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

Accrued interest payable	(206,042)	
Bonds payable	(7,890,000)	(8,096,042)
Net position of governmental activities (page 7)		\$ (6,594,446)

Trails Community Development District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2019

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues:				
Special assessments	\$ 377,454	\$ 524,284	\$ -	\$ 901,738
Special assessments-prepayments	-	100,000	-	100,000
Investment and other income	3,632	30,610	8	34,250
Total revenues	381,086	654,894	8	1,035,988
Expenditures:				
Current:				
General government	97,905	4,523	-	102,428
Maintenance and operations	117,225	-	-	117,225
Culture and recreation	78,044	-	-	78,044
Debt service:				
Interest	-	494,500	-	494,500
Principal	-	250,000	-	250,000
Total expenditures	293,174	749,023	-	1,042,197
Excess (Deficit) of Revenues Over Expenditures	87,912	(94,129)	8	(6,209)
Other Financing Sources (Uses):				
Transfers in	-	577	-	577
Transfers out	-	-	(577)	(577)
Total other financing sources (uses)	-	577	(577)	-
Net change in fund balances	87,912	(93,552)	(569)	(6,209)
Fund balances, beginning of year	401,365	(3,168,625)	569	(2,766,691)
Fund balances, end of year	\$ 489,277	\$ (3,262,177)	\$ -	\$ (2,772,900)

Trails Community Development District
**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities**
Year Ended September 30, 2019

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balances - total governmental funds (page 10)	\$	(6,209)
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Depreciation of capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.		(340,235)
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Repayments of long-term liabilities are reported as expenditures in governmental funds, while repayments reduce long-term liabilities in the statement of net position.		250,000
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Change in Net Position of Governmental Activities (page 8)	\$	(96,444)
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Trails Community Development District
Statement of Revenues, Expenditures and Changes in
Fund Balance Budget and Actual – General Fund
Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special Assessments	\$ 377,294	\$ 377,294	\$ 377,454	\$ 160
Investment and other Income	-	-	3,632	3,632
Total revenues	377,294	377,294	381,086	3,792
Expenditures:				
Current:				
General government	115,740	115,740	97,905	17,835
Physical environment	107,937	107,937	117,225	(9,288)
Culture and recreation	96,617	96,617	78,044	18,573
Capital outlay	57,000	57,000	-	57,000
Total expenditures	377,294	377,294	293,174	84,120
Net change in fund balance	-	-	87,912	87,912
Fund balances, beginning of year	401,365	401,365	401,365	-
Fund balances, end of year	\$ 401,365	\$ 401,365	\$ 489,277	\$ 87,912

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The District is governed by the Board of Supervisors (the "Board"), which is composed of five members. One Supervisor was elected on an at large basis by the landowners of the District. At September 30, 2019, one of the Board members was affiliated with D.R. Horton, Inc. - Jacksonville (the "Developer") and three are residents of the District. The Board exercises all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has 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 GASB Statements 14, 39 and 61. 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. Management has determined that there are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

Government-Wide and Fund Financial Statements

The 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, 2) grants, contributions and investment earnings that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) operating-type special assessments that are treated as charges for services (including assessments for maintenance and debt service). Other items not included among program revenues are reported instead as *general revenues*.

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 recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 District 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, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on certain lands located within the District and benefited by the District's activities. Operation and maintenance special assessments are levied by the District prior to the start of the fiscal year which begins October 1st and ends on September 30th. These assessments are imposed upon certain benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as 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. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund

Is the District's primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service Fund

Accounts for the accumulation of resources for the annual payment of principal and interest on long-term debt.

Capital Projects Fund

Accounts for financial resources to be used for the acquisition or construction of major infrastructure within the District.

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, then unrestricted resources as they are needed.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Restricted Assets

These assets represent cash and investments set aside pursuant to bond covenants.

Deposits and Investments

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

Investments of the District are reported at fair value and are categorized within the fair value hierarchy established in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The District's investments consist of investments authorized per their investment policy adopted in accordance with Section 218.415, Florida Statutes.

Receivables

All receivables are shown net of allowance for uncollectible accounts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Items

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, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column 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 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 acquisition 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. Capital assets of the District are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Stormwater System	25
Recreation Facility	20
Equipment	5-10

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 over the life of the bonds using the straight-line method. Bonds payable are reported net of premiums or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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 expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2019.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2019.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Supervisors is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Supervisors has authorized the District Manager to assign amounts for specific purposes. The Board of Supervisors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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.

