

*Quailwood Meadows
Community Facilities District*

Annual Financial Report



*For Fiscal Year Ended
June 30, 2011*

**Quailwood Meadows Community Facilities District
For the Fiscal Year Ended June 30, 2011**

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HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT

Board of Directors
Quailwood Meadows Community Facilities District
Town of Prescott Valley, Arizona

We have audited the accompanying financial statements of the governmental activities and the major fund of the Quailwood Meadows Community Facilities District (the "District"), a component unit of the Town of Prescott Valley, Arizona, as of and for the year ended June 30, 2011, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Districts' management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Quailwood Meadows Community Facilities District are intended to present the fund balances and the changes in fund balances that are attributable to the District, a component unit of the Town of Prescott Valley, Arizona. They do not purport to, and do not represent fairly the financial position of the Town of Prescott Valley, Arizona, as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2011, 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.

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

November 9, 2011

Basic Financial Statements

Quailwood Meadows Community Facilities District

Statement of Net Assets

June 30, 2011

	Governmental Activities
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 1,059,080
Accounts receivable	19,491
Total current assets	<u>1,078,571</u>
Noncurrent assets:	
Deferred charges	230,753
Total noncurrent assets	<u>230,753</u>
Total assets	<u>1,309,324</u>
LIABILITIES	
Liabilities payable from restricted assets:	
Accounts payable	47,067
Bonds, loans, capital leases and other payables-due within one year	195,000
Total liabilities payable from restricted assets	<u>242,067</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables-due in more than one year	6,285,000
Developer deposits	694,000
Total noncurrent liabilities	<u>6,979,000</u>
Total liabilities	<u>7,221,067</u>
NET ASSETS	
Unrestricted	(5,911,743)
Total net assets	<u>\$ (5,911,743)</u>

The notes to the financial statements are an integral part of this statement.

Quailwood Meadows Community Facilities District

Statement of Activities

For the Year Ended June 30, 2011

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facility District					
Administration	\$ 62,574	\$ -	\$ -	\$ -	\$ (62,574)
Interest and fiscal charges	408,456	-	-	-	(408,456)
Total district activities	471,030	-	-	-	(471,030)
Total primary government	\$ 471,030	\$ -	\$ -	\$ -	(471,030)

General revenues:

Taxes:

Property taxes	444,941
Interest and investment income	97
Total general revenues	445,038
Change in net assets	(25,992)
Net assets - beginning	(5,885,751)
Net assets - ending	\$ (5,911,743)

The notes to the financial statements are an integral part of this statement.

Quailwood Meadows Community Facilities District

Balance Sheet

June 30, 2011

ASSETS	
Restricted assets - cash and cash equivalents	\$ 1,059,080
Accounts receivable	19,491
Total assets	<u>\$ 1,078,571</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	47,067
Developer Deposits	694,000
Total Liabilities	<u>741,067</u>
Fund balance	
Restricted	<u>337,504</u>
Total fund balance	337,504
Amounts reported for governmental activities in the statement of net assets are different because:	
Bond issuance costs are recognized as debt service expenditures in the governmental funds; however, these costs are capitalized on the statement of net assets and amortized in the statement of activities.	230,753
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(6,480,000)
Net assets of governmental activities - statement of net assets	<u>\$ (5,911,743)</u>

The notes to the financial statements are an integral part of this statement.

Quailwood Meadows Community Facilities District

Statement of Revenues, Expenditures and Changes in Fund Balance

Year Ended June 30, 2011

REVENUES	
Property taxes	\$ 444,941
Interest income	97
Total revenues	<u>445,038</u>
EXPENDITURES	
Administration	62,574
Debt service:	
Principal payment	165,000
Interest and fiscal charges	<u>391,363</u>
Total expenditures	<u>618,937</u>
Excess of revenues over (under) expenditures	(173,899)
Fund balance, beginning of year	<u>511,403</u>
Fund balance, end of year	<u>\$ 337,504</u>

The notes to the financial statements are an integral part of this statement.

Quailwood Meadows Community Facilities District

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

For the Year Ended June 30, 2011

Net change in fund balances - Governmental Fund Type	\$ (173,899)
Amounts reported for governmental activities in the statement of activities are different because:	
Bond interest charges are expended in the governmental funds when paid, and are accrued in the statement of net assets. This is the amount by which interest paid in the current year exceeds interest accrued.	(17,093)
Issuance and repayment of long-term debt is a revenue and expenditure in the governmental funds, but the issuance and repayment reduces long-term liabilities in the statements of net assets. In the current period, these amounts are	
Principal payments on debt	165,000
Changes in net assets of governmental activities	<u>\$ (25,992)</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Quailwood Meadows Community Facilities District (District) was created by the Town of Prescott Valley (Town) as a special purpose community facilities district pursuant to state law on August 12, 2004. The purpose of the District is to assist in financing necessary on and off-site infrastructure and public improvements.

The Town council serves as the District's board of directors. In accordance with Governmental Accounting Standards Board (GASB) "*Statement 39 – Determining Whether Certain Organizations are Component Units,*" the District financial statements are reported in the Town's financial statements for the year ended June 30, 2011, using the blended method.

The financial statements of the District conform to generally accepted accounting principles as applicable to governmental units. The District applies all relevant GASB pronouncements.

During the year ended June 30, 2011, the District implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements for fund balance classifications of governmental funds, and clarifies existing governmental fund type definitions.

B. Basis of Presentation

Fund Accounting

The accounts of the District are organized and operated on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The District operates only one fund, a general fund, the operations of which are accounted for by providing a separate set of self-balancing accounts that is comprised of the fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The minimum number of funds is maintained consistent with legal and managerial requirements.

