

Merrill Ranch Community Facilities
District No. 2
(A Component Unit of the Town of Florence, Arizona)

Annual Financial Report

June 30, 2019

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Merrill Ranch Community Facility District No. 2
(A Component Unit of the Town of Florence, Arizona)

Annual Financial Report

Year ended June 30, 2019

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Independent Auditors' Report

To the Board of Directors of
Merrill Ranch Community Facilities District 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 District No. 2 (the District), a component unit of the Town of Florence, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's 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 District's 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 position of the District, as of June 30, 2019, 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 District is 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 District. They do not purport to, and do not, present fairly the financial position of the Town of Florence as of June 30, 2019, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The continuing disclosure information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The continuing disclosure information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Fester & Chapman, PLLC

November 26, 2019

BASIC FINANCIAL STATEMENTS

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Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Statement of Net Position

June 30, 2019

ASSETS

Pooled cash and investments	\$	529,419
Restricted cash		1,536,945
Accounts receivable		2,124,201
Internal balances		6,822
Prepays		<u>452,656</u>
Total assets		<u>4,650,043</u>

LIABILITIES

Accrued interest payable		265,894
Other accrued liabilities		59,336
Noncurrent liabilities:		
Due within 1 year		261,700
Due in more than 1 year		<u>9,506,241</u>
Total liabilities		<u>10,093,171</u>

NET POSITION

Restricted for:		
Debt service		513,121
Highways and streets		1,371,820
Unrestricted (deficit)		<u>(7,328,069)</u>
Total net position	\$	<u>(5,443,128)</u>

See accompanying notes to financial statements.

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Statement of Activities

Year ended June 30, 2019

REVENUES

Property taxes	\$	625,731
Special assessments		150,598
Investment income		29,192
Miscellaneous		<u>33,603</u>
Total revenues		<u>839,124</u>

EXPENSES

General government		92,260
Capital outlay		1,120,952
Interest and other charges		<u>514,072</u>
Total expenses		<u>1,727,284</u>
Change in net position		(888,160)
Net position, beginning of year		<u>(4,554,968)</u>
Net position, end of year	\$	<u><u>(5,443,128)</u></u>

See accompanying notes to financial statements.

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Balance Sheet - Governmental Funds

June 30, 2019

	General Fund	Debt Service Fund	Capital Improvements Fund	Total
ASSETS				
Pooled cash and investments	\$ 132,847	\$ 334,850	\$ 61,722	\$ 529,419
Restricted pooled cash and investments		227,053	1,309,892	1,536,945
Accounts receivable	452	2,123,543	206	2,124,201
Due from other governments	421	6,401		6,822
Prepaid		<u>452,656</u>		<u>452,656</u>
Total assets	<u>\$ 133,720</u>	<u>\$ 3,144,503</u>	<u>\$ 1,371,820</u>	<u>\$ 4,650,043</u>
LIABILITIES				
Other liabilities		<u>\$ 59,336</u>		<u>\$ 59,336</u>
Total liabilities		<u>59,336</u>		<u>59,336</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - special assessments		<u>2,119,390</u>		<u>2,119,390</u>
Total deferred inflows of resources		<u>2,119,390</u>		<u>2,119,390</u>
FUND BALANCES				
Nonspendable:				
Prepaid items		452,656		452,656
Restricted:				
Debt service		513,121		513,121
Capital projects			\$ 1,371,820	1,371,820
Unassigned	<u>\$ 133,720</u>			<u>133,720</u>
Total fund balances	<u>133,720</u>	<u>965,777</u>	<u>1,371,820</u>	<u>2,471,317</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 133,720</u>	<u>\$ 3,144,503</u>	<u>\$ 1,371,820</u>	<u>\$ 4,650,043</u>

See accompanying notes to financial statements.

Merrill Ranch Community Facilities District No. 2
 (A Component Unit of the Town of Florence, Arizona)
 Reconciliation of the Governmental Funds Balance Sheet
 to the Government-Wide Statement of Net Position

June 30, 2019

Fund balances - total governmental funds balance sheet		\$ 2,471,317
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		
Special assessments		2,119,390
<p>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.</p>		
Bonds payable	\$ (9,512,076)	
Premiums	<u>(255,865)</u>	(9,767,941)
Interest payable on long-term debt is not reported in the funds		<u>(265,894)</u>
Net position of governmental activities		<u>\$ (5,443,128)</u>

See accompanying notes to financial statements.

