

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

## **Comprehensive Annual**

## **Financial Report**

for the fiscal year ended June 30, 2012



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**2012 COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

for the fiscal year ended June 30, 2012



*Prepared by the Accounting Department of the  
Superstition Mountains Community  
Facilities District No. 1*

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2012 COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2012 COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**INTRODUCTORY SECTION**



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**District Officials**



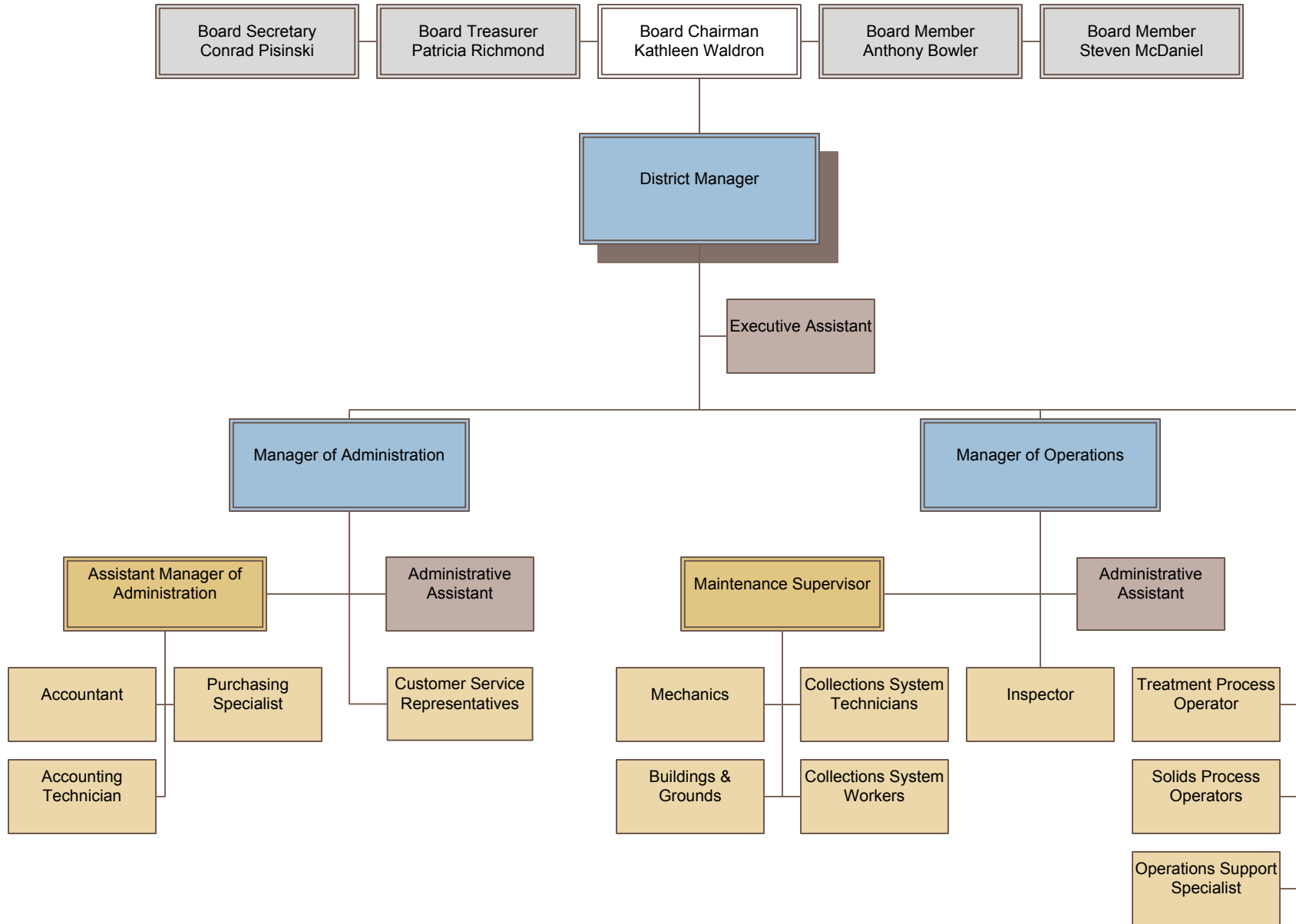
Board of Directors

Kathleen Waldron	Chairman
Patricia Richmond	Treasurer
Conrad Pisinski	Secretary
Anthony Bowler	Board Member
Steven McDaniel	Board Member

District Financial Management

Edward J. Grabek	District Manager
Patricia D. Briseño	Manager of Administration
Darron Anglin	Manager of Operations
Susan A. Sopko	Assistant Manager of Administration

# Superstition Mountains Community Facilities District No. 1 Organizational Chart





# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Superstition Mountains  
Community Facilities District No. 1  
Arizona

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Davison*

President

*Jeffrey R. Emer*

Executive Director



## SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1

5661 S. Ironwood Drive  
Apache Junction - Arizona 85120

**November 13, 2012**

To the District Chairman and Members of the Board  
Superstition Mountains Community Facilities District No. 1

Honorable Chairman and Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Superstition Mountains Community Facilities District No. 1 (District) for the year ended June 30, 2012. This is the third year that the District has prepared a CAFR.

Arizona Revised Statutes (ARS) do not require that the District undergo an annual audit. However, the District's Trust Indenture with Bank One Trust Company NA (now the Bank of New York Mellon Global Corporate Trust) dated August 1, 2000, requires that the District prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and use as a guideline the relevant provisions of ARS §9-481 and §41-1279.07.

The responsibility for the completeness, fairness and accuracy of the data presented and all accompanying disclosures rests with the District. To provide a reasonable basis for making these representations, District management has established a comprehensive framework of internal controls designed to protect District assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Fester & Chapman P.C., a certified public accounting firm based in Phoenix, Arizona. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. The independent auditor concluded that, based upon the results of the audit, there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2012 are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditors' report is presented as the first component of the financial section of this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

## **FINANCIAL REPORTING ENTITY**

The District is a municipal corporation and political subdivision of the State of Arizona. The District was formed on July 7, 1992 under the provisions of the Community Facilities District Act of 1988, as amended, constituting Title 48, Chapter 4, Article 6 of Arizona Revised Statutes.

When the City of Apache Junction (City) was incorporated in 1979, it is believed to have been the largest incorporated area in the continental United States without a sanitary sewer system and central treatment facility. Septic tanks, which provide only primary treatment, were the predominant form of wastewater treatment in the City. Due to the lack of a regional sewer treatment system, the Arizona Department of Environmental Quality (ADEQ) imposed restrictions on the use of septic tanks for new industrial and commercial development within the Apache Junction area. Permits for commercial and industrial uses could be obtained for new septic tanks, but ADEQ had conditioned these permits upon the developer agreeing to connect to a central sewer system when the system was available.

On two separate occasions, the City sought voter approval to construct a sewer system but was unsuccessful. As an alternative to municipal service, and armed with petitions from the majority of land owners within the boundaries of the proposed community facilities district, the City formed the District to acquire, construct and develop a sewer collection system and wastewater treatment facility for the City.

The District originally consisted of 48 largely noncontiguous parcels of undeveloped land comprising approximately 600 acres located entirely within the City. On June 7, 1994, the City Council approved the expansion of the District. On June 21, 1994, an election of the District's qualified electors was held on the issue of expansion. The electors qualified to vote included all owners of land within the original District, all owners of land in the area proposed to be added to the District and all resident electors of either area. The qualified electors approved the expansion of the District to include 2,388 total parcels of land. On June 29, 1994, the Board of Directors of the District canvassed the election and formally declared the expansion of the District.

The District is governed by its Board of Directors, much like a city is governed by its council. The Board can pass resolutions which establish the policies and procedures of the District. The resolutions relating to use of the wastewater system and user fees are contained in the District's policies and procedures. Such resolutions have substantially the same purpose as the ordinances of a city, county or other local governmental entity.

The District's Board consists of five members of the community who serve staggered terms. Under the terms of the Community Facilities District Act, the City Council appoints citizen volunteers as the Board of Directors of the District. Other than Board selection, the City has no authority over the operation of the District or responsibility for its actions.

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

Economic conditions during fiscal year 2012, in both the District's service area and the country as a whole, did not significantly improve from the year before. Indeed, the economy continued to limp along with high unemployment as the norm in most areas. While there was a slow drop in the unemployment rate over the year, it was not because new jobs were created but because more people stopped looking for work. This is a continuing problem going into fiscal year 2013. In the month of August 2012, almost 4 people dropped out of the workforce for every person hired into a new job. Nationally, only 63.5% of the working-age population is employed or looking for work. This is a 30 year low<sup>1</sup>.

The economy remains weak locally, as well as throughout the nation. The best that can be said is that the economic outlook for fiscal year 2013 is uncertain. While interest rates remain extremely low, it is seemingly having little positive effect. The banking industry is finding it hard to make profits with the low interest rates<sup>2</sup>, and many people like the elderly, with traditional bank savings accounts and certificates of deposit, are seeing their savings decline at the rate of inflation. True, mortgage rates are very low, but there are not very many new jobs available for new homebuyers. This has a direct effect on new housing starts. The federal government has expanded its role in the economy but this has simply caused uncertainty and fear, especially of the looming "fiscal cliff" of spending cuts and tax increases that are set to take place in early 2013<sup>3</sup>. Echoing similar reports from other sectors of the economy, the Wall Street Journal recently reported that manufacturers of heavy equipment are finding customers canceling or postponing orders because of uncertainty over government economic policies<sup>4</sup>. Cynicism has started replacing hope and public trust in Congress is near historic lows<sup>5</sup>. Political commentator Victor Davis Hansen states we are living "...in an age of disbelief, in which citizens increasingly do not believe what their government says...."<sup>6</sup> Trust in the mainstream media has declined to where 60% believe that the news is being reported inaccurately and unfairly<sup>7</sup>. However many remain optimistic that things are going to change for the better<sup>8</sup>.

