

*Quailwood Meadows
Community Facilities District*

Annual Financial Report



*For Fiscal Year Ended
June 30, 2013*

**Quailwood Meadows Community Facilities District
For the Fiscal Year Ended June 30, 2013**

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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 (the "District"), a component unit of the Town of Prescott Valley, Arizona, as of and for the year ended June 30, 2013, 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 District'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 District'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, 2013, 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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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

October 30, 2013

Basic Financial Statements

Quailwood Meadows Community Facilities District

Statement of Net Position

June 30, 2013

	Governmental Activities
ASSETS	
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Current assets:	
Restricted cash and cash equivalents	\$ 809,519
Accounts receivable	6,481
Total current assets	<u>816,000</u>
Noncurrent assets:	
Deferred charges	196,567
Total noncurrent assets	<u>196,567</u>
Total assets	<u>1,012,567</u>
LIABILITIES	
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Liabilities payable from restricted assets:	
Accounts payable	131,552
Bonds, loans, capital leases and other payables-due within one year	215,000
Total liabilities payable from restricted assets	<u>346,552</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables-due in more than one year	5,865,000
Developer deposits	629,043
Total noncurrent liabilities	<u>6,494,043</u>
Total liabilities	<u>6,840,595</u>
NET POSITION	
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Unrestricted	(5,828,028)
Total net position	<u>\$ (5,828,028)</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, 2013

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facility District					
Administration	\$ 68,096	\$ -	\$ -	\$ -	\$ (68,096)
Interest and fiscal charges	389,833	-	-	-	(389,833)
Total district activities	457,929	-	-	-	(457,929)
Total primary government	\$ 457,929	\$ -	\$ -	\$ -	(457,929)

General revenues:

Taxes:

Property taxes	382,643
Interest and investment income	71
Developer Contributions	17,460
Total general revenues	400,174
Change in net position	(57,755)
Net position - beginning	(5,770,273)
Net position - ending	\$ (5,828,028)

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

Quailwood Meadows Community Facilities District

Balance Sheet

June 30, 2013

ASSETS

Restricted assets - cash and cash equivalents	\$	809,519
Accounts receivable		6,481
Total assets	\$	<u>816,000</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$	131,552
Developer Deposits		629,043
Total Liabilities		<u>760,595</u>

Fund balance:

Restricted		55,405
Total fund balance		<u>55,405</u>

Amounts reported for governmental activities in the statement of net position 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 position and amortized in the statement of activities.

196,567

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

(6,080,000)

Net position of governmental activities - statement of net position

\$ (5,828,028)

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, 2013

REVENUES

Property taxes	\$	382,643
Developer contributions		17,460
Interest income		71
Total revenues		<u>400,174</u>

EXPENDITURES

Administration		68,096
Debt service:		
Principal payment		205,000
Interest and fiscal charges		372,740
Total expenditures		<u>645,836</u>

Excess of revenues over (under) expenditures (245,662)

Fund balance, beginning of year		<u>301,067</u>
Fund balance, end of year	\$	<u><u>55,405</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, 2013

Net change in fund balances - Governmental Fund Type	\$ (245,662)
Amounts reported for governmental activities in the statement of activities 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 position and amortized in the statement of activities.	(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 position. In the current period, these amounts are:	
Principal payments on debt	205,000
Changes in net position of governmental activities	<u>\$ (57,755)</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, 2013, using the blended method.

During the year ended June 30, 2013, the District implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 establishes reporting guidance for certain elements of the financial statements which are distinct from 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 changes in net position*) 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 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 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.

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.

Quailwood Meadows Community Facilities District

Accumulated Compensated Absences

No liability for accumulated compensated absences existed at June 30, 2013.

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

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, 2013, the carrying amount of the District's deposits was \$809,519 which is comprised of the deposits with trustee of \$809,519.

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, 2013, 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.

B. 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 \$315 per year per lot purchased (or to be purchased), not to exceed a total of \$1,000,000 over the term of the financing agreement. In the event that the developer contribution does not cover the deficiency amount, funds will be drawn from the reserve account with the Trustee to cover the deficiency.)

Quailwood Meadows Community Facilities District

Changes in Long-Term Liabilities:

Balance 6/30/2012	Increases	Decreases	Balance 6/30/2013	Due Within One Year
\$ 6,285,000	\$ -	\$ 205,000	\$ 6,080,000	\$ 215,000

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2014	\$ 215,000	\$ 360,605
2015	230,000	348,475
2016	240,000	334,950
2017	255,000	320,100
2018	270,000	304,350
2019-23	1,630,000	1,248,150
2024-28	2,175,000	674,516
2029-30	1,065,000	66,304
	\$ 6,080,000	\$ 3,657,450

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, 2013, 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.

Quailwood Meadows Community Facilities District

C. Developer Deposits

In order to regulate the tax rate levied against District property owners, Empire Land LLC (Developer) 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.

In 2008, the Developer filed for bankruptcy. The District has since filed certain claims as creditors, but the bankruptcy moved very slowly. On April 12, 2012, the District approved an Assignment and Assumption of District Development, Financing Participation and Intergovernmental Agreement with Everest Holdings, LLC. This agreement includes a contribution agreement limited to \$315 per year per lot purchased (or to be purchased), not to exceed a total of \$1,000,000 over the term of the financing agreement.

An unscheduled draw of \$47,497 was necessary to make the July 15, 2011 bond payment but sufficient taxes were collected to make the January 15, 2012 bond payment. An unscheduled draw of \$17,460 was necessary to make the July 15, 2012 bond payment but sufficient taxes were collected to make the January 15, 2013 bond payment. As of June 30, 2013 the deposit balance was \$629,043.

D. Subsequent Events

On July 11, 2013, the District approved a property tax rate of \$5.55 per \$100 of secondary assessed value.

Another unscheduled draw of \$60,548 was necessary to make the July 15, 2013 bond payment. Sufficient taxes are expected to be collected to make the January 15, 2014 bond payment.

On October 25, 2013, the Quailwood Meadows Community Facilities District General Obligation Bonds, Series 2004 were refinanced resulting in present value cash flow savings of \$971,509 and net present value savings of \$406,709. The refinancing of the bonds eliminated the developer deposit and is expected to stabilize the property tax rates for future debt service payments.