

Entertainment Center
Community Facilities District

Annual Financial Report



For Fiscal Year Ended
June 30, 2018

**Entertainment Center Community Facilities District
For the Fiscal Year Ended June 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Entertainment Center 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 Entertainment Center Community Facilities District (District), a component unit of the Town of Prescott Valley, Arizona, as of and for the year ended June 30, 2018, 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, 2018, 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.
Flagstaff, Arizona
December 6, 2018

Basic Financial Statements

Entertainment Center Community Facilities District

Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
<hr/>	
Current assets:	
Restricted cash and cash equivalents	\$ 1,189,779
Accounts receivable:	
Miscellaneous	51,523
Prepaid items	10,000
Total current assets	<u>1,251,302</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	2,405,680
Facilities, infrastructure, and equipment (net of depreciation)	15,984,316
Total noncurrent assets	<u>18,389,996</u>
Total assets	<u>19,641,298</u>
LIABILITIES	
<hr/>	
Liabilities payable from restricted assets:	
Accounts payable	121,917
Unearned revenue	1,573
Bonds, loans, capital leases and other payables - due within one year	800,000
Total liabilities payable from restricted assets	<u>923,490</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables - due in more than one year	17,200,000
Total noncurrent liabilities	<u>17,200,000</u>
Total liabilities	<u>18,123,490</u>
NET POSITION	
<hr/>	
Net investment in capital assets	389,996
Restricted	1,127,812
Total net position	<u>\$ 1,517,808</u>

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

Entertainment Center Community Facilities District

Statement of Activities

For the Year Ended June 30, 2018

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facilities District					
Administration	\$ 3,318,086	\$ 1,511,185	\$ 1,462,545	\$ 1,972,664	\$ 1,628,308
Interest and fiscal charges	110,500	-	-	-	(110,500)
Total district activities	3,428,586		1,462,545	1,972,664	1,517,808
Total primary government	\$ 3,428,586	\$ -	\$ 1,462,545	\$ 1,972,664	1,517,808
		General revenues:			
		Total general revenues			-
					1,517,808
		Net position - beginning			-
		Net position - ending			\$ 1,517,808

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

Entertainment Center Community Facilities District

Balance Sheet

June 30, 2018

ASSETS

Restricted cash and cash equivalents	\$	1,189,779
Accounts receivable:		
Miscellaneous		51,523
Prepaid items		10,000
Total assets	\$	<u>1,251,302</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

Liabilities:

Accounts payable	\$	121,917
Unearned revenue		1,573
Total liabilities		<u>123,490</u>

Fund balance:

Restricted		1,127,812
Total fund balance		<u>1,127,812</u>

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	18,710,049	
Less: accumulated depreciation	<u>(320,053)</u>	18,389,996

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

Governmental bonds payable		(18,000,000)
Total liabilities, deferred inflows of resources and fund balance	\$	<u>1,517,808</u>

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

Entertainment Center Community Facilities District

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2018

REVENUES	
Recreation fees	\$ 1,511,185
Contributions	21,000
Total revenues	<u>1,532,185</u>
EXPENDITURES	
Administrative charges	2,965,160
Capital outlay	16,770,258
Debt service:	
Principal payment	-
Interest and fiscal charges	110,500
Total expenditures	<u>19,845,918</u>
Excess of revenues over (under) expenditures	(18,313,733)
Other financing sources:	
Transfers in	1,441,545
Bond proceeds	18,000,000
Total other financing sources	<u>19,441,545</u>
Excess of revenues and other sources over expenditures	1,127,812
Fund balances - beginning	-
Fund balances - ending	<u>\$ 1,127,812</u>

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

Entertainment Center 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, 2018

Net change in fund balances - governmental fund type		\$	1,127,812
Amounts reported for governmental activities in the statement of activities are different because:			
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Expenditures for capital assets	16,770,258		
Less amount not capitalized	(32,873)		
Less current year depreciation	<u>(320,053)</u>		16,417,332
Donations of capital assets are not reflected on the governmental fund statements but are shown in the statement of activities.			1,972,664
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 position. In the current period, these amounts are:			
Bond proceeds		(18,000,000)	
Changes in net position of governmental activities		<u>\$</u>	<u>1,517,808</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 Entertainment Center 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 June 14, 2017. The purpose of the District is to further the cultural and recreational opportunities in the Town.

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, 2018 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 a general fund. The operations of the fund are accounted for by providing a separate set of self-balancing accounts comprised of the fund's assets, liabilities, fund equity, revenues and expenditures. 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 are 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.

Entertainment Center Community Facilities District

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 two bank checking accounts.

