

*Southside
Community Facilities District No. 1*

Annual Financial Report



*For Fiscal Year Ended
June 30, 2015*

**Southside Community Facilities District No. 1
For the Fiscal Year Ended June 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southside Community Facilities District No. 1
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 Southside Community Facilities District No. 1 (District), a component unit of the Town of Prescott Valley, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 6, 2015

Basic Financial Statements

Southside Community Facilities District No. 1

Statement of Net Position

June 30, 2015

	Governmental Activities
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 321,117
Accounts receivable:	
Special assessments	2,008,386
Total current assets	<u>2,329,503</u>
Total assets	<u>2,329,503</u>
LIABILITIES	
Liabilities payable from restricted assets:	
Advance from Town	288,642
Bonds, loans, capital leases and other payables - due within one year	<u>63,000</u>
Total liabilities payable from restricted assets	<u>351,642</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables - due in more than one year	<u>2,007,000</u>
Total noncurrent liabilities	<u>2,007,000</u>
Total liabilities	<u>2,358,642</u>
NET POSITION	
Unrestricted	(29,139)
Total net position	<u>\$ (29,139)</u>

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

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Statement of Activities

For the Year Ended June 30, 2015

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facilities District					
General government	\$ 1,853	\$ -	\$ -	\$ -	\$ (1,853)
Interest and fiscal charges	150,696	-	-	-	(150,696)
Total district activities	<u>152,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(152,549)</u>
Total primary government	<u>\$ 152,549</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(152,549)</u>

General revenues:

Property owner assessments	93,546
Interest and investment income	<u>2</u>
Total general revenues	<u>93,548</u>
Change in net position	(59,001)
Net position - beginning	<u>29,862</u>
Net position - ending	<u>\$ (29,139)</u>

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

Southside Community Facilities District No. 1

Balance Sheet

June 30, 2015

ASSETS

Restricted cash and cash equivalents	\$	321,117
Accounts receivable:		
Special assessments		<u>2,008,386</u>
Total assets	\$	<u><u>2,329,503</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

Liabilities:

Advance from Town	\$	<u>288,642</u>
Total liabilities		<u>288,642</u>

Deferred inflows of resources:

Unavailable revenues - special assessments		<u>2,008,386</u>
Total deferred inflows of resources		<u>2,008,386</u>

Fund balance:

Restricted		<u>32,475</u>
Total fund balance		<u>32,475</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	(2,070,000)
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Certain revenues are not available to pay for current period expenditures and therefore are reported as unavailable in the governmental funds.

Special assessments	<u>2,008,386</u>
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Net position of governmental activities - statement of net position	\$	<u><u>(29,139)</u></u>
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The notes to the financial statements are an integral part of this statement.

Southside Community Facilities District No. 1

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2015

REVENUES

Assessment payments	\$ 156,431
Interest	2
Total revenues	<u>156,433</u>

EXPENDITURES

Administrative charges	1,853
Debt service:	
Principal payment	59,000
Interest and fiscal charges	150,696
Total expenditures	<u>211,549</u>

Excess of revenues over (under) expenditures (55,116)

Fund balance, beginning of year 87,591
Fund balance, end of year \$ 32,475

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

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2015

Net change in fund balances - Governmental Fund Type \$ (55,116)

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:

Principal payments on debt 59,000

Certain revenues are not available to pay for current period expenditures
and therefore are reported as unavailable in the governmental funds.

Special assessments (62,885)

Changes in net position of governmental activities \$ (59,001)

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 Southside Community Facilities District No. 1 (District) was created by the Town of Prescott Valley as a special purpose community facilities district pursuant to state law on June 29, 2006. The purpose of the District is to assist in financing necessary on and off-site infrastructure and public improvements. The developers initially build the infrastructure and are reimbursed from the District bonds.

The Town council serves as the District's board of directors. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39 – *Determining Whether Certain Organizations are Component Units*, the District financial statements are reported in the Town's financial statements for the year ended June 30, 2015, using the blended method.

The financial statements of the District conform to generally accepted accounting principles as applicable to governmental units. The District applies all relevant GASB pronouncements.

B. Basis of Presentation

Fund Accounting

The accounts of the District are organized and operated on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The District operates only one fund, a general fund, the operations of which are accounted for by providing a separate set of self-balancing accounts that is comprised of the fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The minimum number of funds is maintained consistent with legal and managerial requirements.

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g. the *statement of net position* and the *statement of activities*) report information on the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The *statement of activities* demonstrates the degree to which the direct expenses for a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is

Southside Community Facilities District No. 1

incurred, regardless of the timing of related cash flows. Property assessments, 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 Liabilities

The District has no capital assets. All capital assets acquired by the District are donated to the Town. The Town is responsible for maintaining the improvements.

