

**QUAILWOOD MEADOWS
COMMUNITY FACILITIES DISTRICT
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2005**

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
FISCAL YEAR ENDED JUNE 30, 2005

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Governing Board
Quailwood Meadows Community Facilities District
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, 2005, 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 *District*, at June 30, 2005, 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.

Phoenix, Arizona
October 7, 2005

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Basic Financial Statements

Quailwood Meadows Community Facilities District

Statement of Net Assets

June 30, 2005

Governmental Activities

ASSETS

Restricted Cash, Cash Equivalents, and Investments Assets:

Cash and investments	\$ 2,941,795
Total restricted cash, cash equivalents, and investments assets	2,941,795

Noncurrent Assets:

Deferred Charges	333,310
Total Noncurrent Assets	333,310

Total assets	3,275,105
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LIABILITIES

Liabilities Payable from Restricted Assets:

Interest payable	228,935
Total liabilities payable from restricted assets	228,935

Noncurrent Liabilities:

Developer deposits	694,000
Bonds payable	6,940,000
Total noncurrent liabilities	7,634,000

Total liabilities	7,862,935
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NET ASSETS

Restricted:

Debt service	(4,587,830)
Total net assets	\$ (4,587,830)

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

Quailwood Community Facilities District
Statement of Activities

For the Year Ended June 30, 2005

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facility District					
Development	\$ 4,414,833	\$ -	\$ -	\$ -	\$ (4,414,833)
Interest and fiscal charges	241,980	-	-	-	(241,980)
Total district activities	<u>4,656,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,656,813)</u>
Total primary government	<u>\$ 4,656,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(4,656,813)</u>
General Revenues:					
					68,983
					<u>68,983</u>
					<u>(4,587,830)</u>
					-
					<u>\$ (4,587,830)</u>

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

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
BALANCE SHEET
June 30, 2005

Assets

Restricted assets - cash and investments	\$ 2,941,795
Total Assets	<u>\$ 2,941,795</u>

Liabilities and Fund Equity

Liabilities	
Deposits	\$ 694,000
Total Liabilities	<u>694,000</u>

Fund Balance	
Unreserved	2,247,795
Total Fund Balance	<u>2,247,795</u>
Total Liabilities and Fund Balance	<u>\$ 2,941,795</u>

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

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Assets

June 30, 2005

Fund Balance - Governmental Fund Type	\$ 2,247,795
Amounts reported for governmental activities in the statement of net assets are different because:	
Current liabilities, including interest payable, is not due and payable in the current period and therefore is not reported in the funds.	(228,935)
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)
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	
Deferred bond issue costs	333,310
Net assets of governmental activities	<u>\$ (4,587,830)</u>

The accompanying 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, 2005

Revenues -	
Interest	\$ 68,983
Total revenues	<u>68,983</u>
Expenditures:	
Capital outlay	4,414,832
Interest and fiscal charges	4,500
Total expenditures	<u>4,419,332</u>
Excess of revenues over (under) expenditures	(4,350,349)
Other financing sources (uses):	
Bond proceeds	6,940,000
Bond issuance costs	(341,856)
Total other financing sources	<u>6,598,144</u>
Excess of revenues and other sources over expenditures	2,247,795
Fund balance, beginning of year	-
Fund balance, end of year	<u>\$ 2,247,795</u>

The accompanying 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, 2005

Net change in fund balances - Governmental Fund Type	\$ 2,247,795
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 assets and amortized in the statement of activities.	333,310
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which bond proceeds exceeded principal retirement in the current period.	(6,940,000)
Additional accrued interest calculated on bonds and notes payable.	(228,935)
Changes in net assets of governmental activities	<u>\$ (4,587,830)</u>

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

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 public improvements needed to connect the community to the Town of Prescott Valley's wastewater collection and treatment system.

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, 2005 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.

GOVERNMENTAL FUND TYPE:

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.

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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.

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.

Accumulated Compensated Absences

No liability for accumulated compensated absences existed at June 30, 2005.

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2005

NOTE 2 – 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, 2005, 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, 2005, are summarized below.

Investment Type	Investment Maturities (in years)	
	Fair Value	Less Than 1
Money Markets	2,941,795	2,941,795
Total Investments	\$ 2,941,795	\$ 2,941,795

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

Investments	\$ 2,941,795
Total Cash and Investments	\$ 2,941,795

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2005

Total District cash and investments are reported as follows:

Primary Government	
Restricted Cash	\$ 2,941,795
 Total Cash and Investments	 \$ 2,941,795

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.

NOTE 3 – 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.)

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2006	-	\$408,002
2007	-	408,002
2008	\$135,000	408,002
2009	160,000	402,267
2010	165,000	394,907
2011-15	1,085,000	1,827,251
2016-20	1,445,000	1,475,850
2021-25	1,940,000	984,470
2026-29	2,010,000	316,970
	\$6,940,000	\$6,625,721

The District has the authority to issue general obligation bonds in an aggregate principal amount not to exceed \$25,000,000. All bonds are payable from an *ad valorem* tax levied on all taxable properties within the boundaries of the district.

NOTE 4 – CONTINGENT LIABILITIES

At this time there are no contingent liabilities.

QUAILWOOD MEADOWS COMMUNITY FACILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 – 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.