

***Vistancia  
Community Facilities  
District***  
Peoria, Arizona

***Annual  
Financial Report***  
For Fiscal Year Ended  
June 30, 2006

**District Board:**  
John Keegan, Chairman  
Cathy Carlat  
Pat Dennis  
Joan Evans  
Patrick Hickson  
Vicki Hunt  
Carlo Leone

**District Administrative Staff:**  
Terrence L. Ellis, District Manager  
Brent D. Mattingly, District Treasurer & Chief Financial Officer  
Stephen M. Kemp, District Council  
Mary Jo Kief, District Clerk

**Prepared by City of Peoria Finance Department**

VISTANCIA COMMUNITY FACILITIES DISTRICT  
 Peoria, Arizona  
 ANNUAL FINANCIAL REPORT  
 For the Year Ended June 30, 2006

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# Vistancia Community Facilities District

## Peoria, Arizona

September 22, 2006

Honorable Board of Directors:

The accompanying basic financial statements of the Vistancia Community Facilities District (the District) for the year ended June 30, 2006 have been prepared for the use of the District Board, staff and other interested parties. This report includes Management's Discussion and Analysis, the basic financial statements for the District including government-wide financial statements, fund financial statements and footnotes, and supplemental budget comparison schedules for the District's funds.

This report was prepared by the Financial Services Division of the Finance Department of the City of Peoria, Arizona (the City) as finance staff for the District. It is intended as District management's report to the District Board and other interested parties.

The District is a component unit of the City of Peoria, Arizona for financial reporting. As a component unit of the City, the accompanying financial statements were included in the annual audit of the City's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. A copy of the City's CAFR may be obtained by contacting the City's Finance Department at 8401 West Monroe Street, Peoria, Arizona 85345. Additionally, the auditors, Heinfeld, Meech & Co., P.C., have also expressed an opinion on the separate financial statements of the District included herein. That opinion may be found on page 1 of this financial report.

Questions about the financial statements included herein should be addressed to the City of Peoria, Finance Department at the above address.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Vistancia Community Facilities District (the District), we offer this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, and (4) identify individual fund issues or concerns.

On October 15, 2002, the District was formed by petition to the City Council of the City of Peoria, Arizona (City) pursuant to Title 48, Chapter 4, Article 6 of the Arizona Revised Statutes. The District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City. Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. The District's purpose is to acquire or construct public infrastructure in a specified area of the City. City staff administers the District. The Peoria City Council also serves as the District Board of Directors. The District is one of the City of Peoria's component units for the fiscal year ended June 30, 2006.

### Financial Highlights

- The fiscal year 2006 tax levy was \$2.10 per \$100 valuation.
- District tax collections plus developer contributions were sufficient to pay District debt service during fiscal year 2006.
- The fund balance of the District's governmental funds at June 30, 2006 is \$14.6 million, a decrease of \$12.2 million (45.5%) from the previous year, due to the expenditure of bond proceeds on capital expenditures. Of the total ending governmental fund balance \$6.5 million is reserved for debt service and \$8.1 million is reserved for capital projects.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements.

#### Government-wide Financial Statements

The *statement of net assets* is designed to provide a broad overview of the District's finances in a manner similar to those used by private businesses. The statement of net assets presents information on all of the District's assets and liabilities, both current and long-term, with the difference between assets and liabilities reported as net assets. The focus on net assets is designed to be similar to the emphasis for businesses. Over time, increases or decreases in net assets may serve as a useful indicator of the whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, other indicators, including non-financial indicators should also be considered.

The *statement of activities* presents information showing how the District's net assets changed over the most recent fiscal year. Since full accrual accounting is used for the government-wide financial statements, all changes to net assets are reported at the time that the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest. This statement also focuses on both the gross and net costs of the various functions of the District, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions depend on general taxes and revenues for support.

## Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or conditions. Funds are used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds and all are restricted, either by bond covenants or state law, as to use.

The District maintains two governmental funds, a general fund and a debt service fund. Information is presently separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each fund.

The District adopts annual budgets for both the general fund and the debt service fund. Budgetary comparison statements are provided to demonstrate compliance with the adopted budgets.

## Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read in conjunction with the financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As of June 30, 2006, the liabilities of the District exceed its assets by \$29.4 million (net assets). The deficit in net assets is due to the nature of the District's operations. The purpose of the District is to acquire or construct certain capital infrastructure, primarily water and wastewater systems, within the boundaries of the District. Once the capital infrastructure is acquired or constructed, it is turned over to the City to operate. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners within the District are assessed property taxes to pay the debt service over the life of the bonds. The City has no liability for debt of the District. Because the capital assets are reported in the City's financial statements, the Statement of Net Assets for the District reflects a large liability (bonds payable) without an offsetting asset.

