

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

Comprehensive Annual

Financial Report

for the fiscal years ended June 30, 2013 and 2012



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**2013 COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

for the fiscal years ended June 30, 2013 and 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

2013 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

TABLE OF CONTENTS

<u>INTRODUCTORY SECTION</u>	<u>Schedule</u>	<u>Page</u>
Table of Contents		i
District Officials		iv
Organizational Chart		v
Certificate of Achievement Award		vi
Letter of Transmittal		vii
<u>FINANCIAL SECTION</u>		
Independent Auditors' Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statements of Net Position		12
Statements of Revenues, Expenses, and Changes in Net Position		13
Statements of Cash Flows		14
Notes to Financial Statements		15
<u>STATISTICAL SECTION</u>		
Financial Trends		
Net Position by Component, Last Ten Fiscal Years	A-1	25
Changes in Net Position, Last Ten Fiscal Years	A-2	26

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2013 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

TABLE OF CONTENTS (continued)

	<u>Schedule</u>	<u>Page</u>
Revenue Capacity		
Ten Largest Customers, Current Year and Nine Years Ago	B-1	27
Permits Issued, Active Accounts, and Connected Units, Last Ten Fiscal Years	B-2	28
Select Revenues by Service Class, Last Ten Fiscal Years	B-3	29
Monthly Service Minimums, Usage Charges, and Connection Fees by Service Class, Last Ten Fiscal Years	B-4	30
Debt Capacity		
Outstanding Debt Balances, Last Ten Fiscal Years	C-1	31
Debt Service Requirements, Last Ten Fiscal Years	C-2	32
Demographic and Economic Information		
Demographic Statistics – City of Apache Junction, Last Ten Fiscal Years	D-1	33
Principal Employers in the City of Apache Junction, Current Year and Nine Years Ago	D-2	34
Operating Information		
Budgeted Full Time Equivalent Employees by Function, Last Ten Fiscal Years	E-1	35
Operating and Capital Indicators, Last Ten Fiscal Years	E-2	36

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

INTRODUCTORY SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

District Officials



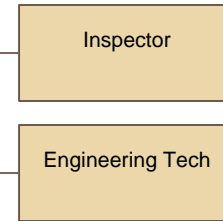
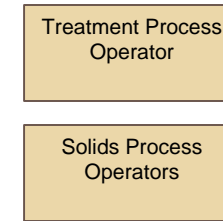
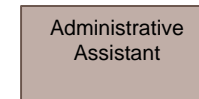
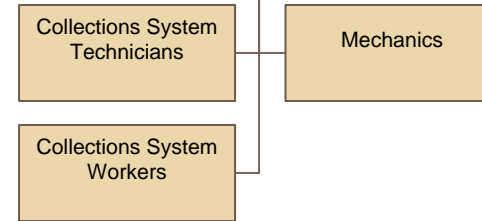
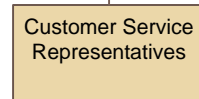
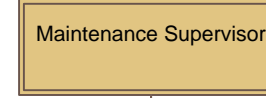
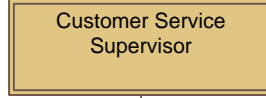
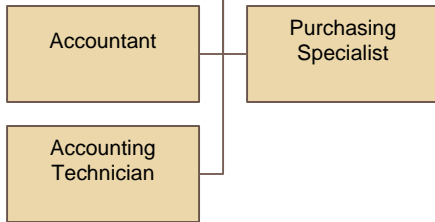
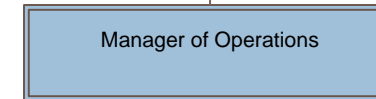
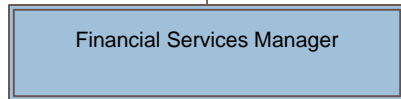
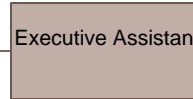
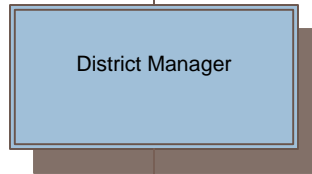
Board of Directors

Kathleen Waldron	Chairman
Patricia Richmond	Vice-Chairman
Steven McDaniel	Secretary
Anthony Bowler	Treasurer

District Financial Management

Edward J. Grabek	District Manager
Darron Anglin	Manager of Operations
Susan A. Sopko	Financial Services Manager

Superstition Mountains Community Facilities District No. 1 Organizational Chart



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Government Finance Officers Association

**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, 2012

Executive Director/CEO



SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1

**5661 S. Ironwood Drive
Apache Junction - Arizona 85120**

November 21, 2013

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, 2013. This is the fourth 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 Bond Resolution with Alliance Bank of Arizona, dated March 27, 2013, 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, 2013 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 unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2013 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 2013 did not improve much from the previous year and the economy remained slow, but stable. Within the District's service area, the upheaval caused by the last recession had passed. In late 2008, at the height of the last recession, over 200 properties, representing 3.6% of the District's residential customer base, had been disconnected for non-payment of monthly service fees. Over the course of fiscal year 2013, the number of disconnected properties returned to the pre-recession normal and has since been holding steady at approximately 0.7% of the total customer base. Taking the nation as a whole, there was a slight drop in the unemployment rate over the year but not because the employment situation had improved much; for every new job that was created, there were more people who simply stopped looking for work¹. The employment-population ratio for the working-age population dropped during the course of the year from 63.8% in October, 2012, down to 62.8% in October, 2013 – a 35-year low². The economic outlook for fiscal year 2014 is for more of the same: interest rates and inflation remaining low with little change in employment numbers but potentially, a slight uptick in the nation's GDP by the end of the fiscal year³.

While economic conditions are expected to remain essentially the same in fiscal year 2014 as they were in fiscal year 2013, a lack of developed lots available for new home construction within the District's service area may limit growth in the near future even if the economy suddenly shows significant improvement. Very few new subdivisions have been developed since the recession began over 5 years ago and as of October 2013, the inventory of lots available for new construction stands at slightly less than a year's supply at the current rate of construction. Three new residential subdivisions were recently announced that could add 276 new lots to inventory. However, the development process, from initial plan submittal to issuance of the first building permit, takes 24 months or longer. Thus, the first of these announced projects will not be ready for new home construction until midway through fiscal year 2015 at the earliest. Even if all three subdivisions eventually come to fruition, they will satisfy no more than a two-year demand at the current rate of development.