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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g. the *statement of net assets* and the *statement of changes in net assets*) report information on the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The *statement of activities* demonstrates the degree to which the direct expenses for 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 or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus and Basis of Accounting

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. Property taxes, where applicable, are recognized as revenues in the year for which they are levied.

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. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

This means that only current assets and liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

D. Budgets and Budgetary Accounting

The District is not required to adopt an annual appropriated budget but does, however, adopt a budget for management purposes. Therefore, no budgetary comparison is required.

E. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

Arizona statutes require that public deposits of more than \$100,000 meet several specific requirements. Deposits of less than \$100,000 are subject only to local ordinance or resolution. Generally, the state statutes allow investments in certain certificates of deposit, interest bearing savings accounts in qualified banks and savings and loan institutions, repurchase agreements with maximum maturity of thirty days, and pooled investment funds established by the State Treasurer. Other investments include obligations of the U.S. Treasury, U.S. Government agencies, bankers’ acceptances and mutual funds.

The District records only bond trust activity. There are no checking or investment accounts for the District.

Restricted Assets

District loan assets as well as certain resources set aside for loan repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable loan covenants.

Property and Equipment and Long-Term Liabilities

The District has no capital assets. All capital assets acquired by the District are donated to the Town. The Town is responsible for maintaining the improvements.

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

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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 the debt 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.

Accumulated Compensated Absences

No liability for accumulated compensated absences existed at June 30, 2011.

Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

II. CASH AND CASH EQUIVALENTS

A. Cash and Cash Equivalents

The bank trust fund represents proceeds from bond sales and certain resources set aside for their repayment. Under the terms of the bond indenture, the proceeds are required to be held by a trustee. Funds on deposit are invested by the trustee in money market funds, as governed by state statute.

Deposits

At June 30, 2011, the carrying amount of the District's deposits was \$1,059,080 which is comprised of the deposits with trustee of \$1,059,080.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. As of June 30, 2011, the District's deposits were covered by federal depository insurance or by the collateral held by the District's agent or pledging financial institution's trust department or agent in the name of the District, and thus had no deposits that were exposed to custodial credit risk.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District limits its investment portfolio to maturities of less than three years, unless matched to a specific cash flow.

Credit Risk

The District invests in obligations of the U.S. Treasury, U.S. Government agencies, Certificates of Deposit, bankers' acceptances, repurchase agreements and mutual funds consisting of the foregoing as a means of limiting its credit risk.

The District's investment in the bonds of U.S. agencies was rated AA+ by Standard & Poor's, AAA by Fitch Ratings and Aaa by Moody's Investors Service.

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III. DEBT

The District has the following long-term obligations:

\$6,940,000 Quailwood Meadows Community Facilities District General Obligation Bonds, Series 2004 is due in annual payments of \$135,000 to \$550,000 through July 15, 2029, with interest at 4.25-6.13% per annum. (Payable from revenues generated through an *ad valorem* tax assessed against the properties located within the boundaries of the District. A standby contribution agreement with the District developer is in place whereby in the event of any deficiency in the revenues generated by the *ad valorem* tax, the developer is liable to contribute an amount equal to the deficiency to cover the debt service payments. In the event that the developer cannot cover the deficiency amount, funds will be drawn from the reserve account with the Trustee to cover the deficiency.)

Changes in Long-Term Liabilities:

	Balance 6/30/2010	Increases	Decreases	Balance 6/30/2011	Due Within One Year
Quailwood (Series 2004)	\$ 6,645,000	\$ -	\$ 165,000	\$ 6,480,000	\$ 195,000

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2012	\$ 195,000	\$ 381,945
2013	205,000	371,740
2014	215,000	360,605
2015	230,000	348,475
2016	240,000	334,950
2017-21	1,445,000	1,432,500
2022-26	1,940,000	925,506
2027-30	2,010,000	255,414
	\$ 6,480,000	\$ 4,411,135

The District has the authority to issue general obligation bonds in an aggregate principal amount not to exceed \$25,000,000. As of June 30, 2011, the District board has not received a request from the developer to issue the remaining bonds to fund additional improvements. All bonds are payable from an *ad valorem* tax levied on all taxable properties within the boundaries of the district.

IV. CONTINGENT LIABILITIES

At this time there are no contingent liabilities.

V. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters for which it carries commercial insurance. The District also carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance.

VI. DEVELOPER DEPOSITS

In order to regulate the tax rate levied against District property owners, developers entered into contribution agreements to make annual contributions towards bond payments. In addition, at the time bonds were issued, a cash deposit of \$694,000 was made. The amount held will be available to pay debt service if there has been levied and assessed an ad valorem property tax of at least \$3.00 per \$100 of secondary assessed valuation on all taxable property within the boundaries of the District and amounts to pay debt service are not available pursuant to the notice of default of the standby contribution agreement. This amount is reported on the financial statements as developer deposits.

In 2008, the developer filed for bankruptcy. The District has since filed certain claims as creditors, but the bankruptcy has moved very slowly. An unscheduled draw of \$47,497 was necessary to make the July 15, 2011 bond payment but sufficient taxes are expected to be collected to make the January 15, 2012 bond payment. In the event that one or more new developers willing to undertake the contribution obligations does not occur in the near term, unscheduled draws will likely continue on the deposit. This may result in increased tax rates for current owners in order to satisfy bond obligations.

On June 23, 2011 the District approved a property tax rate increase from \$3.30 per \$100 of secondary assessed value to \$4.23. This decision was the result of a continued decline in secondary assessed value within the District boundaries.