VISTANCIA COMMUNITY FACILITIES DISTRICT
PEORIA, ARIZONA
DISTRICT COMMUNICATION

DC: 3C
Amend No. ______

Date Prepared: August 11, 2008 **District Meeting Date:** August 26, 2008

TO: Carl Swenson, District Manager

FROM: Brent D. Mattingly, Chief Financial Officer BMM

PREPARED BY: Deborah Card, Treasury Manager DC

SUBJECT: Investment Report for the Year Ended June 30, 2008

RECOMMENDATION:

That the District Board review and accept the Annual Investment Report for the Year Ended June 30, 2008.

SUMMARY:

Staff has prepared an annual investment report to summarize the investment activity for the period from July 1, 2007 to June 30, 2008. The District's investment portfolio earned an average yield of 2.08% for the 4th Quarter of FY 2008 and 3.82% for the fiscal year. This represents investment income of $139,423 for the quarter and $1,249,452 for the fiscal year. The average cash balance for the District's portfolio during the quarter was $26,449,820 and the ending balance for the total investment portfolio was $23,896,028 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, 2008
2. Inventory Holdings Report for the Year Ended June 30, 2008

DISTRICT CLERK USE ONLY:

- Consent Agenda
- Carry Over to Date:____________
- Approved
- Unfinished Business (Date heard previous:_______)
- 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, 2008

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 June 30, 2008 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.*

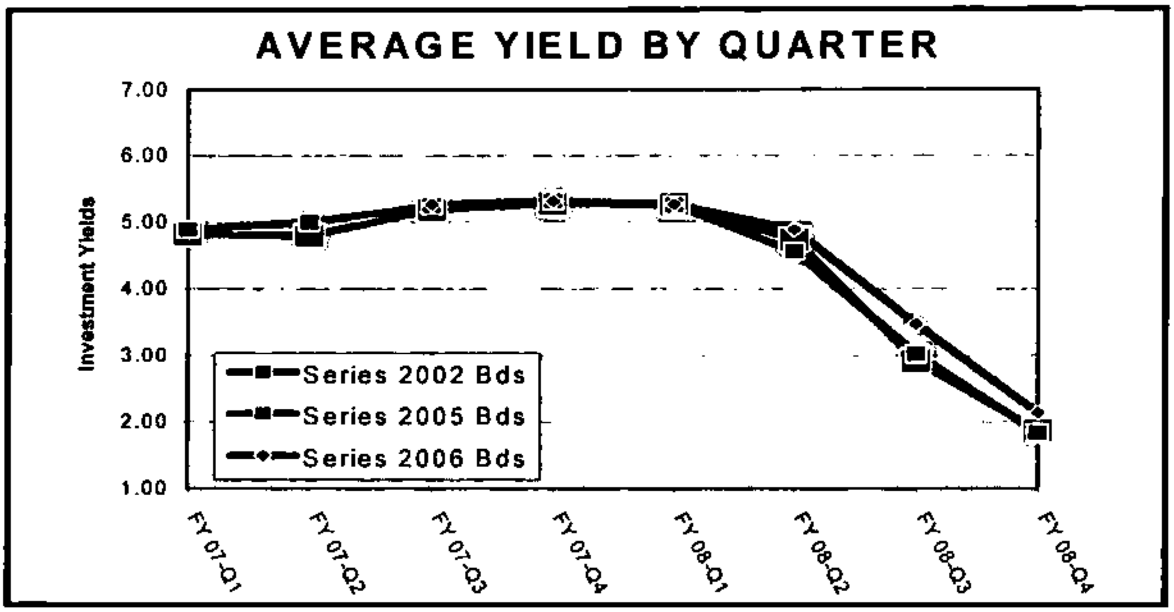
In keeping with these principles, staff continued to invest the District's funds only in allowable, safe securities and to structure the maturity of the investment portfolio to assure liquidity. Short-term needs (6 months or less) are being met by investments in overnight repurchase agreements, commercial 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 and Year Ended June 30, 2008, the weighted average annualized yield on investments was as follows:

Table 1

AVERAGE ANNUALIZED INVESTMENT YIELD					
	FY 08 Q1	**FY 08 Q2**	**FY 08 Q3**	**FY 08 Q4**	**Year Ended 6/30/08**
CFD Bonds Series 2002 Debt Reserve Fund	5.27	4.74	2.93	1.87	3.71
CFD Bonds Series 2005	5.27	4.56	3.02	1.84	3.62
CFD Bonds Series 2006	5.26	4.89	3.47	2.14	3.91
Total Portfolio	5.27	4.79	3.31	2.08	3.82

Chart 1



The average annual yield of 3.82% represents a decrease of 1.28% from the total portfolio annualized yield of 5.10% for the Year Ended June 30, 2007.

The quarter's average yield of 2.08% for the total portfolio represents a decrease of 1.23% from the total portfolio annualized yield of 3.31% experienced for the Quarter Ended March 31, 2008.