New Accounting Standards

In fiscal year 2019, the District implemented Government Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Payments*. This statement requires additional note disclosures for certain debt issues. There was no effect on beginning balances of the District.

Additionally, the GASB has issued Statement No. 83, *Certain Asset Retirement Obligations* that is effective for this fiscal year. The District has reviewed this statement and determined that this pronouncement has no discernable impact on these financial statements.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District is required to establish a budgetary system and an approved annual budget for the General Fund. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control is at the fund level. Any budget amendments that increase the aggregate budgeted appropriations, at the fund level, must be approved by the Board of Supervisors.

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

1. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
2. A public hearing is conducted to obtain comments.
3. Prior to October 1, the budget is legally adopted by the District Board.
4. All budget changes in the aggregate exceeding 10% must be approved by the District Board.
5. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Deficit Fund Balance

At September 30, 2019, the District had a deficit fund balance of \$3,262,177 in the debt service fund.

NOTE 3 DEPOSITS AND INVESTMENTS

Deposits

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. 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.

Investments

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The District uses a market approach in measuring fair value that uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Assets or liabilities are classified into one of three levels. Level 1 is the most reliable and is based on quoted price for identical assets, or liabilities, in an active market. Level 2 uses significant other observable inputs when obtaining quoted prices for identical or similar assets, or liabilities, in markets that are not active. Level 3 is the least reliable, and uses significant unobservable inputs that use the best information available under the circumstances, which includes the District's own data in measuring unobservable inputs.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The District's investment policy is governed by State Statutes and the District Trust Indenture. The District investment policy allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized District investments include, but are not limited to:

1. The Local Government Surplus Funds Trust Fund (SBA);
2. Securities and Exchange Commission Registered Money Market Funds with the highest credit quality rating from a nationally recognized rating agency;
3. Interest-bearing time deposits or savings accounts in qualified public depositories;
4. Direct obligations of the U.S. Treasury.

Investments made by the District at September 30, 2019 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
US Bank Money Market	<u>\$ 1,235,803</u>	N/A	N/A

Credit Risk:

The District's investment policy limits credit risk by restricting authorized investments to those described. Investments in U.S. Government securities and agencies must be backed by the full faith and credit of the United States Government. Short term bond funds shall be rated by a nationally recognized ratings agency and shall maintain the highest credit quality rating.

Custodial Credit Risk:

In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2019, all of the District's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2019, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk:

The District's investment policy does not specify limits on the amount the District may invest in any one issuer.

Interest Rate Risk:

The District's investment policy does not specifically address interest rate risk; however, the general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values by investing primarily in pooled investments that have a weighted average maturity of less than three months.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Being Depreciated:				
Stormwater system	\$ 7,266,354	\$ -	\$ -	\$ 7,266,354
Recreation facility	940,672	-	-	940,672
Equipment	29,325	-	-	29,325
Total capital assets being depreciated	<u>8,236,351</u>	<u>-</u>	<u>-</u>	<u>8,236,351</u>
Less Accumulated Depreciation for:				
Stormwater system	(3,197,194)	(290,654)	-	(3,487,848)
Recreation facility	(399,788)	(47,034)	-	(446,822)
Equipment	(24,638)	(2,547)	-	(27,185)
Total accumulated depreciation	<u>(3,621,620)</u>	<u>(340,235)</u>	<u>-</u>	<u>(3,961,855)</u>
Total capital assets being depreciated, net	<u>4,614,731</u>	<u>(340,235)</u>	<u>-</u>	<u>4,274,496</u>
Governmental activities capital assets, net	<u>\$ 4,614,731</u>	<u>\$ (340,235)</u>	<u>\$ -</u>	<u>\$ 4,274,496</u>

Depreciation expense for 2019 in the amount of \$293,201 was charged to maintenance and operations and \$47,034 was charged to recreation.

NOTE 5 LONG-TERM LIABILITIES

Series 2007 Bonds

In January 2007, the District issued \$10,935,000 of Series 2007 Special Assessment Bonds due on May 1, 2038 at 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 semi-annually 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 Bonds are subject to redemption at the option of the District prior to maturity. The Bonds are also subject to 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. In an event of default, Bondholders may take all legal remedies, including declaring all bonds due and payable.