The District's service area includes 7,000 acres of raw land owned by the State of Arizona that has already been master planned for development. However, development of the initial 1,000 acre block fell victim to the last recession and a new developer is now being sought to take on the project. Even if a new buyer steps forward in fiscal year 2014, new connections

¹ News Release (2013, November 8) The Employment Situation – October 2013. *Bureau of Labor Statistics, U.S. Department of Labor*

² Meyer, Ali (2013, November 12) Americans' Participation in Labor Force Hits 35-Year Low. *CNSNews.com*

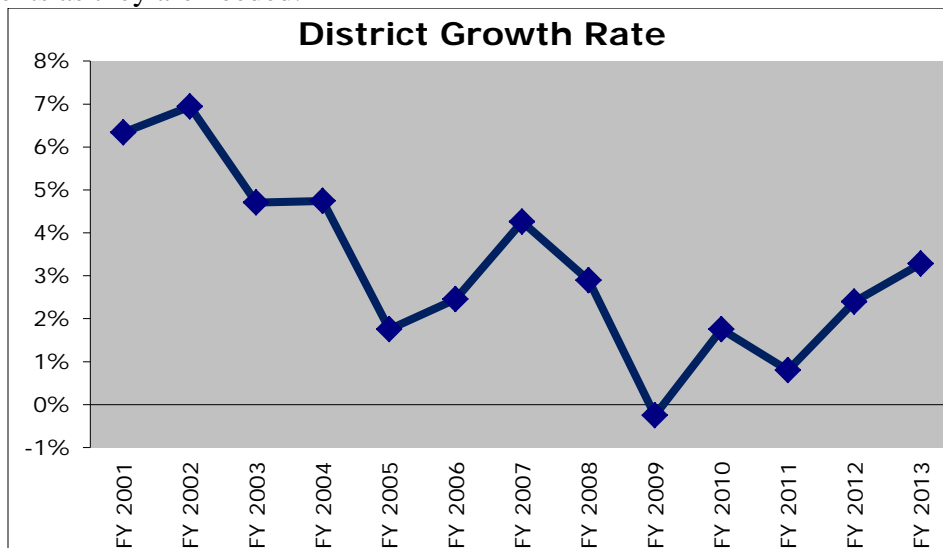
³ Payne, David (2013, November 7) Kiplinger's Economic Outlooks. *Kiplinger Washington Editors, Inc.*

to the District’s system from an initial project would most likely not occur until fiscal year 2017 at the earliest.

It is clear that barring another recession, a lack of buildable lots within the District’s service area has the greatest potential to constrain the District’s growth rate over the next 3 to 5 fiscal years.

While both the national and local economies are expected to remain stuck in neutral over the next year with little expectation for significant improvement, the relative stability of the economic situation does not present a concern because the District is no longer dependent on growth to fund either repayment of its debt or capital expansion and replacement projects. A lack of growth also means that there will be little pressure to force expensive new capital projects.

For almost two decades, the District has adhered to a strategic plan that has emphasized operational competence, conservative fiscal policy and modest annual increases in its rate structure to negate the impact of inflation. It has been a successful strategy and there is little reason to change course. In keeping with this strategy, the District’s Board of Directors approved a rate increase of 3% for fiscal year 2014. The District has been raising its wastewater rates annually at about the same percentage as the rise in the Consumer Price Index while nationally rates for the average system have risen 2.5 times as fast over the last 12 years⁴. District wastewater rates are now below the national average⁴ and near the median for the local area⁵. The District’s customer base has also grown to the point where a continuation of the policy of modest annual rate increases alone may be sufficient to maintain existing operating levels, pay off the District’s debt, and fund capital expansion and replacements as they are needed.



⁴ Craley, R. and Noyes, C. (2013, August) Water and Wastewater Rates on the Rise. *Journal – American Water Works Association*

⁵ WIFA (2013, January) 2012 Water and Wastewater Residential Rate Survey for the State of Arizona. *Water Infrastructure Finance Authority of Arizona*

MAJOR INITIATIVES

Refinancing of District Debt

The District refinanced its debt in fiscal year 2013 at a significantly lower interest rate resulting in tremendous savings over the previous bond used to finance the District's regional wastewater collection and treatment system. The \$26.2 million dollar refinancing through Alliance Bank of Arizona reduced the District's interest rate from 6.00% to 3.85% which yielded a savings of \$14.9 million in interest and shortened the repayment term by 5 years. Final payoff will now occur on July 1, 2025.

Expansion of the Water Reclamation Facility Site

During fiscal year 2013, the District purchased 29.6 acres of land adjacent to the existing water reclamation facility (WRF) from the Arizona State Land Department bringing to a close a project that had been in process for more than a decade. The expanded WRF site is now sufficient to accommodate future growth up to its expected full build-out capacity of 12 million gallons per day, an amount that is six times higher than current capacity.

Planning for an Amendment to the Aquifer Protection Permit

The District, working in conjunction with its engineering consultant, is moving forward with efforts geared toward submittal of a request for a major amendment to the existing Aquifer Protection Permit (APP) issued by the Arizona Department of Environmental Quality (ADEQ). As envisioned by the District, the amended APP would increase the rated capacity of the WRF from the original engineer design limit of 2.1 MGD to as much as 2.8 MGD, an increase of 700,000 gallons. The proposed APP amendment will also allow for the installation of an effluent disk filter, expansion of the recharge facilities, and acknowledgement that the recently installed oxygen and ozone odor control device provides acceptable odor control for the facility to qualify for reduced setback to 350 feet from the current 1,000 foot requirement.

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, 2012. This was the third year the District prepared a CAFR and the third 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 Susan A. Sopko, Financial Services Manager, and Maria Zagar, District Accountant, for compiling and assembling the majority of the financial information and schedules presented in this report.

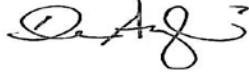
As always, we owe our sincere appreciation to the Board of Directors for their continued support of our efforts. We recognize that we are a team and no one individual can lay claim to the District's accomplishments and achievements. Over the years we have developed a culture that is succeeding in large part through a collaborative effort. Of course, successful collaboration requires more than talent; it is a skill that requires practice, effort, and mutual

respect for one another in order to make optimum use of the team's collective intelligence. We are proud of the job that we are doing today, as well as the job we are doing in laying the groundwork for the long term success of the District in meeting the needs of our customers.

Respectfully submitted,



Edward J. Grabek
District Manager



Darron Anglin
Manager of Operations



Susan A. Sopko
Financial Services Manager

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Superstition Mountains Community Facilities District No. 1 (the District) as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2013 and 2012, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 63 added new classifications on the statements of net position and changed net assets to net position. The adoption of this statement had no effect on the District's net position as of and for the years ended June 30, 2013 and 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The results of the implementation of this statement was to decrease the net position at July 1, 2012 and July 1, 2011 by \$830,479 and \$876,436 respectively, which is the amount of unamortized bond issuance costs at July 1, 2012 and July 1, 2011, respectively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 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 auditing standards generally accepted in the United States of America, 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to 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.

