

**Merrill Ranch Community Facilities**  
**Districts No. 1 and No. 2**  
(Component Units of the Town of Florence, Arizona)

Annual Financial Report

June 30, 2018

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Merrill Ranch Community Facilities Districts No. 1 and No. 2

(Component Units of the Town of Florence, Arizona)

ANNUAL FINANCIAL REPORT

Year ended June 30, 2018

TABLE OF CONTENTS

Independent Auditors' Report.....1 - 2

Basic Financial Statements:

    Government-Wide Statements:

        Statement of Net Position.....3

        Statement of Activities.....4

    Fund Financial Statements:

        Governmental Funds:

            Balance Sheet.....5

            Reconciliation of the Governmental Funds Balance Sheet to the Government-  
            Wide Statement of Net Position.....6

            Statement of Revenues, Expenditures, and Changes in Fund Balances .....7

            Reconciliation of the Governmental Funds Statement of Revenues,  
            Expenditures, and Changes in Fund Balances to the Government-Wide  
            Statement of Activities.....8

Notes to Financial Statements.....9 - 20

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## Independent Auditors' Report

To the Board of Directors of  
Merrill Ranch Community Facilities Districts No. 1 and No. 2  
Florence, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of governmental activities and each major fund of the Merrill Ranch Community Facilities Districts No. 1 and No. 2 (the Districts), a component unit of the Town of Florence, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Districts' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Districts' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Districts, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Districts are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the Town of Florence that is attributable to the transactions of the Districts. They do not purport to, and do not, present fairly the financial position of the Town of Florence as of June 30, 2018, and the changes in its financial position, for the year ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted Management's Discussion and Analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Fester & Chapman, PLLC*

March 29, 2019

## BASIC FINANCIAL STATEMENTS

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Merrill Ranch Community Facilities Districts No. 1 and No. 2

(Component Units of the Town of Florence, Arizona)

STATEMENT OF NET POSITION

June 30, 2018

ASSETS

|                             |    |                   |
|-----------------------------|----|-------------------|
| Pooled cash and investments | \$ | 5,152,792         |
| Restricted cash             |    | 4,274,586         |
| Accounts receivable         |    | 6,908,250         |
| Prepays                     |    | <u>199,980</u>    |
| Total assets                |    | <u>16,535,608</u> |

LIABILITIES

|                            |    |                   |
|----------------------------|----|-------------------|
| Accrued wages and benefits | \$ | 406               |
| Accrued interest payable   |    | 484,435           |
| Other accrued liabilities  |    | 1,084,482         |
| Due to other governments   |    | 68,206            |
| Noncurrent liabilities:    |    |                   |
| Due within 1 year          |    | 1,534,640         |
| Due in more than 1 year    |    | <u>18,006,328</u> |
| Total liabilities          |    | <u>21,178,497</u> |

NET POSITION

|                        |    |                     |
|------------------------|----|---------------------|
| Restricted for:        |    |                     |
| Debt service           |    | 3,739,617           |
| Highways and streets   |    | 4,197,267           |
| Unrestricted (deficit) |    | <u>(12,579,773)</u> |
| Total net position     | \$ | <u>(4,642,889)</u>  |

See accompanying notes to financial statements.

Merrill Ranch Community Facilities Districts No. 1 and No. 2

(Component Units of the Town of Florence, Arizona)

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

REVENUES

|                                    |                  |
|------------------------------------|------------------|
| Property taxes                     | \$ 1,436,869     |
| Special assessments                | 2,343,429        |
| Operating grants and contributions | 18,500           |
| Investment income                  | 33,000           |
| Miscellaneous                      | <u>61,206</u>    |
| Total revenues                     | <u>3,893,004</u> |

EXPENSES

|                            |                  |
|----------------------------|------------------|
| General government         | 589,480          |
| Capital outlay             | 1,081,765        |
| Interest and other charges | <u>901,492</u>   |
| Total expenses             | <u>2,572,737</u> |

|                                 |                    |
|---------------------------------|--------------------|
| Change in net position          | 1,320,267          |
| Net position, beginning of year | <u>(5,963,156)</u> |

|                           |                              |
|---------------------------|------------------------------|
| Net position, end of year | <u><u>\$ (4,642,889)</u></u> |
|---------------------------|------------------------------|

See accompanying notes to financial statements.

