VISTANCIA COMMUNITY FACILITIES DISTRICT
PEORIA, ARIZONA
DISTRICT COMMUNICATION

DC: 2C
Amend No. ______

Date Prepared: August 6, 2007 **District Meeting Date:** August 21, 2007

TO: Terry Ellis, District Manager

FROM: Brent D. Mattingly, Chief Financial Officer BDM

PREPARED BY: Deborah Card, Treasury Manager DC

SUBJECT: Investment Report for the Year Ended June 30, 2007

RECOMMENDATION:

That the District Board review and accept the Annual Investment Report for the Year Ended June 30, 2007.

SUMMARY:

Staff has prepared an investment report to summarize the investment activity for the period from July 1, 2006 to June 30, 2007. The District's investment portfolio earned an average yield of 5.31% for the 4th Quarter of FY 2007 and 5.10% for the fiscal year. This represents investment income of $439,682 for the quarter and $1,162,380.42 for the fiscal year. The average cash balance for the District's portfolio during the quarter was $33,723,566 and the ending balance for the total investment portfolio was $34,531,992 which represents all securities and money market funds.

The annual report also provides comparative investment yields, portfolio composition, average maturity lengths, comparisons of market value and book value, and a brief summary of the economy. An Inventory Holdings Report, which itemizes each security in the District's investment portfolio by security type and cusip number has also been included as Attachment B.

ATTACHMENTS:

1. Annual Investment Report for the Year Ended June 30, 2007
2. Inventory Holdings Report for the Quarter Ended June 30, 2007

DISTRICT CLERK USE ONLY:

- Γ Consent Agenda
- Γ Carry Over to Date:____________
- Γ Approved
- Γ Unfinished Business (Date heard previous:______)
- Γ New Business

ORD. #________ **RES. #**
LCON#________ **LIC. #**
Action Date:

REV. 10/99

VISTANCIA COMMUNITY FACILITIES DISTRICT
PEORIA, ARIZONA

INVESTMENT PERFORMANCE REPORT

Annual Report

Period Ended

June 30, 2007

Brent D. Mattingly
District Chief Financial Officer

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I. INTRODUCTION

This report reflects investment activity for the period of July 1, 2006 to June 30, 2007 for the District's investment management program. The District's funds are invested in accordance with the City's Investment and Portfolio Policies, approved and adopted in January 1992 by the City Council, with revisions approved in June 2005. The policy requires that the investment program meet the following criteria, listed in order of importance:

Safety - *Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.*

Liquidity - *The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements.*

Yield - *The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, while taking into account the City's strict risk constraints.*

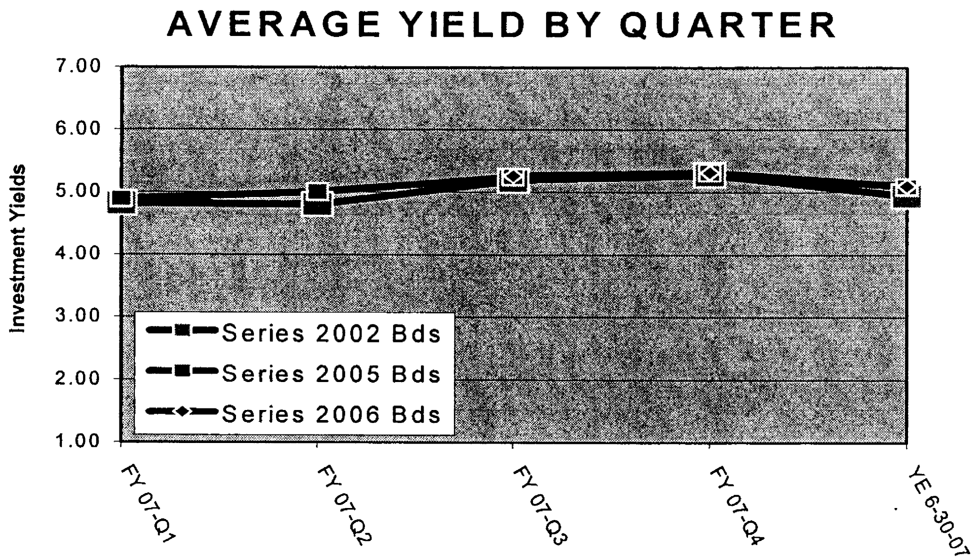
In keeping with these principles, staff continued to invest the District's funds only in allowable, safe securities and to structure the maturity of the investment portfolio to assure liquidity. Short-term needs (6 months or less) are being met by investments in overnight repurchase agreements, commercial paper, and money market funds. Funds not required to meet specific short-term needs are invested primarily in Treasury Notes and U.S. Government Agency Securities.