Foster & Chapman P.C.

November 21, 2013

**SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

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, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL SUMMARY

- Net position decreased by \$402 thousand to end the fiscal year at \$295 thousand.
- Liabilities decreased by nearly \$4 million as a result of a refinancing effort in fiscal year 2013.
- Operating revenues increased by \$402 thousand, or 6%, over fiscal year 2012.
- Operating expenses increased by \$138 thousand, or 3%, over fiscal year 2012.
- Net non-operating expenses, before the impact of bond issuance costs, decreased by \$83 thousand, or 5%, from the prior year.
- Cash, cash equivalents and investments decreased \$4.2 million from fiscal year 2012.

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 Position, Statements of Revenues, Expenses and Changes in Net Position 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 position of the District for the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011. The information is provided in greater detail in the basic financial statements which follow this analysis.

NET POSITION

Table 1					
Superstition Mountains Community Facilities District No. 1					
Net Position					
	<u>June 30, 2013</u>	<i>restated</i> <u>June 30, 2012</u>	Increase (Decrease)		<i>restated</i> <u>June 30, 2011</u>
		current year from prior			
			<u>Amount</u>	<u>Percentage</u>	
Cash & cash equivalents	\$ 4,770,387	\$ 5,552,038	\$ (781,651)	-14.08%	\$ 5,301,695
Investments	-	3,376,566	(3,376,566)	-100.00%	3,415,678
Other current assets	1,062,613	1,025,817	36,796	3.59%	891,531
Capital assets	<u>20,762,360</u>	<u>21,011,530</u>	<u>(249,170)</u>	-1.19%	<u>22,115,388</u>
Total assets	26,595,360	30,965,951	(4,370,591)	-14.11%	31,724,292
Current liabilities	2,099,403	1,598,537	500,866	31.33%	1,550,377
Long term liabilities					
Series 2013 bond	24,201,000	-	24,201,000	n/a	-
Series 2000 bond	<u>-</u>	<u>28,670,000</u>	<u>(28,670,000)</u>	-100.00%	<u>29,070,000</u>
Total liabilities	26,300,403	30,268,537	(3,968,134)	-13.11%	30,620,377
Invested in capital assets, net of related debt	(3,106,982)	(4,375,973)	1,268,991	-29.00%	(3,481,676)
Restricted	750,473	4,711,386	(3,960,913)	-84.07%	4,324,570
Unrestricted	<u>2,651,466</u>	<u>362,001</u>	<u>2,289,465</u>	632.45%	<u>261,021</u>
Total net position	\$ 294,957	\$ 697,414	\$ (402,457)	-57.71%	\$ 1,103,915

The District elected early implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement calls for retroactive restatement; the result was a decrease in the District's net position as of July 1, 2012, 2011 and 2010 by \$830,479, \$876,436 and \$ 922,393 respectively. These amounts represent the unamortized bond issuance costs at those points in time. The District's financial statements and accompanying notes, schedules and exhibits reflect the results of this restatement for all years presented.

The District's net position as of June 30, 2013, defined as total assets less total liabilities, decreased by 57.71%, or \$402 thousand, from the prior year. Total assets decreased by 14.11% or \$4.4 million; total liabilities decreased \$4.0 million, or 13.11%.

The decrease in net position from June 30, 2011 to June 30, 2012 was \$407 thousand. A complete discussion of the decrease in net position from fiscal year 2011 to fiscal year 2012 can be found in the 2012 financial reports.

The combined decrease in Cash and cash equivalents and Investments was \$4.2 million when compared to fiscal year 2012. The District refinanced its outstanding bond debt during fiscal year 2013 and applied \$2.8 million of reserves toward the refunded amount. Cash and cash equivalents and Investments also decreased by \$750 thousand when the District finalized the purchase of the buffer land. A summary of the components of Cash and cash equivalents and Investments is provided in Table 2.

Net increases to Capital assets for fiscal year 2013 totaled \$1.5 million; after normal depreciation of \$1.7 million, Capital assets decreased by \$250 thousand. A summary of the components of Capital assets is provided in Table 4 and in Note 4 to the Financial Statements.

The increase of \$501 thousand in Current liabilities is due primarily to the District's new Series 2013 bond repayment schedule. The change in Long term liabilities is also due to the refunding of the Series 2000 bond and the issuance of the Series 2013 obligation.

Cash, Cash Equivalents and Investments

Table 2					
Superstition Mountains Community Facilities District No. 1					
Cash, Cash Equivalents and Investments					
	June 30, 2013	June 30, 2012	Increase (Decrease)		June 30, 2011
			current year from prior		
			Amount	Percentage	
Checking accounts	\$ 2,244,255	\$ 534,721	\$ 1,709,534	319.71%	\$ 609,865
Restricted funds					
Revenue Fund	-	-	-	n/a	31,317
Debt Service Funds	524,804	1,042,114	(517,310)	-49.64%	1,099,849
Debt Service Reserve	1,250,855	2,640,383	(1,389,528)	-52.63%	2,683,088
Capital Funds	-	730,365	(730,365)	-100.00%	782,036
Land Purchase Fund	-	2,368,585	(2,368,585)	-100.00%	2,375,859
District Reserves	<u>750,473</u>	<u>1,612,436</u>	<u>(861,963)</u>	-53.46%	<u>1,135,359</u>
Total cash, cash equivalents and investments	\$ 4,770,387	\$ 8,928,604	\$ (4,158,217)	-46.57%	\$ 8,717,373

In addition to the regular checking accounts used to accumulate daily receipts and to disburse periodic payments for payroll, goods and services, the District maintains three accounts specifically required by its bondholder, Alliance Bank of Arizona. The purpose and ultimate use of monies in these restricted funds is dictated by the terms of the Bond Resolution between the District and the bondholder. In the prior years presented, the restricted accounts were governed by the Trust Indenture between the District and its Trustee, on behalf of its former bondholder, Allstate Insurance.

Revenue Fund

The Revenue Fund is no longer used by the District. In the prior years presented, it served as a flow-through account for all revenues received by the District. On a monthly basis, all available funds were 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 varied because of 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 District's bonds, both principal and interest. As of June 30, 2013, the balance of \$525 thousand was held to meet the scheduled debt payment due on July 1, 2013.