Merrill Ranch Community Facilities Districts No. 1 and No. 2

(Component Units of the Town of Florence, Arizona)

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

|   | General<br>Fund   | Debt<br>Service<br>Fund | Capital<br>Improvements<br>Fund | Total                |
|---|-------------------|-------------------------|---------------------------------|----------------------|
| <b>ASSETS</b>   |                   |                         |                                 |                      |
| Pooled cash and investments   | \$ 340,896        | \$ 4,314,022            | \$ 497,874                      | \$ 5,152,792         |
| Restricted pooled cash and<br>investments                                 |                   | 636,662                 | 3,637,924                       | 4,274,586            |
| Accounts receivable   | 181               | 6,908,069               |                                 | 6,908,250            |
| Due from other funds  | 41,742            | 42,969                  | 61,469                          | 146,180              |
| Prepaid   |                   | 199,980                 |                                 | 199,980              |
| Total assets  | <u>\$ 382,819</u> | <u>\$ 12,101,702</u>    | <u>\$ 4,197,267</u>             | <u>\$ 16,681,788</u> |
| <b>LIABILITIES</b>  |                   |                         |                                 |                      |
| Accrued wages and benefits  | \$ 406            |                         |                                 | \$ 406               |
| Other liabilities   |                   | \$ 1,084,482            |                                 | 1,084,482            |
| Due to other funds  | 42,969            | 103,211                 |                                 | 146,180              |
| Due to other governments  |                   | 68,206                  |                                 | 68,206               |
| Total liabilities   | <u>43,375</u>     | <u>1,255,899</u>        |                                 | <u>1,299,274</u>     |
| <b>DEFERRED INFLOWS OF<br/>RESOURCES</b>                                  |                   |                         |                                 |                      |
| Deferred revenue  | <u>21</u>         | <u>6,906,206</u>        |                                 | <u>6,906,227</u>     |
| Total deferred inflows of<br>resources                                    | <u>21</u>         | <u>6,906,206</u>        |                                 | <u>6,906,227</u>     |
| <b>FUND BALANCES</b>  |                   |                         |                                 |                      |
| Nonspendable:   |                   |                         |                                 |                      |
| Prepaid items   |                   | 199,980                 |                                 | 199,980              |
| Restricted:   |                   |                         |                                 |                      |
| Debt service  |                   | 3,739,617               |                                 | 3,739,617            |
| Capital projects  |                   |                         | \$ 4,197,267                    | 4,197,267            |
| Unassigned  | <u>339,423</u>    |                         |                                 | <u>339,423</u>       |
| Total fund balances   | <u>339,423</u>    | <u>3,939,597</u>        | <u>4,197,267</u>                | <u>8,476,287</u>     |
| Total liabilities, deferred<br>inflows of resources, and<br>fund balances | <u>\$ 382,819</u> | <u>\$ 12,101,702</u>    | <u>\$ 4,197,267</u>             | <u>\$ 16,681,788</u> |

See accompanying notes to financial statements.

Merrill Ranch Community Facilities Districts No. 1 and No. 2

(Component Units of the Town of Florence, Arizona)

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2018

|   |                  |                       |
|---|------------------|-----------------------|
| Fund balances - total governmental funds balance sheet  |                  | \$ 8,476,287          |
| Amounts reported for governmental activities in the Statement of Net Position are different because:  |                  |                       |
| Unavailable revenue for special assessments is shown in the governmental funds, but is recognized as revenue on the Statement of Net Position.                      |                  |                       |
|   |                  | 6,906,227             |
| Long-term liabilities, including, bonds payable and their related costs, are not due and payable in the current period and therefore are not reported in the funds. |                  |                       |
| Bonds payable   | \$ (19,273,566)  |                       |
| Premiums  | <u>(267,402)</u> | (19,540,968)          |
| Interest payable on long-term debt is not reported in the governmental funds  |                  |                       |
|   |                  | <u>(484,435)</u>      |
| Net position of governmental activities   |                  | \$ <u>(4,642,889)</u> |