Only after the safety and liquidity requirements are met does staff attempt to maximize earnings. For the Year Ended June 30, 2007, the average annualized yield on investment was as follows:

Table 1

AVERAGE ANNUALIZED INVESTMENT YIELD					
	FY 07 Q1	FY 07 Q2	FY 07 Q3	FY 07 Q4	FY 07 6-30-07
CFD Bonds Series 2002 Debt Reserve Fund	4.82	4.80	5.19	5.28	4.94
CFD Bonds Series 2005	4.89	5.00	5.25	5.31	5.09
CFD Bonds Series 2006	--	--	5.27	5.32	5.29
Total Portfolio	4.86	4.97	5.26	5.31	5.10

Chart 1



The annual average yield for the Year Ended June 30, 2007 for the Vistancia investment portfolio was 5.10%.

This quarter's average yield of 5.31% represents an increase of .05% from the total portfolio annualized yield of 5.26% experienced for the Quarter Ended March 31, 2007.

II. INVESTMENT POLICY COMPLIANCE

The City's Investment Policy, as approved by City Council, applies to all the financial assets and funds held by the City of Peoria, including Vistancia Community Facilities District funds. All investments follow the provisions established in that Policy.

III. INVESTMENT PERFORMANCE

A. Portfolio Composition. All investment proceeds are diversified by security type and institution to minimize market volatility risk and credit risk. The Policy stipulates maximum investment levels by market sector to insure diversification. Diversification is further accomplished through the laddering of maturities, which mirror anticipated cash flows for the various funds. If not matched to specific cash flows, the funds are invested with a priority of liquidity and safety until specific cash flow needs are identified.

The table below illustrates the diversification structured into the portfolio composition with dollar amounts and percentages by investment type (market sector). The table shows the overall conservative nature of the portfolio and its diversified structure. The fluctuation in percentages between fiscal quarters represents a shifting of value between market sectors from the varying economic conditions throughout the year. The concentration on Treasury Notes and Agency Securities illustrates the portfolio's safety priority.