The Bond Indenture established a debt service reserve requirement as well as other restrictions and requirements relating principally to the use of proceeds to apply 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. The District was not in compliance with the reserve requirement at September 30, 2019.

During previous years, the Developer and landowners 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 was unable to make certain scheduled debt service payments in the 2009 through 2014 fiscal years. During a previous fiscal year, the Trustee utilized funds accumulated in the bond redemption and prepayment accounts to pay previous amounts owed for principal (\$815,000) and interest (\$209,625) and to pay down the Bonds by \$485,000.

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

The District adopted Resolution 2019-01 and is currently in process of having the Developer turn in all outstanding bonds equal to the delinquent assessments on the unplatted land acquired from the SPE.

During the current fiscal year, the District was unable to pay the current debt service requirements when due. The amounts of \$250,000 principal due and \$494,500 interest due were included in matured bonds and matured interest payable. During the year, \$942,627 of past due interest was paid. The total of past due debt service requirements at September 30, 2019 was \$1,310,000 of matured bonds and \$3,188,060 of matured interest payable which have been included in the accompanying government-wide and fund financial statements.

As of September 30, 2019, total principal and interest remaining on the 2007 Bonds amounts to \$18,402,416, which includes matured bonds payable of \$1,310,000 and matured interest payable of \$3,188,060. For the year ended September 30, 2019, total special assessment revenue pledged was \$624,284.

Changes in long-term liability activity for the fiscal year ended September 30, 2019 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
Series 2007	\$ 8,140,000	\$ -	\$ (250,000)	\$ 7,890,000	\$ 265,000
Governmental activity long-term liabilities	<u>\$ 8,140,000</u>	<u>\$ -</u>	<u>\$ (250,000)</u>	<u>\$ 7,890,000</u>	<u>\$ 265,000</u>

At September 30, 2019, the schedule of debt service requirements on the bonds payable was as follows, excluding amounts owed for matured bonds and matured interest that are shown as currently due in the government-wide and fund financial statements.

	<u>Governmental Activities</u>	
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 265,000	\$ 494,500
2021	280,000	480,256
2022	295,000	465,206
2023	310,000	449,350
2024	325,000	432,688
2025 - 2029	1,925,000	1,879,906
2030 - 2034	2,515,000	1,303,169
2035 - 2038	1,975,000	509,281
	<u>\$ 7,890,000</u>	<u>\$ 6,014,356</u>

NOTE 6 RELATED PARTIES

Bond Default and Special Purpose Entity:

The Developer owns a significant portion of land within the District; therefore, assessment revenue in the general and debt service funds include the assessments levied on those lots owned by the Developer. During previous fiscal years, the Developer and a major landowner, BSHW Winchester Ridge, did not pay a significant portion of their assessments. As a result, 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 land. In a prior fiscal year, the District entered into a settlement agreement with the Developer regarding the remaining delinquent assessments and the unplatted parcel was transferred to a Special Purpose Entity ("SPE").

Due to the non-collection of assessments from the Developer and previous landowner, the District was unable to make certain scheduled debt service payments, which 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 settlement agreement with the Developer, an SPE was created by the 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 Series 2007 Bonds 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 operating 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. The parties acknowledge that operation and maintenance assessments on the Property shall continue to be a lien in accordance with Florida Law. The agreement 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 for ownership and maintenance.

In February 2017, the SPE sold all unplatted land under its control to a Developer and the SPE was dissolved.

Concentrations:

In the current year, special assessment revenue from the Developer was \$609,206, 64% of total special assessment revenue.

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 7 DEFICIT NET POSITION

The District has a government-wide net deficit of (\$6,594,446) at September 30, 2019. This deficit results from capital assets which were financed by District long-term debt and conveyed to other governmental entities and delinquent assessments not received from the Developer and certain landowners. The delinquent assessments have also created a deficit fund balance in the Debt Service Fund at September 30, 2019.

NOTE 8 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. These risks are covered by commercial insurance from independent third parties. The District has not filed any claims under this commercial coverage during the last three years.