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

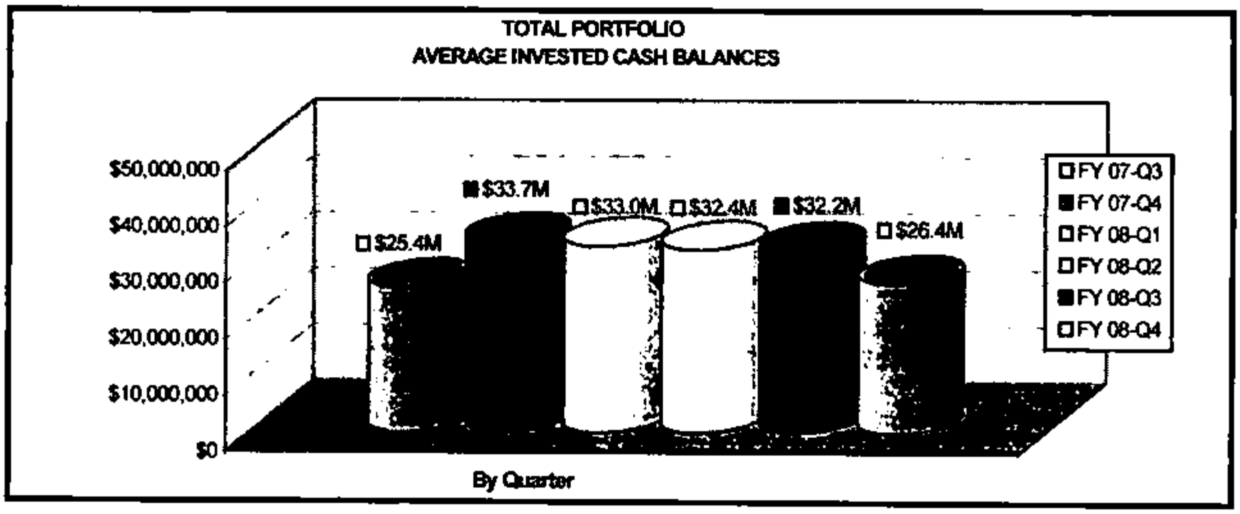
TOTAL PORTFOLIO COMPOSITION (In Millions of Dollars)								
Security Type	FY 08 – Q1		FY 08 – Q2		FY 08 – Q3		FY 08 – Q4	
	Amt	%	Amt	%	Amt	%	Amt	%
Money Market	2.2	6.5	11.8	36.1	26.5	84.0	23.9	100.0
Agency Securities	30.8	93.5	20.8	63.9	5.0	16.0	0.0	0.0
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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:	33.0	100.0	32.6	100.0	31.5	100.0	28.9	100.0

B. Average Invested Cash Balances. The average investment cash balance of the overall portfolio for the Year Ended June 30, 2008 was $30,490,519.

The average investment cash balance for the portfolio for the Quarter Ending June 30, 2008 was $26,449,820 as compared to $32,238,888 for the Quarter Ended March 31, 2008.

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, 2008 was $1,249,452 which represents an increase of 7.4% from the $1,162,380 earned for the Year Ended June 30, 2007.

Total investment income for the 4th Quarter of FY 08 was $139,423 which represents a decrease of 51% from the $286,284 earned in the 3rd Quarter of FY 08. The earnings decrease is primarily due to the reinvestment of funds in a lower interest rate environment during the quarter and the drawdown of bond proceeds for capital project expenditures.

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 cannot exceed 365 days. The actual weighted average maturity for the 4th Quarter of FY 08 was 1 day, 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 08 Q1	FY 08 Q2	FY 08 Q3	FY 08 Q4
Total Portfolio	5.31	5.27	3.31	2.08
3 Month T-Bill	4.85	3.82	2.09	1.65
6 Month T- Bill	4.98	4.05	2.16	1.86
1 Year T-Bill	4.93	4.03	2.11	2.08
2 Year Treasury	4.80	3.97	2.04	2.40

E. Average Maturity of the Portfolio. For the Quarter Ended June 30, 2008, the average maturity of the portfolio was 1 day as compared to 33 days on March 31, 2008. 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 $31,575,157
Beginning Market Value $31,587,318

Ending Book Value $23,896,029
Ending Market Value $23,896,029

At quarter's end, the market value of the portfolio equaled the book value of securities resulting in no gain or loss.

ECONOMIC REVIEW AS OF 6-30-08:

The second quarter of 2008 has seen an acceleration of the pace of the recessionary pressures experienced in the first quarter of this year. At the same time, we are also encountering an unprecedented rise in most inflationary indicators. This has put an end to the Federal Reserve's systematic easing of monetary policy leaving the Fed Funds target rate at 2%. There is also some discussion as to whether or not the Federal Open Market Committee (FOMC) will have to begin to take back some of those "easings" to forestall an inflationary spiral.

The housing market, which has been a drag on the economy for over a year, has not seen any sign of stabilization. Inventories of unsold properties continue to rise and prices are falling as "desperate" sellers and foreclosures continue to bring new pressure on prices. The valuation losses and tighter credit standards by banks have made it much harder to obtain financing and mortgage rates have risen steadily.