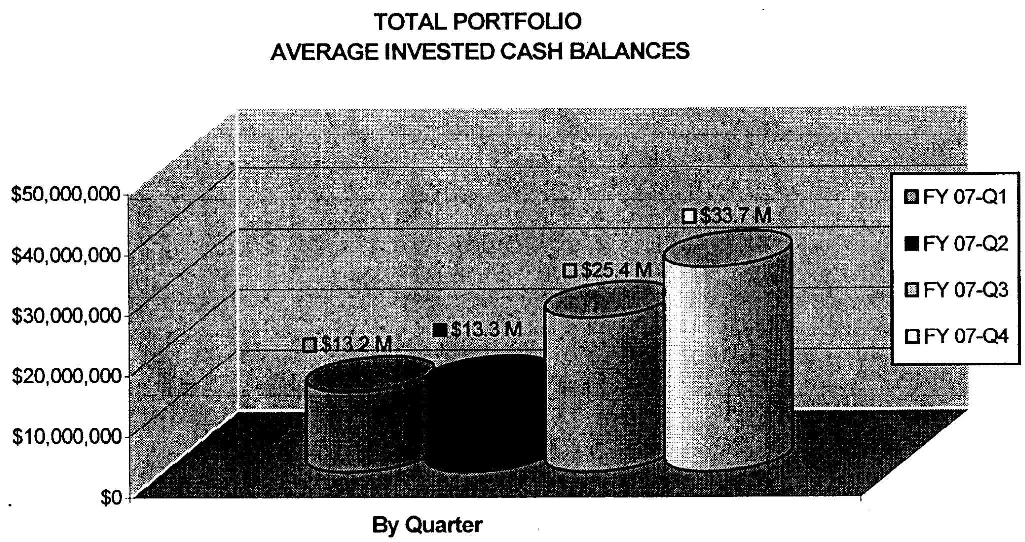
Table 2

TOTAL PORTFOLIO COMPOSITION (In Millions of Dollars)								
Security Type	FY 07 - Q1		FY 07 - Q2		FY 07 - Q3		FY 07 - Q4	
	Amt	%	Amt	%	Amt	%	Amt	%
Money Market	8.2	62.3	13.2	100.0	1.5	4.6	3.2	9.2
Agency Securities	5.0	37.7	0.0	0.0	33.0	95.4	31.3	90.8
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Notes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase Agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTALS:	13.2	100.0	13.2	100.0	34.5	100.0	34.5	100.0

B. Average Invested Cash Balances. The average investment cash balance for the Year Ended June 30, 2007 was $22,407,079. The average investment cash balance for the portfolio for the Quarter Ended June 30, 2007 was $33,723,566 as compared to $25,428,929 for the Quarter Ended March 31, 2007.

Fluctuations in the quarterly balances shown in the chart below represent normal cash flows throughout the fiscal year, the addition of new bond proceeds, investment of earned interest, and the spend down of existing bond proceeds for capital projects.

Chart 2



C. Investment Income. Total investment income for the Year Ended June 30, 2007 was $ 1,162,380.42. Total investment income for the Quarter Ended June 30, 2007 was $439,682 which represents an increase of 53% over the $285,898 earned in the 3rd Quarter of FY 07. The earnings increase is primarily due to rising interest rates and the addition of $22.7 million in bond proceeds to the portfolio.

D. Comparative Investment Yields. Since the Investment Policy restricts investment primarily to the U.S. fixed income and money markets, the portfolio performance is measured directly against these markets for comparison purposes. The maximum maturity of securities purchased for the portfolio is restricted to five (5) years. The weighted average maturity can not exceed 365 days. The actual weighted average maturity for the 3rd Quarter of FY 07 was 36 days, in keeping with the investment policy requirement for liquidity and safety. The average rates of comparable benchmarks are shown in the table below.

Table 3

COMPARATIVE ANNUALIZED INVESTMENT YIELDS				
	FY 07 Q1	FY 07 Q2	FY 07 Q3	FY 07 Q4
Total Portfolio	4.77	4.97	5.26	5.31
3 Month T-Bill	5.04	5.02	5.02	4.85
6 Month T- Bill	5.17	5.10	5.12	4.98
1 Year T-Bill	5.09	5.00	5.01	4.93
2 Year Treasury	4.60	4.74	4.76	4.80

E. Average Maturity of the Portfolio. For the Quarter Ended June 30, 2007, the average maturity of the portfolio was 44 days as compared to 36 days on March 31, 2007. Matching maturities to known cash flows requires the maintenance of a somewhat short portfolio. Cash not needed to match immediate cash flow needs (within a nine month rolling horizon of liabilities) is normally extended somewhat to take advantage of higher yields. Longer maturities are used to capture yields at purchase and to capture capital gains during the period.

F. Comparison of Market Value and Book Value. The book value of the portfolio is captured on an amortized cost basis recognizing the position in the securities on a straight-line amortization of premiums and discounts. Book and market values do not include accrued interest on the securities. The market value reflects the *then current* market price at which these securities could be sold in the open market. A comparison of book and market reflects the changes in market rates as well as the performance of the portfolio against the market. Since the shortest portion of the portfolio is matched against anticipated cash flows, rate changes will more directly affect their relative gain/loss positions. A summary of market and book values for the total portfolio for the Quarter are shown below.

Beginning Book Value $34,584,093
Beginning Market Value $34,589,249

Ending Book Value $34,531,992
Ending Market Value $34,595,527

At quarter's end, the book value of the portfolio exceeded the market value of securities resulting in an overall unrealized gain in value of $63,535.

