



**Estrella Mountain Ranch
Community Facilities District
Annual Financial Report
Year Ended June 30, 2018**

Estrella Mountain Ranch Community Facilities District

Annual Financial Report
Year Ended June 30, 2018

Issued by:
Financial Services Division

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Estrella Mountain Ranch Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Estrella Mountain Ranch Community Facilities District (District), a component unit of the City of Goodyear, Arizona, as of and for the year ended June 30, 2018, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Estrella Mountain Ranch Community Facilities District as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such 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. Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. 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 as a whole. The supplementary and other 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 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other 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.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
November 30, 2018

BASIC FINANCIAL STATEMENTS

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 420,917
Taxes receivable	18,668
Accounts receivable	105,317
Special assessments receivable	18,842,269
Restricted cash and cash equivalents	4,572,222
Total current assets	23,959,393
Total assets	23,959,393
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred charge on refunding	490,943
 <u>LIABILITIES</u>	
Current liabilities:	
Accrued interest payable	1,269,760
Due to City	143,338
Bonds payable	1,435,000
Total current liabilities	2,848,098
Noncurrent liabilities:	
Bonds payable	31,046,939
Total noncurrent liabilities	31,046,939
Total liabilities	33,895,037
 <u>NET POSITION</u>	
Restricted for:	
Debt service	21,815,428
Unrestricted	(31,260,129)
Total net position	\$ (9,444,701)

The notes to the basic financial statements are an integral part of this statement.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
General government	\$ 194,996	\$		\$ (194,996)
Interest on long-term debt	2,188,998		1,345,745	(843,253)
Total governmental activities	\$ 2,383,994	\$	1,345,745	(1,038,249)

General revenues:

Taxes:

Property taxes	1,103,302
Investment income	72,875
Miscellaneous	79,383
Total general revenues	1,255,560

Changes in net position

217,311

Net position, beginning of year

(9,662,012)

Net position, end of year

\$ (9,444,701)

The notes to the basic financial statements are an integral part of this statement.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Debt Service	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 420,917	\$	\$ 420,917
Taxes receivable	4,308	14,360	18,668
Accounts receivable	4,415	100,902	105,317
Special assessments receivable		18,842,269	18,842,269
Restricted cash and cash equivalents		4,572,222	4,572,222
Total assets	\$ 429,640	\$ 23,529,753	\$ 23,959,393
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Due to City	\$ 143,338	\$	\$ 143,338
Bonds payable		1,435,000	1,435,000
Bonds interest payable		279,325	279,325
Total liabilities	143,338	1,714,325	1,857,663
Deferred inflows of resources:			
Unavailable property taxes	2,078	6,928	9,006
Unavailable special assessments		18,842,269	18,842,269
Total deferred inflows of resources	2,078	18,849,197	18,851,275
Fund balances:			
Restricted		2,966,231	2,966,231
Unassigned	284,224		284,224
Total fund balances	284,224	2,966,231	3,250,455
 Total liabilities, deferred inflows of resources and fund balances	 \$ 429,640	 \$ 23,529,753	 \$ 23,959,393

The notes to the basic financial statements are an integral part of this statement.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total governmental fund balances	\$	3,250,455
<p>Amounts reported for <i>governmental activities</i> 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 revenues in the funds.</p>		
Property taxes	\$ 9,006	
Special assessments	18,842,269	18,851,275
<p>Issuance of supplemental interest certificates provide current financial resources to governmental funds, but the issuance increases accrued interest payable.</p>		
		(990,435)
<p>Deferred items related to the net cost of issuance of bonds are amortized over the life of the associated bond issue in the government-wide statements but not reported in the funds.</p>		
		490,943
<p>Bond payments are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
		(31,046,939)
Net position of governmental activities	\$	<u><u>(9,444,701)</u></u>