Debt Service Reserve

The Debt Service Reserve Fund represents a secondary source of funds to make scheduled payments on the bond debt. The balance at June 30, 2013 slightly exceeds the requirement of \$1.25 million mandated by the District's Bond Resolution because of the accumulation of interest. Funds in excess of \$1.25 million are available to be transferred to an unrestricted account in January and July of each year. In the prior years presented, the District's Trust Indenture mandated a Debt Service Reserve requirement of \$2.68 million.

Capital Funds

The Capital Funds are no longer restricted funds under the District's current Bond Resolution. The District continues to maintain a Capital and Replacement account for the acquisition of capital improvements, expansions and other capital items that have been approved by the District's Board of Directors. The balance of \$1.25 million in the Capital and Replacement account is included with the other Checking accounts for the year ended June 30, 2013.

In the prior years presented, the Trust Indenture mandated that the Capital Funds be used for capital improvements, expansions and other capital items that were approved by the District's Board of Directors as part of the annual budgeting process.

Land Purchase Account

The Land Purchase Fund is no longer used by the District. It was created to accumulate monies for a setback buffer via an odor easement on, or the outright purchase of, land surrounding the water reclamation facility (WRF). This action was necessary to comply with an Arizona Department of Environmental Quality (ADEQ) rule in Arizona Administrative Code R18-9-B201(I) and is a condition of the District's operating permit. 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 year 2008 and the District moved forward with its application to purchase the land. In November 2012, the District completed the purchase of the land and issued the final payment of \$750 thousand; the funds remaining in the Land Purchase Account following the acquisition were transferred to the Capital Funds.

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. Under the current Bond Resolution, the District Reserve is known as the Operations Reserve and is mandated to maintain a balance of \$750 thousand. In the prior years presented, a portion of the District Reserves were mandated by

the Trust Indenture to maintain a balance of \$750 thousand. For all years presented, the reserve balances met or exceeded required minimums.

CHANGES IN NET POSITION

	<u>June 30, 2013</u>	<i>restated</i> <u>June 30, 2012</u>	Increase (Decrease) current year from prior		<i>restated</i> <u>June 30, 2011</u>
				<u>Amount</u>	<u>Percentage</u>
Operating revenues					
Sewer services	\$ 5,619,503	\$ 5,396,804	\$ 222,699	4.13%	\$ 5,117,939
Connection fees	600,093	388,924	211,169	54.30%	134,732
Septage charges	478,723	425,095	53,628	12.62%	500,324
Recharge credit sales	179,507	178,676	831	0.47%	139,385
Miscellaneous	<u>118,755</u>	<u>204,643</u>	<u>(85,888)</u>	-41.97%	<u>236,669</u>
Total operating revenue	6,996,580	6,594,142	402,438	6.10%	6,129,049
Operating expenses	5,393,972	5,256,114	137,858	2.62%	5,206,161
Operating income	1,602,608	1,338,028	264,580	19.77%	922,888
Nonoperating income/(expense)					
Interest & accretion	(1,538,553)	(1,749,150)	210,597	-12.04%	(1,767,000)
Bond issuance costs	(343,980)	-	(343,980)	n/a	-
Other nonoperating	<u>(122,532)</u>	<u>4,621</u>	<u>(127,153)</u>	-2751.63%	<u>(3,027)</u>
Total nonoperating revenue/(expense)	(2,005,065)	(1,744,529)	(260,536)	14.93%	(1,770,027)
Decrease in net position	\$ (402,457)	\$ (406,501)	\$ 4,044	-0.99%	\$ (847,139)

Operating Revenues

Operating revenues increased \$402 thousand or 6.10% over the prior year. Revenue gains were realized in Sewer services and Connection fees where income increased \$223 thousand and \$211 thousand respectively over fiscal year 2012. In fiscal year 2012, operating revenues increased \$465 thousand over fiscal year 2011.

Revenue from Sewer services and Connection fees increased over the prior year because of modest rate increases as well as customer growth. In fiscal year 2013, 217 permits were issued for connection to the sewer system, compared to 162 in fiscal year 2012 and 67 in fiscal year 2011.

Septage charges, realized from commercial haulers who remove waste from septic tanks and transport it to the District's facility for treatment and disposal, increased by \$53 thousand because of a modest rate increase as well as increased volumes from existing customers.

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 year 2013 were comparable to the previous year due to a minimal variance in flows. The increase from fiscal year 2011 to fiscal year 2012 can be attributed primarily to higher productivity in the recharge facility.

Miscellaneous revenues decreased by \$86 thousand from 2012 because of a reduction in disconnection activity and fewer non-recurring damage reimbursements.

Operating Expenses

Operating expenses increased by \$138 thousand over fiscal year 2012. The most significant expense categories showing increases were Administrative and Payroll and payroll related. A modest increase was realized in Legal expense. Expense categories showing significant decreases include Depreciation and amortization and Consulting. Administrative expense increased in fiscal year 2013 because of costs related to the updating of District computer hardware and software. Payroll and payroll related increased over the prior year because of a reduction in capitalized labor and an increase in employee benefit costs. Legal expenses were higher in fiscal years 2013 and 2011 when compared to 2012 because of costs related to employment matters; expense in fiscal year 2012 reflects a more normalized level. The decrease in Depreciation and amortization resulted from assets which were fully depreciated during the year.

Operating expenses increased \$50 thousand from fiscal year 2011 to fiscal year 2012. A discussion of this increase can be found in the fiscal year 2012 CAFR.

Non-operating Revenues and Expenses

Total non-operating expense was \$260 thousand higher than fiscal year 2012. Gain/(loss) on assets disposed was \$116 thousand loss in fiscal year 2013 compared to a slight gain in fiscal 2012. Interest expense decreased by \$211 thousand; Note 5 to the Financial Statements provides additional information about the District's outstanding bond debt. Bond issuance costs of \$344 thousand were incurred in fiscal year 2013 as a result of the District's debt refunding. These were expensed in accordance with GASB 65.

CAPITAL ASSETS

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	Increase (Decrease) current year from prior		<u>June 30, 2011</u>
			<u>Amount</u>	<u>Percentage</u>	
Land and easements	\$ 1,233,104	\$ 331,791	\$ 901,313	271.65%	\$ 331,755
Treatment plant	15,107,408	14,701,463	405,945	2.76%	14,615,729
Collection system	22,400,686	22,346,095	54,591	0.24%	22,209,704
Buildings & grounds	645,200	645,200	-	0.00%	621,961
Machinery & equipment	2,578,906	2,573,377	5,529	0.21%	2,421,857
Office equipment & software	295,778	295,778	-	0.00%	280,723
Other intangibles	50,241	50,241	-	0.00%	-
Construction in process	<u>424,610</u>	<u>309,596</u>	<u>115,014</u>	37.15%	<u>181,998</u>
Total capital assets	42,735,933	41,253,541	1,482,393	3.59%	40,663,727
Accumulated depreciation	<u>(21,973,573)</u>	<u>(20,242,011)</u>	<u>(1,731,562)</u>	8.55%	<u>(18,548,339)</u>
Net capital assets	\$ 20,762,360	\$ 21,011,530	\$ (249,169)	-1.19%	\$ 22,115,388

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 sewer collection system and treatment plant. Most components of the sewer collection system and treatment plant have exceeded 18 years of use, with a small portion of the sewer collection system in excess of 30 years of service.