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the District as a whole as of and for the year ended June 30, 2006 with comparative information for the previous year.

### Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the District for June 30, 2006 compared to the prior year.

	Governmental Activities		
	2006	2005	% Change
Current and other assets	<u>\$ 16.7</u>	<u>\$ 28.5</u>	(41.4)%
Total assets	<u>16.7</u>	<u>28.5</u>	(41.4)
Other liabilities	2.8	1.7	64.7
Long-term liabilities outstanding	<u>43.3</u>	<u>44.1</u>	(1.8)
Total liabilities	<u>46.1</u>	<u>45.8</u>	.7
Net assets:			
Restricted	<u>\$(29.4)</u>	<u>\$(17.3)</u>	69.9

Current assets (cash, restricted cash & cash equivalents and property taxes receivable) decreased \$16.2 million in fiscal year 2006 due to the expenditure of bond proceeds on capital expenditures during fiscal

year 2006. Capital assets of \$12.5 million were constructed and transferred to the City during fiscal year 2006.

### Changes in Net Assets

The following table compares the revenue and expenses for the current and previous fiscal year.

Changes in Net Assets			
For the year ended June 30			
(in millions of dollars)			
	Governmental Activities		
	2006	2005	% Change
<b>REVENUES:</b>			
Program revenues:			
Developer contributions	\$ 2.7	\$ 1.6	68.8%
General revenues:			
Property taxes	.2	.3	(33.3)
Investment earnings	.8	.1	700.0
Total revenues	<u>3.7</u>	<u>2.0</u>	85.0
<b>EXPENSES:</b>			
Program activities:			
Public works	-	-	-
Interest expense on debt	2.9	1.4	107.1
Total expenses	<u>2.9</u>	<u>1.4</u>	107.1
Excess before transfers	.8	.6	33.3
Transfers in (out)	(12.9)	(16.1)	(19.9)
Increase (decrease) in net assets	<u>\$ (12.1)</u>	<u>\$ (15.5)</u>	(21.9)

The net assets of the District decreased \$12.1 million in fiscal year 2006. This decrease is primarily due to completed capital assets of \$12.5 million transferred to the City in fiscal year 2006. Under an agreement between the District and the developer, the developer is to cover any deficits between tax collections and debt service requirements. In fiscal year 2005 the developer contributed \$2.7 million for payments on district debt.

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District maintains fund accounting to demonstrate compliance with budgetary and legal requirements related to special purpose districts and general obligation bonds.

The focus of the governmental fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

The fund balance of the District's combined governmental funds is \$14.6 million, a decrease of \$12.2 million from the previous year, due to capital expenditures of \$12.5 million. Of the total ending fund balance \$6.5 million is for debt service and \$8.1 million is reserved for capital projects.

Revenues totaled \$3.7 million in fiscal year ending June 30, 2006, of which \$2.7 million is from developer contributions under the Standby Contribution Agreement between the District and the developer.

Property tax revenues decreased by \$75,597 during the fiscal year due to a decrease in the district's assessed valuation of \$2.1 million. In fiscal year 2005, the Arizona Department of Revenue erroneously included certain property within the boundaries of the District resulting in an overstatement of the assessed value of the property within the District. This correction is reflected in the lower assessed valuation for fiscal year 2006.

## CAPITAL ASSET AND DEBT ADMINISTRATION

The District was formed to finance the acquisition or construction of public infrastructure that is subsequently donated to the City for operation. The District does not own or operate infrastructure once completed. Since formation, District bonds have been issued and the proceeds used to construct public infrastructure such as a water reclamation plant, wells and booster stations. During fiscal year 2006, \$12,468,338 was expended for capital. Additionally, during fiscal year 2005, \$3,807,744 was expended for capital. These assets were subsequently accepted by the City as a donation during each of those fiscal years. No capital assets were held by the District as the end of fiscal year 2005 or 2006.

The District is authorized, by an election held November 12, 2002, to issue \$100 million in District general obligation or revenue bonds. As of June 30, 2006, the District has issued \$44.8 million of general obligation bonds against the authorization. These bonds are to be repaid through property taxes levied on the property within the District. Under a Standby Contribution Agreement, Vistancia LLC, the developer of the community, is obligated to fund any difference between debt service costs and property tax revenues. The City has no obligation for the District's debt, other than to the administration of the collection of property taxes and the payment of debt service on behalf of the District.