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1 Hargreaves, S. (2012, September 7) August jobs report: Hiring slows, unemployment falls. *CNNMoney*

2 Fitzpatrick, D. (2012, October 23) Low Rates Pummel Profits at Banks. *Wall Street Journal*

3 Thurn, S. (2012, October 26) Firms Hit Brakes Before Fiscal Cliff. *Wall Street Journal*

4 Hagerty, J. (2012, October 22) For Machinery Makers, Lifting is Heavier. *Wall Street Journal*

5 Newport, F. (2012, September 26) Americans Trust Judicial Branch Most, Legislative Least. *Gallup, Inc.*

6 Hanson, V.D. (2012, October 22) Do We Believe Anymore? *pjmedia.com*

7 Morales, L. (2012, September 21) U.S. Distrust in Media Hits New High. *Gallup, Inc.*

8 Reuters. (2012, September 25) Consumer Confidence Is the Highest in 7 Months. *The New York Times*

In seeming contradiction to the economic uncertainty, home sales started picking up at the beginning of fiscal year 2012 and have continued to rise for 15 straight months<sup>9</sup>. Locally, the District added 151 new single family connections during the fiscal year, about triple the number from fiscal year 2011. Connection fee revenues approached a level not seen since fiscal year 2007. The trend shows no sign of abating; at just three months into fiscal year 2013, the District has added over 40 new connections. The unexpected growth of the customer base while in the midst of a poor economy is welcome news for the District as it has depended upon the growth of its customer base to help increase its revenue stream to meet its rising debt payments and to fund capital projects. It will probably continue as long as the cost of homes remains low and there is a sufficient inventory of homes to be sold but there are troubling signs ahead in both of these areas.

The District has noticed that approximately 8 out of 10 short sales, foreclosure and trustee sales are going to investor groups. According to an Arizona Republic article, the "...investors now dominate the area's home buying market and are likely to continue to do so until prices climb much higher."<sup>10</sup> In addition, seasonal residents, especially Canadians who winter in the Phoenix area, are finding the depressed housing prices a bargain and are taking advantage of the low priced starter homes available in the District's service area. However, there are signs that housing prices will not remain a bargain for much longer. As would be expected, the price of housing has been going up as the demand has increased. In addition, costs for building new homes have been climbing quickly because of a shortening supply of land, a shortage of labor to build new houses and skyrocketing costs for lumber and drywall materials<sup>11</sup>. The end result is that housing prices may not remain attractive much further into the future. A shrinking inventory of housing units is another problem.

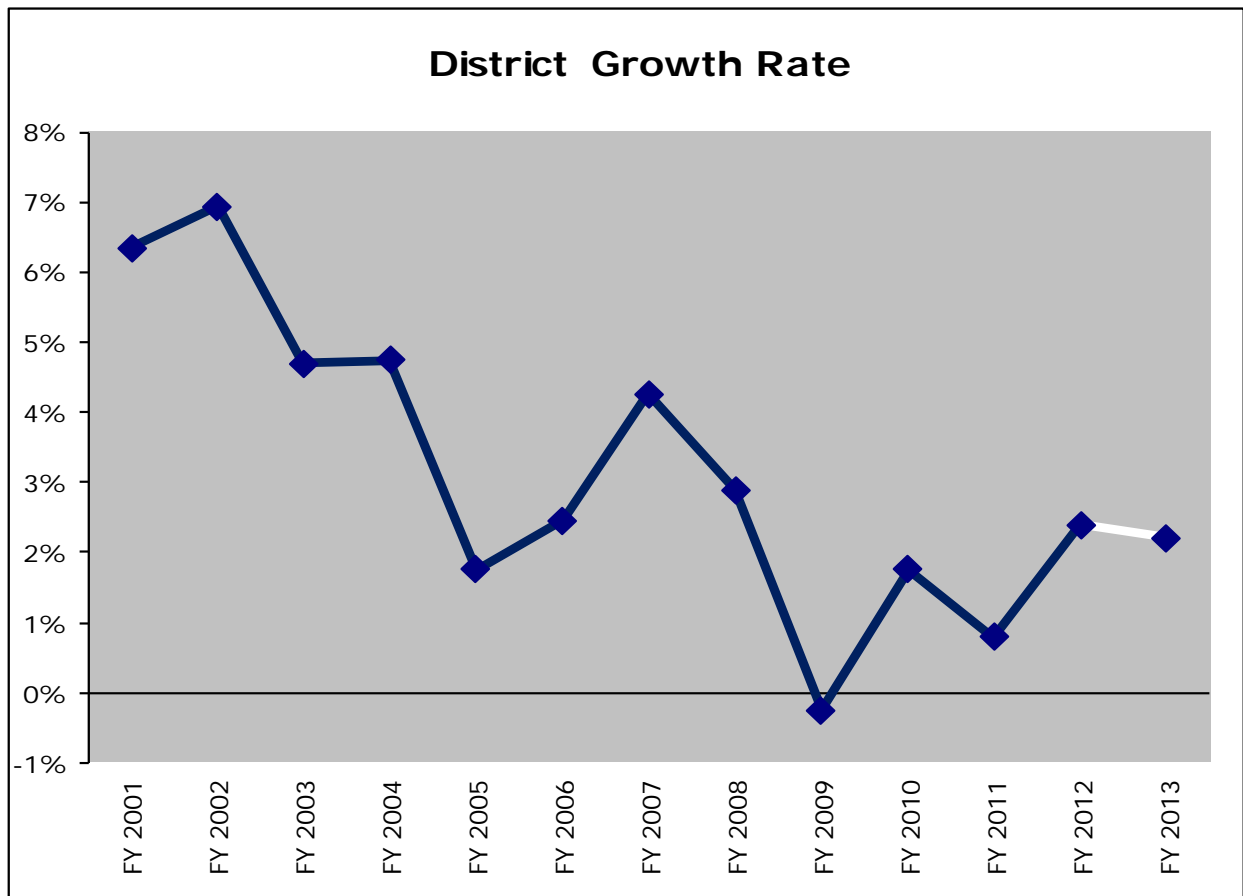
There has not been any new development of housing subdivisions within the District's service area since the recession hit 4 years ago. Sales of new homes have been confined to existing subdivisions and infill lots. The result is that at the current rate of moderate growth, the inventory of lots available for new home development stands at slightly less than a 2 year supply. One developer has accounted for the majority of the homes built and sold during the period. This developer recently brought a proposal to the City for a new 105 unit subdivision of small homes that are typical of what they have had success with in the past. However, even if built, this new development would only increase the inventory of available lots by 9 months at the current rate of growth. What is needed is development to start in the Portalis project on former State land in the southern part of the District's service area. Over a thousand acres were purchased and master planned for development prior to the 2008 recession, but the owner has shown no sign of moving forward in the near future. It may be that the development of new subdivisions will have to wait until the economy stabilizes and the country returns to a more familiar state of normal. Unfortunately, it may be too late to avoid an artificial suppression of the District's growth for a few years in the future due to the lack of available building lots to satisfy the demand.

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9 Timiraos, N. (2012, October 20 – 21) Home Sales Rise for 15th Month. *Wall Street Journal*

10 Reagor, C. & Dempsey, M. (2012, October 20) Investors scoop up metro Phoenix houses. *Arizona Republic*

11 Whelan, R. (2012, October 26) High Costs Bedevil Builders. *Wall Street Journal*



## **MAJOR INITIATIVES**

### District Authority Over Wastewater Systems Within its Service Area

In February, 2012, the District received confirmation of approval from the United States Environmental Protection Agency for the District’s amendment to the Central Arizona Association of Governments (“CAAG”) 208 Area-wide Water Quality Management Plan Amendment. The Federal level confirmation ended a process that began over 8 years earlier to double the size of the District’s service area, and within that service area, grant full authority to the District over wastewater collection and treatment systems. Per the language in the Amendment, properties within the District’s expanded service area are required to connect to the District’s sewage collection system unless the District specifically authorizes otherwise in writing. The District subsequently issued an implementation guideline to the City of Apache Junction and the Pinal County Environmental Health Department instructing that anyone applying for a building permit must first obtain a written determination concerning sewer from the District. The District’s implementation of its authority solves the vexing, long standing problem within the District’s service area of conflict between the City, Pinal County and the District over wastewater collection and treatment systems. It also ensures that there will be additional connections to the District’s system in the future as existing on-site systems fail or new properties are developed.

### Long Term Utility Cash Planning Model

The District finished a complete rebuilding of its long term utility cash planning model in fiscal year 2012. The newly revised and expanded financial tool now covers operations through fiscal year 2032. With the finalization and setting of the base case for fiscal year 2013, the District implemented a powerful financial tool that will be used to guide District operations into the future. The organization can now plan with increased confidence how to meet its anticipated requirement for investing \$21.5 million in new and replacement capital projects over the next 19 years, while simultaneously paying off existing debt and raising substantial cash reserves in anticipation of future borrowing when the WRF must be expanded. Going forward, the model will be updated annually during the budget preparation process and extended out another year to keep its information and projections current.

### Recharge Basin Improvements

In fiscal year 2012, the District completed the first phase of a 3-phase project to expand the District's groundwater recharge capabilities. The completion of the first phase saw the expansion of the recharge basins by 2.3 acres and the addition of 12 vadose zone wells. The completion of this phase of the project occurred early enough in fiscal year 2012 to allow the District to recharge 28% more effluent over the year as compared with fiscal year 2011. This added over \$39 thousand in revenues from the sale of recharge credits over the previous year. Phase 2 of the project is currently in design and construction should start before the end of fiscal year 2013. The second phase will add 1.2 acres and 6 vadose zone wells. The third phase to be completed in coming years will add 4.5 acres and 16 additional vadose zone wells. With the successful completion of all 3 phases of the project, the District should have adequate recharge capacity for effluent disposal to the current permitted capacity of the water reclamation facility.

### Expansion of the Water Reclamation Facility Site

The purchase at auction of close to 30 additional acres of land from the Arizona State Land Department is on track to be completed in November 2012, bringing to a close a project that has been in process for more than a decade. The addition of this land will expand the District's current water reclamation facility site to 90 acres, providing the final property configuration of the site through the expected full build-out size of 12.0 million gallons per day.

### Water Reclamation Facility Capacity Re-rating Study

The District, working in conjunction with its engineering consultant, is testing new treatment process control procedures that could potentially result in the re-rating of the current capacity of the WRF upwards from 2.1 million gallons per day to 2.8 million gallons per day. If successful, physical expansion of the WRF could be delayed while up to 4,375 new home connections are added to the system above the current capacity. This would improve on the District's financial position to borrow for the eventual, necessary physical expansion. The engineering consultant issued a preliminary report that looks promising, but the testing of the revised process control procedure will need to continue through the winter to see whether acceptable results can be achieved at higher loading rates during the cold winter months when biological activity in the process slows down.