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as the difference between the reacquisition price, and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

Accumulated Compensated Absences

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

Fund Equity

In the fund financial statements, governmental funds report a restriction of fund balance for amounts that are legally restricted by outside parties for a specific purpose.

II. DETAILED NOTES

A. Cash and Cash Equivalents

The District maintains a bank checking account. In addition, 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, 2015, the carrying amount of the District's deposits was \$321,117, which is comprised of the bank checking account balance of \$172,211 and deposits with trustee of \$148,906.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. As of June 30, 2015, the District's deposits were covered by federal depository insurance or by the collateral held by the District's agent or pledging financial institution's trust department or agent in the name of the District, and thus had no deposits that were exposed to custodial credit risk.

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 (3) 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, money market and mutual funds consisting of the foregoing as a means of limiting its credit risk.

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The District's investment in money market funds were rated AAm by Standard & Poor's and Aaa-mf by Moody's Investors Service.

B. Receivables

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the fiscal year, the District reported unavailable revenue for special assessments not yet due. Special assessment receivables are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

C. Advance from Town

With the downturn in commercial real estate values, the secondary assessed value for the District was severely affected. As a result, the District did not collect sufficient amount of assessment to pay the property owner's share of the annual debt service payment. The Town has advanced funds to the District to cover these costs. The District will begin repaying the Town as commercial real estate value begins to increase.

D. Debt

The District has the following long-term obligations:

\$3,025,000 Southside Community Facilities District No. 1 Special Assessment Revenue Bonds, Series 2008, is due in annual payments of \$55,000 to \$245,000 through July 1, 2032, with interest at 6.125-7.250% per annum (payable from revenues generated from an assessment levied against the properties located within the boundaries of the District).

Special Assessment Revenue Bonds are secured by a lien on property within the District for which the full assessment has not initially been paid in cash. In the event of default by any of those property owners, the District may force an auction sale of the property to satisfy debt service requirements.

Changes in Long-Term Liabilities:

Balance <u>06/30/2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>06/30/2015</u>	Due Within <u>One Year</u>
\$ 2,129,000	\$ -	\$ 59,000	\$ 2,070,000	\$ 63,000

Debt Service requirements to maturity are as follows:

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Fiscal Year Ending	Principal	Interest
2016	\$ 63,000	\$ 143,459
2017	67,000	139,478
2018	71,000	135,252
2019	75,000	130,781
2020	78,000	125,900
2021-25	484,000	537,498
2026-30	689,000	328,680
2031-33	543,000	60,792
	\$ 2,070,000	\$ 1,601,840

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.

IV. FINANCIAL POSITION

One or more parcel owners have recently indicated that they would not be making one or more annual assessment payments. As a result, on July 13, 2010, a notice was filed to the bond market that an unscheduled draw had been made on the debt service reserve in the amount of \$33,515 in order to make the July 1, 2010 bond payment. On December 14, 2010, the District notified the bond trustee that assessment collections will again be short and an unscheduled draw of \$18,443 was necessary to make the January 1, 2011 payment. Another unscheduled draw of \$35,726 was necessary to make the July 1, 2011 payment and \$20,983 to make the January 1, 2012 payment. Another unscheduled draw of \$34,391 was necessary to make the July 1, 2012 bond payment and \$19,965 to make the January 1, 2013 payment. Another unscheduled draw of \$34,376 was necessary to make the July 1, 2013 payment.

ARS §48-721(B) provides that these assessments are a first lien on the property assessed (subject only to general property taxes and prior special assessments). In the event of non-payment, collection procedures set forth in ARS §48-601 through §48-607 (including sale by auction of property for the total amount of the assessment) apply as nearly as practicable. However, neither the District nor the Town is required to purchase said property at the sale if there is no other purchaser. In March 2011, March 2012 and again in March 2013, assessment auctions were held in an attempt to avoid future unscheduled draws on the reserve, without a successful sale.

As of June 30, 2015 the reserve balance was \$13,211.

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On July 25, 2013, the District approved a resolution to order assessments to be struck off to the District if there is no purchaser at auction. In providing for the District's ongoing operation, the Town will provide the funds the District will use if assessments are struck off to the District. However, once the District obtains title to the property and sells it (or otherwise obtains reimbursement for amounts it has paid through negotiations with owners or purchasers), then the Town will be reimbursed for what it has provided to the District. If there is eventually a profit based on the sale of the property, once the bonds have been paid off (and if the District is liquidated) any balance of funds will go to the Town.