At the time of issue, District general obligation bonds have a 20-year term. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

### Outstanding Long-Term Debt at June 30

	Governmental Activities	
	2006	2005
General obligation bonds	<u>\$ 44,075,000</u>	<u>\$ 44,800,000</u>

The District issued \$21.2 million in bonds in fiscal year 2003 and an additional \$23.55 million during fiscal year 2005. As of June 30, 2006, \$725,000 has been paid against principal on the outstanding debt.

## ECONOMIC FACTORS

The unemployment rate in the metropolitan Phoenix region for June 2006 was 3.8%, which remains below both the state (4.4%) and national average (4.6%). The regional economy remains stable with continued, although slowed, building activity, strong population growth and increased personal income. The state's job market has also expanded over the past year, especially in the vital sectors of business and professional services, construction and manufacturing. Within Peoria, the local economy has remained healthy as residential and commercial activity continues and expands the City's sales tax base. Local economists are predicting population growth of 3.0% for Arizona for the coming year, which in turn, will continue to have a positive effect on the state's housing and employment markets. These economic factors bode well for the District as it should see continued housing sales and commercial development, increasing the assessed valuation and property tax revenues for the District.

The adopted fiscal year 2007 budget for the District is \$59.3 million, an increase of 79.7% over 2006. The tax rate for the District for fiscal year 2007 is \$2.10, unchanged from the fiscal year 2006 tax rate.

## FINANCIAL CONTACT

This financial report is designed to provide a general overview of the District's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to the City's Finance Department at the following address: City of Peoria, 8401 W. Monroe Street, Peoria, Arizona 85345.

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

		Primary Government Governmental Activities
<b>ASSETS</b>		
	Cash and cash equivalents	\$ 46
	Investments	370
	Interest receivable	54,255
	Property taxes receivable	4,029
	Deferred bond issuance costs, net	1,389,118
	Restricted cash and cash equivalents	10,834,065
	Restricted investments	4,428,429
	<b>Total assets</b>	<b>16,710,312</b>
<b>LIABILITIES</b>		
	Accounts payable	572,392
	Interest payable	1,274,691
	Unamortized bond premium	70,963
	Other liabilities	103,983
	Non-current liabilities:	
	Due within one year:	
	Current portion of bonds payable	750,000
	Due in more than one year:	
	Noncurrent portion of bonds payable	43,325,000
	<b>Total liabilities</b>	<b>46,097,029</b>
<b>NET ASSETS</b>		
	Unrestricted	(29,386,717)
	<b>Total net assets</b>	<b>\$ (29,386,717)</b>

The accompanying notes are an integral part of the financial statements

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Expenses</u>	<u>Operating Contributions</u>	<u>Capital Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Governmental Activities</u>
<b>Functions/Programs</b>				
<b>Primary government:</b>				
Governmental activities:				
Public works	\$ 2,970	\$ 1,620	\$ -	\$ (1,350)
Interest expense on debt	2,900,793	-	2,672,225	(228,568)
Totals	<u>2,903,763</u>	<u>1,620</u>	<u>2,672,225</u>	<u>(229,918)</u>
General revenues				
Taxes:				
Property taxes, levied for general purposes				218,864
Investment earnings				779,412
Transfers in (out)				<u>(12,898,688)</u>
Total general revenues and transfers				<u>(11,900,412)</u>
Change in net assets				<u>(12,130,330)</u>
Net assets - beginning				<u>(17,256,387)</u>
Net assets - ending				<u>\$ (29,386,717)</u>

The accompanying notes are an integral part of the financial statements

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 46	\$ 46
Investments	-	370	370
Interest receivable	47,491	6,764	54,255
Property taxes receivable	-	4,029	4,029
Restricted cash and cash equivalents	8,699,226	2,134,839	10,834,065
Restricted investments	-	4,428,429	4,428,429
Total assets	<u>\$ 8,746,717</u>	<u>\$ 6,574,477</u>	<u>\$ 15,321,194</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 572,392	\$ -	\$ 572,392
Deferred revenue	-	11,287	11,287
Other liabilities	103,983	-	103,983
Total liabilities	<u>\$ 676,375</u>	<u>\$ 11,287</u>	<u>\$ 687,662</u>
Fund balances:			
Reserved for:			
Debt service	\$ -	\$ 6,563,190	\$ 6,563,190
Capital projects	8,070,342	-	8,070,342
Total fund balance	<u>8,070,342</u>	<u>6,563,190</u>	<u>14,633,532</u>
Total liabilities and fund balance	<u>\$ 8,746,717</u>	<u>\$ 6,574,477</u>	<u>\$ 15,321,194</u>