Deposits

At June 30, 2018, the carrying amount of the District's deposits was \$1,189,779 and the bank balance was \$1,192,300. The \$2,521 difference represents outstanding checks, petty cash, and other reconciling items.

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.

Long-Term Liabilities

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, 2018.

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 two bank checking account. The District maintain a petty cash fund. As of June 30, 2018, petty cash fund was \$9,800.

Deposits

At June 30, 2018, the carrying amount of the District's deposits was \$1,189,779, which is comprised of the bank checking account balance of \$1,179,979 and petty cash funds of \$9,800.

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, 2018, 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. Receivables

Receivables at yearend for the District are \$51,523.

C. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

Entertainment Center Community Facilities District

Entertainment Center Community Facilities District
Schedule of Activity in Capital Assets

	Capital Assets				Capital Assets	
	June 30, 2017	Increases	Decreases	Transfers	June 30, 2018	
Governmental activities:						
Capital assets, not being depreciated:						
Land	\$ -	\$ 2,361,198	\$ -	\$ -	\$ 2,361,198	
Construction in progress	-	44,482	-	-	44,482	
Total capital assets, not being depreciated:	-	2,405,680	-	-	2,405,680	
Capital assets, being depreciated:						
Buildings	-	15,072,322	-	-	15,072,322	
Improvements other than buildings	-	631,309	-	-	631,309	
Machinery and equipment	-	600,738	-	-	600,738	
Total capital assets, being depreciated:	-	16,304,369	-	-	16,304,369	
Less accumulated depreciation for:						
Buildings	-	(226,117)	-	-	(226,117)	
Improvements other than buildings	-	(30,676)	-	-	(30,676)	
Machinery and equipment	-	(63,260)	-	-	(63,260)	
Total accumulated depreciation:	-	(320,053)	-	-	(320,053)	
Total capital assets, being depreciated, net	-	15,984,316	-	-	15,984,316	
Governmental activities capital assets, net	-	18,389,996	-	-	18,389,996	
Total	\$ -	\$ 18,389,996	\$ -	\$ -	\$ 18,389,996	

Construction in progress activity for the year ended June 30, 2018 was as follows:

Entertainment Center Community Facilities District
Schedule of Activity in Construction in Progress

	Construction in Progress				Construction in Progress	
	June 30, 2017	Increases	Decreases	Transfers	June 30, 2018	
Governmental activities:						
Events Center Parking Lot Rehabilitation	\$ -	\$ 10,590	\$ -	\$ -	\$ 10,590	
Events Center Sidewalk Improvements	-	28,124	-	-	28,124	
Locker Rooms Floor Rehabilitation	-	5,768	-	-	5,768	
Total governmental activities	-	44,482	-	-	44,482	
Total	\$ -	\$ 44,482	\$ -	\$ -	\$ 44,482	

Depreciation expense charged to functions/programs of the primary government was \$320,053.

D. Construction Commitments

The District has active construction projects as of June 30, 2018. At yearend, the District's commitments with contractors for specific projects are as follows:

Entertainment Center Community Facilities District

Total Contract	Remaining Balance
\$ 89,528	\$ 61,404
<u>\$ 89,528</u>	<u>\$ 61,404</u>

The District project (Entertainment Center Sidewalk Improvements) is being funded by bond proceeds.

E. Debt

The District has the following long-term obligations:

\$16,000,000 Entertainment Center Community Facilities District Revenue Bonds, Series 2017, are due in annual payments of \$555,000 to \$1,120,000 through July 1, 2037, with interest at 4.00% per annum (Payable from operating revenues generated by the Entertainment Center – purchase of the Entertainment Center and related property interests).

\$2,000,000 Entertainment Center Community Facilities District Revenue Bonds, Series 2018, are due in annual payments of \$110,000 to \$160,000 through January 1, 2033, with interest at 2.50% per annum (Payable from operating revenues generated by the Entertainment Center – improvements to the Entertainment Center and related parking areas).

Changes in Long-Term Liabilities:

	Balance 06/30/2017	Increases	Decreases	Balance 06/30/2018	Due Within One Year
Series 2017	\$ -	\$ 16,000,000	\$ -	\$ 16,000,000	\$ 690,000
Series 2018	-	2,000,000	-	2,000,000	110,000

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2019	\$ 800,000	\$ 785,117
2020	670,000	648,550
2021	690,000	623,075
2022	720,000	596,700
2023	745,000	569,300
2024-28	4,165,000	2,397,250
2029-33	5,020,000	1,535,125
2034-38	5,190,000	535,200
	<u>\$ 18,000,000</u>	<u>\$ 7,690,317</u>

III. OTHER INFORMATION

A. 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.