NOTE 9 SUBSEQUENT EVENTS

As a result of significant delinquent assessments and abeyance of certain debt service assessments, the District was unable to make the November 2019 scheduled debt service interest payment.

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Supervisors
Trails Community Development District

We have audited, 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, the financial statements of the governmental activities, and each major fund of the *Trails Community Development District* (the "District") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 30, 2020.

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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See Appendix A.

We noted certain other matters that we reported to management of the District in a separate letter dated March 30, 2020. The District's response to our findings identified in our audit is included in this report. We did not audit the District's response, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "McDiarmid Davis". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Orlando, Florida
March 30, 2020

MANAGEMENT COMMENTS

Board of Supervisors
Trails Community Development District

Report on the Financial Statements

We have audited the financial statements of the *Trails Community Development District*, (the "District") as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated March 30, 2020.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Auditor's Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 30, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below.

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2017-18 FY Finding #	2016-2017 FY Finding #
14-01	14-01	14-01
19-02	18-02	17-02

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to financial statements. This information has been disclosed in the notes to financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any condition described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. It is management's responsibility to monitor the District 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. We did note deteriorating financial conditions as disclosed in Appendix B.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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. In connection with our audit, we did not note any such findings.

Purpose of this Letter

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, the Board of Supervisors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

McDiarmid Davis

Orlando, Florida
March 30, 2020

19-02 - Failure to Meet Debt Service Reserve Account Requirement

Criteria

The Trust Indenture requires the District to maintain a minimum balance in the Series 2007 Debt Service Reserve Accounts.

Condition

At September 30, 2019, the Debt Service Reserve Accounts were deficient.

Cause

The balance in the Debt Service Reserve Accounts were used to pay prior year debt service on the Bonds.

Effect

The District is not in compliance with the Trust Indentures.

Recommendation

We recommend the District utilize all remedies available to replenish the Debt Service Reserve Account.

14-01 - Financial Condition Assessment

The District's financial condition has deteriorated. In a prior year, the Developer failed to pay debt service assessments, causing the District to be unable to pay certain debt service payments when due. An event of default was declared, and the debt was subsequently restructured with the agreement of the bondholders. The Developer is now assessed on the property they own but the debt has not been restructured. Until then, the overall effect of these actions on the District's financial condition cannot be determined at this time.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

Board of Supervisors
Trails Community Development District

We have examined *Trails Community Development District's* (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2019. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the 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 the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the 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 the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2019.

McDermitt Davis

Orlando, Florida
March 30, 2020

TRAILS COMMUNITY DEVELOPMENT DISTRICT

DISTRICT OFFICE · 2806 N. FIFTH STREET · UNIT 403 · ST. AUGUSTINE, FLORIDA 32084
(904) 436-6270

March 27, 2020

Response to the Management Letter for the fiscal year ended September 30, 2019

Management Letter finding 19-02:

The auditor noted that the District's Debt Service Reserve Account was deficient at September 30, 2019, as a result of funds from the Reserve Accounts being used to pay prior year debt service payments.

District response to the finding:

The District and the Bondholders have been working to alleviate this issue. During a prior year a SPE took title to the land subject to special assessment lien for resale or development. An agreement was entered into between the District and SPE, whereby, debt service assessments on the Series 2007 Bonds would be forborne but continue to constitute a lien on the property. In the prior fiscal year, the land held by the SPE was sold to D.R. Horton, Inc. and the SPE was dissolved. The District recently adopted Resolution 2019-01 allowing the landowner to surrender bonds associated with the undeveloped land which will reduce the amount of Series 2007 Assessments imposed on the landowner. Once the new Series 2007 outstanding principal is determined by the Trustee, the Debt Service Reserve requirement will be modified and the Reserve fund will be funded accordingly.

Management Letter finding 14-01:

The auditor noted that the District's financial condition has deteriorated

District response to the finding:

The District has taken every available measure to comply with the trust indenture. The District and Trustee, on behalf of the bondholders, have been working to alleviate this issue. During a prior year a SPE took title to the land subject to special assessment lien for resale or development. The operation and maintenance assessments relating to the land were the responsibility of the SPE during that time. In the prior fiscal year, the SPE sold all the remaining unplatted lots to D.R. Horton, Inc., which will assume responsibility for the payment of district assessments associated with that land.



Scott Brizendine
Treasurer
Trails Community Development District