In fiscal year 2013, increases in Capital assets resulted primarily from the acquisition of buffer land at \$901 thousand, improvements at the Baseline Pump Station for \$341 thousand and a modest mainline extension at \$55 thousand. Several smaller scale assets were also placed into service during fiscal year 2013.

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

DEBT ADMINISTRATION

The District has one bond issue, Series 2013, held by Alliance Bank of Arizona. This obligation replaced the Series 2000 bond obligation which was refunded during fiscal year 2013. The Series 2013 debt obligation requires that the District maintain a ratio of net revenues to bond service charges of at least 1.20. For fiscal year 2013, this ratio was 1.07 because of the recognition of the Bond Issuance Costs as an expense in accordance with GASB 65. Prior to the recognition of the Bond Issuance Costs, the ratio was 1.20. 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 2013 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 84% of total sewer service revenue for fiscal year 2013.

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 POSITION

June 30,

ASSETS	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,244,255	\$ 534,721
Cash and cash equivalents, restricted	524,804	5,014,858
Accounts receivable – sewage, net of allowance for doubtful accounts of \$57,537 and \$102,281	608,742	537,328
Accounts receivable - other	314,658	338,934
Inventory	30,707	31,134
Prepaid expenses	<u>108,506</u>	<u>118,421</u>
Total current assets	3,831,672	6,575,396
NONCURRENT ASSETS		
Capital assets:		
Capital assets not being depreciated	1,639,322	622,995
Capital assets, net of accumulated depreciation	<u>19,123,038</u>	<u>20,388,535</u>
Total capital assets	20,762,360	21,011,530
Other assets:		
Cash and cash equivalents, restricted	2,001,328	2,459
Investments, restricted	<u>-</u>	<u>3,376,566</u>
Total other assets	<u>2,001,328</u>	<u>3,379,025</u>
Total noncurrent assets	<u>22,763,688</u>	<u>24,390,555</u>
Total assets	<u>26,595,360</u>	<u>30,965,951</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	134,819	62,842
Accrued expenses	216,386	230,945
Accrued interest payable	257,803	872,100
Current portion, bonds payable	1,444,000	400,000
Unearned revenue	<u>46,395</u>	<u>32,650</u>
Total current liabilities	2,099,403	1,598,537
NONCURRENT LIABILITIES		
Long term debt		
Series 2013 bonds payable, less current maturity	24,201,000	-
Series 2000 bonds payable, less current maturity	<u>-</u>	<u>28,670,000</u>
Total liabilities	26,300,403	30,268,537
NET POSITION		
Invested in capital assets, net of related debt	(3,106,982)	(4,375,973)
Restricted for:		
Capital acquisition	-	3,884,453
Operations	750,473	826,933
Unrestricted	<u>2,651,466</u>	<u>362,001</u>
Total net position (as restated at June 30, 2012)	<u>\$ 294,957</u>	<u>\$ 697,414</u>

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30,

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Net charges for services	\$ 6,219,595	\$ 5,785,728
Charges for septage	478,723	425,095
Sales of recharge credits	179,507	178,676
Miscellaneous	118,755	204,643
Total operating revenues	<u>6,996,580</u>	<u>6,594,142</u>
Operating expenses:		
Payroll and payroll related	2,382,128	2,284,174
Repairs and maintenance - treatment facility	321,320	308,866
Repairs and maintenance - other	3,738	16,690
Supplies and services - treatment facility	355,682	357,845
Accounting	14,950	14,900
Consulting	6,105	41,698
Administrative	398,788	277,362
Insurance	84,743	75,234
Legal	90,353	66,978
Depreciation and amortization	1,734,023	1,811,856
Miscellaneous	2,142	511
Total operating expenses	<u>5,393,972</u>	<u>5,256,114</u>
Operating income	1,602,608	1,338,028
Nonoperating revenues and (expenses):		
Interest income	3,852	6,944
Gain/(loss) on equipment disposed	(116,384)	5,677
Trust management fees	(10,000)	(8,000)
Interest expense	(1,538,553)	(1,749,150)
Bond issuance costs	(343,980)	-
Total nonoperating revenues and (expenses)	<u>(2,005,065)</u>	<u>(1,744,529)</u>
Decrease in net position	(402,457)	(406,501)
Total net position, July 1 (as restated)	<u>697,414</u>	<u>1,103,915</u>
Total net position, June 30 (as restated at June 30, 2012)	<u>\$ 294,957</u>	<u>\$ 697,414</u>

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF CASH FLOWS

Years Ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 6,963,187	\$6,467,579
Cash payments to suppliers for goods and services	(1,195,502)	(1,197,482)
Cash payments to employees for services	<u>(2,396,687)</u>	<u>(2,287,039)</u>
Net cash provided by operating activities	3,370,998	2,983,058
Cash flows from capital and related financing activities:		
Acquisition of structures, sewer improvements and equipment	(1,601,237)	(707,998)
Proceeds from sale of equipment	-	5,677
Proceeds from refunding of bonds payable	26,182,000	-
Principal payments on bonds payable	(29,607,000)	(310,000)
Bond interest paid	(2,152,850)	(1,758,450)
Bond issuance costs	(343,980)	-
Trust management fees	<u>(10,000)</u>	<u>(8,000)</u>
Net cash used by capital and related financing activities	<u>(7,533,067)</u>	<u>(2,778,771)</u>
Cash flows from investing activities		
Purchase of securities	(3,427,622)	(3,376,566)
Proceeds from securities matured or redeemed	6,804,188	3,415,678
Interest received from investing activities	<u>3,852</u>	<u>6,944</u>
Net cash provided by investing activities	3,380,418	46,056
Net change in cash	(781,651)	250,343
Cash and cash equivalents, beginning of year	<u>5,552,038</u>	<u>5,301,695</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,770,387</u></u>	<u><u>\$5,552,038</u></u>
Cash and cash equivalents at June 30, 2013 and 2012 consist of:		
Unrestricted cash and cash equivalents	\$ 2,244,255	\$534,721
Restricted cash and cash equivalents, current	524,804	5,014,858
Restricted cash and cash equivalents, noncurrent	<u>2,001,328</u>	<u>2,459</u>
Total	<u><u>\$ 4,770,387</u></u>	<u><u>\$5,552,038</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,602,608	\$1,338,028
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,734,023	1,811,856
Changes in assets and liabilities:		
Accounts receivable - sewage	(71,414)	16,003
Accounts receivable - other	24,276	(112,634)
Inventory	427	(6,206)
Prepaid expenses	9,915	(31,449)
Accounts payable	71,977	257
Accrued expenses	(14,559)	(2,865)
Unearned revenue	<u>13,745</u>	<u>(29,932)</u>
Net cash provided by operating activities	<u><u>\$ 3,370,998</u></u>	<u><u>\$2,983,058</u></u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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: For the year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 62 incorporates certain accounting and financial reporting guidance in FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins into GASB's authoritative literature. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures.