See accompanying notes to financial statements.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year ended June 30, 2018

|  | General<br>Fund   | Debt<br>Service<br>Fund | Capital<br>Improvements<br>Fund | Total               |
|--|-------------------|-------------------------|---------------------------------|---------------------|
| <b>REVENUES</b>  |                   |                         |                                 |                     |
| Property taxes   | \$ 121,460        | \$ 1,315,409            |                                 | \$ 1,436,869        |
| Special assessments  |                   | 1,242,454               |                                 | 1,242,454           |
| Investment income  | 1,406             | 16,370                  | \$ 15,224                       | 33,000              |
| Intergovernmental revenue                                    |                   | 18,500                  |                                 | 18,500              |
| Miscellaneous  | <u>61,206</u>     | <u>          </u>       | <u>          </u>               | <u>61,206</u>       |
| Total revenues   | <u>184,072</u>    | <u>2,592,733</u>        | <u>15,224</u>                   | <u>2,792,029</u>    |
| <b>EXPENDITURES</b>  |                   |                         |                                 |                     |
| Current:   |                   |                         |                                 |                     |
| General government   | 130,443           | 71,420                  | 386,454                         | 588,317             |
| Capital outlay   |                   |                         | 1,081,765                       | 1,081,765           |
| Debt service:  |                   |                         |                                 |                     |
| Principal  |                   | 647,047                 |                                 | 647,047             |
| Interest and other charges                                   |                   | <u>901,492</u>          |                                 | <u>901,492</u>      |
| Total expenditures   | <u>130,443</u>    | <u>1,619,959</u>        | <u>1,468,219</u>                | <u>3,218,621</u>    |
| Excess (deficiency) of revenues over<br>(under) expenditures | <u>53,629</u>     | <u>972,774</u>          | <u>(1,452,995)</u>              | <u>(426,592)</u>    |
| <b>OTHER FINANCING SOURCES<br/>(USES)</b>                    |                   |                         |                                 |                     |
| General obligation bonds issued                              |                   |                         | 1,424,450                       | 1,424,450           |
| Premium on general obligation<br>bonds                       |                   |                         | 98,437                          | 98,437              |
| Special assessment bonds issued                              |                   |                         | 1,739,500                       | 1,739,500           |
| Transfers in   |                   | 154,110                 | 58,678                          | 212,788             |
| Transfers out  | <u>(65,392)</u>   | <u>          </u>       | <u>(147,396)</u>                | <u>(212,788)</u>    |
| Total other financing sources<br>(uses)                      | <u>(65,392)</u>   | <u>154,110</u>          | <u>3,173,669</u>                | <u>3,262,387</u>    |
| Net change in fund balances                                  | <u>(11,763)</u>   | <u>1,126,884</u>        | <u>1,720,674</u>                | <u>2,835,795</u>    |
| Fund balances (deficits), beginning of<br>year, as restated  | <u>351,186</u>    | <u>2,812,713</u>        | <u>2,476,593</u>                | <u>5,640,492</u>    |
| Fund balances (deficits), end of year                        | <u>\$ 339,423</u> | <u>\$ 3,939,597</u>     | <u>\$ 4,197,267</u>             | <u>\$ 8,476,287</u> |

See accompanying notes to financial statements.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year ended June 30, 2018

|  |                |                     |
|--|----------------|---------------------|
| Net change in fund balances - total governmental funds   |                | \$ 2,835,795        |
| Amounts reported for governmental activities in the Statement of Activities are different because:   |                |                     |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.   |                | 1,100,975           |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the statement of activities. |                |                     |
| Issuance of bonds  | \$ (3,275,087) |                     |
| Bond principal retirement  | 647,047        |                     |
| Amortization of bond premiums  | <u>11,537</u>  | <u>(2,616,503)</u>  |
| Change in net position of governmental activities  |                | \$ <u>1,320,267</u> |

See accompanying notes to financial statements.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Merrill Ranch Community Facilities Districts No. 1 and No. 2 (the Districts), component units of the Town of Florence, Arizona (the Town), conform to generally accepted accounting principles applicable to government units adopted by the Governmental Accounting Standards Board (GASB). A summary of the District's more significant accounting policies follows.