ECONOMIC REVIEW AS OF 6-30-07:
The Good, the Bad and the Ugly

After a stumbling start in the third quarter of FY 07, the U.S. economy rebounded in the fourth quarter of the fiscal year which ended June 30th. Economic activity, as measured by Gross Domestic Product (GDP), only grew at a .7% pace in the third quarter. That pace returned to a more "trend" like level of between 2-2.5%, which is still below the average of the last 12 quarters, but feels a lot better to businesses and consumers than the snail's pace of the prior quarter. We are not seeing forward growth accelerating much beyond that pace but we do see divergence within sectors of the economy, hence the good, bad and ugly outlooks.

The Good: Overall, the core rate of commodity inflation remains low. Recently, we have seen a new spike in crude oil prices as demand for refined products (gasoline, jet fuel, petrochemicals, etc.) has grown faster than expected while at the same time refinery capacity utilization has been curtailed by mechanical and weather related problems at sites around the nation. But with producers unable to pass along higher energy costs due to global competition, wholesale prices excluding food and energy have increased an average of less than .2% per month since the beginning of the year. Consumers have fared equally as well, with CPI's core rate only rising at the same pace of less than .2% and retail demand for products whose costs are rising shifting to alternative, lower priced items in many cases. As long as commodity based inflation remains in check, it allows the U.S. Federal Reserve Bank to maintain a "wait and see" attitude and keep monetary policy unchanged.

The Bad: Amidst the soft economy of prior months, hopes rose for an easing of monetary policy by the U.S. Federal Reserve sometime near the end of 2007. These hopes were dashed when the Federal Open Market Committee (FOMC) announced that their inflation concern was not solely commodity based but rather based on a tightening labor market and the high level of "resource utilization." Simply put, resource utilization means that there are not enough workers to fill existing jobs while new jobs are being created by economic growth. This can cause an inflationary wage-price spiral that is extremely difficult for the FOMC to contain. Commodity based inflation can usually be reined in by moderately slowing the economy through gradually tightening monetary policy. This, in turn, gradually slows final demand. It also eliminates pricing power and drops prices back down.

The Ugly: When the housing market began its current contraction about a year ago it was initially deemed a healthy situation that would get rid of some of the excesses in the industry. What has become more and more clear, however, is that the depth of the excess was far greater than originally believed and that there may still be a considerable way to go before the industry stabilizes itself.

The "sub-prime" lending market, which is a catch all phrase for non-traditional home lending, based itself on the belief that the appreciation of housing prices would continue to exceed the costs of financing and allow homeowners to borrow more and more using their homes as collateral. As prices are now retreating in both the new and existing home sales indices, the rates of defaults, foreclosures and personal bankruptcies have soared. Many of the mortgage finance companies who wrote the underlying loans have had to shut their doors and several large investment banking firms have seen billion dollar portfolios lose 10-15% of their underlying asset value. All this has put a huge damper on housing and housing related activity. Since this sector is believed to account for as much as one third of all Gross Domestic Product (GDP) related activities, it will probably be a drag on the economy not just for the rest of 2007 but most of 2008. It may very well be a reason why the FOMC would not tighten monetary policy further as the "measured pace" of rate increases during the period of 2004-2006 was probably one of the contributors to the housing and mortgage market imbalance.

With the first half of 2007 now behind us, we have seen a wide range of varying and conflicting economic data. When we blend the good, the bad and the ugly and then add in global geopolitical problems, potential curveballs we may get from Mother Nature and the outlook for a new U.S. President in 2008, it will definitely get more interesting before the year rides off into the sunset.

SUMMARY DATA

Table 4

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2002				
Security Type	**FY 07 – Q1 Ending 9/30/06**	**FY 07 – Q2 Ending 12/31/06**	**FY 07 – Q3 Ending 3/31/07**	**FY 07 – Q4 Ending 6/30/07**
Money Market	$3,227,553	$3,033,755	$4,392	$1,755,966
Agency Securities	$0	$0	$2,057,767	$2,082,736
Treasury Notes	$0	$0	$0	$0
Treasury Bills	$0	$0	$0	$0
Commercial Paper	$0	$0	$0	$0
Repurchase Agreements	$0	$0	$0	$0
Totals:	**$3,227,553**	**$3,033,755**	**$2,062,159**	**$3,838,702**
Avg Yield	4.82	4.80	5.19	5.28
Avg Maturity (Years)	0.03	0.01	0.24	0.21