The accompanying notes are an integral part of the financial statements

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

Fund balances - total governmental funds balance sheet	\$ 14,633,532
<p>Amounts reported for governmental activities in the statements of net assets are different because:</p>	
<p>Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>	
Deferred bond issue costs	1,389,118
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>	
Governmental bonds payable	(44,075,000)
<p>Bond premiums are recognized at the time of issuance in the governmental funds, but is deferred and recognized over the life of the bonds for government-wide reporting</p>	
	(70,963)
<p>Property tax revenue earned but not received within 60 days of year-end is deferred for the governmental statements, but is recognized as revenue for the government-wide statements</p>	
	11,287
<p>Interest payable on long-term debt is not reported in the governmental funds.</p>	
	(1,274,691)
Net assets of governmental activities - statement of net assets	\$ (29,386,717)

The accompanying notes are an integral part of the financial statements

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Totals</b>
<b>REVENUES:</b>			
Taxes:			
Property taxes	\$ -	\$ 207,577	\$ 207,577
Investment earnings	570,717	208,695	779,412
Developer contributions	-	2,672,225	2,672,225
Miscellaneous	1,620	-	1,620
Total revenues	572,337	3,088,497	3,660,834
<b>EXPENDITURES:</b>			
Current operating:			
Public Works	\$ 2,970	\$ -	\$ 2,970
Debt service:			
Principal payments	-	725,000	725,000
Interest and other charges	-	2,206,139	2,206,139
Total expenditures	2,970	2,931,139	2,934,109
Excess (deficiency) of revenues over expenditures	569,367	157,358	726,725
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	\$ -	\$ 583,730	\$ 583,730
Transfers out	(13,482,418)	-	(13,482,418)
Total other financing sources and uses	(13,482,418)	583,730	(12,898,688)
Net change in fund balances	(12,913,051)	741,088	(12,171,963)
Fund balances - beginning	20,983,393	5,822,102	26,805,495
Fund balances - ending	\$ 8,070,342	\$ 6,563,190	\$ 14,633,532

The accompanying notes are an integral part of the financial statements

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds	\$ (12,171,963)
Amounts reported for governmental activities in the statement of activities are different because:	
Certain revenues are deferred in the governmental funds because they do not provide current financial resources, but are considered revenue on the statement of activities.	11,287
Interest expense in the statement of activities differs from the amount reported in governmental funds because accrued interest was calculated for bonds and notes payable for the statement of activities, but is expensed when due for the governmental fund statements.	(616,809)
Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. No effect on net assets.	725,000
The costs of issuing bonds are reported as an expenditure in governmental funds in the year of bond issuance and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.	(77,845)
Change in net assets of governmental activities- statement of activities	<u>\$ (12,130,330)</u>

The accompanying notes are an integral part of the financial statements

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (budgetary basis)</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance, July 1, 2005	\$ 21,018,668	\$ 21,018,668	\$ 21,018,668	\$ -
<b>RESOURCES (INFLOWS):</b>				
Investment earnings	500,000	500,000	567,534	67,534
Miscellaneous	-	-	1,620	1,620
Total inflows	<u>500,000</u>	<u>500,000</u>	<u>569,154</u>	<u>69,154</u>
Amounts available for appropriation	<u>21,518,668</u>	<u>21,518,668</u>	<u>21,587,822</u>	<u>69,154</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Public works	-	-	9,550	9,550
Capital outlay	20,954,151	20,954,151	12,439,677	(8,514,474)
Transfers to other funds	45,000	45,000	28,215	(16,785)
Total charges to appropriations	<u>20,999,151</u>	<u>20,999,151</u>	<u>12,477,442</u>	<u>(8,521,709)</u>
Budgetary fund balance, June 30, 2006	<u>\$ 519,517</u>	<u>\$ 519,517</u>	<u>\$ 9,110,380</u>	<u>\$ 8,590,863</u>

**Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures**

**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 21,587,822
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(21,018,668)
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis	3,183
Total revenues as reported on the statement of revenue, expenditures, and changes in fund balances - governmental funds	<u>\$ 572,337</u>