Energy, food and other commodity prices have moved in the opposite direction as the housing market and the prices for these products has gone far beyond the scope of being driven by demand. With the U.S. equities markets under pressure from lower earnings, commodity market speculation has become an accepted practice. This has pushed prices for crude oil and grains to record levels as concerns over geopolitical issues (for oil) and weather (for crops) make for a perfect storm for speculators.

It is the most recent spike in wholesale prices that has gotten the attention of the FOMC and their rhetoric has been pointed and direct. They are concerned that businesses will be forced to raise prices all the way along the chain of production from raw materials to the consumer which would be the basis for an inflationary wage/price spiral. The last time that happened was during the 1970's and the end result was double digit interest rates and a multi-year recession that took us over a decade to fully recover from.

At this point, the only thing we have seen (or heard) from the FOMC is concern about future conditions. At the same time, current conditions may weaken enough that any thoughts of tightening monetary policy will disappear.

While we are seeing statistical reports of rising inflation, the truth is the energy/commodity price spike is more like an income tax surcharge and is regressive to growth. Disposable income at the household level has been declining for over a year. The recent tax stimulus "rebate" put approximately $150 Billion in the hands of consumers, but anecdotal evidence from retailers show those finds are not being used to buy flat screen TV's or even clothing but rather are being used for purchases of gasoline and food. Once the spending of these payments is finished, there will probably be another gap downwards in retail sales and discretionary spending.

There is also growing weakness in the labor market. We have seen negative job creation each month for the first half of the year and there is little to indicate any growth in jobs over the near term.

All things considered, the FOMC is caught squarely in the middle of two diverging economic paths. It is most likely they will remain right there, neither tightening or easing, for quite some time until they can see down which road the economy is headed on.

SUMMARY DATA

Table 4

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2002				
Security Type	**FY 08 – Q1 Ending 9/30/07**	**FY 08 – Q2 Ending 12/31/07**	**FY 08 – Q3 Ending 3/31/08**	**FY 08 – Q4 Ending 6/30/08**
Money Market	$31,695	$3,033,790	$2,059,175	$2,066,140
Agency Securities	$2,110,313	$0	$0	$0
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:	**$2,142,008**	**$3,033,790**	**$2,059,175**	**$2,066,140**
Avg Yield	5.27	4.74	2.93	1.87
Avg Maturity (Years)	0.13	0.01	0.01	0.01

Table 5

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2005				
Security Type	**FY 08 – Q1 Ending 9/30/07**	**FY 08 – Q2 Ending 12/31/07**	**FY 08 – Q3 Ending 3/31/08**	**FY 08 – Q4 Ending 6/30/08**
Money Market	$2,030,789	$587,623	$8,468,791	$3,336,331
Agency Securities	$6,937,507	$7,977,952	$0	$0
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:	**$8,968,296**	**$8,565,575**	**$8,468,791**	**$3,336,331**
Avg Yield	5.27	4.56	3.02	1.84
Avg Maturity (Years)	0.05	0.06	0.02	0.01

Table 6

PORTFOLIO COMPOSITION Vistancia CFD Bonds, Series 2006				
Security Type	FY 08 – Q1 Ending 9/30/07	FY 08 – Q1 Ending 12/31/07	FY 08 – Q3 Ending 3/31/08	FY 08 – Q4 Ending 6/30/08
Money Market	$94,727	$8,173,966	$16,000,000	$18,493,558
Agency Securities	$21,836,906	$12,913,454	$5,047,192	$0
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:	**$21,931,633**	**$21,087,420**	**$21,047,192**	**$18,493,558**
Avg Yield	5.26	4.89	3.47	2.14
Avg Maturity (Years)	0.15	0.09	0.14	0.01

Vistancia Community Facilities District
DETAIL OF SECURITY HOLDINGS
As of June 30, 2008

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	Days to Next Call	Yield to Maturity
Vistancia Project 2002															
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	1.790				2,066,140.06	100.000	2,066,140.06	2,066,140.06	100.000	2,066,140.06	-	1		1.790
						2,066,140.06		**2,066,140.06**	**2,066,140.06**		**2,066,140.06**	-	1		**1.790**
Vistancia Project 2005-Construction															
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	1.790				970,403.70	100.000	970,403.70	970,403.70	100.000	970,403.70	-	1		1.790
						970,403.70		**970,403.70**	**970,403.70**		**970,403.70**		1		**1.790**
Vistancia Project 2005-Reserve															
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	1.790				2,365,927.41	100.000	2,365,927.41	2,365,927.41	100.000	2,365,927.41	-	1		1.790
						2,365,927.41		**2,365,927.41**	**2,365,927.41**		**2,365,927.41**		1		**1.790**
Vistancia Project 2006															
Wells Fargo Advantage Govt MM Fund-SVC	WF-AdvGovt	1.790				18,493,557.54	100.000	18,493,557.54	18,493,557.54	100.000	18,493,557.54	-	1		1.790
						18,493,557.54		**18,493,557.54**	**18,493,557.54**		**18,493,557.54**	-	1		**1.790**
GRAND TOTAL ALL FUNDS						**23,896,028.71**		**23,896,028.71**	**23,896,028.71**		**23,896,028.71**		1		**1.790**