Table 5

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2005				
Security Type	**FY 07 – Q1 Ending 9/30/06**	**FY 07 – Q2 Ending 12/31/06**	**FY 07 – Q3 Ending 3/31/07**	**FY 07 – Q4 Ending 6/30/07**
Money Market	$6,094,262	$10,261,997	$1,363,436	$551,374
Agency Securities	$4,987,188	$0	$8,667,973	$8,500,644
Treasury Notes	$0	$0	$0	$0
Treasury Bills	$0	$0	$0	$0
Commercial Paper	$0	$0	$0	$0
Repurchase Agreements	$0	$0	$0	$0
Totals:	**$11,081,450**	**$10,261,997**	**$10,031,409**	**$9,052,018**
Avg Yield	4.89	5.00	5.25	5.31
Avg Maturity (Years)	0.02	0.01	0.19	0.13

Table 6

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2006				
Security Type	**FY 07 – Q1 Ending 9/30/06**	**FY 07 – Q2 Ending 12/31/06**	**FY 07 – Q3 Ending 3/31/07**	**FY 07 – Q4 Ending 6/30/07**
Money Market	$0	$0	$205,065	$848,721
Agency Securities	$0	$0	$22,271,959	$20,792,551
Treasury Notes	$0	$0	$0	$0
Treasury Bills	$0	$0	$0	$0
Commercial Paper	$0	$0	$0	$0
Repurchase Agreements	$0	$0	$0	$0
Totals:	**$0**	**$0**	**$22,477,024**	**$21,641,272**
Avg Yield	0.00	0.00	5.27	5.32
Avg Maturity (Years)	0.00	0.00	0.19	0.10

Vistancia Community Facilities District
DETAIL OF SECURITY HOLDINGS
As of June 30, 2007

Security Description	Security CUSIP	Coupon	Settlement Date	Maturity Date	Next Call Date	Par Value	Purchase Price	Purchase Cost	Book Value	Market Price	Market Value	Accrued Interest	Days to Maturity
Vistancia 2002													
MM	Money Market	5.14%	6/29/2007	7/2/2007		1,755,966.00	100.000	1,755,966.00	1,755,966.00	100.000	1,755,966.00	-	1
FMCDN	313396PL1	-	5/29/2007	11/19/2007		2,125,000.00	97.546	2,072,845.00	2,082,736.00	98.020	2,082,925.09	-	141
Subtotal:						3,880,966.00		3,828,811.00	3,838,702.00		3,838,891.09	-	77
Vistancia 2005													
MM	Money Market	5.14%	6/29/2007	7/2/2007		551,373.00	100.000	551,373.00	551,373.00	100.000	551,373.00	-	1
FHDN	313588JB2	-	5/23/2007	7/13/2007		6,100,000.00	99.444	6,066,099.00	6,089,571.00	99.840	6,090,239.77	-	12
FMCDN	313396PL1	-	5/29/2007	11/19/2007		2,460,000.00	97.546	2,399,623.00	2,411,073.00	98.020	2,411,292.11	-	141
Subtotal:						9,111,373.00		9,017,095.00	9,052,017.00		9,052,904.88	-	113
Vistancia 2006													
MM	Money Market	5.14%	6/29/2007	7/2/2007		848,721.00	100.000	848,721.00	848,721.00	100.000	848,720.84	-	1
FHDN	313384JG5	-	5/18/2007	7/18/2007		4,175,000.00	98.734	4,122,133.00	4,164,896.00	99.770	4,165,397.68	-	17
FNDN	313588KL8	-	5/18/2007	8/15/2007		4,500,000.00	98.887	4,449,934.00	4,471,189.00	99.380	4,472,100.22	-	45
FNDN	313488KL8	-	5/18/2007	8/15/2007		12,235,000.00	97.552	11,935,435.00	12,156,467.00	99.380	12,159,143.60	-	45
Subtotal:						21,758,721.00		21,356,223.00	21,641,273.00		21,645,362.34	-	38
GRAND TOTAL ALL FUNDS						**34,751,060.00**		**34,202,129.00**	**34,531,992.00**		**34,537,158.31**		