**Uses/outflows or resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 12,477,442
Differences - budget to GAAP:	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis	452,431
Capital outlay recognized as expenditures for budgetary purposes, but assets capitalized in proprietary funds for financial reporting purposes	(12,898,688)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(28,215)
Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,970</u>

VISTANCIA COMMUNITY FACILITIES DISTRICT  
Peoria, Arizona

**NOTES TO THE FINANCIAL STATEMENTS**

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VISTANCIA COMMUNITY FACILITIES DISTRICT  
PEORIA, ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Vistancia Community Facilities District, a component unit of the City of Peoria, Arizona (City), conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of other significant accounting policies:

**A. Financial Reporting Entity**

The Vistancia Community Facilities District (the District) was formed by petition to the City Council in 2002. The District's purpose is to acquire or construct public infrastructure in a specified area of the City. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for the District's property taxes, and thus for the costs of operating the District. The City Council serves as the Board of Directors of the District. The City has no liability for the District's debt. For financial reporting purposes, the transactions of the District are included as governmental type funds in the City's financial statements as if they were part of the City's operations.

**B. Basic Financial Statements**

The basic financial statements of the District include both government-wide and fund financial statements. The government-wide financial statements (statement of net assets and statement of activities) report on all of the non-fiduciary activities of the District as a whole. All of the activities of the District are governmental activities. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statement focus more on sustainability of the District as an entity and the change in aggregate financial position resulting from activities of the period. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equal net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components, if applicable: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the District would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2006, the net assets of the District are negative and therefore are shown as unrestricted.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the functions and segments of the District are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is shown separately, not allocated to functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods,

VISTANCIA COMMUNITY FACILITIES DISTRICT  
PEORIA, ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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services or privileges provided by a particular 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, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements. The focus of the fund financial statements is on major funds. Both of the funds of the District, the capital projects fund and the debt service fund are governmental funds. The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. Since the governmental fund financial statements are presented on a different basis than the governmental activities of the government-wide financial statements, reconciliations are provided following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities of the government-wide financial statements

**C. Basis of Presentation**

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following fund categories (further divided by fund type) are used by the District:

**Governmental Funds**

Governmental funds are used to account for the District's general government activities. The focus of Governmental Fund measurement is upon determination of financial position and changes in financial position rather than upon net income. The following are the Governmental Funds of the District:

General Fund accounts for the proceeds from the sales of Community Facilities District bonds and the acquisition of capital assets or construction of major capital projects within the District.

Debt Service Fund accounts for the resources accumulated for, and the servicing of the general long-term debt of the District, including principal, interest and other related costs.

**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the District's actual revenues and expenditures conform to the annual budget. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon thereafter to pay liabilities of the current period. The District considers revenues available under

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modified accrual, if they are earned by June 30 (all eligibility requirements have been met) and the revenue is expected to be collected within six months after year-end, except for property taxes. For property taxes, the District uses a 60 day collection period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due.

When applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33 – *Recipient Reporting for Certain Shared Non-exchange Transactions* (Statement #33), receivables and revenues are recognized when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as deferred revenue.

Under GASB Statement #33, property taxes are susceptible to accrual when an enforceable legal claim has arisen. As noted above, the District recognizes property taxes received within 60 days of fiscal year-end to be revenues under modified accrual. The remaining taxes levied, if any, are considered deferred revenue on the financial statements. Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

Interest and dividend income is recognized on the modified accrual basis. Changes in fair value of investments are recognized in investment income at the end of the year.

#### **E. Budgets and Budgetary Accounting**

The District uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- According to the laws of the State of Arizona, all operating budgets must be approved by their governing board on or before the second Monday in August to allow sufficient time for legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August.
- In June, the proposed budget for the following fiscal year is presented by the Treasurer to the District Board. The budget includes proposed expenditures and the means of financing them. Public meetings are held to obtain taxpayer comment.
- Prior to June 30, the District Board legally enacts the budget, through the passage of a resolution. The resolution sets the limit for expenditures for the year. There were no supplemental appropriations made during fiscal year 2006.
- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.
- All unencumbered expenditure appropriations expire at the end of the fiscal year.
- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary. Budgetary carry forwards are approved by the District Board.
- All funds of the District have legally adopted budgets. Formal integration of these budgets into the District's financial systems is employed as a management control device during the year for all funds.

The District prepares its annual budget on a modified cash basis, which differs from GAAP. The District prepares budgetary comparison statements for both of its funds for presentation in the

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annual financial statements of the District. These statements display original budget, amended budget and actual results (on a budgetary basis). The budgetary statements are presented as supplemental information after the notes to the financial statements.