### Odor Control at the Water Reclamation Facility

The District began preparations for the installation of an ozone and oxygen odor control system at the Baseline pump station for the purpose of attenuating odors at both the pump station and at the headworks of the WRF where the wastewater is treated. Performance evaluation will begin immediately after the installation is completed midway through fiscal year 2013, and if the equipment performs as expected, it will result in ADEQ approval of a 350 foot setback of treatment process components at the WRF from adjacent properties. The current requirement is for a 1,000 foot setback. Reducing the setback requirement to 350 feet will exempt the District from purchasing a 68 acre odor control buffer surrounding the facility at an estimated cost of \$850,000.

### AWARDS AND ACKNOWLEDGMENTS

We are very proud to report that the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the fiscal year ended June 30, 2011. This was the second year the District prepared a CAFR and the second time the District was honored with this prestigious award.

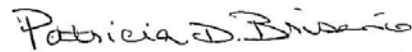
The District's Accounting Department is to be commended for their efforts and dedication to preparing the District's CAFR. Special thanks are due to District employees Maria Zagar, District Accountant and Susan A. Sopko, Assistant Manager of Administration, for compiling and assembling the majority of the financial information and schedules presented in this report.

Lastly, but most importantly, the District must thank the Board of Directors for their continued support, advice and guidance. This remarkable group of volunteers devotes countless hours of their personal time to support the District and its mission to serve the community of Apache Junction. We owe them a debt of gratitude that cannot be repaid.

Respectfully submitted,



Edward J. Grabek  
District Manager



Patricia D. Briseño  
Manager of Administration



Darron Anglin  
Manager of Operations



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**FINANCIAL SECTION**



Independent Auditors' Report

To the Board of Directors of  
Superstition Mountains Community Facilities District No. 1  
Apache Junction, Arizona

We have audited the accompanying statements of net assets of Superstition Mountains Community Facilities District No. 1 (the District) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows, for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 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. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have 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 P.C.*

November 13, 2012

**SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011**

The Superstition Mountains Community Facilities District's (the District's) discussion and analysis provides an overview of the District's financial performance for the fiscal year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL SUMMARY**

- Net assets decreased by \$452 thousand or 23%, to end the fiscal year at \$1.53 million.
- Operating revenues increased by \$465 thousand, or 8%, over fiscal 2011.
- Operating expenses increased by just \$50 thousand, less than 1%, over fiscal 2011.
- Net non-operating expenses decreased by \$25 thousand from the prior year.
- Checking account and fund balances, which consist of cash, cash equivalents and investments in US Treasury Notes, increased \$211 thousand over 2011.

**DESCRIPTION OF BASIC FINANCIAL STATEMENTS**

The District's financial statements are prepared using proprietary fund (enterprise fund) accounting which uses the same basis of accounting as private-sector business enterprises. The District's costs of providing services to the public on a continuing basis are financed primarily through user charges.

The District's financial statements consist of the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows. These statements were prepared using the accrual basis of accounting which recognizes income when earned and expenses when incurred.

## CONDENSED FINANCIAL DATA

The following table summarizes the total assets, liabilities and net assets of the District for the fiscal years ended June 30, 2012, June 30, 2011 and June 30, 2010. The information is provided in greater detail in the basic financial statements which follow this analysis.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<b>Increase (Decrease) current year from prior</b>		<u>June 30, 2010</u>
			<u>Amount</u>	<u>Percentage</u>	
Cash & cash equivalents	\$ 5,552,038	\$ 5,301,695	\$ 250,343	4.72%	\$ 3,089,301
Investments	3,376,566	3,415,678	(39,112)	-1.15%	5,802,745
Other current assets	1,025,817	891,531	134,286	15.06%	866,902
Capital assets	21,011,530	22,115,388	(1,103,858)	-4.99%	23,123,619
Bond issuance costs	<u>830,479</u>	<u>876,436</u>	<u>(45,957)</u>	-5.24%	<u>922,393</u>
<b>Total assets</b>	31,796,430	32,600,728	(804,298)	-2.47%	33,804,960
Current liabilities	1,598,537	1,550,377	48,160	3.11%	1,551,513
Long term liabilities					
Series 2000 bond	<u>28,670,000</u>	<u>29,070,000</u>	<u>(400,000)</u>	-1.38%	<u>29,380,000</u>
<b>Total liabilities</b>	30,268,537	30,620,377	(351,840)	-1.15%	30,931,513
Invested in capital assets, net of related debt	(4,375,973)	(3,481,676)	(894,297)	25.69%	(2,752,352)
Restricted	4,711,386	4,324,570	386,816	8.94%	4,637,187
Unrestricted	<u>1,192,480</u>	<u>1,137,457</u>	<u>55,023</u>	4.84%	<u>988,612</u>
<b>Total net assets</b>	\$ 1,527,893	\$ 1,980,351	\$ (452,458)	-22.85%	\$ 2,873,447

### Net Assets

The net assets, defined as total assets less total liabilities, decreased by 22.85%, or \$452 thousand from the prior year. Total assets decreased by 2.47% or \$804 thousand; total liabilities decreased \$352 thousand, or 1.15%. The decrease in net assets from June 30, 2010 to June 30, 2011 was \$893 thousand. A complete discussion of the decrease in net assets from fiscal year 2010 to fiscal year 2011 can be found in the 2011 financial reports.

*Cash and cash equivalents* increased by \$250 thousand from fiscal year 2011. The increase is primarily due to an increase in the District Reserve account balance representing both revenues realized in excess of budget and expenses that were managed to be less than budget.

The balance of \$3.4 million in *Investments* at the end of fiscal year 2012 reflects the District's continued efforts to enhance its interest earnings.

When taken as a whole, *Cash and cash equivalents* and *Investments* increased by \$211 thousand over fiscal year 2011. A summary of the components of *Cash and cash equivalents* and *Investments* is provided in Table 2.

Net additions to *Capital assets* for fiscal year 2012 totaled \$590 thousand; after normal depreciation of \$1.8 million, *Capital assets* decreased by \$1.1 million. A summary of the components of *Capital assets* is provided in Table 4 and in Note 4 to the Financial Statements.

*Current liabilities* decreased by \$48 thousand from the prior year; decreases of \$3 thousand in *Accrued expenses*, \$30 thousand in *Unearned revenue* and \$9 thousand in *Accrued interest payable* were offset by an increase of \$90 thousand in *Current portion, bond payable*. The long term portion of the *Series 2000 bonds payable* decreased by \$400 thousand resulting in an overall decrease in total liabilities of \$352 thousand.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	Increase (Decrease) current year from prior		<u>June 30, 2010</u>
			<u>Amount</u>	<u>Percentage</u>	
Checking accounts	\$ 534,721	\$ 609,865	\$ (75,144)	-12.32%	\$ 500,830
Restricted funds					
Revenue Fund	0	31,317	(31,317)	-100.00%	38,800
Debt Service Funds	1,042,114	1,099,849	(57,735)	-5.25%	1,072,280
Debt Service Reserve	2,640,383	2,683,088	(42,705)	-1.59%	2,681,749
Capital Funds	730,365	782,036	(51,671)	-6.61%	1,090,314
Land Purchase Fund	2,368,585	2,375,859	(7,274)	-0.31%	2,397,902
District Reserves	<u>1,612,436</u>	<u>1,135,359</u>	<u>477,077</u>	42.02%	<u>1,110,171</u>
<b>Total cash, cash equivalents and investments</b>	<b>\$ 8,928,604</b>	<b>\$ 8,717,373</b>	<b>\$ 211,231</b>	<b>2.42%</b>	<b>\$ 8,892,046</b>

### **Cash, Cash Equivalents and Investments**

In addition to its regular checking accounts used to accumulate daily receipts and to disburse periodic payments for payroll, goods and services, the District maintains several accounts managed by its Trustee and monitored by its bondholder, Allstate Insurance. The purpose and ultimate use of monies in the Trust Accounts is dictated by the terms of the Trust Indenture between the District and Bank One Trust Company (now the Bank of New York Mellon Global Corporate Trust as successor Trustee) dated August 1, 2000.

#### *Revenue Fund*

The Revenue Fund serves as a flow-through account for all revenues received by the District. On a monthly basis, all available funds are transferred from the Revenue Fund to other District accounts according to specific criteria outlined in the Trust Indenture and annual budget. Balances in the Revenue Fund at the reporting dates will vary based upon the timing of cash receipts and transfers.

### *Debt Service Funds*

The Debt Service Funds serve to accumulate the full amount of the next debt payment due on the Series 2000 bonds, both principal and interest. As of June 30, 2012, the funds contained \$1.0 million to meet the scheduled debt payment of \$1.0 million due on July 1, 2012.

### *Debt Service Reserve*

The Debt Service Reserve Fund represents a secondary source of funds to make scheduled payments on the Series 2000 bond debt. Monies are deposited in accordance with the Trust Indenture until the fund balance reaches \$2.68 million. The balance as of June 30, 2012, including the investment in US Treasury Notes, slightly exceeds the target because of the accumulation of interest. Funds in excess of \$2.68 million are transferred to the Revenue Fund by the Trustee in January of each year.

### *Capital Funds*

The Capital Funds contain monies for the purchase of capital assets. The balances in these funds will be used for capital improvements, expansions and other acquisitions that have been approved by the District's Board of Directors as part of the annual budgeting process but not yet expended.

### *Land Purchase Account*

The Land Purchase Fund was created to accumulate monies for a setback buffer via an odor easement on, or outright purchase of, approximately 89 acres of land surrounding the water reclamation facility (WRF). This is to comply with an Arizona Department of Environmental Quality (ADEQ) rule in Arizona Administrative Code Title 18, R18-9-B201.I and is a condition of licensing the District's WRF. The District made an initial attempt to purchase the property in fiscal year 2002 but the Arizona State Land Department (ASLD) was in dispute with the Maricopa County Flood Control District (MCFCD) over another easement matter concerning the same property. ASLD refused to consider the District's overture to purchase the land at that time until the matter was settled with the MCFCD. Instead they issued a temporary approval of the District's impact on the property until they were ready to sell the land. The dispute between ASLD and MCFCD was settled in fiscal 2008 and the District moved forward with its purchase of the land. At the end of fiscal 2012, the District's applications were in process with ASLD. Resolution is anticipated in fiscal year 2013.

The balance of \$2.4 million at June 30, 2012 exceeds the initial target of \$2.16 million because of accumulated earnings. No new funds were contributed during fiscal 2012. The decrease in the balance from fiscal year 2011 resulted from the expenditure of necessary acquisition costs which were required as part of the purchase process.

### *District Reserves*

These funds serve to supplement shortfalls that occur in other funds. These reserves can be used for District operations, capital assets or debt repayment. A portion of the reserve is mandated by the Trust Indenture to maintain a balance of \$750 thousand. As of June 30, 2012, the reserve balances exceeded the requirements of the Trust Indenture.