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2019

	General Fund	Debt Service Fund	Capital Improvements Fund	Total
REVENUES				
Property taxes	\$ 56,985	\$ 568,746		\$ 625,731
Special assessments		295,876		295,876
Investment income	4,146	24,436	\$ 610	29,192
Miscellaneous	<u>33,603</u>	<u> </u>	<u> </u>	<u>33,603</u>
Total revenues	94,734	889,058	610	984,402
EXPENDITURES				
Current:				
General government	42,202	50,058		92,260
Capital outlay			1,120,952	1,120,952
Debt service:				
Principal		940,778		940,778
Interest and other charges		<u>571,472</u>		<u>571,472</u>
Total expenditures	<u>42,202</u>	<u>1,562,308</u>	<u>1,120,952</u>	<u>2,725,462</u>
Excess (deficiency) of revenues over (under) expenditures	<u>52,532</u>	<u>(673,250)</u>	<u>(1,120,342)</u>	<u>(1,741,060)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,010	23,759	2,535	31,304
Transfers out	<u>(25,935)</u>	<u>(5,010)</u>	<u>(359)</u>	<u>(31,304)</u>
Total other financing sources (uses)	<u>(20,925)</u>	<u>18,749</u>	<u>2,176</u>	<u> </u>
Net change in fund balances	31,607	(654,501)	(1,118,166)	(1,741,060)
Fund balances, beginning of year	<u>102,113</u>	<u>1,620,278</u>	<u>2,489,986</u>	<u>4,212,377</u>
Fund balances, end of year	<u>\$ 133,720</u>	<u>\$ 965,777</u>	<u>\$ 1,371,820</u>	<u>\$ 2,471,317</u>

See accompanying notes to financial statements.

Merrill Ranch Community Facilities District No. 2
(A Component Unit 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, 2019

Net change in fund balances - total governmental funds \$ (1,741,060)

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 and revenues
received in the current year that were accrued in the Statement of Activities
in the prior years are reported as revenues in the funds. (145,278)

Interest expense in the Statement of Activities differs from the amount
reported in governmental funds because accrued interest was calculated for
outstanding debt in the Statement of Activities, but is expensed when due
for the governmental fund statements. 45,863

Repayment of long-term debt is expenditures 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.

Bond principal retirement	\$ 940,778	
Amortization of bond premiums	<u>11,537</u>	<u>952,315</u>

Change in net position of governmental activities \$ (888,160)

See accompanying notes to financial statements.

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Merrill Ranch Community Facilities Districts No. 2 (the District), a component unit 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 significant accounting policies follows.

A. Reporting Entity

The District was formed by petition to the Town Council on November 21, 2005. The purpose of the District 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 District may levy taxes and issue bonds independently of the Town. Property owned in the designated areas is assessed for the District's property taxes, and thus for the costs of operating the District. The Town Council serves as the Board of Directors of the District. The Town has no liability for the District's debt. For reporting purposes, the transactions of the District is 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 District as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally are 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 District 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. 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 District, 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 District participates in the Town's investment pool that is available for the use of all Town funds. The District's pool is reported on the financial statements as "pooled cash and investments". The District's portion of the pool is not identified within specific investments.

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

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

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Restricted Assets

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

F. Capital Assets

Capital assets acquired or infrastructure assets constructed by the District are dedicated to the Town to maintain and operate. As a result, the District owns 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 District has 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 District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

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 externally imposed restrictions by grantors, contributors, or laws and regulations. Unrestricted net position is the remaining net position not included in the previous category.

J. Budgetary Information

The District adopted 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 District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the Town for operation. The District does 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 District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 2 - POOLED CASH AND INVESTMENTS

The District participates in the pooled cash and investments of the Town for daily transactions. The Town then periodically requests reimbursement from the District's restricted funds held by the trustee. At June 30, 2019, the District had a balance of \$2,066,364 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, 2019, the Town's investments include 34% invested in U.S. agency securities, 29% in Repurchase Agreements, 18% in corporate bonds, 8% in asset-backed securities, 7% in U.S. Treasury securities, 3% in investment-other, 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 District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

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 District. In addition, the District provides 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, 2019 were as follows:

Transfers from	Transfer to			Total
	General Fund	Debt Service Fund	Capital Improvements Fund	
General fund		\$ 23,759	\$ 2,535	\$ 26,294
Debt service fund	\$ 5,010			5,010
Total	\$ 5,010	\$ 23,759	\$ 2,535	\$ 31,304

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 5 - LONG TERM DEBT

The District is 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. The District is 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 district.

Bonds payable from the District at June 30, 2019, 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 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 District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 5 - LONG TERM DEBT - Continued

Special assessments bonds:

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. 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 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.

Special assessments lien bonds:

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.

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.

Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 5 - LONG TERM DEBT - Continued

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

Description	Original Amount Issued	Interest Rate	Maturity	Outstanding Principal - End of Year	Due Within One Year
General obligation bonds:					
CFD No.2 General Obligation Bonds 2010	\$ 3,560,000	5.86%	07/15/2035	\$ 2,555,000	\$ 95,000
CFD No.2 General Obligation Bonds 2013	1,850,000	1.50-6.75%	07/15/2038	1,680,000	25,000
CFD No.2 General Obligation Bonds 2016	2,000,000	2.00-5.25%	07/15/2040	1,825,000	35,000
CFD No.2 General Obligation Bonds 2017	1,440,000	2.00-5.00%	07/15/2042	750,000	
Special assessment bonds:					
CFD No.2 Special Assessment Bonds 2006	2,555,000	4.30-5.30%	07/01/2030	1,111,000	69,000
CFD No.2 Special Assessment Bonds 2009	829,500	9.00%	07/01/2034	565,370	17,520
CFD No.2 Special Assessment Bonds 2010	203,000	7.75%	07/01/2035	153,270	4,280
CFD No.2 Special Assessment Bonds 2017	262,500	6%	07/01/2042	262,500	4,500
Special assessment lien bonds:					
CFD No.2 Special Assessment Lien Bonds 2013	556,500	6.75%	07/01/2038	404,352	6,060
CFD No.2 Special Assessment Lien Bonds 2016	<u>241,500</u>	6%	07/01/2040	<u>205,584</u>	<u>5,340</u>
Total	<u>\$13,498,000</u>			<u>\$ 9,512,076</u>	<u>\$ 261,700</u>

The annual debt service requirements to maturity on governmental bonds payable at June 30, 2019, are summarized as follows:

Year ending June 30:	General Obligation Bonds		Special Assessment Bonds		Special Assessment Lien Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 155,000	\$ 375,714	\$ 95,300	\$ 134,324	\$ 18,190	\$ 47,917
2021	160,000	368,929	100,150	128,438	19,380	46,690
2022	165,000	361,614	106,700	122,179	20,650	45,383
2023	175,000	353,680	113,490	115,443	22,000	43,990
2024	185,000	345,133	120,510	108,241	23,430	42,506
Thereafter	<u>5,970,000</u>	<u>3,663,826</u>	<u>1,555,990</u>	<u>641,766</u>	<u>506,286</u>	<u>371,468</u>
Total	<u>\$ 6,810,000</u>	<u>\$ 5,468,896</u>	<u>\$ 2,092,140</u>	<u>\$ 1,250,391</u>	<u>\$ 609,936</u>	<u>\$ 597,954</u>

Merrill Ranch Community Facilities District No. 2
 (A Component Unit of the Town of Florence, Arizona)

Notes to Financial Statements

June 30, 2019

NOTE 5 - LONG TERM DEBT - Continued

The following schedule details the District's long-term liability and obligation activity for the fiscal year ended June 30, 2019:

	<u>Balance at July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2019</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation					
bonds	\$ 7,650,000	\$	\$ (840,000)	\$ 6,810,000	\$ 155,000
Special assessment					
bonds	2,177,790		(85,650)	2,092,140	95,300
Special assessment lien					
bonds	625,064		(15,128)	609,936	11,400
Premiums	<u>267,402</u>		<u>(11,537)</u>	<u>255,865</u>	
Total	<u>\$ 10,720,256</u>	<u>\$</u>	<u>\$ (952,315)</u>	<u>\$ 9,767,941</u>	<u>\$ 261,700</u>

CONTINUING DISCLOSURE INFORMATION

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Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)
June 30, 2019

Table 1

Prior to tax year 2015, secondary taxes were levied against "Net Full Cash Assessed Value" which is determined by excluding the value of property exempt from taxation from Full Cash Assessed Value of both locally assessed and centrally valued property and combining the resulting two amounts. The tables below indicate the Net Assessed Limited Property Value of the District, utilizing the new constitutional and statutory property valuation requirements as of 2015/16.

NET DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT
Merrill Ranch CFD No. 2

Overlapping Jurisdiction	Assessed Valuation	Net Outstanding Bonded Debt as of FYE 2019	2019/2020		Combined Tax Rate Per \$100 Assessed
			Portion Applicable to the District		
			Percent	Amount	
State of Arizona	\$66,157,233,693	None	0.03 %	None	\$0.0000
Pinal County (a)	2,521,252,051	None	0.85	None	4.5739
Pinal County Community College District	2,521,252,051	73,535,000	0.85	\$588,280	2.2132
Central Arizona Water Conservation District	2,521,252,051	None	0.85	None	0.1400
Central Arizona Valley Institute of Technology	1,587,955,998	None	1.35	None	0.0500
Florence Unified School District No. 1	469,176,515	59,163,250	4.58	2,591,350	5.7710
Town of Florence	108,643,238	None	19.79	None	1.0738
MRCFD No. 2	21,500,529	6,655,000	100	None	3.5500

(a) Includes State School Tax Equalization, Library District, Flood Control District and County Fire District tax rates.