**F. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed by the District. Encumbrances, if any, are reported as designations of fund balances at June 30 in the financial statements, since they do not constitute expenditures or liabilities. No restrictions of net assets for encumbrances are shown in the government-wide financial statements.

**G. Deposits and Investments**

Arizona Revised Statutes authorizes the District to invest public monies in the State or County treasurer's investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories: bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 100% of all deposits not covered by Federal depository insurance.

Cash and cash equivalents held at June 30, 2006 by the trustee, plus accrued interest are restricted as to usage.

The District's deposits at June 30, 2006 were collateralized with securities held by the pledging financial institution's trust department in the District's name.

Investments, if any, are stated at fair value in accordance to GASB Statement #31. Interest income from investments is recorded as earned under the modified accrual basis of accounting.

**H. Capital Assets**

Governmental Fund types do not display capital assets on the face of the fund financial statements. The costs of purchasing, or constructing, capital assets are shown as capital outlay expenditures in the Governmental Statement of Revenues, Expenditures and Changes in Fund Balance, unless the capital assets have already been transferred to the City. The capital assets of the District, once completed and acceptable to the City, are transferred to the City. All subsequent costs of operating and maintaining those assets will be the responsibility of the City.

Since the capital assets acquired or constructed by the District are turned over to the City once they are operational, the District generally does not own capital assets. Capital assets still under construction at fiscal year-end, are shown as Work-in-process on the District's government-wide financial statements.

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**I. Restricted Assets**

Certain proceeds of the District's bonds, as well as certain resources set aside for their repayments, are classified as restricted on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

**J. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the bonds.

Governmental fund types do not display long-term obligations on the face of the financial statements. Bond premiums and discounts, as well as bond issuance costs, are recognized in the period in which the bonds are issued. The face amount of debt issued 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.

The long-term debt of the District is serviced by the District's Debt Service Fund.

**K. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District's insurance coverage is provided by the City under the City's umbrella insurance policies. The City maintains a Self-Insurance Fund (accounted for in the Internal Service Funds) to account for and finance its uninsured risks of loss. As with any risk retention program, the City is contingently liable with respect to claims beyond those actuarially projected.

Governmental Accounting Standards Board Statement #10 requires that claims liabilities be reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2006, no claims liability is reported in the District's financial statements, or by the City on behalf of the District. The District, through the City, is self-insured for property and public liability up to \$500,000. Excess coverage insurance policies purchased through commercial insurance carriers cover individual claims in excess of this amount, up to a maximum of \$40 million per occurrence. Additionally, through a development agreement between the District and the developer, the developer is responsible for \$250,000, per incident, of any insurance deductibles that might be paid by the City on behalf of the District. During the fiscal year ended June 30, 2006, there was no significant reduction in excess insurance coverage. Additionally, settlements for each of the last three fiscal years have not exceeded the City's, and therefore the District's, insurance coverage.

**L. Cash Equivalents**

The District considers short-term investments, including restricted investments, in mutual fund money market and U.S. Treasury bills and notes with maturities of less than three months at acquisition date to be cash equivalents.

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**M. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenue and expenditures during the reported period. Actual results could differ from those estimates.

**2. BUDGET BASIS OF ACCOUNTING**

The District does not have a general fund or any special revenue funds. However, the District does adopt an annual operating budget for both of its funds. The District prepares the annual budget on a modified cash basis, which differs from GAAP, as discussed in Note 1. Budgetary control over expenditures is exercised at the fund level. Budgetary comparison schedules for the capital projects fund and debt service fund are presented as supplemental information after these notes to the financial statements. The budgetary schedules include a reconciliation of the adjustments required to convert the budgetary revenues and expenditures or changes in net assets on a budgetary basis, to revenues and expenditures or changes in net assets on a GAAP basis.

**3. CASH AND INVESTMENTS**

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demands deposits, certificates of deposit and repurchase agreements at 102 percent of all deposits not covered by Federal depository insurance.

The District participates in the pooled cash and investments of the City for daily transactions. The City then periodically requested reimbursement from the District's restricted funds held by the trustee. At June 30, 2006, the District had a deposit of \$416 in the City's pooled cash and investments.

Cash and investments at June 30, 2006 consist of the following:

Participation in City's pooled cash & investments	\$ 416
Cash and investments held by trustee-restricted	<u>15,262,494</u>
Total cash & investments	\$ 15,262,910

At June 30, 2006, of the cash and investments held by trustee-restricted 29%, or \$4,428,429, were in Agency discount notes with maturities less than 1 year. These are reported as restricted investments. The remaining funds of \$10,834,065 held by the trustee are invested in money market accounts, with a maturity of less than one year, and are reported as restricted cash and cash equivalents.