A. Reporting Entity

The Districts were formed by petition to the Town Council on December 19, 2005 (No. 1) and November 21, 2005 (No. 2). The purpose of the Districts is to acquire or construct public infrastructure in specified areas of the Town. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts may levy taxes and issue bonds independently of the Town. Property owned in the designated areas is assessed for the Districts' property taxes, and thus for the costs of operating the Districts. The Town Council serves as the Board of Directors of the Districts. The Town has no liability for the Districts' debt. For reporting purposes, the transactions of the Districts are included as governmental type funds as if they were part of the Town's operations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) present financial information about the Districts as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes, special assessments and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Districts had no business-type activities during the fiscal year.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Districts consider revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

Special assessments are recognized as revenue only to the extent that the individual installments are considered current assets. Annual installments not currently receivable are reflected as deferred inflows of resources.

The Districts reports the following major governmental funds:

- General Fund - This fund accounts for resources accumulated and used for the payment of general operating expenses for the Districts, which may include insurance, legal fees, and administration costs.
- Debt Service Fund - This fund accounts for resources accumulated and used for the payment of the Districts' long-term debt principal, interest, and related costs.
- Capital Improvements Fund - This fund accounts for resources accumulated and used for acquiring and improving public infrastructure.

D. Cash and Investments

The Districts participate in the Town's investment pool that is available for the use of all Town funds. The Districts' pool is reported on the financial statements as "pooled cash and investments". The Districts' portion of the pool is not identified within specific investments.

The Districts consider all highly liquid investments with a maturity of three months or fewer when purchased to be cash equivalents.

The Districts investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.



Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Restricted assets

Certain proceeds of the Districts' 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.

F. Capital Assets

Capital assets acquired or infrastructure assets constructed by the Districts are dedicated to the Town to maintain and operate. As a result, the Districts own no capital assets.

G. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discount are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on the debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

H. Deferred Inflows

In addition to liabilities, the fund financial statements include a section for deferred inflows of resources. This represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Districts have only one item that qualifies for this category, which arises only under the modified accrual basis of accounting, unavailable revenue. These amounts are recognized as an inflow of resources in the period that the amounts become available.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaid expenses. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors passed a resolution authorizing the Town of Florence to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts. Currently the District does not have any nonspendable, assigned or committed funds.

In the government-wide financial statements, net position is reported in two categories: restricted net position and unrestricted net position. Restricted net position accounts for the portion of net position restricted by bond covenants. Unrestricted net position is the remaining net position not included in the previous category.

J. Budgetary Information

The Districts adopt an annual operating budget for expenditures for the General Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

K. Deficit Net Position

As described in Note A, the Districts were formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the Town for operation. The Districts do not own or operate infrastructure. Therefore, the Statement of Net Position includes long term debt without the corresponding capital assets.

L. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures (expenses) during the reporting period. Actual results could differ from those estimates.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - POOLED CASH AND INVESTMENTS

The Districts participate in the pooled cash and investments of the Town for daily transactions. The Town then periodically requests reimbursement from the Districts' restricted funds held by the trustee. At June 30, 2018, the Districts had a balance of \$5,152,792 in the Town's pooled cash and investments. Restricted cash consists of the required debt service reserve fund and cash held by an outside agency for restricted use. Its future use will be for the repayments on outstanding bonds payable and capital improvements.