For the year ended June 30, 2013, the District early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of the early implementation of this statement, bond issuance costs incurred during the fiscal year 2013 were recognized as an expense. Accounting changes adopted to conform to the provisions of this statement were applied retroactively. The result of the implementation of this statement was to decrease the net position July 1, 2012 and July 1, 2011 by \$830,479 and \$876,436 respectively, which is the amount of unamortized bond issuance costs at July 1, 2012 and July 1, 2011, respectively.

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 Position Classification: Net position is 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. When both restricted and unrestricted resources are available for an expenditure, it is the District's practice to apply unrestricted funds unless the use of restricted funds is mandated by the District's Bond Resolution.

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, 2013 and 2012

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 and Depreciation: 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.

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 2012 financial statement presentation in order to conform to the 2013 presentation.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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

Subsequent Events: Subsequent events have been evaluated through November 21, 2013 which was the date the District's financial statements were issued.

NOTE 2 – RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Restricted cash and cash equivalents at June 30, 2013 consist of amounts established relative to the District's Bond Resolution with Alliance Bank of Arizona, a division of Western Alliance Bank. The Bond Resolution mandates that the District maintain a Debt Service Reserve at \$1,250,000 and an Operations Reserve at \$750,000. The Bond Resolution authorizes the District to invest in government obligations or any other investment or security in which the District is permitted to invest pursuant to State law.

Restricted cash, cash equivalents and investments at June 30, 2012 consisted of amounts established relative to the District's Trust Indenture with Bank One Trust Company (later the Bank of New York Mellon Global Corporate Trust), as amended. The Trust Indenture authorized the District to invest in government obligations; repurchase agreements that were fully collateralized by government obligations; interest earning investments such as certificates of deposit or other time deposits which were 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 were registered under the Federal Securities Act of 1933, and whose only investments were government obligations; any other investment agreement, guaranteed investment contract or similar debt obligation permitted by law which met specified credit risk criteria; or investments in the Arizona State Treasurer's Local Government Investment Pool as long as investments were 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 Alliance Bank and with the Certificate of Deposit Account Registry Service as of June 30, 2013; and deposits in the JP Morgan 100% US Treasury Securities Money Market Fund and Insured Network Deposits as of June 30, 2012, are allocated as follows:

	2013	2012
Principal and interest fund	\$ 524,804	\$ 1,042,114
Debt service reserve fund	1,250,855	1,614
Operations reserve fund	750,473	874,639
Capital and replacement fund	-	730,365
Land purchase fund	-	2,368,585
Total restricted cash and cash equivalents	<u>\$ 2,526,132</u>	<u>\$ 5,017,317</u>

Restricted Investments

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

	2013	2012
Debt service reserve fund	-	2,638,769
Operations reserve fund	-	737,797
Total restricted investments	<u>\$ -</u>	<u>\$ 3,376,566</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 3 – CONCENTRATION OF CREDIT RISK

The District maintains its cash balances with financial institutions located in Phoenix, Arizona. At June 30, 2013, all amounts held in excess of FDIC limits were fully collateralized by securities held by Alliance Bank of Arizona in the District's name; at June 30, 2012, all amounts held were fully insured by the FDIC.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2013</u>
<u>Nondepreciable assets:</u>				
Land	\$ 220,925	\$ 901,313	\$ -	\$ 1,122,238
Easements	92,474	-	-	92,474
Construction in process	309,596	334,200	(219,186)	424,610
<u>Depreciable assets:</u>				
Treatment plant	14,701,463	405,945	-	15,107,408
Collection system	22,346,095	54,591	-	22,400,686
Equipment	2,869,155	7,990	(2,461)	2,874,684
Buildings & grounds	645,200	-	-	645,200
Rights of way	18,392	-	-	18,392
Other intangible assets	50,241	-	-	50,241
Total assets	41,253,541	1,704,039	(221,647)	42,735,933
<u>Accumulated depreciation:</u>				
Treatment plant	(7,183,123)	(644,169)	-	(7,827,292)
Collection system	(10,830,185)	(746,966)	-	(11,577,151)
Equipment	(2,025,610)	(263,343)	2,461	(2,286,492)
Buildings & grounds	(190,880)	(77,026)	-	(267,906)
Rights of way	(11,236)	(844)	-	(12,080)
Other intangible assets	(977)	(1,675)	-	(2,652)
Total accumulated depreciation	(20,242,011)	(1,734,023)	2,461	(21,973,573)
Net capital assets	\$ 21,011,530	\$ (29,984)	\$ (219,186)	\$ 20,762,360

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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, 2013 and 2012

NOTE 5 – LONG TERM DEBT

On March 27, 2013 the District issued \$26,182,000 in sewer revenue bonds at 3.85% to advance refund the outstanding principal of the Series 2000 bond of \$28,670,000 which carried a rate of 6.00%. The net proceeds of the bonds, after paying bond issuance costs, were combined with other District resources and deposited with the Trustee who made payment in full to the prior bondholder, Allstate Insurance. The Series 2000 bond is considered to be defeased and the liability has been removed from the District's fiscal year 2013 financial statements.

The Series 2013 bond obligation was issued at par and is held by a single bondholder, Alliance Bank of Arizona. The bonds are considered to be a current interest obligation with principal and interest payments due and payable on the first day of each month commencing on May 1, 2013 and continuing through July 1, 2025. All revenues of the District are assigned and used as security for the bond.

The advance refunding reduced total debt service payments over the next 17 years by \$14.9 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$4.7 million.

