

**QUAILWOOD MEADOWS
COMMUNITY FACILITIES DISTRICT**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007

**QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
FISCAL YEAR ENDED JUNE 30, 2007**

TABLE OF CONTENTS

Independent Auditor's Report	1
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet	5
Statement of Revenues, Expenditures and Changes in Fund Balance	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to Financial Statements	8



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities 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, 2007, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 reports 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Quailwood Meadows Community Facilities District, at June 30, 2007, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 8, 2008 on our consideration of the Districts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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* and should be considered in assessing the results of our audit.

Eide Bailly LLP

Phoenix, Arizona
January 8, 2008

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

1850 N. Central Avenue • Suite 400 • Phoenix, Arizona 85004 • Phone 602.264.5844 • Fax 602.277.4845 • EOE

Basic Financial Statements

Quailwood Meadows Community Facilities District

Statement of Net Assets

June 30, 2007

	Governmental Activities
ASSETS	
<hr/>	
Restricted cash, cash equivalents, and investment assets:	
Cash and investments	\$ 1,320,925
Total restricted cash, cash equivalents, and investments assets	<u>1,320,925</u>
Noncurrent assets:	
Deferred charges	299,124
Capital assets:	
Land, water rights, and construction in progress	551,000
Total capital assets (net of accumulated depreciation)	<u>551,000</u>
Total noncurrent assets	<u>850,124</u>
Total assets	<u>2,171,049</u>
LIABILITIES	
<hr/>	
Liabilities payable from restricted assets:	
Accounts payable	3,187
Bonds, loans, capital leases, and other payables-due within one year	135,000
Total liabilities payable from restricted assets	<u>138,187</u>
Noncurrent liabilities:	
Bonds, loans, capital leases, and other payables-due in more than one year	6,805,000
Developer deposits	694,000
Total noncurrent liabilities	<u>7,499,000</u>
Total liabilities	<u>7,637,187</u>
NET ASSETS	
<hr/>	
Invested in capital assets, net of related debt	(5,466,138)
Total net assets	<u>\$ (5,466,138)</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, 2007

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facility District					
Administration	\$ 19,995	\$ -	\$ -	\$ -	\$ (19,995)
Interest and fiscal charges	425,095	-	-	-	(425,095)
Total district activities	445,090	-	-	-	(445,090)
Total primary government	\$ 445,090	\$ -	\$ -	\$ -	(445,090)

General revenues:

Taxes:

Property taxes	147,556
Interest and investment income	179,667
Developer Contributions	73,378
Total general revenues	400,601
Change in net assets	(44,489)
Net assets - beginning	(5,421,649)
Net assets - ending	\$ (5,466,138)

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

Quailwood Meadows Community Facilities District

Balance Sheet

June 30, 2007

ASSETS

Restricted assets - cash and investments	\$ 1,320,925
Total assets	<u>\$ 1,320,925</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 3,187
Developer Deposits	694,000
Total Liabilities	<u>697,187</u>

Fund balance

Reserved	623,738
Total fund balance	<u>623,738</u>

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	551,000
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.	299,124
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(6,940,000)
Net assets of governmental activities - statement of net assets	<u>\$ (5,466,138)</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, 2007

REVENUES

Property taxes	\$	147,556
Developer contributions		179,667
Interest income		73,378
Total revenues		<u>400,601</u>

EXPENDITURES

Administration		19,995
Capital outlay		551,000
Debt service:		
Interest and fiscal charges		408,002
Total expenditures		<u>978,997</u>

Excess of revenues over (under) expenditures (578,396)

Fund balance, beginning of year		<u>1,202,134</u>
Fund balance, end of year	\$	<u><u>623,738</u></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, 2007

Net change in fund balances - Governmental Fund Type	\$ (578,396)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	551,000
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)
Changes in net assets of governmental activities	<u>\$ (44,489)</u>

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

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 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 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, 2007 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 Governmental Accounting Standards Board (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.

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*, as are the proprietary fund and fiduciary fund financial statements. 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Fund types are accounted for using the "flow of current financial resources" measurement focus. 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.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

D. Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 40

The District adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2005. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosures on cash and investments are in conformity with the provisions of GASB Statement No. 40.

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 and Fund Equity

Cash and Cash Equivalents and Investments

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.

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's capital asset is construction in progress. Once completed, all capital assets acquired by the District will be 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.

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, 2007.

II. CASH AND INVESTMENTS

A. Cash and Investments

Deposits

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 highly liquid investments, as governed by state statute.

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, 2007, 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 AAA by Standard & Poor’s and Fitch Ratings, and Aaa by Moody’s Investors Service.

Investments

The District’s investments at June 30, 2007, are summarized below.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>	
	<u>Fair Value</u>	<u>Less Than 1</u>
Money Markets	<u>1,320,925</u>	<u>1,320,925</u>
Total Investments	<u>\$ 1,320,925</u>	<u>\$ 1,320,925</u>

Quailwood Meadows Community Facilities District

Total District cash and investments at fair value are as follows:

Investments	\$ 1,320,925
Total Cash and Investments	<u>\$ 1,320,925</u>

Total District cash and investments are reported as follows:

Primary Government Restricted Cash	<u>\$ 1,320,925</u>
Total Cash and Investments	<u>\$ 1,320,925</u>

The District classifies its debt securities as held-to maturity. A debt security should be classified as held-to-maturity only if the reporting entity has both the positive intent and the ability to hold those securities to maturity. In accordance with the District's Investment Policy, securities shall not be sold prior to maturity with the following exceptions; 1. A security with declining credit may be sold early to minimize loss of principal. 2. Liquidity needs of the portfolio require that the security be sold. 3. If market conditions present an opportunity for the Town to benefit from the sale.

III. DEBT

The Quailwood Meadows Community Facilities 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 4.25-6.125% 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.)

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2008	\$ 135,000	408,002
2009	160,000	402,265
2010	165,000	394,905
2011	195,000	386,820
2012	205,000	377,070
2013-17	1,210,000	1,703,560
2018-22	1,630,000	1,297,050
2023-27	2,175,000	741,125
2028-29	1,065,000	98,919
	<u>\$ 6,940,000</u>	<u>5,809,716</u>

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, 2007, the District Board has not received a request from the developer to issue the

Quailwood Meadows Community Facilities District

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.