## CHANGES IN NET ASSETS

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<b>Increase (Decrease) current year from prior</b>		<u>June 30, 2010</u>
			<u>Amount</u>	<u>Percentage</u>	
Operating revenues					
Sewer services	\$ 5,396,804	\$ 5,117,939	\$ 278,865	5.45%	\$ 5,143,374
Connection fees	388,924	134,732	254,192	188.66%	240,170
Septage charges	425,095	500,324	(75,229)	-15.04%	421,608
Recharge credit sales	178,676	139,385	39,291	28.19%	110,210
Miscellaneous	<u>204,643</u>	<u>236,669</u>	<u>(32,026)</u>	-13.53%	<u>171,994</u>
Total operating revenue	6,594,142	6,129,049	465,093	7.59%	6,087,356
Operating expenses	5,302,071	5,252,118	49,953	0.95%	5,271,423
Operating income	1,292,071	876,931	415,140	47.34%	815,933
Nonoperating income/(expense)					
Interest & accretion	(1,749,150)	(1,767,000)	17,850	-1.01%	(1,781,100)
Other nonoperating	<u>4,621</u>	<u>(3,027)</u>	<u>7,648</u>	-252.66%	<u>(16,819)</u>
Total nonoperating revenue/(expense)	(1,744,529)	(1,770,027)	25,498	-1.44%	(1,797,919)
<b>Decrease in net assets</b>	<b>\$ (452,458)</b>	<b>\$ (893,096)</b>	<b>\$ 440,638</b>	<b>-49.34%</b>	<b>\$ (981,986)</b>

### Operating Revenues

Operating revenues increased 7.59% over the prior year. Revenue gains were realized in *Sewer services* and *Connection fees* where income increased \$279 thousand and \$254 thousand respectively over fiscal year 2011. In fiscal year 2011, operating revenues increased \$41.7 thousand over fiscal year 2010.

Revenue from *Sewer services* and *Connection fees* increased over the prior year because of modest rate increases and because of customer growth. In fiscal 2012, 162 permits were issued for connection to the sewer system.

In March 2005, the District received its final permits allowing for the recharge of effluent and the accumulation of saleable recharge credits. The District negotiated agreements to sell its recharge credits to the Water Utilities Community Facilities District, known as Apache Junction Water Company, and to Roadhaven RV Resort HOA. Revenues realized from recharge activities in fiscal 2012 were \$39.3 thousand higher than the previous year primarily because of higher productivity in the recharge beds.

### **Operating Expenses**

Operating expenses increased by \$50 thousand over fiscal 2011. The most significant expense category showing an increase was *Depreciation and amortization*. More modest increases were realized in *Administrative* expense and *Supplies and services - treatment facility*. Expense categories showing significant decreases include *Legal*, *Payroll and payroll related* and *Repairs and maintenance – treatment facility*. *Administrative* expense increased in fiscal year 2012 because of costs related to the updating of District computer hardware and software. *Supplies and services - treatment facility* increased over the prior year because of costs for required outside laboratory services. *Legal* expenses were high in fiscal 2011 because of costs related to employment matters; expense in fiscal year 2012 returned to more normalized levels. The decrease in *Payroll and payroll related* expenses resulted from changes to health, vision and dental benefits.

Operating expenses decreased \$19.3 thousand from fiscal year 2010 to fiscal year 2011. A discussion of this decrease can be found in the fiscal year 2011 CAFR.

### **Non-operating Revenues and Expenses**

*Total non-operating expense* was \$25.5 thousand lower than fiscal 2011. *Gain/(loss) on assets disposed* increased by \$10.9 thousand over the prior year loss. *Interest expense* on the District's debt obligation decreased by \$17.9 thousand; Note 5 to the Financial Statements provides additional information about the District's outstanding bond debt.



## CAPITAL ASSETS

**Table 4**  
**Superstition Mountains Community Facilities District No. 1**  
**Capital Assets**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	Increase (Decrease) current year from prior		<u>June 30, 2010</u>
			<u>Amount</u>	<u>Percentage</u>	
Land and easements	\$ 331,791	\$ 331,755	\$ 36	0.01%	\$ 332,518
Treatment plant	14,701,463	14,615,729	85,734	0.59%	14,513,412
Collection system	22,346,095	22,209,704	136,391	0.61%	22,194,334
Buildings & grounds	645,200	621,961	23,239	3.74%	576,515
Machinery & equipment	2,573,377	2,421,857	151,520	6.26%	2,063,455
Office equipment & software	295,778	280,723	15,055	5.36%	241,581
Other intangibles	50,241	0	50,241	0.00%	0
Construction in process	<u>309,596</u>	<u>181,998</u>	<u>127,598</u>	70.11%	<u>149,392</u>
<b>Total capital assets</b>	41,253,541	40,663,727	589,814	1.45%	40,071,207
Accumulated depreciation	<u>(20,242,011)</u>	<u>(18,548,339)</u>	<u>(1,693,672)</u>	9.13%	<u>(16,947,588)</u>
<b>Net capital assets</b>	<b>\$ 21,011,530</b>	<b>\$ 22,115,388</b>	<b>\$ (1,103,858)</b>	<b>-4.99%</b>	<b>\$ 23,123,619</b>

### Capital Assets

The District operates and maintains approximately 111 miles of sewer line throughout the City of Apache Junction as well as a 2.1 MGD (million gallons per day) capacity wastewater treatment plant. The District is continually expanding, replacing and maintaining the collection system and treatment plant. Most components of the sewer system and treatment plant have exceeded 17 years of use, with a small portion of the contributed system in excess of 30 years of service.

In fiscal 2012, increases in Capital assets resulted primarily from the expansion of the recharge beds at \$160 thousand and a mainline extension at \$130 thousand. Several smaller scale assets were also placed into service during fiscal 2012.

Note 4 to the Financial Statements provides additional information about the District's capital assets.

### DEBT ADMINISTRATION

The District has one bond issue, Series 2000, held by Allstate Insurance Company. The bond was considered to be a capital appreciation bond through January 1, 2005 at which point it became a current interest obligation. The District is in compliance with all terms and conditions of the debt obligation. One of the terms of the debt obligation requires that the District maintain a ratio of net revenues to bond service charges of at least 1.10. For fiscal year 2012, this ratio was 1.51. Note 5 to the Financial Statements provides additional information about the bond debt.

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S RESULTS**

Revenue growth in fiscal year 2012 resulted primarily from the District's practice of annual, modest rate increases for the services it provides. These rate increases, when factored with better than budgeted growth, allowed the District to cover its regular operating expenses and debt service as well as contribute toward capital additions and replacements.

The District is somewhat insulated from economic downturns by its broad residential customer base. Almost 97% of the units billed by the District for sewer service are residential, representing 83% of total sewer service revenue for fiscal year 2012. Although the District continued to experience higher than average levels of residential disconnections, revenues were not significantly impacted because delinquent balances are nearly always collected in full once a property changes hands.

The very modest increase in expenses reflects the District's continued commitment to expense control by focusing on areas where significant improvements can be made without impacting the quality of the services it provides; a significant area of focus remains on preventative and proactive repairs and maintenance to extend the useful lives of the District's equipment, systems and facilities.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability and compliance with respect to fiscal matters. If there are questions concerning this report or if further information is required, please contact the Superstition Mountains Community Facilities District No. 1 at 5661 S. Ironwood Drive, Apache Junction, Arizona 85120.

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF NET ASSETS

June 30,

ASSETS	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 534,721	\$ 609,865
Cash and cash equivalents, restricted	5,014,858	2,297,978
Accounts receivable – sewage, net of allowance for doubtful accounts of \$102,281 and \$108,335	537,328	553,331
Accounts receivable - other	338,934	226,300
Inventory	31,134	24,928
Prepaid expenses	118,421	86,972
Total current assets	<u>6,575,396</u>	<u>3,799,374</u>
<b>NONCURRENT ASSETS</b>		
Capital assets:		
Capital assets not being depreciated	622,995	495,361
Capital assets, net of accumulated depreciation	<u>20,388,535</u>	<u>21,620,027</u>
Total capital assets	<u>21,011,530</u>	<u>22,115,388</u>
Other assets:		
Bond issuance costs, net of accumulated amortization of \$548,226 and \$502,269	830,479	876,436
Cash and cash equivalents, restricted	2,459	2,393,852
Investments, restricted	<u>3,376,566</u>	<u>3,415,678</u>
Total other assets	<u>4,209,504</u>	<u>6,685,966</u>
Total noncurrent assets	<u>25,221,034</u>	<u>28,801,354</u>
Total assets	<u>31,796,430</u>	<u>32,600,728</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	62,842	62,585
Accrued expenses	230,945	233,810
Accrued interest payable	872,100	881,400
Current portion, bonds payable	400,000	310,000
Unearned revenue	<u>32,650</u>	<u>62,582</u>
Total current liabilities	<u>1,598,537</u>	<u>1,550,377</u>
<b>NONCURRENT LIABILITIES</b>		
Long term debt		
Series 2000 bonds payable, less current maturity	<u>28,670,000</u>	<u>29,070,000</u>
Total liabilities	<u>30,268,537</u>	<u>30,620,377</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	(4,375,973)	(3,481,676)
Restricted for:		
Capital acquisition	3,884,453	3,157,895
Operations	826,933	1,166,675
Unrestricted	<u>1,192,480</u>	<u>1,137,457</u>
Total net assets	<u>\$ 1,527,893</u>	<u>\$ 1,980,351</u>

The accompanying notes are an integral part of these financial statements.

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Years Ended June 30,

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net charges for services	\$ 5,785,728	\$ 5,252,671
Charges for septage	425,095	500,324
Sales of recharge credits	178,676	139,385
Miscellaneous	204,643	236,669
Total operating revenues	<u>6,594,142</u>	<u>6,129,049</u>
Operating expenses:		
Payroll and payroll related	2,284,174	2,310,810
Repairs and maintenance - treatment facility	308,866	325,013
Repairs and maintenance - other	16,690	10,283
Supplies and services - treatment facility	357,845	330,145
Accounting	14,900	14,900
Consulting	41,698	22,893
Administrative	277,362	222,417
Insurance	75,234	74,546
Legal	66,978	162,865
Depreciation and amortization	1,857,813	1,777,863
Miscellaneous	511	383
Total operating expenses	<u>5,302,071</u>	<u>5,252,118</u>
Operating income	1,292,071	876,931
Nonoperating revenues and (expenses):		
Interest income	6,944	10,180
Gain/(loss) on equipment disposed	5,677	(5,207)
Trust and cash management fees	(8,000)	(8,000)
Interest expense	(1,749,150)	(1,767,000)
Total nonoperating revenues and (expenses)	<u>(1,744,529)</u>	<u>(1,770,027)</u>
Decrease in net assets	(452,458)	(893,096)
Total net assets, July 1	<u>1,980,351</u>	<u>2,873,447</u>
Total net assets, June 30	<u><u>\$ 1,527,893</u></u>	<u><u>\$ 1,980,351</u></u>

The accompanying notes are an integral part of these financial statements.