The notes to the basic financial statements are an integral part of this statement.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	General	Debt Service	Total Governmental Funds
Revenues:			
Property taxes	\$ 253,582	\$ 845,274	\$ 1,098,856
Investment income	4,257	68,618	72,875
Special assessments		2,431,155	2,431,155
Contributions		152,166	152,166
Miscellaneous	79,383		79,383
Total revenues	337,222	3,497,213	3,834,435
Expenditures:			
Current -			
General government	194,996		194,996
Debt service -			
Principal retirement		3,170,000	3,170,000
Interest and fiscal charges		2,652,807	2,652,807
Bond issuance costs		593,880	593,880
Payment to refunded bond escrow agent		1,906,354	1,906,354
Total expenditures	194,996	8,323,041	8,518,037
Excess (deficiency) of revenues over expenditures	142,226	(4,825,828)	(4,683,602)
Other financing sources (uses):			
Issuance of refunding bonds		15,315,617	15,315,617
Payment to refunded bond escrow agent		(13,325,637)	(13,325,637)
Total other financing sources (uses)		1,989,980	1,989,980
Changes in fund balances	142,226	(2,835,848)	(2,693,622)
Fund balances, beginning of year	141,998	5,802,079	5,944,077
Fund balances, end of year	\$ 284,224	\$ 2,966,231	\$ 3,250,455

The notes to the basic financial statements are an integral part of this statement.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net changes in fund balances - total governmental funds **\$ (2,693,622)**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Issuance of refunding bonds provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Position. (15,149,626)

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	4,446	
Special assessments	<u>(1,237,576)</u>	(1,233,130)

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Bond principal retirement	3,170,000	
Bond principal refunded	<u>15,066,000</u>	18,236,000

Interest expense in the Statement of Activities differs from the amount reported in the governmental funds because accrued interest was calculated for bonds payable for the Statement of Activities, but is expensed when due for the governmental fund statements. 1,031,320

Premiums, discounts, and losses on refunding are sources and uses of current financial resources for governmental fund reporting, but are amortized over the life of the debt in the Statement of Activities. 26,369

Change in net position in governmental activities **\$ 217,311**

The notes to the basic financial statements are an integral part of this statement.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:			
Property taxes	\$ 254,851	\$ 253,582	\$ (1,269)
Investment income	1,500	4,257	2,757
Miscellaneous	90,000	79,383	(10,617)
Total revenues	<u>346,351</u>	<u>337,222</u>	<u>(9,129)</u>
Expenditures:			
Current -			
General government	345,000	194,996	150,004
Total expenditures	<u>345,000</u>	<u>194,996</u>	<u>150,004</u>
Changes in fund balances	<u>1,351</u>	<u>142,226</u>	<u>140,875</u>
Fund balances, beginning of year		141,998	141,998
Fund balances, end of year	<u>\$ 1,351</u>	<u>\$ 284,224</u>	<u>\$ 282,873</u>

The notes to the basic financial statements are an integral part of this statement.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Estrella Mountain Ranch Community Facilities District (District) is a special purpose district created specifically to acquire or construct public infrastructure within specific areas of the City of Goodyear, Arizona, and is authorized under state law to issue general obligation (GO) or revenue bonds to be repaid by property (ad valorem) taxes levied on property within the District (for GO debt), or by specific revenues generated within the District (revenue bonds). The District was created by petition to the City Council by property owners within the area to be covered by the District, and debt may be issued only after approval of the voters within the District.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District, a component unit of the City of Goodyear, Arizona (City), was established November 22, 1999, and is a political subdivision of the State of Arizona as well as a municipal corporation by Arizona Law. The City Council serves as the Board of Directors. All transactions of the District are included in the City's financial statements. However, the City has no liability for the debt.

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. The reported information includes all of the nonfiduciary activities of the District. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the District. Governmental activities normally are supported by tax revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Starting in fiscal year 2017-18, as permitted by generally accepted accounting principles the District applies the "early recognition" option for debt service payments. Property tax resources are provided in the Debt Service Fund during the current year for the payment of debt service principal and interest due early in the following year (less than one month). Therefore, the expenditures and related liabilities have been recognized in the current period.