**4. PROPERTY TAXES**

Arizona law provides for a two tiered tax system: (1) a primary system for taxes levied to pay for current operation and maintenance expenses, and (2) a secondary system for taxes levied to pay principal and interest on bonded indebtedness as well as for the determination of maximum permissible bonded indebtedness.

Specific provisions are made under each system for determining full cash values of property, the basis of assessment, and the maximum annual tax levies on certain types of property and by certain taxing

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authorities. Under the primary system, the full cash value of locally assessed real property (consisting of residential, commercial, industrial, agricultural and unimproved property) may increase by more than 10% annually only under certain circumstances. Under the secondary system, there is no limitation on annual increases in full cash value of any property. Primary levies on residential property are limited to one percent of the primary full cash value of such property. Additionally, primary taxes on all types of property are limited to a maximum increase of two percent over the prior year's levy, adjusted for new construction and annexations. Secondary property taxes levied to pay principal and interest on bonded indebtedness are not limited. The District's assessed valuation for 2006 is \$17,437,970.

The Arizona tax year has been defined as a calendar year, notwithstanding the fact that tax procedures begin prior to January 1 of the tax year and continue through May of the succeeding calendar year. The definition of the tax year is a function of the fact that the tax lien for the year attaches to the real property as of January 1 of the year in question.

The District Board adopts the annual tax levy each year on or before the third Monday in August. The basis of this levy is the full cash value as determined by the Maricopa County Assessor. For locally assessed property, the value is determined as of January 1 of the preceding year, known as the valuation year. For utilities and other centrally valued properties, the full cash value is determined as of January 1 of the tax year. The District has an enforceable claim on the property when the property tax is levied. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent on November 1 and May 1, respectively. Delinquent amounts bear interest at the rate of 16 percent. A lien is placed on the property at the time the tax bill is sold. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions for sale of delinquent real estate taxes are held in February following the May 1 date upon which the second half taxes become delinquent. The purchaser is given a Certificate of Purchase issued by the County Treasurer. Five years from the date of sale, the holder of a Certificate of Purchase that has not been redeemed may demand a County Treasurer's Deed from the County Treasurer.

Property taxes are recognized as revenue in the government-wide financial statements when an enforceable legal claim has arisen. Therefore, the District recognizes revenue and a receivable, less any allowance for doubtful accounts deemed appropriate, for the entire tax levy in the year it is levied. For the governmental fund statements, property tax revenues not collected within 60 days of year end are deferred.

Property taxes receivable consist of uncollected taxes as determined from the records of the County Treasurer's Office and at June 30, 2006 were \$4,029 in the Debt Service Fund. The deferred property taxes at June 30, 2006 were \$11,287 in the Debt Service Fund.

#### **5. DEFICITS IN FUND EQUITY/EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

As described in Note 1, the District was formed to finance and acquire or construct capital infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate capital assets. Therefore the Statement of Net Assets reflects a large liability without an offsetting asset.

For the year ended June 30, 2006, expenditures, including capital outlay and transfers, did not exceed budget for either of the funds of the District.

#### **6. CAPITAL ASSETS**

The following table discloses the capital asset activity of the District, for the government-wide financial statements, for the fiscal year ended June 30, 2006.

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	Balances June 30, 2005	Additions/ Transfers in	Disposals/ Transfers out	Balances June 30, 2006
Non-depreciable assets:				
Work in Progress–Water system	\$ -	12,247,049	12,247,049	-
Work in Progress–Wastewater sys	-	221,289	221,289	-
Total capital assets	<u>\$ -</u>	<u>12,468,338</u>	<u>12,468,338</u>	<u>-</u>

As discussed in Note 1, governmental fund types do not display capital assets on the face of the financial statements. The District does, however, purchase or construct capital assets with the intent of conveying the assets to the City upon completion and acceptance by the City.

## 7. LONG-TERM DEBT

Community Facilities Districts (CFD's), are special purpose districts created specifically to acquire or construct public infrastructure within specified areas of the City, are authorized under state law to issue general obligation (GO) or revenue bonds to be repaid by property (ad valorem) taxes levied on property within the district (for GO debt), or by specified revenues generated within the districts (revenue bonds). CFD's are created by petition to the City Council by property owners within the area to be covered by the district, and debt may be issued only after approval of the voters within the district.