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF CASH FLOWS

Years Ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 6,262,936	\$ 5,842,167
Other operating receipts	217,264	246,849
Cash payments to suppliers for goods and services	(1,205,482)	(1,187,535)
Cash payments to employees for services	<u>(2,287,039)</u>	<u>(2,322,772)</u>
Net cash provided by operating activities	2,987,679	2,578,709
Cash flows from capital and related financing activities:		
Acquisition of structures, sewer improvements and equipment	(707,998)	(728,882)
Principal payments on bonds payable	(310,000)	(250,000)
Bond interest paid	<u>(1,758,450)</u>	<u>(1,774,500)</u>
Net cash used by capital and related financing activities	(2,776,448)	(2,753,382)
Cash flows from investing activities		
Purchase of securities	(3,376,566)	(5,777,678)
Proceeds from matured securities	<u>3,415,678</u>	<u>8,164,745</u>
Net cash provided by investing activities	39,112	2,387,067
Net increase in cash	250,343	2,212,394
Cash and cash equivalents, beginning of year	<u>5,301,695</u>	<u>3,089,301</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,552,038</u></u>	<u><u>\$ 5,301,695</u></u>
Cash and cash equivalents at June 30, 2012 and 2011 consist of:		
Unrestricted cash and cash equivalents	\$ 534,721	\$ 609,865
Restricted cash and cash equivalents, current	5,014,858	2,297,978
Restricted cash and cash equivalents, noncurrent	<u>2,459</u>	<u>2,393,852</u>
Total	<u><u>\$ 5,552,038</u></u>	<u><u>\$ 5,301,695</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,292,071	\$ 876,931
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,857,813	1,777,863
Interest income, net of trust and cash management fees	(1,056)	2,180
Gain on equipment disposed	5,677	-
Changes in assets and liabilities:		
Accounts receivable - sewage	16,003	(35,523)
Accounts receivable - other	(112,634)	(3,305)
Inventory	(6,206)	4,894
Prepaid expenses	(31,449)	9,305
Accounts payable	257	(30,289)
Accrued expenses	(2,865)	(11,962)
Unearned revenue	<u>(29,932)</u>	<u>(11,385)</u>
Net cash provided by operating activities	<u><u>\$ 2,987,679</u></u>	<u><u>\$ 2,578,709</u></u>

The accompanying notes are an integral part of these financial statements.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Superstition Mountains Community Facilities District No. 1 (the District) is a public utility, formed under the laws of the State of Arizona on July 7, 1992. The District was formed to finance, construct, own and operate a wastewater treatment plant and collection system (the Project) to serve as the central sewer system for a portion of the City of Apache Junction, Arizona.

The accounting policies of the District conform to U.S. generally accepted accounting principles as applicable to proprietary funds of governmental units. The more significant accounting policies of the District follow:

Description of Fund: A Fund is described as an independent fiscal and accounting entity with a self-balancing set of accounts used to record assets, related liabilities, reserves and equities which are segregated for the purpose of carrying on activities of the reporting entity.

Proprietary (Enterprise) Fund: This fund type is used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Pronouncements of GASB and FASB: Government Accounting Standards Board (GASB) Statement No. 20 states that Financial Accounting Standards Board (FASB) and its predecessor body pronouncements issued before November 30, 1989, continue to be applicable to Enterprise Funds unless they conflict with or contradict GASB guidance.

Enterprise Funds may take either of the following approaches to FASB guidance issued subsequent to November 30, 1989:

1. An entity may elect to continue to follow FASB guidance that does not conflict with or contradict GASB guidance. If this election is made, it must be followed consistently. It would not be appropriate to follow some FASB pronouncements, issued subsequent to the cutoff date, but not others.
2. An entity may elect not to subject itself to FASB guidance issued subsequent to the cutoff date. In that case, even FASB amendments of guidance issued prior to the cutoff date would not be applicable to proprietary operations.

Superstition Mountains Community Facilities District No. 1 has elected to subject itself to FASB guidance issued subsequent to November 30, 1989.

Basis of Presentation: The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes income when earned and expenses when incurred.

Net Asset Classification: Net assets are reported as restricted when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash and short term investments with an initial maturity of three months or less.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Accounts: The District provides an allowance for doubtful accounts equal to the estimated uncollectible portion. This estimate is based on historical collection experience and a review of the current status of accounts receivable.

Inventory: Inventory is stated at purchased cost (which approximates market). Inventory on hand at year-end is determined using the first-in, first-out method.

Capital Assets: Capital assets are stated at cost, which is allocated to current and future periods through depreciation. Capital asset expenditures are considered for capitalization when unit costs exceed \$5,000. Capitalized sewer improvement costs represent expenditures for the design and construction of the Project, along with capitalized interest. Depreciation and amortization are computed using the straight-line method based on economic lives of the assets as follows:

Equipment	3 to 10 years
Structures and sewer improvements	10 to 30 years

Contributed Capital Assets: The District receives contributed capital assets in the form of sewer lines built and connected by developers of new residential and business properties in Apache Junction. The contributions are made in lieu of the developers paying the District to build the lines with District personnel. The District may also receive contributed capital assets in the form of easements granted by property owners in lieu of paying connection or other fees to the District.

Bond Issuance Costs: Bond issuance costs are deferred and amortized using the straight-line method over the 30 year term of the bonds.

Investments: Investments are purchased with the intent to hold to maturity and are stated at amortized cost.

Income Taxes: The District is exempt from income taxes as a public utility.

Operating and Nonoperating Revenues and Expenses: Operating revenues include all income derived from the operation of the sewer system or water treatment facility net of uncollectible amounts. Operating expenses include all costs incurred to support the operation of the sewer system and water treatment facility, including repair and maintenance expenses, administrative expenses and depreciation on capital assets.

Nonoperating revenues include income realized from contributed capital assets, proceeds received from mediation and litigation settlements, gains realized from the disposal of capital assets and earned interest. Nonoperating expenses include interest expense, cash management fees and losses realized from the disposal or abandonment of capital assets.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications were made to the 2011 financial statement presentation in order to conform to the 2012 presentation.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events: Subsequent events have been evaluated through November 13, 2012 which was the date the District's financial statements were issued.

NOTE 2 – RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Restricted cash, cash equivalents and investments consist of amounts established relative to the District's Trust Indenture with Bank One Trust Company (now the Bank of New York Mellon Global Corporate Trust), as amended. The Trust Indenture authorizes the District to invest in government obligations; repurchase agreements that are fully collateralized by government obligations; interest earning investments such as certificates of deposit or other time deposits which are fully insured by the Federal Deposit Insurance Corporation (FDIC) or similar federal agency; shares in any investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and whose only investments are government obligations; any other investment agreement, guaranteed investment contract or similar debt obligation permitted by law which meets specified credit risk criteria; and investments in the Arizona State Treasurer's Local Government Investment Pool as long as investments are comprised of government obligations. The District has not adopted a formal investment policy.

Restricted Cash and Cash Equivalents

Cash and cash equivalents, consisting of deposits in the JP Morgan 100% US Treasury Securities Money Market Fund and Insured Network Deposits, are allocated as follows at June 30,

	2012	2011
Principal fund	\$ 170,002	\$ 161,798
Interest fund	872,112	938,050
Revenue fund	-	31,317
Debt service reserve fund	1,614	13,397
Operations reserve fund	874,639	389,373
Capital improvement fund	578,806	563,628
Replacement reserve fund	151,559	218,408
Land purchase fund	2,368,585	2,375,859
Total restricted cash and cash equivalents	<u>\$ 5,017,317</u>	<u>\$ 4,691,830</u>

Restricted Investments

Restricted investments, consisting of amounts invested in US Treasury Notes purchased with a remaining maturity of less than one year, are stated at amortized cost which approximates fair value and are allocated as follows at June 30,

	2012	2011
Debt service reserve fund	2,638,769	2,669,691
Operations reserve fund	737,797	745,987
Total restricted investments	<u>\$ 3,376,566</u>	<u>\$ 3,415,678</u>

Investments on hand at June 30, 2012 mature on December 31, 2012.



Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 3 – CONCENTRATION OF CREDIT RISK

The District maintains its cash balances with financial institutions located in Phoenix, Arizona. At June 30, 2012 and 2011, all amounts held were fully insured by the FDIC.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
<u>Nondepreciable assets:</u>				
Land	\$ 220,925	\$ -	\$ -	\$ 220,925
Easements	92,438	36	-	92,474
Construction in process	181,998	178,853	(51,255)	309,596
<u>Depreciable assets:</u>				
Treatment plant	14,615,729	184,942	(99,208)	14,701,463
Collection system	22,209,705	136,610	(220)	22,346,095
Equipment	2,702,580	294,758	(128,183)	2,869,155
Buildings & grounds	621,960	23,240	-	645,200
Rights of way	18,392	-	-	18,392
Other intangible assets	-	50,241	-	50,241
Total assets	40,663,727	868,680	(278,866)	41,253,541
<u>Accumulated depreciation:</u>				
Treatment plant	(6,555,983)	(654,013)	26,873	(7,183,123)
Collection system	(10,088,016)	(742,169)	-	(10,830,185)
Equipment	(1,778,533)	(365,263)	118,186	(2,025,610)
Buildings & grounds	(115,415)	(75,465)	-	(190,880)
Rights of way	(10,392)	(844)	-	(11,236)
Other intangible assets	-	(977)	-	(977)
Total accumulated depreciation	(18,548,339)	(1,838,731)	145,059	(20,242,011)
Net capital assets	\$ 22,115,388	\$ (970,051)	\$ (133,807)	\$ 21,011,530

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 5 – LONG TERM DEBT

The District's long term debt consists of a single bond obligation, the Series 2000 sewer revenue bond, held by a single bond holder, Allstate Insurance Company. All revenues of the District are assigned and used as security for the bond.