Property taxes and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as unavailable revenues on the governmental fund financial statements.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The District reports all funds as major governmental funds:

General Fund – The General Fund is the District’s primary operating fund. It accounts for all resources used to finance District maintenance and operation except those required to be accounted for in other funds.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

D. Cash and Investments

Arizona Revised Statutes (A.R.S.) authorize the District to invest public monies in the State Treasurer’s Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the District upon demand. Cash equivalents as defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

G. Property Tax Calendar

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The District levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

H. Restricted Assets

Certain proceeds of the District’s bonds, as well as certain resources set aside for their repayment, are classified as restricted cash on the statement of net position and on the balance sheet because their use is limited by applicable bond covenants.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

K. Net Position Flow Assumption

In the government-wide financial statements the District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

L. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Budgetary Data

The District adopts a budget on an annual basis. There were no supplemental budgetary appropriations made during the year.

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Directors or a management official delegated that authority by the formal Governing Board action. The District has adopted the City's policy on which only the Board of Directors or the District's Treasurer may assign amounts for specific purposes.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Net Position – At year end, the government-wide statements reported a deficit net position of \$9,444,701. The deficit arose because the titles of all capital assets are held by the City of Goodyear.

Budgetary Information – The Debt Service Fund expenditures exceeded the amount budgeted in the current fiscal year by \$1,400,914 because District cash contributions towards the issuance of refunding bonds are not considered expenditures for budgeting purposes.

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the District’s deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the District’s deposits was \$117,400 and the bank balance was \$117,400. In addition, the District had \$200 of cash on hand at year end.

The State Treasurer’s pool is an external investment pool, the Local Government Investment Pool (Pool 5), with no regulatory oversight. The pool as an investment company is not registered with the Securities and Exchange Commission. The activity and performance of the pool is reviewed monthly by the State Board of Investment. The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

Fair Value Measurements. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District’s money market accounts are measured at fair value on a recurring basis and are valued using quoted market prices (Level 1 inputs). At year end, the District’s investments consisted of the following:

<u>Investment Type</u>	<u>Average Maturities</u>	<u>Fair Value</u>
Money market accounts	N/A	\$ 152,693
State Treasurer’s investment pool 5	33 days	4,722,846
Total		<u>\$ 4,875,539</u>

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the District’s investments in money market accounts are available on demand.

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – CASH AND INVESTMENTS

Credit Risk. The District has no investment policy that would further limit its investment choices. The State Treasurer’s investment pool 5 was rated AAAf/S1+ by Standard and Poor’s at year end. The District’s investments in money market accounts were rated AAAm/AAAm2.

Custodial Credit Risk - Investments. The District’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, the District’s portion is not identified with specific investments and is not subject to custodial credit risk.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer.

NOTE 5 – BONDS PAYABLE

Bonds payable at year end consisted of the following outstanding bonds. The bonds are both callable and noncallable with interest payable semiannually. Property taxes, special assessments and developer stand-by contributions from the Debt Service Fund are used to pay bonded debt.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2018</u>	<u>Due Within One Year</u>
Governmental activities:					
Special Assessment Revenue Bonds, Series 2015M	\$ 4,980,000	2.50-5.00%	7/1/19-39	\$ 4,557,000	\$
General Obligation Refunding Bonds, Series 2017	14,050,000	3.00-5.00%	7/15/18-32	14,050,000	1,435,000
Special Assessment Revenue Refunding Bonds, Series 2018DV	1,985,000	3.15%	7/1/19-26	1,866,000	
Special Assessment Lien Refunding Bonds, Series 2018GV1	1,785,000	2.81%	7/1/19-24	1,621,000	
Special Assessment Revenue Refunding Bonds, Series 2018GV2	4,789,000	3.67%	7/1/19-30	4,612,000	
Special Assessment Revenue Refunding Bonds, Series 2018M	5,329,000	3.75%	7/1/19-31	5,115,000	
Total				<u>\$ 31,821,000</u>	<u>\$ 1,435,000</u>

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 –BONDS PAYABLE

Annual debt service requirements to maturity on bonds at year end are summarized as follows:

Year ending June 30:	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,435,000	\$ 1,887,026
2020	1,162,000	1,155,918
2021	2,233,000	1,094,656
2022	2,308,000	1,013,565
2023	2,393,000	929,205
2024-28	11,154,000	3,357,112
2029-33	9,108,000	1,427,161
2034-38	1,375,000	342,125
2039-40	653,000	33,025
Total	<u>\$ 31,821,000</u>	<u>\$ 11,239,793</u>

The special assessment bonds are secured by a lien on property within the District for which the full assessment has not initially been paid in cash. In the event of default by any of those property owners, the District may force an auction sale of the property to satisfy debt service requirements.

On January 25, 2018, the District issued \$2,296,070 in refunding bonds, including \$311,070 in supplemental interest certificates with an effective interest rate of 3.13 percent, to advance refund \$2,228,000 of outstanding 2002 Series Special Assessment Lien bonds, with an average interest rate of 7.375 percent. The net proceeds of \$2,255,386, plus an additional contribution of \$289,756, (after payment of \$130,115 in underwriting fees, insurance, and other issuance costs) were immediately transferred to the refunding trustee to pay the bonds being refunded. As a result, the refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$27,386. This amount is reported as deferred charges and amortized over the new debt's life. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$494,354 and resulted in an economic gain of \$332,148.

On January 25, 2018, the District issued \$2,196,070 in refunding bonds, including \$411,070 in supplemental interest certificates with an effective interest rate of 2.79 percent, to advance refund \$2,338,000 of outstanding 2001A Series Special Assessment Lien bonds, with an average interest rate of 7.875 percent. The net proceeds of \$2,368,686, plus an additional contribution of \$481,153, (after payment of \$128,212 in underwriting fees, insurance, and other issuance costs) were immediately transferred to the refunding trustee to pay the bonds being refunded. As a result, the refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$30,686. This amount is reported as deferred charges and amortized over the new debt's life. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by \$676,678 and resulted in an economic gain of \$344,528.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – BONDS PAYABLE

On January 25, 2018, the District issued \$5,189,463 in refunding bonds, including \$400,463 in supplemental interest certificates with an effective interest rate of 3.67 percent, to advance refund \$5,061,000 of outstanding 2007 Series Special Assessment Revenue bonds, with an average interest rate of 6.72 percent. The net proceeds of \$5,117,196, plus an additional contribution of \$573,099, (after payment of \$164,641 in underwriting fees, insurance, and other issuance costs) were immediately transferred to the refunding trustee to pay the bonds being refunded. As a result, the refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$56,196. This amount is reported as deferred charges and amortized over the new debt's life. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$1,528,021 and resulted in an economic gain of \$936,835.

On January 25, 2018, the District issued \$5,634,014 in refunding bonds, including \$305,014 in supplemental interest certificates with an effective interest rate of 3.75 percent, to advance refund \$5,439,000 of outstanding 2007 Series Special Assessment Revenue bonds, with an average interest rate of 5.75 percent. The net proceeds of \$5,490,723, plus an additional contribution of \$562,346, (after payment of \$170,912 in underwriting fees, insurance, and other issuance costs) were immediately transferred to the refunding trustee to pay the bonds being refunded. As a result, the refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$51,723. This amount is reported as deferred charges and amortized over the new debt's life. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$926,844 and resulted in an economic gain of \$570,353.

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 14,050,000	\$	\$	\$ 14,050,000	\$ 1,435,000
Special assessment bonds	20,684,000	13,888,000	16,801,000	17,771,000	
Premium	745,144		49,676	695,468	
Discount	(36,173)		(1,644)	(34,529)	
Total bonds payable	<u>35,442,971</u>	<u>13,888,000</u>	<u>16,849,032</u>	<u>32,481,939</u>	<u>1,435,000</u>
Governmental activity long-term liabilities	<u>\$ 35,442,971</u>	<u>\$ 13,888,000</u>	<u>\$ 16,849,032</u>	<u>\$ 32,481,939</u>	<u>\$ 1,435,000</u>

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. The District's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the District is a participating member. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its member's additional premiums should reserves and annual premium be insufficient to meet the pool's obligations.

