VISTANCIA COMMUNITY FACILITIES DISTRICT
PEORIA, ARIZONA
DISTRICT COMMUNICATION

DC: 3C
Amend No. ______

Date Prepared: October 29, 2007 **District Meeting Date:** November 20, 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 Quarter Ended September 30, 2007

RECOMMENDATION:

That the District Board review and accept the Quarterly Investment Report for the Period Ended September 30, 2007.

SUMMARY:

Staff has prepared an investment report to summarize the investment activity for the period from July 1, 2007 to September 30, 2007. The District's investment portfolio earned an average yield of 5.27% for the 1st Quarter of FY 2008. This represents investment income of $434,365 for the quarter. The average cash balance for the District's portfolio during the quarter was $33,022,792 and the ending balance for the total investment portfolio was $33,041,937 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. Quarterly Investment Report for the Period Ended September 30, 2007
2. Inventory Holdings Report for the Quarter Ended September 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

Quarterly Report

Period Ended

September 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, 2007 to September 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.*

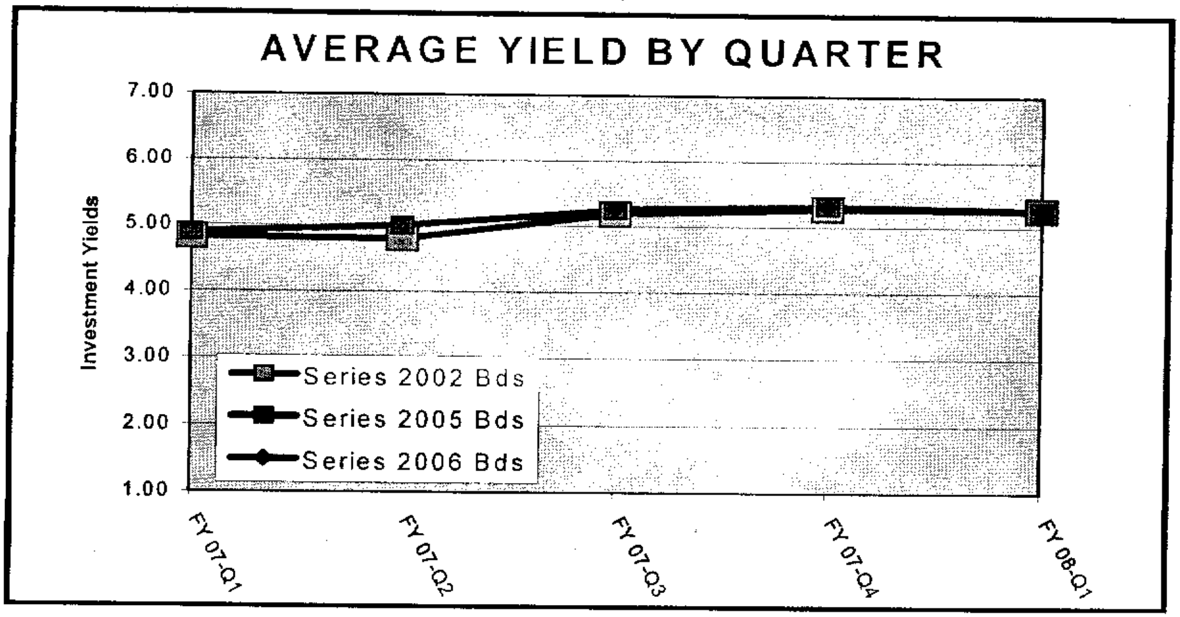
In keeping with these principles, staff continued to invest the District's funds only in allowable, safe securities and to structure the maturity of the investment portfolio to assure liquidity. Short-term needs (6 months or less) are being met by investments in overnight repurchase agreements, commercial 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 Quarter Ended September 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 08 Q1
CFD Bonds Series 2002 Debt Reserve Fund	4.82	4.80	5.19	5.28	5.27
CFD Bonds Series 2005	4.89	5.00	5.25	5.31	5.27
CFD Bonds Series 2006	--	--	5.27	5.32	5.26
Total Portfolio	4.86	4.97	5.26	5.31	5.27

Chart 1



This quarter's average yield of 5.27% represents a decrease of .04% from the total portfolio annualized yield of 5.31% experienced for the Quarter Ended June 30, 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.