The Series 2000 sewer revenue bond, with a stated interest rate of 6%, was issued on August 1, 2000 in place of the previously issued Series 1994 and Series 1995 sewer revenue bonds. The bond obligation has two phases over its 30 year term. In the first phase, which began August 1, 2000 and ended January 1, 2005, the bond was considered to be a capital appreciation bond. During this phase, the terms of the bond required that the District make partial interest payments with the remaining accrued interest added to the outstanding bond balance. The accreted interest increased the face amount of the bond from \$26,812,088 to \$30,767,000 at January 1, 2005, prior to the application of the sinking fund amount. In the second phase, which began January 1, 2005 and continues through July 1, 2030, the bond is considered to be a current interest obligation with principal and interest payments due and payable each January 1 and July 1.

The following is a summary of changes in long term debt for the year ended June 30, 2012:

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012
Series 2000 bonds				
Current portion	\$ 310,000	\$ 400,000	\$ 310,000	\$ 400,000
Noncurrent portion	29,070,000	-	400,000	28,670,000
Total bonds payable	<u>\$ 29,380,000</u>	<u>\$ 400,000</u>	<u>\$ 710,000</u>	<u>\$ 29,070,000</u>

Maturities of the sewer revenue bond, including interest payments, are as follows for June 30,

	Principal	Interest	Total
2013	\$ 400,000	\$ 1,739,100	\$ 2,139,100
2014	520,000	1,713,150	2,233,150
2015	530,000	1,680,150	2,210,150
2016	635,000	1,649,850	2,284,850
2017	815,000	1,607,100	2,422,100
2018 - 2022	6,140,000	7,116,750	13,256,750
2023 - 2027	10,805,000	4,680,450	15,485,450
2028 - 2031	9,225,000	1,231,200	10,456,200
Total	<u>\$ 29,070,000</u>	<u>\$ 21,417,750</u>	<u>\$ 50,487,750</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 6 – RETIREMENT PLAN

Plan Description

The District contributes to the Arizona State Retirement System (ASRS) which administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the District. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long term disability, survivor and health insurance premium benefits.

The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling:

ASRS  
3300 N. Central Ave.  
PO Box 33910  
Phoenix, AZ 85067-3910  
Phone (602) 240-2000 or (800) 621-3778

Funding Policy

The Arizona State Legislature establishes and may amend contribution rates and employer matches for active plan members and employers.

For the ASRS year ended June 30, 2012, active ASRS members and employers were each required by statute to contribute at the actuarially determined rate of 10.74% (10.50% retirement and .24% long term disability) of the members' annual covered payroll. Rates for the years ended June 30, 2011 and 2010 were 9.85% (9.60% retirement and .25% long term disability) and 9.40% (9.00% retirement and .40% long term disability) respectively. The District's contributions to ASRS for the years ended June 30, 2012, 2011 and 2010 were \$181,788, \$159,259 and \$153,482 respectively, which equaled the required contributions for each year.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of business, the District is subject to various legal actions and claims, including those related to employment matters. Although the outcome of such legal proceedings cannot be predicted with certainty, the District believes is adequately insured and adequately reserved for such matters.

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**STATISTICAL SECTION**



# Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

## **STATISTICAL SECTION**

This part of the Superstition Mountains Community Facilities District No. 1 comprehensive annual financial report presents detailed information as a context for understanding what the information in the statements, note disclosures and required supplementary information says about the District's financial health.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b>	23
These schedules contain trend information to assist the reader in understanding how the District's financial performance and well-being has changed over time.	
<b>Revenue Capacity</b>	25
These schedules contain information to assist the reader in assessing the District's most significant revenue source, sewer fees.	
<b>Debt Capacity</b>	29
These schedules present information to assist the reader in assessing the affordability of the District's current level of outstanding debt.	
<b>Demographic and Economic Information</b>	31
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.	
<b>Operating Information</b>	33
These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services that the District provides and the activities that it performs.	

**Schedule A-1  
 Superstition Mountains Community Facilities District No. 1  
 Net Assets by Component  
 Last Ten Fiscal Years**

	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009 <sup>1</sup>	2010	2011	2012
Net assets:										
Invested in capital assets, net of related debt							\$ (1,802,439)	\$ (2,752,352)	\$ (3,481,676)	\$ (4,375,973)
Restricted:										
Debt service	\$ 1,390,000	\$ 1,660,000	\$ 1,825,820	\$ 1,803,870	\$ 1,788,420	\$ 1,820,420				
Capital acquisition							3,469,944	3,488,216	3,157,895	3,884,453
Operations							809,050	1,148,971	1,166,675	826,933
Unrestricted	<u>553,271</u>	<u>291,145</u>	<u>387,516</u>	<u>1,814,207</u>	<u>3,104,598</u>	<u>3,056,311</u>	<u>1,378,878</u>	<u>988,612</u>	<u>1,137,457</u>	<u>1,192,480</u>
Total net assets	<u><u>\$ 1,943,271</u></u>	<u><u>\$ 1,951,145</u></u>	<u><u>\$ 2,213,336</u></u>	<u><u>\$ 3,618,077</u></u>	<u><u>\$ 4,893,018</u></u>	<u><u>\$ 4,876,731</u></u>	<u><u>\$ 3,855,433</u></u>	<u><u>\$ 2,873,447</u></u>	<u><u>\$ 1,980,351</u></u>	<u><u>\$ 1,527,893</u></u>

<sup>1</sup> The District modified its presentation of Net Assets with the issuance of the comparative June 30, 2010 financial statements to conform with direction received from the AICPA. Prior years are stated as they were reported on the District's audited financial statements.

Source: Statements of Net Assets

**Schedule A-2**  
**Superstition Mountains Community Facilities District No. 1**  
**Changes in Net Assets**  
**Last Ten Fiscal Years**

	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating revenues:										
Charges for services	\$ 4,208,774	\$ 4,069,311	\$ 4,207,070	\$ 4,838,257	\$ 5,096,524	\$ 5,131,969	\$ 5,092,310	\$ 5,383,544	\$ 5,252,671	\$ 5,785,728
Charges for septage	311,502	374,238	386,691	382,572	404,169	388,145	411,627	421,608	500,324	425,095
Sales of recharge credits	-	-	27,882	74,717	135,201	154,364	158,326	110,210	139,385	178,676
Miscellaneous	83,253	73,292	76,978	63,057	73,723	122,621	203,750	171,994	236,669	204,643
Total operating revenue	<u>4,603,529</u>	<u>4,516,841</u>	<u>4,698,621</u>	<u>5,358,603</u>	<u>5,709,617</u>	<u>5,797,099</u>	<u>5,866,013</u>	<u>6,087,356</u>	<u>6,129,049</u>	<u>6,594,142</u>
Operating expenses:										
Payroll and payroll related	\$ 850,167	\$ 1,051,932	\$ 1,027,864	\$ 1,109,559	\$ 1,276,237	\$ 1,975,047	\$ 2,079,004	\$ 2,362,689	\$ 2,310,810	\$ 2,284,174
Repairs and maintenance - treatment facility	138,508	142,127	148,111	188,786	253,666	269,925	321,350	385,595	325,013	308,866
Repairs and maintenance - other	16,304	12,892	11,615	10,028	17,497	21,521	9,483	6,408	10,283	16,690
Supplies and services	184,219	230,696	227,838	291,449	315,232	338,507	315,627	346,623	330,145	357,845
Accounting	12,000	11,745	12,000	12,600	13,300	13,500	14,900	14,000	14,900	14,900
Consulting	54,822	24,550	59,716	51,436	37,672	43,924	154,309	14,903	22,893	41,698
Administrative	128,964	162,328	137,278	144,605	207,755	213,769	185,480	249,851	222,417	277,362
Insurance	57,287	75,025	88,107	88,961	85,082	84,451	79,525	71,563	74,546	75,234
Legal	23,178	32,097	63,804	72,429	93,545	97,645	96,575	63,810	162,865	66,978
Office rent	24,491	26,804	27,646	27,068	41,474	38,238	40,087	11,704	-	-
Depreciation and amortization	1,182,926	1,276,820	1,311,246	1,341,256	1,416,855	1,581,271	1,726,690	1,743,773	1,777,863	1,857,813
Miscellaneous	2,120	6,018	383	110	189	3,235	21,000	504	383	511
Total operating expenses	<u>2,674,986</u>	<u>3,053,034</u>	<u>3,115,608</u>	<u>3,338,287</u>	<u>3,758,504</u>	<u>4,681,033</u>	<u>5,044,030</u>	<u>5,271,423</u>	<u>5,252,118</u>	<u>5,302,071</u>
Operating income	1,928,543	1,463,807	1,583,013	2,020,316	1,951,113	1,116,066	821,983	815,933	876,931	1,292,071
Nonoperating revenues and (expenses):										
Contributed capital assets	\$ 44,234	\$ 55,006	\$ 46,163	\$ 786,827	\$ 156,680	\$ 235,902	\$ -	\$ -	\$ -	\$ -
Mediation and litigation settlement	392,326	268,226	334,190	139,074	586,184	184,152	-	-	-	-
Interest income	50,590	45,081	110,390	273,306	397,785	263,587	52,658	3,598	10,180	6,944
Equipment scrapped or abandoned	50	(26,771)	29	(1,862)	-	-	(91,045)	(12,417)	(5,207)	5,677
Trust and cash management fees	(35,141)	(17,850)	(19,750)	(23,150)	(28,401)	(27,574)	(17,434)	(8,000)	(8,000)	(8,000)
Interest expense	(1,752,891)	(1,779,625)	(1,791,844)	(1,789,770)	(1,788,420)	(1,788,420)	(1,787,460)	(1,781,100)	(1,767,000)	(1,749,150)
Total nonoperating revenue and (expense)	<u>(1,300,832)</u>	<u>(1,455,933)</u>	<u>(1,320,822)</u>	<u>(615,575)</u>	<u>(676,172)</u>	<u>(1,132,353)</u>	<u>(1,843,281)</u>	<u>(1,797,919)</u>	<u>(1,770,027)</u>	<u>(1,744,529)</u>
Change in net assets	<u>\$ 627,711</u>	<u>\$ 7,874</u>	<u>\$ 262,191</u>	<u>\$ 1,404,741</u>	<u>\$ 1,274,941</u>	<u>\$ (16,287)</u>	<u>\$ (1,021,298)</u>	<u>\$ (981,986)</u>	<u>\$ (893,096)</u>	<u>\$ (452,458)</u>

Source: Statements of Revenues, Expenses and Changes in Fund Net Assets



**Schedule B-1  
 Superstition Mountains Community Facilities District No. 1  
 Ten Largest Customers <sup>1</sup>  
 Current Year and Nine Years Ago**