The Town's investment pool is not an SEC registered investment company, and there is no regulatory oversight of its operation. The pools' structure does not provide for shares, and the Town has not provided, nor obtained, any legally binding guarantees to support the value of participant's investments. The Town allocates interest earnings to each participating fund. The Town's investments are valued at fair value; however, the Town's investments are not identified with specific shares. The District does not have a separate investment policy and follows the Town's policies.

Below are the relevant policies with regard to interest rate risk, credit risk, concentration of credit risk and custodial credit risk

*Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town has no policy regarding interest rate risk. State law limits investments into securities having maturities no greater than five (5) years. The maximum maturity for investments in repurchase agreements is 180 days.

*Credit risk* – The Town does not have a formal investment policy regarding credit risk. However, the Town is prohibited by State law from investing in investments other than obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Investment Pool.

*Concentration of Credit Risk* - At June 30, 2018, the Town's investments include 44% invested in U.S. agency securities, 30% in Repurchase Agreements, 13% in corporate bonds, 10% in U.S. Treasury securities, 2% in Money Market funds and 1% in the State Investment Pool (LGIP).

*Custodial credit risk* - To control custodial credit risk, State law and the Town's investment policy require all securities and collateral to be held by an independent third party custodian in the Town's name. The custodian provides the Town with monthly market values along with original safekeeping receipts.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - ACCOUNTS RECEIVABLE

The Pinal County Treasurer (County) is responsible for collecting property taxes and special assessments for all governmental entities within the County. The County levies property taxes due to the Districts. In addition, the Districts provide the County with the special assessments to be billed. These taxes and assessments are billed to the property owners by the County in September. Two equal installments, payable in October and April, become delinquent after the first business days in November and May.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as unavailable revenues.

Special Assessments are recognized as revenue only to the extent that the individual installments are considered current assets. Annual installments not currently receivable are reflected as deferred inflow of resources.

NOTE 4 - INTERFUND BALANCES AND ACTIVITY

Interfund transfers - Interfund transfers for the year ended June 30, 2018 were as follows:

| Transfers to               | Transfer from     |                           |                   |
|----------------------------|-------------------|---------------------------|-------------------|
|                            | Debt Service Fund | Capital Improvements Fund | Total             |
| General Fund               | \$ 6,714          | \$ 58,678                 | \$ 65,392         |
| Capital Improvements Funds | 147,396           |                           | 147,396           |
| Total                      | <u>\$ 154,110</u> | <u>\$ 58,678</u>          | <u>\$ 212,788</u> |

Interfund receivables and payables - Interfund balances for the year ended June 30, 2018 were as follows:

| Due from                   | Due to           |                   |
|----------------------------|------------------|-------------------|
|                            | General Fund     | Debt Service Fund |
| General Fund               |                  | \$ 41,742         |
| Debt Service Fund          | \$ 42,969        |                   |
| Capital Improvements Funds |                  | 61,469            |
| Total                      | <u>\$ 42,969</u> | <u>\$ 103,211</u> |

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - LONG TERM DEBT

The Districts are authorized under state law to issue General Obligation (GO) bonds and Special Assessment (SA) bonds to be repaid by property taxes and special assessments levied on property within the districts. CFDs are created by petition of the Town Council by property owners within the area to be covered by the districts and debt may be issued only after approval of the voters within the districts.

Bonds payable from the Districts at June 30, 2018, consisted of the outstanding general obligation bonds and special assessment presented below.

**General obligation bonds:**

In November 2010 the Merrill Ranch Community Facilities District No. 2 assessment issued \$3,560,000 of Series 2010 GO bonds to finance capital improvements within the District. Interest rate is 5.86%; semi-annual interest payments are due on July 15 and January 15. Principal payments are due annually on July 15 with final maturities on July 15, 2035.

In December 2013 the Merrill Ranch Community Facilities District No. 2 issued \$1,850,000 of GO Series 2013 bonds at a premium to pay costs of acquiring certain public infrastructure within the boundaries of the District. Interest rates are 1.50% to 6.75%; semi-annual interest payments are due on July 15 and January 15. Principal payments are due annually on July 15 with final maturities on July 15, 2038.