SUPPLEMENTARY INFORMATION

**ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original & Final			
Revenues:				
Property taxes	\$ 849,503		\$ 845,274	\$ (4,229)
Investment income	7,500		68,618	61,118
Special assessments	4,569,974		2,431,155	(2,138,819)
Contributions	650,000		152,166	(497,834)
Total revenues	6,076,977		3,497,213	(2,579,764)
Expenditures:				
Debt service -				
Principal retirement	3,844,000		3,170,000	674,000
Interest and fiscal charges	3,078,127		2,652,807	425,320
Bond issuance costs			593,880	(593,880)
Payment to refunded bond escrow agent			1,906,354	(1,906,354)
Total expenditures	6,922,127		8,323,041	(1,400,914)
Excess (deficiency) of revenues over expenditures	(845,150)		(4,825,828)	(3,980,678)
Other financing sources (uses):				
Issuance of refunding bonds			15,315,617	15,315,617
Payment to refunded bond escrow agent			(13,325,637)	(13,325,637)
Total other financing sources (uses)			1,989,980	1,989,980
Changes in fund balances	(845,150)		(2,835,848)	(1,990,698)
Fund balances, beginning of year			5,802,079	5,802,079
Fund balances (deficits), end of year	\$ (845,150)		\$ 2,966,231	\$ 3,811,381

OTHER INFORMATION

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT

Ad Valorem Taxation in the District

The tables below are shown to indicate (a) for fiscal years 2015-16 through 2018-19, the Net Assessed Limited Property Value of the District, utilizing new constitutional and statutory property valuation requirements, and (b) for fiscal years 2008-09 through 2014-15, the then-applicable, but now-replaced, Net Secondary Assessed Valuations of the District.

The Full Cash Value and Net Assessed Limited Property Value of taxable property within the boundaries of the District for fiscal years 2015-16 through 2018-19 is as follows:

Fiscal Year	Full Cash Value	Net Assessed Limited Property Value
2018-19	\$1,089,202,535	\$92,235,004
2017-18	1,027,638,247	84,854,802
2016-17	829,778,655	75,027,977
2015-16	741,649,683	70,281,937

The Full Cash Value and Net Secondary Assessed Valuation of taxable property within the boundaries of the District for the indicated fiscal year is as follows:

Fiscal Year	Full Cash Value	Net Secondary Assessed Valuations
2014-15	\$600,732,740	\$66,296,235
2013-14	482,743,238	54,414,336
2012-13	467,928,070	53,347,101
2011-12	471,589,583	53,374,928
2010-11	627,876,907	76,781,994
2009-10	860,707,228	98,768,865
2008-09	930,426,534	107,651,795

Source: Maricopa County Assessor's Office.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT

Net Assessed Valuation by Property Classification

The table below is shown to indicate for fiscal years 2017-18 and 2018-19, the Net Assessed Limited Property Values by property classification for the District, utilizing new constitutional and statutory property valuation requirements.

Net Assessed Limited Property Values by Property Classification

Legal Class	Description	Fiscal Year 2017-18	2017-18 Percent of Total	Fiscal Year 2018-19	2018-19 Percent of Total
1	Commercial	\$6,037,072	7.11%	\$7,221,589	7.83%
2	Agricultural & Vacant	10,904,986	12.85%	10,077,723	10.93%
3	Residential (owner occupied)	46,233,920	54.49%	52,757,047	57.20%
4	Residential (rental occupied)	21,678,824	25.55%	22,178,645	24.05%
		<u>\$84,854,802</u>	<u>100.00%</u>	<u>\$92,235,004</u>	<u>100.00%</u>

Source: Maricopa County Assessor's Office.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT

Net Assessed Property Values of Major Taxpayers

The tables below are shown to indicate (a) for fiscal years 2018-19 and 2017-18, the major property taxpayers located within the District, and their 2018-19 and 2017-18 Net Assessed Limited Property Value, utilizing new constitutional and statutory property valuation requirements.

