

*Quailwood Meadows
Community Facilities District*

Annual Financial Report



*For Fiscal Year Ended
June 30, 2015*

**Quailwood Meadows Community Facilities District
For the Fiscal Year Ended June 30, 2015**

Table of Contents

Independent Auditor's Report	1
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet	6
Statement of Revenues, Expenditures and Changes in Fund Balance	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Notes to Financial Statements	9

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Quailwood Meadows Community Facilities District (District), a component unit of the Town of Prescott Valley, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District, as of June 30, 2015, 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.

Other Matter

Required Supplementary Information

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.
CPAs and Business Consultants

November 6, 2015

Basic Financial Statements

Quailwood Meadows Community Facilities District

Statement of Net Position

June 30, 2015

	Governmental Activities
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 567,681
Accounts receivable	2,057
Total current assets	<u>569,738</u>
Total assets	<u>569,738</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	<u>332,625</u>
Total deferred outflows of resources	<u>332,625</u>
LIABILITIES	
Liabilities payable from restricted assets:	
Advance from Town	209,549
Bonds, loans, capital leases and other payables-due within one year	195,000
Total liabilities payable from restricted assets	<u>404,549</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables-due in more than one year	<u>5,450,000</u>
Total noncurrent liabilities	<u>5,450,000</u>
Total liabilities	<u>5,854,549</u>
NET POSITION	
Unrestricted	<u>(4,952,186)</u>
Total net position	<u>\$ (4,952,186)</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, 2015

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facilities District					
Administration	\$ 62,018	\$ -	\$ -	\$ -	\$ (62,018)
Interest and fiscal charges	262,421	-	-	-	(262,421)
Total district activities	324,439	-	-	-	(324,439)
Total primary government	\$ 324,439	\$ -	\$ -	\$ -	(324,439)

General revenues:

Taxes:

Property taxes 396,363

Interest and investment income 2

Developer Contributions 130,410

Total general revenues 526,775

Change in net position 202,336

Net position - beginning (5,154,522)

Net position - ending \$ (4,952,186)

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

Quailwood Meadows Community Facilities District

Balance Sheet

June 30, 2015

ASSETS

Restricted assets - cash and cash equivalents	\$	567,681
Accounts receivable		2,057
Total assets	\$	<u>569,738</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Advance from Town	\$	209,549
Total Liabilities		<u>209,549</u>

Fund balance:

Restricted		<u>360,189</u>
Total fund balance		<u>360,189</u>

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

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable		(5,645,000)
Deferred charge on refunding		332,625
Net position of governmental activities - statement of net position	\$	<u>(4,952,186)</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, 2015

REVENUES	
Property taxes	\$ 396,363
Developer contributions	130,410
Interest income	2
Total revenues	<u>526,775</u>
EXPENDITURES	
Administration	62,018
Debt service:	
Principal payment	165,000
Interest and fiscal charges	240,246
Total expenditures	<u>467,264</u>
Excess of revenues over (under) expenditures	59,511
Fund balance, beginning of year	<u>300,678</u>
Fund balance, end of year	<u>\$ 360,189</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, 2015

Net change in fund balances - Governmental Fund Type	\$	59,511
Amounts reported for governmental activities in the statement of activities are different because:		
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 position. In the current period, these amounts are:		
Amortization on outstanding debt		(22,175)
Principal payments on debt		165,000
Changes in net position of governmental activities	\$	<u>202,336</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 No. 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, 2015, 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.

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 position* and the *statement of activities*) 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 property tax revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. All other revenues are considered to be measured and available when the District receives cash. 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.

D. Property Tax Calendar

The County Treasurer is responsible for collecting property taxes for all government entities within the county. The county levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Pursuant to Arizona statutes, a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

E. 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.

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

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 (30) 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 bond assets as well as certain resources set aside for bond repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond 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 position. Bond premiums and discounts, as well as the difference between the reacquisition price, and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may 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 and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of financial position may 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 and will not be recognized as an inflow of resources (revenue) until that time.

Accumulated Compensated Absences

No liability for accumulated compensated absences existed at June 30, 2015.

Fund Equity

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

II. DETAILED NOTES

A. Cash and Cash Equivalents

Deposits

At June 30, 2015, the carrying amount of the District's deposits was \$567,681, which is comprised of the bank checking account balance of \$567,681.

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, 2015, 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.

Quailwood Meadows Community Facilities District

B. Advance from Town

With the downturn in the housing market, the secondary assessed value for the District was severely affected. As a result, the District did not generate sufficient *ad valorem* taxes to cover operating expenditures incurred within the District. The Town has advanced funds to the District to cover these costs. The District will begin repaying the Town as the secondary assessed value begins to increase.

C. Debt

On October 25, 2013, the District issued \$5,810,000 in general obligation bonds with an interest rate of 4.213%. The proceeds, along with a \$568,501 developer deposit, were used to advance refund \$5,865,000 of outstanding Series 2004 Quailwood Meadows Community Facilities District general obligation bonds. The net proceeds of \$6,219,800 were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payment on the refunded bonds. As a result, the Series 2004 Quailwood Meadows Community Facilities District general obligation bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$354,800. This amount is being amortized over the remaining life of the refunding debt.

The District has the following long-term obligations:

\$5,810,000 Quailwood Meadows Community Facilities District General Obligation Bonds, Series 2013, is due in annual payments of \$165,000 to \$560,000 through July 15, 2029, with interest at 4.2125% per annum (payable from revenues generated through an *ad valorem* tax assessed by the District against the properties located within the boundaries of the District). The Town has no contingent obligation with respect to these bonds – streets, parks, utilities and related improvements.

Changes in Long-Term Liabilities:

<u>Balance</u> <u>06/30/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/2015</u>	<u>Due Within</u> <u>One Year</u>
\$ 5,810,000	\$ -	\$ 165,000	\$ 5,645,000	\$ 195,000

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2016	\$ 195,000	\$ 233,688
2017	190,000	225,579
2018	215,000	217,049
2019	240,000	207,466
2020	265,000	196,829
2021-25	1,975,000	765,938
2026-30	2,565,000	278,973
	\$ 5,645,000	\$ 2,125,522

Quailwood Meadows Community Facilities District

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, 2015, 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.

III. OTHER INFORMATION

A. Contingent Liabilities

In the ordinary course of conducting its operations the District is involved in various legal matters. The District's legal counsel reports on the cases pending against the District. These matters are in various stages and the impact, if any, is not currently determinable. The District's management does not believe that any of these matters would have a material impact on the financial statements.

B. 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.

D. Subsequent Events

On July 9, 2015, the District approved a property tax rate decrease from \$4.60 per \$100 of secondary assessed value to \$3.58.