In June 2016 the Merrill Ranch Community Facilities District No. 2 issued \$2,000,000 of GO Series 2016 bonds at a premium to pay costs of acquiring certain public infrastructure within the boundaries of the District. Interest rates are 2.0% to 5.25%; semi-annual interest payments are due on July 15 and January 15. Principal payments are due annually on July 15 with final maturities on July 15, 2040.

In February 2017 the Merrill Ranch Community Facilities District No. 1 issued \$3,245,000 of GO Series 2017 refunding bonds to advance refund a portion of outstanding GO 2008 Series A bonds. The net proceeds of \$3,245,000 together with a debt service contribution of \$300,000 were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds in three payment ending July 15, 2018. As a result, a portion of those GO 2008 Series A bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. Interest rate is 2.97%; semi-annual interest payments are due on July 15 and January 15. Principal payments are due annually on July 15 with final maturities on July 15, 2029.

In November 2017 the Merrill Ranch Community Facilities District No. 2 issued \$1,440,000 of GO Series 2017 bonds to pay costs of acquiring certain public infrastructure within the boundaries of the District. Interest rates are 2.0% to 5.0%; semi-annual interest payments are due on July 15 and January 15. Principal payments are due annually on July 15 with final maturities on July 15, 2042.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - LONG TERM DEBT - Continued

**Special assessments bonds:**

In June 2006 the Merrill Ranch Community Facilities District No. 1 assessment area one issued \$2,464,000 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. Interest rates are 4.3% to 5.3%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2030.

In June 2006 the Merrill Ranch Community Facilities District No. 2 assessment area one issued \$2,555,000 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. Interest rates are 4.3% to 5.3%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2030.

In September 2009 the Merrill Ranch Community Facilities District No. 1 assessment area two issued \$353,500 of special assessment bonds to finance capital improvements within the district. Interest rate is 9.0%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2034.

In September 2009 the Merrill Ranch Community Facilities District No. 2 assessment areas two and three issued \$829,500 of special assessment bonds to finance capital improvements within the district. Interest rates is 9.0%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2034.

In February 2010 the Merrill Ranch Community Facilities District No. 2 assessment area four issued \$203,000 of special assessment bonds to finance capital improvements within the district. Interest rates is 7.75%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2035.

In October 2010 the Merrill Ranch Community Facilities District No. 1 assessment area three issued \$290,500 of special assessment bonds to finance capital improvements within the district. Interest rates is 7.5%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2035.

In July 2012 the Merrill Ranch Community Facilities District No. 1 assessment area five issued \$189,000 of special assessment bonds to finance capital improvements within the district. Interest rates is 6.88%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2037.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - LONG TERM DEBT - Continued

In July 2016 the Merrill Ranch Community Facilities District No. 1 assessment area eight issued \$987,000 of special assessment bonds to pay costs of acquiring certain public infrastructure within the boundaries of the District. Interest rates is 5.75%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2040.

In January 2018 the Merrill Ranch Community Facilities District No. 2 assessment area seven issued \$262,500 of special assessment bonds to pay costs of acquiring certain public infrastructure within the boundaries of the District. Interest rates is 6%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2042.

In April 2018 the Merrill Ranch Community Facilities District No. 1 assessment area nine issued \$1,477,000 of special assessment bonds to pay costs of acquiring certain public infrastructure within the boundaries of the District. Interest rates is 6%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2042.

**Special assessments lien bonds:**

In January 2012, the Merrill Ranch Community Facilities District No. 1 assessment area four issued \$318,500 of special assessment lien bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. Interest rate is 7.5%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2036.

In July 2013, the Merrill Ranch Community Facilities District No. 1 assessment area six issued \$413,000 of special assessment lien bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. Interest rate is 7.25%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2038.

In October 2014, the Merrill Ranch Community Facilities District No. 1 assessment area seven issued \$728,000 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. Interest rate is 6.875%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2039.

In May 2013, the Merrill Ranch Community Facilities District No. 2 assessment area one issued \$556,500 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. Interest rate is 6.750%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2038.