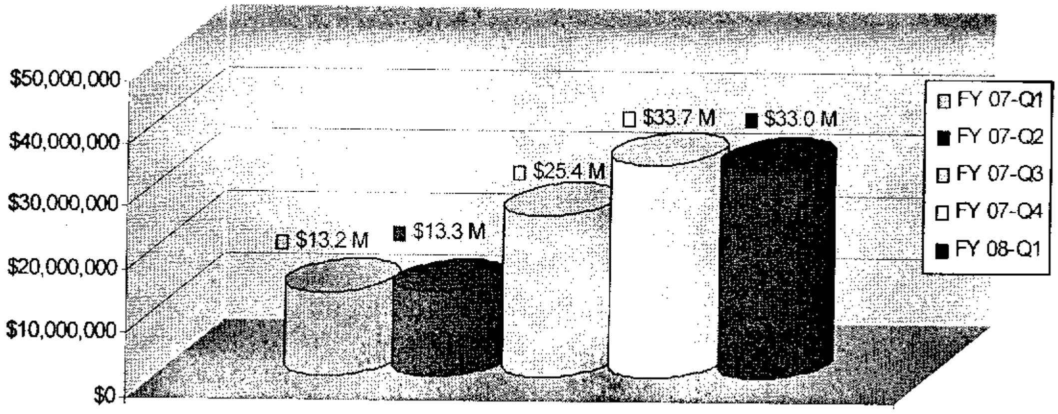
Table 2

TOTAL PORTFOLIO COMPOSITION (In Millions of Dollars)								
Security Type	FY 07 - Q2		FY 07 - Q3		FY 07 - Q4		FY 08 – Q1	
	Amt	%	Amt	%	Amt	%	Amt	%
Money Market	13.2	100.0	1.5	4.6	3.2	9.2	2.2	6.5
Agency Securities	0.0	0.0	33.0	95.4	31.3	90.8	30.8	93.5
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	34.5	100.0	34.5	100.0	33.0	100.0

B. Average Invested Cash Balances. The average investment cash balance for the portfolio for the Quarter Ended September 30, 2007 was $33,022,792 as compared to $33,723,566 for the Quarter Ended June 30, 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 Quarter Ended September 30, 2007 was $434,365 which represents a slight decrease of 1% over the $439,682 earned in the 4th Quarter of FY 07.

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 Q2	FY 07 Q3	FY 07 Q4	FY 08 Q1
Total Portfolio	4.97	5.26	5.31	5.27
3 Month T-Bill	5.02	5.02	4.85	3.82
6 Month T- Bill	5.10	5.12	4.98	4.05
1 Year T-Bill	5.00	5.01	4.93	4.03
2 Year Treasury	4.74	4.76	4.80	3.97

E. Average Maturity of the Portfolio. For the Quarter Ended September 30, 2007, the average maturity of the portfolio was 44 days as compared to 44 days on June 30, 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........................$34,531,992
Beginning Market Value.....................$34,595,527

Ending Book Value.............................$33,041,937
Ending Market Value..........................$33,067,093

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 $25,156.

ECONOMIC REVIEW AS OF 9-30-07:

Where There's Smoke.....

Like firemen sitting in the firehouse "bored" from doing nothing except waiting and watching, once the Federal Open Market Committee (FOMC) smelled the smoke and heard the bells, they jumped into action, trying to extinguish a fire that seemingly sprang up out of nowhere.

As previously discussed, there has been weakness in the housing industry and mortgage related financial instruments. It was apparently a rude awakening to some participants in this arena that there were actually loans that were non-performing investments and there was no "guarantee" of principal return, even in collateralized products. This market has grown exponentially and it is estimated to be in excess of $2 trillion dollars.

Almost overnight, this sudden concern triggered a tightening of credit standards and a reduction of the borrowing power of not only mortgage issuers but other commercial borrowers as well. Credit lines were withdrawn and companies which had been thriving based upon their ability to issue short term debt to offset long term assets found themselves unable to fund day-to-day operations. The general quality of assets being used as collateral came under much more rigid scrutiny and short term Libor rates rose by over 150 basis points (1.5%) as those lenders who had funds available to put out in the credit markets demanded a huge risk premium from even the most credit worthy borrowers.

It was this "conflagration" that the FOMC stepped into and began aggressively working to offset some of the fears of the credit markets. The initial step was a 50 basis point cut in the Discount Rate. The Discount Rate is the cost of money paid by a financial institution that needs to borrow from the Fed to fund its day-to-day operations. It is normally considered a "red flag" to regulators. The Fed also softened the collateral requirements, extended the term out to 30 days and also allowed "selected" non-banks to access the "window" to widen the spread of liquidity. They even encouraged the money center banks to avail themselves of this credit facility to reduce some of the "stigma" of borrowing there.

Next on the Fed's list was a 50 basis point cut in the overnight Fed Funds Rate target. This was done at the September 18th meeting and in the statement following the meeting, the Committee acknowledged that there was now a larger threat of slower growth in the economy than there was of inflationary pressures resuming. It is largely expected that there will be one or more further rate cuts before the end of 2007. With inflation contained in spite of oil trading above $80 per barrel, the Fed may have some way to go before they resume a neutral bias.

A traditional lagging indicator of a slowing economy is the unemployment rate and the pace of job creation as reported by the non-farm payrolls calculation. Businesses are reluctant to trim staff at the first sign of slower activity as it is far more expensive to hire and train a replacement worker than to keep a qualified employee on the payroll. Weakness in this data is therefore usually one of the last and confirming signs of a transition underway in the economy. Job creation had been fairly stable as more service related jobs were steadily being created and this acted as somewhat of a counterbalance to the housing industry's problems and the pain being felt by U.S. automakers.