Source: The various entities, *Property Tax Rates and Assessed Values*, Arizona Tax Research Association, *State and County Abstract of the Assessment Roll*, Arizona Department of Revenue and the Treasurer of the County.

REMAINING AUTHORIZATIONS

Table 2

Overlapping Jurisdiction	General Obligation Bonds Authorized but Unissued
MRCFD No. 2	\$90,399,000

ANNUAL INFORMATION - AREA 1

Principal Amount Outstanding \$895,000
 Balance in the Reserve Fund \$131,254
 Reserve Fund Requirement \$131,254
 No delinquencies
 No landowners with more than 20% ownership of the levy.

PROPERTY TAX COLLECTIONS

Table 3

Ad Valorem Levy \$568,746

Source: Office of the Treasurer of the County.

**Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)
June 30, 2019**

PROPERTY VALUATIONS

Table 4

2019/20	2019/20
Full Cash Value	Net Limited Assessed Value
\$ 273,186,030	\$ 21,500,529

Source: *State and County Abstract of the Assessment Roll*, Arizona Department of Revenue and *Property Tax Rates and Assessed Values*, Arizona Tax Research Association.

NET LIMITED ASSESSED VALUE BY PROPERTY CLASSIFICATION

Table 5

Class	2019/20	%
Commercial, Industrial, Utilities & Mines	\$ 2,358,397	11%
Agricultural and Vacant	1,859,439	9%
Residential (owner occupied)	9,887,311	46%
Residential (rental)	7,346,520	34%
Property Improvements	48,862	0%
Totals	\$ 21,500,529	100%

Source: *State and County Abstract of the Assessment Roll*, Arizona Department of Revenue and *Property Tax Rates and Assessed Values*, Arizona Tax Research Association.

NET LIMITED ASSESSED VALUATION OF MAJOR TAXPAYERS

Table 6

Owner	2019/20 Assessed Value	% of Assessed Value
MPT of Florence LLC	\$ 2,257,941	10.5%
Pulte Home Corporation LLC	\$ 931,449	4.3%
DR Horton Inc	\$ 326,659	1.5%
Franklin 643 LLC	\$ 161,619	0.8%
Legacy Collateral Holdings LLC	\$ 116,802	0.5%
Florence Hospital at Anthem	\$ 111,295	0.5%
Church of Jesus Christ of LDS	\$ 79,604	0.4%
ALA Anthem LLC	\$ 48,862	0.2%
Hunt Highway Commercial	\$ 38,258	0.2%
Desert Blossum Holding	\$ 36,338	0.2%

Source: The Assessor of the County.

COMPARATIVE NET LIMITED ASSESSED PROPERTY VALUES

Table 7

Fiscal Year	MRCFD2	Town of Florence	Pinal County	State of Arizona
2019/20	\$21,500,529	\$108,643,238	\$2,521,252,051	\$66,157,233,693

**Merrill Ranch Community Facilities District No. 2
(A Component Unit of the Town of Florence, Arizona)
June 30, 2019**

Source: *State and County Abstract of the Assessment Roll*, Arizona Department of Revenue and *Property Tax Rates and Assessed Values*, Arizona Tax Research Association.

OTHER DEBT OF THE DISTRICT

Table 8

	<u>Original Amount</u>	<u>Date</u>	Final Maturity Date <u>(July 1)</u>	<u>*Amount Outstanding</u>
Special Assessment Bonds (Assessment Area 1)	\$2,555,000	6/28/06	2030	\$895,000
Special Assessment Bonds (Assessment Areas 2 and 3)	829,500	9/16/09	2034	\$442,850
Special Assessment Bonds (Assessment Area 4)	203,000	2/25/10	2035	\$113,990
Special Assessment Installment Purchase Agreement (Assessment Area 5)	556,500	5/22/13	2038	\$404,554
Special Assessment Installment Purchase Agreement (Assessment Area 6)	241,500	11/20/15	2040	\$205,584
Special Assessment Bonds (Assessment Area 7)	262,500	1/18/18	2042	\$256,500

***The above Amount Outstanding includes payments made on July 1, 2019.**