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - LONG TERM DEBT - Continued

In July 2016, the Merrill Ranch Community Facilities District No. 2 assessment area six issued \$241,500 of special assessment bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. Interest rate is 6.0%; semi-annual interest payments are due on July 1 and January 1. Principal payments are due annually on July 1 with final maturities on July 1, 2040.

Bonds payable at year end consisted of the following outstanding bonds. The bonds are both callable and noncallable with interest payable semiannually.

| Description                                 | Original<br>Amount<br>Issued | Interest Rate | Maturity   | Outstanding<br>Principal -<br>End of Year | Due Within<br>One Year |
|---|------------------------------|---------------|------------|---|------------------------|
| <b>General obligation bonds:</b>            |                              |               |            |   |                        |
| CFD No.1 General Obligation Bonds 2008A     | \$ 4,390,000                 | 6.00-7.40%    | 07/15/2033 | \$ 395,000                                | \$ 125,000             |
| CFD No.2 General Obligation Bonds 2010      | 3,560,000                    | 5.86%         | 07/15/2035 | 2,645,000                                 | 90,000                 |
| CFD No.2 General Obligation Bonds 2013      | 1,850,000                    | 1.50-6.75%    | 07/15/2038 | 1,705,000                                 | 25,000                 |
| CFD No.2 General Obligation Bonds 2016      | 2,000,000                    | 2.00-5.25%    | 07/15/2040 | 1,860,000                                 | 35,000                 |
| CFD No.1 General Obligation Bonds 2017      | 3,245,000                    | 2.97%         | 07/15/2029 | 3,180,000                                 | 340,000                |
| CFD No.2 General Obligation Bonds 2017      | 1,440,000                    | 2.00-5.00%    | 07/15/2042 | 1,440,000                                 | 690,000                |
| <b>Special assessment bonds:</b>            |                              |               |            |   |                        |
| CFD No.1 Special Assessment Bonds 2006      | 2,464,000                    | 4.30-5.30%    | 07/01/2030 | 1,053,000                                 | 58,000                 |
| CFD No.2 Special Assessment Bonds 2006      | 2,555,000                    | 4.30-5.30%    | 07/01/2030 | 1,177,000                                 | 66,000                 |
| CFD No.1 Special Assessment Bonds 2009      | 353,500                      | 9.00%         | 07/01/2034 | 248,150                                   | 6,420                  |
| CFD No.2 Special Assessment Bonds 2009      | 829,500                      | 9.00%         | 07/01/2034 | 581,120                                   | 15,750                 |
| CFD No.2 Special Assessment Bonds 2010      | 203,000                      | 7.75%         | 07/01/2035 | 157,170                                   | 3,900                  |
| CFD No.1 Special Assessment Bonds 2010      | 290,500                      | 7.5%          | 07/01/2035 | 245,730                                   | 7,200                  |
| CFD No.1 Special Assessment Bonds 2012      | 189,000                      | 6.88%         | 07/01/2037 | 161,000                                   | 4,000                  |
| CFD No.1 Special Assessment Bonds 2016      | 987,000                      | 5.75%         | 07/01/2040 | 967,000                                   | 21,000                 |
| CFD No.2 Special Assessment Bonds 2018      | 262,500                      | 6%            | 07/01/2042 | 262,500                                   |                        |
| CFD No.1 Special Assessment Bonds 2018      | 1,477,000                    | 6%            | 07/01/2042 | 1,477,000                                 |                        |
| <b>Special assessment lien bonds:</b>       |                              |               |            |   |                        |
| CFD No.1 Special Assessment Lien Bonds 2012 | 318,500                      | 7.5%          | 07/01/2036 | 195,191                                   | 7,290                  |
| CFD No.1 Special Assessment Lien Bonds 2013 | 413,000                      | 7.25%         | 07/01/2038 | 340,588                                   | 8,460                  |
| CFD No.1 Special Assessment Lien Bonds 2014 | 728,000                      | 6.875%        | 07/01/2039 | 558,053                                   | 14,540                 |
| CFD No.2 Special Assessment Lien Bonds 2013 | 556,500                      | 6.75%         | 07/01/2038 | 415,392                                   | 12,040                 |
| CFD No.2 Special Assessment Lien Bonds 2016 | <u>241,500</u>               | 6%            | 07/01/2040 | <u>209,672</u>                            | <u>5,040</u>           |
| Total                                       | <u>\$28,353,500</u>          |               |            | <u>\$19,273,566</u>                       | <u>\$ 1,534,640</u>    |



Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - LONG TERM DEBT - Continued

The annual debt service requirements to maturity on governmental bonds payable at June 30, 2018, are summarized as follows:

| Year ending June 30: | General Obligation Bonds |                     | Special Assessment Bonds |                     | Special Assessment Lien Bonds |                     |
|----------------------|--------------------------|---------------------|--------------------------|---------------------|-------------------------------|---------------------|
|                      | Principal                | Interest            | Principal                | Interest            | Principal                     | Interest            |
| 2019                 | \$ 1,305,000             | \$ 502,723          | \$ 182,270               | \$ 291,109          | \$ 47,370                     | \$ 146,085          |
| 2020                 | 400,000                  | 473,524             | 197,210                  | 393,266             | 50,647                        | 142,696             |
| 2021                 | 415,000                  | 453,333             | 241,470                  | 365,252             | 54,154                        | 139,072             |
| 2022                 | 425,000                  | 435,269             | 256,540                  | 350,446             | 57,906                        | 135,197             |
| 2023                 | 445,000                  | 419,465             | 271,980                  | 334,647             | 61,905                        | 131,052             |
| 61905                | <u>8,235,000</u>         | <u>4,232,897</u>    | <u>5,180,200</u>         | <u>2,775,340</u>    | <u>1,446,914</u>              | <u>1,188,184</u>    |
| Total                | <u>\$11,225,000</u>      | <u>\$ 6,517,211</u> | <u>\$ 6,329,670</u>      | <u>\$ 4,510,060</u> | <u>\$ 1,718,896</u>           | <u>\$ 1,882,286</u> |

The following schedule details the Districts' long-term liability and obligation activity for the fiscal year ended June 30, 2018:

|                                  | Balance at<br>July 1, 2017,<br>restated | Additions           | Reductions          | Balance at<br>June 30, 2018 | Due Within<br>One Year |
|----------------------------------|---|---------------------|---------------------|-----------------------------|------------------------|
| Governmental activities:         |   |                     |                     |                             |                        |
| General obligation<br>bonds      | \$ 10,125,000                           | \$ 1,440,000        | \$ (340,000)        | \$ 11,225,000               | \$ 1,305,000           |
| Special assessment<br>bonds      | 4,764,240                               | 1,739,500           | (174,070)           | 6,329,670                   | 182,270                |
| Special assessment lien<br>bonds | 1,851,873                               |                     | (132,977)           | 1,718,896                   | 47,370                 |
| Premiums                         | <u>180,502</u>                          | <u>98,437</u>       | <u>(11,537)</u>     | <u>267,402</u>              |                        |
| Total                            | <u>\$ 16,921,615</u>                    | <u>\$ 3,277,937</u> | <u>\$ (658,584)</u> | <u>\$ 19,540,968</u>        | <u>\$ 1,534,640</u>    |

Merrill Ranch Community Facilities Districts No. 1 and No. 2  
(Component Units of the Town of Florence, Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - BEGINNING BALANCES RESTATED

The beginning fund balance of the debt service fund reported in the Town's financial statements as of June 30, 2017 was restated to record other liabilities previously omitted.

| Statement of Revenues, Expenditures, and<br>Changes in Fund Balance - Debt service fund | <u>Debt service fund</u>   |
|---|----------------------------|
| Fund balances, June 30, 2017  | \$ 3,640,489               |
| Prior period correction   | <u>(827,776)</u>           |
| Fund balance, July 1, 2017, as restated   | <u><u>\$ 2,812,713</u></u> |