

*StoneRidge*  
*Community Facilities District*

*Annual Financial Report*



*For Fiscal Year Ended*  
*June 30, 2014*

**StoneRidge Community Facilities District  
For the Fiscal Year Ended June 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
StoneRidge 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 StoneRidge Community Facilities District (District), a component unit of the Town of Prescott Valley, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

***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, 2014

## **Basic Financial Statements**

# StoneRidge Community Facilities District

## Statement of Net Position

June 30, 2014

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Restricted cash and cash equivalents	\$ 615,946
Accounts receivable	41,145
Total current assets	<u>657,091</u>
Total assets	<u>657,091</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	<u>392,394</u>
Total deferred outflows of resources	<u>392,394</u>
<b>LIABILITIES</b>	
Liabilities payable from restricted assets:	
Advance from Town	775,943
Bonds, loans, capital leases and other payables-due within one year	330,000
Total liabilities payable from restricted assets	<u>1,105,943</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables-due in more than one year	<u>8,210,000</u>
Total noncurrent liabilities	<u>8,210,000</u>
Total liabilities	<u>9,315,943</u>
<b>NET POSITION</b>	
Unrestricted	<u>(8,266,458)</u>
Total net position	<u>\$ (8,266,458)</u>

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

# StoneRidge Community Facilities District

## Statement of Activities

For the Year Ended June 30, 2014

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facility District					
Administrative	\$ 183,527	\$ -	\$ -	\$ -	\$ (183,527)
Interest and fiscal charges	227,587	-	-	-	(227,587)
Total district activities	411,114	-	-	-	(411,114)
Total primary government	\$ 411,114	\$ -	\$ -	\$ -	(411,114)

### General revenues:

#### Taxes:

Property taxes	593,489
Interest and investment income	1
Facility rental	168,609
Total general revenues	762,099
Change in net position	350,985
Total net position - June 30, 2013, as previously reported	(8,376,639)
Unamortized bond issuance cost	(240,804)
Total net position - July 1, 2013, as restated	(8,617,443)
Net position - ending	\$ (8,266,458)

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

# StoneRidge Community Facilities District

## Balance Sheet

June 30, 2014

### ASSETS

Restricted assets - cash and cash equivalents	\$	615,946
Accounts receivable		41,145
Total assets	\$	<u>657,091</u>

### LIABILITIES AND FUND BALANCE

#### Liabilities

Advance from Town	\$	775,943
Total liabilities		<u>775,943</u>

#### Fund balance:

Unassigned		(118,852)
Total fund balance		<u>(118,852)</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		(8,540,000)
Deferred charge on refunding		392,394
Net position of governmental activities - statement of net position	\$	<u>(8,266,458)</u>

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

**StoneRidge Community Facilities District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
Year Ended June 30, 2014

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<b>REVENUES</b>	
Property taxes	\$ 593,489
Interest income	1
Facility rental	168,609
Total revenues	<u>762,099</u>
<b>EXPENDITURES</b>	
Administrative charges	183,527
Debt service:	
Interest and fiscal charges	203,062
Total expenditures	<u>386,589</u>
Excess of revenues over (under) expenditures	375,510
Fund balance, beginning of year	(494,362)
Fund balance, end of year	<u>\$ (118,852)</u>

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

**StoneRidge 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, 2014

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Net change in fund balances - Governmental Fund Type	\$ 375,510
Amounts reported for governmental activities in the statement of activities are different because:	
Issuance and repayment of long-term debt is a revenue and expenditures 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	(24,525)
Changes in net position of governmental activities	<u>\$ 350,985</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 StoneRidge Community Facilities District (District) was created by SunCor Development as a special purpose community facilities district pursuant to state law on July 26, 2001. On July 26, 2001, the Town Council adopted Resolution No. 1031 forming the District. On October 4, 2001, the District board adopted Resolution No. 1 which organized the District with the purpose 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, 2014, using the blended method.

During the year ended June 30, 2014, the District implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

## StoneRidge Community Facilities District

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 sixty (60) 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.

### **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, 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 bond trust activity and maintains a bank checking account.

#### **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 Obligations**

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.

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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, 2014.

### **Fund Equity**

In the fund financial statements, governmental funds report a restriction of fund balance for amounts that are legally restricted by outside parties for a specific purpose. For the fiscal year ended June 30, 2014, the StoneRidge Community Facilities District had a deficit fund balance of \$118,852.

## **II. DETAILED NOTES**

### **A. Cash and Cash Equivalents**

#### **Deposits**

At June 30, 2014, the carrying amount of the District's deposits was \$615,946, which is comprised of the bank checking account balance of \$615,946.

#### **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, 2014, 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.