The following is a summary of changes in long term debt for the year ended June 30, 2013:

	Balance at <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance at <u>June 30, 2013</u>
Series 2000 bonds:				
Current portion	\$ 400,000	\$ 120,000	\$ 520,000	\$ -
Noncurrent portion	28,670,000	-	28,670,000	-
Series 2013 bonds:				
Current portion	-	1,981,000	537,000	1,444,000
Noncurrent portion	-	24,201,000	-	24,201,000
Total bonds payable	<u>\$ 29,070,000</u>	<u>\$ 26,302,000</u>	<u>\$ 29,727,000</u>	<u>\$ 25,645,000</u>

Maturities of the Series 2013 sewer revenue bond, including interest payments, are as follows for June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,444,000	\$ 959,151	\$ 2,403,151
2015	1,209,000	910,368	2,119,368
2016	1,503,000	859,259	2,362,259
2017	1,592,000	799,436	2,391,436
2018	1,771,000	735,202	2,506,202
2019 - 2023	11,181,000	2,500,662	13,681,662
2024 - 2026	6,945,000	330,532	7,275,532
Total	<u>\$ 25,645,000</u>	<u>\$ 7,094,610</u>	<u>\$ 32,739,610</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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; a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan; and a cost-sharing, multiple-employer defined benefit long-term disability 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.

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
www.azasrs.gov

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, 2013, active ASRS members and employers were each required by statute to contribute at the actuarially determined rate of 11.14% (10.90% retirement and .24% long-term disability) of the members' annual covered payroll. Rates for the years ended June 30, 2012 and 2011 were 10.74% (10.50% retirement and .24% long term disability) and 9.85% (9.60% retirement and .25% long term disability) respectively. The District's contributions to ASRS for the years ended June 30, 2013, 2012 and 2011 were \$182,861, \$181,788 and \$159,259 respectively, which equaled the required contributions for each year.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of business, the District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation insurance and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

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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.

<u>Contents</u>	<u>Page</u>
Financial Trends	25
These schedules contain trend information to assist the reader in understanding how the District's financial performance and well-being has changed over time.	
Revenue Capacity	27
These schedules contain information to assist the reader in assessing the District's most significant revenue source, sewer fees.	
Debt Capacity	31
These schedules present information to assist the reader in assessing the affordability of the District's current level of outstanding debt.	
Demographic and Economic Information	33
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.	
Operating Information	35
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 Position by Component
Last Ten Fiscal Years**

	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009 ¹	2010	2011	2012	2013
Net position:										
Invested in capital assets, net of related debt						\$ (1,802,439)	\$ (2,752,352)	\$ (3,481,676)	\$ (4,375,973)	\$ (3,106,982)
Restricted:										
Debt service	\$ 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	750,473
Unrestricted ²	(906,989)	(764,661)	707,987	2,044,335	2,042,005	410,528	66,219	261,021	362,001	2,651,466
Total net position	\$ 753,011	\$ 1,061,159	\$ 2,511,857	\$ 3,832,755	\$ 3,862,425	\$ 2,887,083	\$ 1,951,054	\$ 1,103,915	\$ 697,414	\$ 294,957

¹ The District modified its presentation of Net Position 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.

² All years presented were modified to reflect the adoption of GASB 65

Source: Statements of Net Position

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

	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues:										
Charges for services	\$ 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	\$ 6,219,595
Charges for septage	374,238	386,691	382,572	404,169	388,145	411,627	421,608	500,324	425,095	478,723
Sales of recharge credits	-	27,882	74,717	135,201	154,364	158,326	110,210	139,385	178,676	179,507
Miscellaneous	73,292	76,978	63,057	73,723	122,621	203,750	171,994	236,669	204,643	118,755
Total operating revenue	4,516,841	4,698,621	5,358,603	5,709,617	5,797,099	5,866,013	6,087,356	6,129,049	6,594,142	6,996,580
Operating expenses:										
Payroll and payroll related	\$ 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	\$ 2,382,128
Repairs and maintenance - treatment facility	142,127	148,111	188,786	253,666	269,925	321,360	385,595	325,013	308,866	321,320
Repairs and maintenance - other	12,892	11,615	10,028	17,497	21,521	9,483	6,408	10,283	16,690	3,738
Supplies and services	230,696	227,838	291,449	315,232	338,507	315,627	346,623	330,145	357,845	355,682
Accounting	11,745	12,000	12,600	13,300	13,500	14,900	14,000	14,900	14,900	14,950
Consulting	24,550	59,716	51,436	37,672	43,924	154,309	14,903	22,893	41,698	6,105
Administrative	162,328	137,278	144,605	207,755	213,769	185,480	249,851	222,417	277,362	398,788
Insurance	75,025	88,107	88,961	85,082	84,451	79,525	71,563	74,546	75,234	84,743
Legal	32,097	63,804	72,429	93,545	97,645	96,575	63,810	162,865	66,978	90,353
Office rent	26,804	27,646	27,068	41,474	38,238	40,087	11,704	-	-	-
Depreciation and amortization ¹	1,230,858	1,265,289	1,295,299	1,370,898	1,535,314	1,680,733	1,697,816	1,731,906	1,811,856	1,734,023
Miscellaneous	6,018	383	110	189	3,235	21,000	504	383	511	2,142
Total operating expenses	3,007,072	3,069,651	3,292,330	3,712,547	4,635,076	4,998,073	5,225,466	5,206,161	5,256,114	5,393,972
Operating income	1,509,769	1,628,970	2,066,273	1,997,070	1,162,023	867,940	861,890	922,888	1,338,028	1,602,608
Nonoperating revenues and (expenses):										
Contributed capital assets	\$ 55,006	\$ 46,163	\$ 786,827	\$ 156,680	\$ 235,902	\$ -	\$ -	\$ -	\$ -	\$ -
Mediation and litigation settlement	268,226	334,190	139,074	586,184	184,152	-	-	-	-	-
Interest income	45,081	110,390	273,306	397,785	263,587	52,658	3,598	10,180	6,944	3,852
Equipment scrapped or abandoned	(26,771)	29	(1,862)	-	-	(91,045)	(12,417)	(5,207)	5,677	(16,384)
Trust and cash management fees	(17,850)	(19,750)	(23,150)	(28,401)	(27,574)	(17,434)	(8,000)	(8,000)	(8,000)	(10,000)
Interest expense	(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)	(1,538,553)
Bond issuance costs	-	-	-	-	-	-	-	-	-	(343,980)
Total nonoperating revenue and (expense)	(1,455,933)	(1,320,822)	(615,575)	(676,172)	(1,132,353)	(1,843,281)	(1,797,919)	(1,770,027)	(1,744,529)	(2,005,065)
Change in net position	\$ 53,836	\$ 308,148	\$ 1,450,698	\$ 1,320,898	\$ 29,670	\$ (975,341)	\$ (936,029)	\$ (847,139)	\$ (406,501)	\$ (402,457)