<u>Customer Name</u> <sup>2</sup>	<u>Year Ended June 30, 2012</u>		<u>Year Ended June 30, 2003</u>	
	<u>Sales</u>	<u>Percentage of Sales</u>	<u>Sales</u>	<u>Percentage of Sales</u>
Coopers Sewer & Drain Inc	\$ 276,720	4.67%	\$ 167,693	4.63%
Golden Vista RV	153,705	2.59%	109,628	3.03%
Roadhaven Resort	123,500	2.08%		
Superstition Falls Resort LLC	123,135	2.08%		
Apache Junction Water Company	117,364	1.98%		
Rancho Mirage MHP	108,976	1.84%		
Desert Harbor	84,191	1.42%		
Leesburg Group/Rock Shadows	78,528	1.33%	54,871	1.51%
RC Roberts / Sunrise RV Park	78,418	1.32%	50,382	1.39%
La Casa Blanca	76,792	1.30%	42,915	1.18%
Indian Wells Apartments			48,724	1.35%
AJUSD High School			75,719	2.09%
Windsong Associates			43,912	1.21%
AJ Health Center			43,562	1.20%
Frys Food Stores of AZ			44,678	1.23%
Subtotal of ten largest customers	1,221,329	20.62%	682,084	18.83%
Balance from other customers	4,703,001	79.38%	2,939,975	81.17%
Total sewer, septage & recharge credit revenue	<u>\$ 5,924,331</u>	<u>100.00%</u>	<u>\$ 3,622,059</u>	<u>100.00%</u>

<sup>1</sup> Excludes revenues from application, connection and onsite fees

<sup>2</sup> A customer is listed only if in the top ten for the year presented. A customer listed in one table but not the other may, or may not have been, in business as a lower ranked customer during the comparative year.

Source: District Billing Records

**Schedule B-2**  
**Superstition Mountains Community Facilities District No. 1**  
**Permits Issued, Active Accounts and Connected Units**  
**Last Ten Fiscal Years**

Service Class	PERMITS ISSUED									
	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Single Family	194	176	90	179	210	80	15	125	63	151
Multi Family	5	9	73	18	6	8	7	18	0	1
RV & Mobile Home Parks	5	15	135	414	58	9	15	12	1	3
All Other	8	8	11	14	5	17	9	10	3	7
Total permits	212	208	309	625	279	114	46	165	67	162
% Change <sup>2</sup>	-66.51%	-1.89%	48.56%	102.27%	-55.36%	-59.14%	-59.65%	258.70%	-59.39%	141.79%

Service Class	ACTIVE ACCOUNTS									
	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009 <sup>3</sup>	2010	2011	2012
Single Family	4,770	5,011	5,095	5,218	5,449	5,605	5,593	5,697	5,753	5,898
Multi Family	102	104	110	112	112	115	114	114	113	112
Undeveloped Land	82	75	73	71	71	70	65	57	53	52
RV Parks	26	25	25	25	25	25	25	25	25	25
Mobile Home Parks	24	24	24	24	25	26	26	26	26	27
Church/Government	27	31	33	34	36	36	37	40	40	41
Light Commercial	85	90	94	105	108	116	115	120	119	122
Medium Commercial	42	43	44	44	47	50	53	56	55	55
Heavy Commercial	6	6	6	6	6	6	6	5	5	5
Industrial	0	0	0	0	0	0	0	0	0	0
Total accounts	5,164	5,409	5,504	5,639	5,879	6,049	6,034	6,140	6,189	6,337
% Change <sup>2</sup>	4.70%	4.74%	1.76%	2.45%	4.26%	2.89%	-0.25%	1.76%	0.80%	2.39%

Service Class	ACTIVE UNITS									
	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Single Family	4,770	5,011	5,096	5,220	5,452	5,609	5,595	5,700	5,757	5,903
Multi Family	949	958	1,060	1,069	1,073	1,085	1,085	1,075	1,059	1,057
Undeveloped Land <sup>1</sup>	390	371	352	337	337	326	310	251	246	244
RV Parks	3,600	3,700	3,700	4,764	4,764	4,764	4,754	4,774	4,774	4,774
Mobile Home Parks	1,682	1,702	1,761	2,235	2,299	2,308	2,317	2,332	2,333	2,331
All other	160	170	177	189	197	208	211	221	219	223
Total units	11,551	11,912	12,146	13,814	14,122	14,300	14,272	14,353	14,388	14,532
% Change <sup>2</sup>	3.64%	3.13%	1.96%	13.73%	2.23%	1.26%	-0.20%	0.57%	0.24%	1.00%

<sup>1</sup> Number of acres

<sup>2</sup> From prior year

<sup>3</sup> Decrease in select customer classes resulted from removal of properties that had petitioned into the the District at the time of formation but never completed physical connection.

Source: Permits Issued - Engineering Records; Active Accounts and Connected Units - Monthly Disclosure Reports

**Schedule B-3  
Superstition Mountains Community Facilities District No. 1  
Select Revenues by Service Class  
Last Ten Fiscal Years**

<b>SEWER SERVICE REVENUE</b>										
<b>Fiscal Year Ended June 30,</b>										
<b>Service Class</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Single Family	\$ 1,653,399	\$ 1,795,693	\$ 1,875,821	\$ 1,952,476	\$ 2,074,625	\$ 2,220,534	\$ 2,313,242	\$ 2,399,104	\$ 2,521,379	\$ 2,642,038
Multi Family	240,277	269,983	285,869	322,942	338,997	352,639	366,130	377,405	386,704	395,086
Undeveloped Land	31,694	31,323	26,690	29,934	30,038	30,809	29,607	25,882	25,469	25,766
RV Parks	355,430	372,279	390,859	494,772	555,560	587,430	563,613	566,921	592,440	642,475
Mobile Home Parks	340,080	368,411	363,340	477,365	586,634	632,668	686,851	677,142	698,343	747,093
Church/Government	177,963	279,421	258,275	248,851	220,646	225,735	244,957	246,273	128,212	154,087
Light Commercial	150,449	159,838	173,416	206,543	243,334	241,976	256,762	282,828	251,604	280,443
Medium Commercial	221,545	223,319	228,913	273,502	303,170	317,278	339,987	290,330	315,615	302,624
Heavy Commercial	139,718	139,031	148,033	165,491	180,657	182,346	167,378	174,066	127,189	130,947
Industrial	0	0	0	0	0	0	0	0	0	0
<b>Total sewer service revenue</b>	<b>\$ 3,310,555</b>	<b>\$ 3,639,298</b>	<b>\$ 3,751,216</b>	<b>\$ 4,171,876</b>	<b>\$ 4,533,661</b>	<b>\$ 4,791,415</b>	<b>\$ 4,968,527</b>	<b>\$ 5,039,951</b>	<b>\$ 5,046,955</b>	<b>\$ 5,320,559</b>

<b>CONNECTION FEE REVENUE</b>										
<b>Fiscal Year Ended June 30,</b>										
<b>Service Class</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Single Family	\$ 417,478	\$ 261,531	\$ 199,778	\$ 277,307	\$ 361,200	\$ 166,514	\$ 25,650	\$ 193,183	\$ 116,750	\$ 305,065
Multi Family	208,400	45,986	77,882	36,129	6,300	17,303	9,400	0	0	10,360
RV and Mobile Home Parks	129,543	6,773	28,980	149,040	20,240	10,205	11,465	10,100	1,580	8,440
All Other	35,748	36,926	34,736	54,180	31,715	90,239	52,339	36,887	16,402	65,059
<b>Total connection fee revenue</b>	<b>\$ 791,169</b>	<b>\$ 351,216</b>	<b>\$ 341,376</b>	<b>\$ 516,656</b>	<b>\$ 419,455</b>	<b>\$ 284,261</b>	<b>\$ 98,854</b>	<b>\$ 240,170</b>	<b>\$ 134,732</b>	<b>\$ 388,924</b>

Source: Monthly Disclosure Reports

**Schedule B-4  
 Superstition Mountains Community Facilities District No. 1  
 Monthly Service Minimums, Usage Charges and Connection Fees by Service Class  
 Last Ten Fiscal Years**

Service Class	MONTHLY MINIMUMS									
	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Single Family	\$ 29.25	\$ 30.25	\$ 30.85	\$ 31.55	\$ 32.40	\$ 33.50	\$ 34.60	\$ 35.80	\$ 37.00	\$ 38.15
Multi Family <sup>1</sup>	23.07	23.75	24.25	25.70	26.40	27.30	28.20	29.20	30.20	31.15
Undeveloped Land <sup>2</sup>	6.76	6.96	7.10	7.25	7.45	7.70	7.95	8.25	8.55	8.80
RV Parks <sup>1</sup>	6.72	7.00	7.15	7.40	7.60	7.85	8.10	8.40	8.70	8.95
Mobile Home Parks <sup>1</sup>	11.66	12.00	12.25	16.25	16.70	17.25	17.80	18.40	19.00	19.60
Church/Government	29.25	30.25	30.85	31.55	32.40	33.50	34.60	35.80	37.00	38.15
Light Commercial	34.67	35.75	36.50	37.45	38.50	39.80	41.10	42.55	44.00	45.40
Medium Commercial	38.26	40.00	41.00	42.10	43.25	44.70	46.15	47.75	49.35	50.90
Heavy Commercial	43.89	45.25	46.25	46.80	48.10	49.75	51.35	53.15	54.95	56.70
Industrial	102.98	106.00	108.50	112.30	115.40	119.20	123.05	127.35	131.60	135.75

Service Class	USAGE CHARGES, per gallon <sup>3</sup>									
	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
RV Parks	\$ 0.183	\$ 0.188	\$ 0.192	\$ 0.213	\$ 0.219	\$ 0.226	\$ 0.234	\$ 0.242	\$ 0.250	\$ 0.258
Mobile Home Parks	0.183	0.188	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258
Church/Government	0.183	0.188	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258
Light Commercial	0.183	0.188	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258
Medium Commercial	0.202	0.208	0.212	0.240	0.246	0.254	0.263	0.271	0.280	0.289
Heavy Commercial	0.226	0.233	0.238	0.266	0.274	0.283	0.292	0.302	0.312	0.322
Industrial	0.546	0.562	0.573	0.639	0.657	0.678	0.700	0.724	0.748	0.771

Service Class	MINIMUM CONNECTION FEES									
	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Single Family	\$ 2,184	\$ 2,250	\$ 2,300	\$ 2,500	\$ 2,575	\$ 2,750	\$ 2,850	\$ 2,950	\$ 3,050	\$ 3,145
Multi Family <sup>1</sup>	1,092	1,125	1,150	2,040	2,100	2,250	2,350	2,430	2,510	2,590
RV Parks <sup>1</sup>	437	450	460	585	605	650	675	700	725	750
Mobile Home Parks <sup>1</sup>	437	450	460	1,290	1,330	1,425	1,480	1,530	1,580	1,630
Church/Government	2,184	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145
Light Commercial	2,184	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145
Medium Commercial	2,184	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145
Heavy Commercial	2,184	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145
Industrial	2,184	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145

<sup>1</sup> per unit

<sup>2</sup> per acre

<sup>3</sup> When connected to the sewer, the customer classes listed are charged a monthly fee that is the greater of the Monthly Minimum or the charge calculated using the prior 12 months water usage times a water use multiplier times the applicable rate.