Fiscal Year 2018-19

Taxpayer	2018-19 Net Assessed Limited Property Valuation	As Percent of District's 2018-19 Net Assessed Limited Property Valuation
ARIZONA PUBLIC SERVICE COMPANY	\$2,097,827	2.27%
KDCNC LLC	1,960,717	2.13%
NNP III-ESTRELLA MOUNTAIN RANCH LLC	1,840,262	2.00%
NNP III ESTRELLA MOUNTAIN RANCH LLC	1,755,199	1.90%
NNP III EMR 3 LLC	1,618,456	1.75%
AV HOMES OF ARIZONA LLC	1,025,787	1.11%
SOUTHWEST GAS CORPORATION (T&D)	493,576	0.54%
NNP III EMR 4 LLC	427,196	0.46%
BROADSTONE BNR ARIZONA LLC	348,150	0.38%
NNP III-EMR 4 LLC	328,741	0.36%
	\$11,895,911	12.90%

Fiscal Year 2017-18

Taxpayer	2017-18 Net Assessed Limited Property Valuation	As Percent of District's 2017-18 Net Assessed Limited Property Valuation
KDCNC LLC	\$2,210,967	2.61%
AV HOMES OF ARIZONA LLC	1,945,052	2.29%
ARIZONA PUBLIC SERVICE COMPANY	1,763,924	2.08%
NNP III ESTRELLA MOUNTAIN RANCH LLC	1,687,152	1.99%
NNP III ESTRELLA MOUNTAIN RANCH LLC	1,681,085	1.98%
NNP III EMR 3 LLC	1,541,387	1.82%
WEEKLEY HOMES LLC	492,512	0.58%
SOUTHWEST GAS CORPORATION (T&D)	430,059	0.50%
NNP III EMR 3 LLC	406,853	0.48%
BROADSTONE BNR ARIZONA LLC	331,571	0.39%
	\$12,490,562	14.72%

Source: Maricopa County Assessor's Office, as of September 17, 2018.

ESTRELLA MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT

Record of Taxes Levied and Collected in the District

Under Arizona law, the Board of Supervisors of the County is required to establish and levy a tax in an amount sufficient to satisfy debt service requirements of the District. Property taxes are levied and collected on property within the District by the Treasurer of the County on behalf of the District. The following table sets forth the tax collection records of the District for the periods shown:

Fiscal Year	Real and Secured Personal Property Tax Levy (a)	Collected to June 30th (b)(c)		Total Collections (b)(c)	
		Amount	Percent of Tax Levy	Amount	Percent of Tax Levy
2017-18	\$1,103,116	\$1,093,995	99.17%	\$1,093,995	99.17%
2016-17	975,366	968,839	99.33	975,256	99.99
2015-16	913,668	906,347	99.20	912,127	99.83
2014-15	861,864	852,794	98.95	860,726	99.87
2013-14	707,398	701,873	99.22	707,098	99.96
2012-13	693,570	679,631	97.99	685,156	98.79
2011-12	693,886	689,061	99.30	693,790	99.99
2010-11	998,176	961,752	96.35	963,403	96.52
2009-10	1,284,005	1,209,240	94.18	1,264,699	98.50
2008-09	1,399,482	1,310,716	93.66	1,384,805	98.95

Source: Maricopa County Treasurer’s Office.

- (a) Tax levy is as reported by the Treasurer of the County as of August of each fiscal year. Amount does not include adjustments made to levy amounts after the August report.
- (b) Reflects collections made through June 30, the end of the fiscal year, on such year’s levy. Property taxes are payable in two installments. The first installment is due on October 1 and becomes delinquent on November 1, but is waived if the full tax year’s taxes are paid in full by December 31. The second installment becomes due on March 1 and is delinquent on May 1. Interest at the rate of 16 percent per annum attaches on first and second installments following their delinquent dates. Penalties for delinquent payments are not included in the above collection figures.
- (c) Reflects collections made through June 30, 2018.