### **B. Advance from Town**

With the downturn in the housing market, the secondary assessed value for the StoneRidge Community Facilities 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.

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**C. Debt**

On June 11, 2013, the StoneRidge Community Facilities District General Obligation Bonds, Series 2001 were refinanced resulting in a reduction of its total debt service payments over 18 years by \$7,176,682 and to obtain a present value cash flow savings of \$6,362,766 (includes developer deposit of \$2,960,000, bankruptcy settlement earnings of \$1,358,436 and a developer contribution of \$100,000) and net present value savings of \$1,804,184.

\$8,540,000 StoneRidge Community Facilities District General Obligation Refunding Bonds, Series 2013, is due in annual payments of \$330,000 to \$680,000 through July 15, 2030, with interest at 4.00% per annum. (Payable from revenues generated through an *ad valorem* tax assessed against the properties located within the boundaries of the District.)

Changes in Long-Term Liabilities:

Balance 06/30/2013	Increases	Decreases	Balance 06/30/2014	Due Within One Year
\$ 8,540,000	\$ -	\$ -	\$ 8,540,000	\$ 330,000

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2015	\$ 330,000	\$ 335,000
2016	375,000	320,900
2017	390,000	305,600
2018	405,000	289,700
2019	425,000	273,100
2020-24	2,385,000	1,091,900
2025-29	2,900,000	565,200
2030-31	1,330,000	53,800
	\$ 8,540,000	\$ 3,235,200

The District has the authority to issue general obligation bonds in an aggregate principal amount not to exceed \$33,000,000. As of June 30, 2014, the District board has not received a request from the developer to issue the remaining bonds to fund additional improvements. On June 11, 2013, the District board stated they will not approve the issuance of any additional general obligation bonds at this time and the developer concurred. All bonds are payable from an *ad valorem* tax levied on all taxable properties within the boundaries of the District.

An election was held by registered voters of the District on April 8, 2014, to decide whether or not the remaining authority of unissued bonds should be rescinded. The vote was ninety-five per cent (95%) in favor of rescinding the remaining authority of unissued bonds.

### **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.

#### **C. Developer Deposits**

In order to regulate the tax rate levied against District property owners, SunCor (Developer) entered into contribution agreements to make annual contributions towards bond payments. In addition, at the time bonds were issued, a cumulative cash deposit of \$2,960,000 was made. The amount held was to be available to pay debt service if there was 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 was reported on the financial statements as developer deposits in previous years.

The Developer informed the District that it no longer had the net worth to comply with the covenant made in the contribution agreements. On June 21, 2010, the trustee issued a notice to default to bond holders. No action was taken at that time by the District or the bond trustee since the developer remained current on its obligations under the contribution agreements. On September 21, 2010, the District became aware of SunCor and Pinnacle West's decision to discontinue all further operations of the Developer. The District, Town staff and officers have worked with the Developer to find a resolution that would allow the Developer to liquidate while mitigating the negative impacts on the District, the Town and StoneRidge residents. The District retained counsel to assist in determining the best course to take in relation to the competing interests involved. In addition, the District embarked on an effort to obtain input from StoneRidge residents on the issue.

On August 18, 2011, the District approved an Assignment and Assumption to the District Development, Financing Participation and Intergovernmental Agreement (including deposit) allowing Univest to take over as the Developer in the StoneRidge Community Facilities District. On August 18, 2011, the deal between Univest and SunCor was official.

The Developer filed for Chapter 11 bankruptcy on February 24, 2012 and listed the \$2.96 million deposit as an asset in the bankruptcy estate. After attempting to negotiate with the Developer to remove the \$2.96 million deposit from the listed assets, the District filed an adversary proceeding in the bankruptcy case on July 11, 2012. On September 13, 2012, the Developer agreed to settle the adversary proceeding and release its claim on the deposit. On March 5, 2013, the bankruptcy court confirmed the bankruptcy "plan" which allowed for approximately \$5.1 million for claims.

On May 23, 2013, the District board adopted Resolution No. 30, approving issuance of \$8,540,000 in general obligation refunding bonds to replace the 2001 Bonds. The refinancing of the StoneRidge Community Facilities

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District General Obligation Bonds, Series 2001, on June 11, 2013, eliminated the developer standby contribution and the developer deposit which was used for the bond refinancing.

**D. Prior Period Adjustments**

The July 1, 2013, government-wide net position of Governmental Activities does not agree to the prior year financial statements due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Total net position - June 30, 2013, as previously reported	\$ (8,376,639)
Unamortized bond issuance cost	<u>(240,804)</u>
Total net position - July 1, 2013, as restated	\$ (8,617,443)

**E. Subsequent Events**

On July 10, 2014, the District approved a property tax rate decrease from \$3.64 per \$100 of secondary assessed value to \$3.18.