

*Quailwood Meadows  
Community Facilities District*

*Annual Financial Report*



*For Fiscal Year Ended  
June 30, 2014*

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

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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 (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**

# Quailwood Meadows Community Facilities District

## Statement of Net Position

June 30, 2014

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Restricted cash and cash equivalents	\$ 472,190
Accounts receivable	2,849
Total current assets	<u>475,039</u>
Total assets	<u>475,039</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	<u>354,800</u>
Total deferred outflows of resources	<u>354,800</u>
<b>LIABILITIES</b>	
Liabilities payable from restricted assets:	
Advance from Town	174,361
Bonds, loans, capital leases and other payables-due within one year	165,000
Total liabilities payable from restricted assets	<u>339,361</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables-due in more than one year	<u>5,645,000</u>
Total noncurrent liabilities	<u>5,645,000</u>
Total liabilities	<u>5,984,361</u>
<b>NET POSITION</b>	
Unrestricted	<u>(5,154,522)</u>
Total net position	<u>\$ (5,154,522)</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, 2014

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facility District					
Administration	\$ 64,225	\$ -	\$ -	\$ -	\$ (64,225)
Interest and fiscal charges	390,483	-	-	-	(390,483)
Total district activities	454,708	-	-	-	(454,708)
Total primary government	\$ 454,708	\$ -	\$ -	\$ -	(454,708)

General revenues:

Taxes:

Property taxes 379,451

Interest and investment income 27

Developer Contributions 945,303

Total general revenues 1,324,781

Change in net position 870,073

Total net position - June 30, 2013, as previously reported (5,828,028)

Unamortized bond issuance cost (196,567)

Total net position - July 1, 2013, as restated (6,024,595)

Net position - ending \$ (5,154,522)

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

# Quailwood Meadows Community Facilities District

## Balance Sheet

June 30, 2014

### ASSETS

Restricted assets - cash and cash equivalents	\$	472,190
Accounts receivable		2,849
Total assets	\$	<u>475,039</u>

### LIABILITIES AND FUND BALANCE

#### Liabilities:

Advance from Town	\$	174,361
Total Liabilities		<u>174,361</u>

#### Fund balance:

Restricted		<u>300,678</u>
Total fund balance		<u>300,678</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		(5,810,000)
Deferred charge on refunding		354,800
Net position of governmental activities - statement of net position	\$	<u>(5,154,522)</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, 2014

<b>REVENUES</b>	
Property taxes	\$ 379,451
Developer contributions	945,303
Interest income	27
Total revenues	<u>1,324,781</u>
<b>EXPENDITURES</b>	
Administration	64,225
Debt service:	
Principal payment	215,000
Interest and fiscal charges	238,093
Bond issuance cost	152,390
Payments to advanced refunding escrow agent	568,501
Total expenditures	<u>1,238,209</u>
Excess of revenues over (under) expenditures	86,572
Other financing sources (uses):	
Refunding bonds issued	5,810,000
Payments to advanced refunding escrow agent	(5,651,299)
Total other financing sources (uses)	<u>158,701</u>
Excess of revenues and other sources over expenditures	245,273
Fund balance, beginning of year	<u>55,405</u>
Fund balance, end of year	<u>\$ 300,678</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, 2014

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Net change in fund balances - Governmental Fund Type	\$	245,273
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:		
Bond proceeds		(5,810,000)
Payment to refunding escrow agent		6,219,800
Principal payments on debt		215,000
Changes in net position of governmental activities	<u>\$</u>	<u>870,073</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, 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 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 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 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, 2014.

**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, 2014, the carrying amount of the District's deposits was \$472,190, which is comprised of the bank checking account balance of \$472,186 and deposits with trustee of \$4.

**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 Quailwood Meadows 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.

**C. Debt**

On October 25, 2013, The Quailwood Meadows Community Facilities 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.

Quailwood Meadows Community Facilities District

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 Quailwood Meadows Community Facilities District General Obligation Bonds, Series 2004, were refunded, resulting in a reduction of its total debt service payments over sixteen years by \$1,108,063, and to obtain a present value cash flow savings of \$975,210 (including developer deposit of \$568,501), for a net present value savings of \$406,709.

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:

	Balance 06/30/2013	Increases	Decreases	Balance 06/30/2014	Due Within One Year
Series 2004	\$ 6,080,000	\$ -	\$ 6,080,000	\$ -	\$ -
Series 2013	-	5,810,000	-	5,810,000	165,000
	<u>\$ 6,080,000</u>	<u>\$ 5,810,000</u>	<u>\$ 6,080,000</u>	<u>\$ 5,810,000</u>	<u>\$ 165,000</u>

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2015	\$ 165,000	\$ 241,271
2016	195,000	233,688
2017	190,000	225,579
2018	215,000	217,049
2019	240,000	207,466
2020-24	1,785,000	845,133
2025-29	2,460,000	384,812
2030	560,000	11,795
	<u>\$ 5,810,000</u>	<u>\$ 2,366,793</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, 2014, 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,

Quailwood Meadows Community Facilities District

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, 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. Another unscheduled draw of \$60,548 was necessary to make the July 15, 2013 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.

**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	\$ (5,828,028)
Unamortized bond issuance cost	<u>(196,567)</u>
Total net position - July 1, 2013, as restated	\$ (6,024,595)

**F. Subsequent Events**

On July 10, 2014, the District approved a property tax rate decrease from \$5.55 per \$100 of secondary assessed value to \$4.60.