On October 15, 2002 the City Council formed the Vistancia Community Facilities District (the District) pursuant to Title 48, Chapter 4, Article 6, Arizona Revised Statutes. The District was subsequently authorized, by the voters of the district on November 12, 2002, to issue up to \$100,000,000 in general obligation bonds to construct public infrastructure within the District. The district issued \$21,250,000 in 2003 and \$23,550,000 in 2005 of general obligation bonds against this authorization. These bonds will be repaid by the property owners within the District. The bonds are obligations of the District only. The City has no obligation for the District debt other than the administration of the collection of the property taxes and payment of the debt service on behalf of the District.

Legal Debt Limit – General Obligation bonded indebtedness for the District cannot exceed 60 percent of the market value of the property in the District after the infrastructure is completed plus the value of the infrastructure improvements made.

As discussed in Note 1, governmental type funds do not display long-term obligations on the face of the financial statements. The following tables disclose the long-term debt obligations of the District as of June 30, 2006 for the government-wide financial statements.

Delivery Date	Description	Purpose	Maturity Dates	Net Interest Rate	Ave. Life (Yrs)	Original Principal Balance	Principal Balance Outstanding
<b>Community Facility District Bonds</b> (collateralized by ad valorem property taxes levied on the property benefiting from the improvements)							
12/17/02	Series 2002	Vistancia Community Facilities District infrastructure	7/15/05-22	6.69	12.7	21,250,000	20,525,000
04/27/05	Series 2005	Vistancia Community Facilities District infrastructure	7/15/07-24	5.47	13.2	23,550,000	23,550,000
Total bonds payable							44,075,000
Less current portion							750,000
<b>Long-term portion of bonds payable</b>							<b><u>\$43,325,000</u></b>

The following is a summary of the long-term debt activity of the District for the fiscal year ended June 30, 2006.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation bonds	\$ 44,800,000	-	725,000	44,075,000	750,000

The following table discloses the debt service requirements as of June 30, 2006, segregating principal and interest, for the next five years and in five-year increments thereafter.

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<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	750,000	2,533,444	3,283,444
2008	1,475,000	2,485,100	3,960,100
2009	1,550,000	2,417,025	3,967,025
2010	1,600,000	2,340,925	3,940,925
2011	1,700,000	2,256,763	3,956,763
2012-2016	9,900,000	9,764,797	19,664,797
2017-2021	13,250,000	6,317,094	19,567,094
2022-2025	13,850,000	1,690,501	15,540,501
Totals	<u>\$ 44,075,000</u>	<u>29,805,649</u>	<u>73,880,649</u>

**8. Subsequent Events**

The District is planning a General Obligation Bond sale not to exceed \$25 million in early 2007 to fund various water and wastewater infrastructure and facilities identified in the District's Capital Improvement Program.

**VISTANCIA COMMUNITY FACILITIES DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (budgetary basis)</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance, July 1, 2005	\$ 5,822,101	\$ 5,822,101	\$ 5,822,101	\$ -
<b>RESOURCES (INFLOWS):</b>				
Property Taxes	232,899	232,899	214,837	(18,062)
Investment earnings	75,000	75,000	212,939	137,939
Developer contributions	2,625,241	2,625,241	2,672,225	46,984
Transfers in	-	45,000	201,727	156,727
Total inflows	<u>2,933,140</u>	<u>2,978,140</u>	<u>3,301,728</u>	<u>323,588</u>
Amounts available for appropriation	<u>8,755,241</u>	<u>8,800,241</u>	<u>9,123,829</u>	<u>323,588</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Debt service:				
Principal payments	725,000	725,000	725,000	-
Interest and other charges	<u>2,208,140</u>	<u>2,208,140</u>	<u>2,206,139</u>	<u>(2,001)</u>
Total charges to appropriations	<u>2,933,140</u>	<u>2,933,140</u>	<u>2,931,139</u>	<u>(2,001)</u>
Budgetary fund balance, June 30, 2006	<u>\$ 5,822,101</u>	<u>\$ 5,867,101</u>	<u>\$ 6,192,690</u>	<u>\$ 325,589</u>

**Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures**

**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 9,123,829
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(5,822,101)
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis	(11,504)
Transfers from other funds are a budgetary resource but are not revenues for financial reporting purposes	(201,727)
Total revenues as reported on the statement of revenue, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,088,497</u>

**Uses/outflows or resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,931,139
Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,931,139</u>