Source: Approved Tariff Sheets

**Schedule C-1**  
**Superstition Mountains Community Facilities District No. 1**  
**Outstanding Debt Balances**  
**Last Ten Fiscal Years**

<b>Series 2000 Sewer Revenue Bond <sup>1</sup></b>					
<b>Fiscal Year Ended June 30</b>	<b>Beginning Balance</b>	<b>Accreted Interest</b>	<b>Principal Reductions <sup>2</sup></b>	<b>Ending Balance</b>	<b>Per Active Unit <sup>3</sup></b>
2003	29,528,350	62,891	-	29,591,241	2,562
2004	29,591,241	279,625	-	29,870,866	2,508
2005	29,870,866	-	(13,866)	29,857,000	2,458
2006	29,857,000	-	(35,000)	29,822,000	2,159
2007	29,822,000	-	(15,000)	29,807,000	2,111
2008	29,807,000	-	-	29,807,000	2,084
2009	29,807,000	-	(32,000)	29,775,000	2,086
2010	29,775,000	-	(145,000)	29,630,000	2,064
2011	29,630,000	-	(250,000)	29,380,000	2,022
2012	29,380,000	-	(310,000)	29,070,000	2,000

<sup>1</sup> See Note 5 to the Financial Statements for a complete description of the District's outstanding debt.

<sup>2</sup> Shows principal payments by fiscal year as made. Schedule C-2 shows principal payments as funded.

<sup>3</sup> Active unit information is substituted for per capita; per capita information is not available because the District's service area does not coincide with the City of Apache Junction.

Source: Series 2000 Sewer Revenue Bond Amortization Schedule

**Schedule C-2  
 Superstition Mountains Community Facilities District No. 1  
 Debt Service Requirements  
 Last Ten Fiscal Years**

Fiscal Year Ended June 30	Gross Revenues	Deductible Operating Expenses <sup>2</sup>	Net Revenues Available for Debt Service <sup>3</sup>	Debt Service Requirements <sup>1</sup>			Coverage Ratio	Required Coverage Ratio <sup>3</sup>
				Principal	Interest	Total		
2003	5,090,729	1,527,201	3,563,528	-	1,240,000	1,240,000	2.87	1.10
2004	4,885,154	1,820,835	3,064,319	-	1,500,000	1,500,000	2.04	1.10
2005	5,189,393	1,824,112	3,365,281	33,866	1,791,844	1,825,710	1.84	1.10
2006	6,557,810	2,022,043	4,535,767	30,000	1,789,770	1,819,770	2.49	1.10
2007	6,850,266	2,370,050	4,480,216	-	1,788,420	1,788,420	2.51	1.10
2008	6,480,740	2,982,877	3,497,863	-	1,788,420	1,788,420	1.96	1.10
2009	5,918,671	3,425,819	2,492,852	67,000	1,787,460	1,854,460	1.34	1.10
2010	6,090,954	3,548,067	2,542,887	220,000	1,781,100	2,001,100	1.27	1.10
2011	6,139,229	3,487,462	2,651,767	285,000	1,767,000	2,052,000	1.29	1.10
2012	6,601,086	3,446,581	3,154,505	335,000	1,749,150	2,084,150	1.51	1.10

<sup>1</sup> Includes debt service payments due on July 1 of subsequent fiscal year since payment will be paid from funds on hand as of June 30

<sup>2</sup> Operating expenses before depreciation, amortization and interest

<sup>3</sup> As defined in the Trust Indenture

Source: Statements of Revenues, Expenses and Changes in Fund Net Assets; Series 2000 Sewer Revenue Bond Amortization Schedule

**Schedule D-1  
 Superstition Mountains Community Facilities District No. 1  
 Demographic Statistics - City of Apache Junction  
 Last Ten Fiscal Years**

	<b>Population Year Round</b>	<b>Per Capita Personal Income</b>	<b>Per Capita Personal Income National Average</b>	<b>Unemployment Rates<sup>2</sup></b>
2003	34,400	20,620	32,295	4.9%
2004	35,117	21,519	33,909	4.2%
2005	34,070	22,999	35,452	3.9%
2006	35,685	24,122	37,725	3.4%
2007	37,538	25,895	39,506	3.1%
2008	37,917	21,330	40,947	5.0%
2009	37,864	20,271	38,637	8.7%
2010 <sup>1</sup>	35,840	23,865	39,791	8.3%
2011	37,246	22,170	41,560	13.3%
2012	43,308	23,618	unavailable	unavailable

**Source:** City of Apache Junction, Office of Economic Development

<sup>1</sup> Arizona Department of Administration, Office of Employment and Population Statistics

<sup>2</sup> Arizona Department of Administration, Office of Employment and Population Statistics, Local Area Unemployment Statistics (LAUS) Data

**Schedule D-2**  
**Superstition Mountains Community Facilities District No. 1**  
**Principal Employers in the City of Apache Junction**  
**Current Year and Nine Years Ago**

	<u>Year ended June 30, 2012</u>		<u>Year ended June 30, 2003</u>	
	<u>Full Time Equivalent Employees</u>	<u>Percentage of Total City Employment</u>	<u>Full Time Equivalent Employees</u>	<u>Percentage of Total City Employment</u>
<b><u>Employer</u></b>				
Apache Junction Unified School District #43	630	7.36%	610	5.32%
Wal-Mart Supercenter Store # 1831	340	3.97%	620	5.41%
Mountain Health & Wellness*	250	2.92%	122	1.06%
City of Apache Junction	250	2.92%	241	2.10%
Fry's Food and Drug	153	1.79%	130	1.13%
Apache Junction Medical Center	110	1.28%	115	1.00%
Apache Junction Fire District	89	1.04%	73	0.64%
Empire Southwest	69	0.81%		
United States Postal Service	68	0.79%	107	0.93%
Central Arizona College - Superstition Mtn	38	0.44%		
Earnhardt Ford			150	1.31%
Safeway Stores			125	1.09%
Total	<u>1,997</u>	<u>23.32%</u>	<u>2,293</u>	<u>20.01%</u>

**Source:** City of Apache Junction, Office of Economic Development

\* Formerly Superstition Mountain Mental Health Center



**Schedule E-1  
 Superstition Mountains Community Facilities District No. 1  
 Budgeted Full Time Equivalent Employees by Function  
 Last Ten Fiscal Years**

Division	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Administrative Division</b>										
District Manager	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
District Administration	1.00	1.00	1.00	1.00	1.00	3.00	3.00	3.00	3.00	3.00
Finance	2.00	2.00	2.00	2.00	2.00	3.00	3.25	3.60	3.60	3.60
Engineering	-	-	-	-	1.00	2.00	2.00	2.00	2.00	2.00
Customer Service	3.00	2.00	2.00	3.25	4.75	4.00	3.75	4.00	4.00	4.00
<b>Total Administrative Division</b>	<b>7.00</b>	<b>6.00</b>	<b>6.00</b>	<b>7.25</b>	<b>9.75</b>	<b>13.00</b>	<b>13.00</b>	<b>13.60</b>	<b>13.60</b>	<b>13.60</b>
<b>Operations Division</b>										
Manager of Operations	-	-	-	-	1.00	1.00	1.00	-	-	-
Operations Administration	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00
Treatment Plant	6.00	6.00	6.00	8.00	8.00	8.00	8.00	8.00	8.00	7.00
Collection System	3.00	4.00	4.00	5.00	5.00	7.00	7.00	6.00	6.00	6.00
<b>Total Operations Division</b>	<b>10.00</b>	<b>11.00</b>	<b>11.00</b>	<b>14.00</b>	<b>15.00</b>	<b>18.00</b>	<b>18.00</b>	<b>16.00</b>	<b>16.00</b>	<b>15.00</b>
<b>Total</b>	<b>17.00</b>	<b>17.00</b>	<b>17.00</b>	<b>21.25</b>	<b>24.75</b>	<b>31.00</b>	<b>31.00</b>	<b>29.60</b>	<b>29.60</b>	<b>28.60</b>

Source: District Budgetary Records

**Schedule E-2  
Superstition Mountains Community Facilities District No. 1  
Operating and Capital Indicators  
Last Ten Fiscal Years**

	Fiscal Year Ended June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Collection System</b>										
Miles of Collection Mains <12" dia.	86.8	87.2	87.7	88.1	92.0	93.0	93.0	93.2	93.9	94.5
Miles of Collection Mains >12" dia.	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Customer Connections	4,863	5,128	5,252	5,398	5,658	5,848	5,858	6,007	6,051	6,200
<b>Pumping</b>										
Pump Stations	1	1	1	1	1	1	1	1	1	1
Miles of Pressure Forcemain	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
<b>Treatment</b>										
Water Reclamation Facilities	1	1	1	1	1	1	1	1	1	1
Permitted Capacity, MGD <sup>1</sup>	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14
Annual Average Daily Flow, MGD <sup>1</sup>	1.13	1.19	1.23	1.31	1.36	1.40	1.43	1.41	1.38	1.38
% of Total Permitted Capacity	52.8%	55.6%	57.5%	61.2%	63.6%	65.4%	66.8%	65.9%	64.5%	64.5%
Population Served (75 gpd/pop. eq.) <sup>2</sup>	15,067	15,867	16,400	17,467	18,133	18,667	19,067	18,800	18,400	18,400
<b>Effluent Disposal</b>										
Effluent Recharge Basin Surface Acres	0	1.6	1.6	1.6	4.4	4.4	4.4	4.4	4.4	5.0
Effluent Recharge Vadose Zone Wells	0	6	6	6	20	20	20	20	20	32

<sup>1</sup> Million Gallons per Day

<sup>2</sup> Wastewater Engineering Treatment and Reuse, Fourth Edition, by Metcalf & Eddy, Inc.

Source: District Operational Records