With the release of the August report on September 7th, we saw the first negative job creation report in 4 years. Concurrent with that news were lowered revisions to both July and June's reports and what had appeared to be at least tepid growth for a three month period suddenly become perilously close to signaling an economy on the brink of a downturn.

It was this report, coupled with the widening inability of businesses to finance themselves, that forced the Fed to act. Unless we see signs of a significant change in the direction of both of these factors, we will most likely see the Fed Funds Rate lowered at one or both of the remaining FOMC meetings this year.

SUMMARY DATA

Table 4

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2002				
Security Type	**FY 07 – Q2 Ending 12/31/06**	**FY 07 – Q3 Ending 3/31/07**	**FY 07 – Q4 Ending 6/30/07**	**FY 08 – Q1 Ending 9/30/07**
Money Market	$3,033,755	$4,392	$1,755,966	$31,695
Agency Securities	$0	$2,057,767	$2,082,736	$2,110,313
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:	**$3,033,755**	**$2,062,159**	**$3,838,702**	**$2,142,008**
Avg Yield	4.80	5.19	5.28	5.27
Avg Maturity (Years)	0.01	0.24	0.21	0.13

Table 5

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2005				
Security Type	**FY 07 – Q2 Ending 12/31/06**	**FY 07 – Q3 Ending 3/31/07**	**FY 07 – Q4 Ending 6/30/07**	**FY 08 – Q1 Ending 9/30/07**
Money Market	$10,261,997	$1,363,436	$551,374	$2,030,789
Agency Securities	$0	$8,667,973	$8,500,644	$6,937,507
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:	**$10,261,997**	**$10,031,409**	**$9,052,018**	**$8,968,296**
Avg Yield	5.00	5.25	5.31	5.27
Avg Maturity (Years)	0.01	0.19	0.13	0.05

Table 6

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2006				
Security Type	**FY 07 – Q2 Ending 12/31/06**	**FY 07 – Q3 Ending 3/31/07**	**FY 07 – Q4 Ending 6/30/07**	**FY 08 – Q1 Ending 9/30/07**
Money Market	$0	$205,065	$848,721	$94,727
Agency Securities	$0	$22,271,959	$20,792,551	$21,836,906
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**	**$22,477,024**	**$21,641,272**	**$21,931,633**
Avg Yield	0.00	5.27	5.32	5.26
Avg Maturity (Years)	0.00	0.19	0.10	0.15

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

Attachment B

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	Yield to Maturity
Vistancia Project 2002														
MM	Money Market	4.810				31,695.00	100.000	31,695.00	31,695.00	100.000	31,695.00	-	1	4.810
FHLMC Disc Note	313396PL1	0.000	5/29/2007	11/19/2007		2,125,000.00	97.546	2,072,844.71	2,110,312.59	99.390	2,112,037.50	-	50	5.278
						2,156,695.00		2,104,539.71	2,142,007.59		2,143,732.50	-	50	5.278
Vistancia Project 2005														
MM	Money Market	4.810				2,030,789.31	100.000	2,030,789.31	2,030,789.31	100.000	2,030,789.31	-	1	4.810
FNMA Disc Note	313588MU6	0.000	8/21/2007	10/10/2007		4,500,000.00	99.322	4,469,500.00	4,494,510.00	99.890	4,495,050.00	-	10	4.982
						6,530,789.31		6,500,289.31	6,525,299.31		6,525,839.31		7.2	4.928
Vistancia Project 2005-Reserve Fund														
FHLMC Disc Note	313396PL1	0.000	5/29/2007	11/19/2007		2,460,000.00	97.546	2,399,622.58	2,442,997.16	99.390	2,444,994.00	-	50	5.278
						2,460,000.00		2,399,622.58	2,442,997.16		2,444,994.00	-	50	5.278
Vistancia Project 2006														
MM	Money Market	4.810				94,726.95	100.000	94,726.95	94,726.95	100.000	94,726.95	-	1	4.810
FHLMC Disc Note	313396MZ3	0.000	8/15/2007	10/15/2007		5,000,000.00	99.132	4,956,622.22	4,990,044.44	99.820	4,991,000.00	-	15	5.237
FHLB Disc Note	313384PL7	0.000	8/15/2007	11/19/2007		12,000,000.00	98.632	11,835,840.00	11,916,210.00	99.390	11,926,800.00	-	50	5.273
FHLMC Disc Note	313396RM7	0.000	7/18/2007	1/7/2008		5,000,000.00	97.552	4,877,578.47	4,930,651.39	98.800	4,940,000.00	-	99	5.295
						22,094,726.95		21,764,767.64	21,931,632.78		21,952,526.95	-	52.8	5.268
GRAND TOTAL ALL FUNDS						33,242,211.26		32,769,219.24	33,041,936.84		33,067,092.76		43.4	5.197