¹ All years presented were modified to reflect the adoption of GASB 65

Source: Statements of Revenues, Expenses and Changes in Net Position

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

<u>Customer Name</u> ²	<u>Year Ended June 30, 2013</u>		<u>Year Ended June 30, 2004</u>	
	<u>Sales</u>	<u>Percentage of Sales</u>	<u>Sales</u>	<u>Percentage of Sales</u>
Coopers Sewer & Drain Inc	\$ 313,316	5.17%	\$ 186,649	4.65%
Apache Junction Water Company	169,734	2.80%		
Golden Vista RV	158,754	2.62%	112,046	2.79%
Pinal County Community College	138,964	2.29%		
Roadhaven Resort	128,904	2.13%		
Rancho Mirage MHP	99,945	1.65%		
AJ Health Center	86,998	1.43%		
Desert Harbor	84,442	1.39%		
Superstition Falls Resort LLC	83,628	1.38%	56,422	1.41%
Leesburg Group/Rock Shadows	81,666	1.35%	57,120	1.42%
AJUSD High School			112,150	2.79%
AJUSD City Pool			63,432	1.58%
RC Roberts / Sunrise RV Park			52,249	1.30%
Walmart			47,600	1.19%
Windsong Associates			44,163	1.10%
Frys Food Stores of AZ			43,762	1.09%
Subtotal of ten largest customers	<u>1,346,351</u>	<u>22.21%</u>	<u>775,593</u>	<u>19.32%</u>
Balance from other customers	<u>4,716,650</u>	<u>77.79%</u>	<u>3,237,943</u>	<u>80.68%</u>
Total sewer, septage & recharge credit revenue	<u>\$ 6,063,001</u>	<u>100.00%</u>	<u>\$ 4,013,536</u>	<u>100.00%</u>

¹ Excludes revenues from application, connection and onsite fees

² 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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Single Family	176	90	179	210	80	15	125	63	151	207
Multi Family	9	73	18	6	8	7	18	0	1	4
RV & Mobile Home Parks	15	135	414	58	9	15	12	1	3	1
All Other	8	11	14	5	17	9	10	3	7	5
Total permits	208	309	625	279	114	46	165	67	162	217
% Change ²	-1.89%	48.56%	102.27%	-55.36%	-59.14%	-59.65%	258.70%	-59.39%	141.79%	33.95%

Service Class	ACTIVE ACCOUNTS									
	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009 ³	2010	2011	2012	2013
Single Family	5,011	5,095	5,218	5,449	5,605	5,593	5,697	5,753	5,898	6,106
Multi Family	104	110	112	112	115	114	114	113	112	115
Undeveloped Land	75	73	71	71	70	65	57	53	52	46
RV Parks	25	25	25	25	25	25	25	25	25	25
Mobile Home Parks	24	24	24	25	26	26	26	26	27	27
Church/Government	31	33	34	36	36	37	40	40	41	41
Light Commercial	90	94	105	108	116	115	120	119	122	125
Medium Commercial	43	44	44	47	50	53	56	55	55	55
Heavy Commercial	6	6	6	6	6	6	5	5	5	5
Industrial	0	0	0	0	0	0	0	0	0	0
Total accounts	5,409	5,504	5,639	5,879	6,049	6,034	6,140	6,189	6,337	6,545
% Change ²	4.74%	1.76%	2.45%	4.26%	2.89%	-0.25%	1.76%	0.80%	2.39%	3.28%

Service Class	ACTIVE UNITS									
	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Single Family	5,011	5,096	5,220	5,452	5,609	5,595	5,700	5,757	5,903	6,113
Multi Family	958	1,060	1,069	1,073	1,085	1,085	1,075	1,059	1,057	1,069
Undeveloped Land ¹	371	352	337	337	326	310	251	246	244	238
RV Parks	3,700	3,700	4,764	4,764	4,764	4,754	4,774	4,774	4,774	4,774
Mobile Home Parks	1,702	1,761	2,235	2,299	2,308	2,317	2,332	2,333	2,331	2,332
All other	170	177	189	197	208	211	221	219	223	226
Total units	11,912	12,146	13,814	14,122	14,300	14,272	14,353	14,388	14,532	14,752
% Change ²	3.13%	1.96%	13.73%	2.23%	1.26%	-0.20%	0.57%	0.24%	1.00%	1.51%

¹ Number of acres

² From prior year

³ 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**

Service Class	SEWER SERVICE REVENUE									
	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Single Family	\$ 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	\$ 2,758,781
Multi Family	269,983	285,869	322,942	338,997	352,639	366,130	377,405	386,704	395,086	409,507
Undeveloped Land	31,323	26,690	29,934	30,038	30,809	29,607	25,882	25,469	25,766	26,279
RV Parks	372,279	390,859	494,772	555,560	587,430	563,613	566,921	592,440	642,475	649,378
Mobile Home Parks	368,411	363,340	477,365	586,634	632,668	686,851	677,142	698,343	747,093	701,047
Church/Government	279,421	258,275	248,851	220,646	225,735	244,957	246,273	128,212	154,087	163,300
Light Commercial	159,838	173,416	206,543	243,334	241,976	256,762	282,828	251,604	280,443	285,322
Medium Commercial	223,319	228,913	273,502	303,170	317,278	339,987	290,330	315,615	302,624	303,634
Heavy Commercial	139,031	148,033	165,491	180,657	182,346	167,378	174,066	127,189	130,947	107,524
Industrial	0	0	0	0	0	0	0	0	0	0
Total sewer service revenue	\$ 3,639,298	\$ 3,751,216	\$ 4,171,876	\$ 4,533,661	\$ 4,791,415	\$ 4,968,527	\$ 5,039,951	\$ 5,046,955	\$ 5,320,559	\$ 5,404,772

Service Class	CONNECTION FEE REVENUE									
	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Single Family	\$ 261,531	\$ 199,778	\$ 277,307	\$ 361,200	\$ 166,514	\$ 25,650	\$ 193,183	\$ 116,750	\$ 305,065	\$ 556,518
Multi Family	45,986	77,882	36,129	6,300	17,303	9,400	0	0	10,360	32,040
RV and Mobile Home Parks	6,773	28,980	149,040	20,240	10,205	11,465	10,100	1,580	8,440	1,680
All Other	36,926	34,736	54,180	31,715	90,239	52,339	36,887	16,402	65,059	9,855
Total connection fee revenue	\$ 351,216	\$ 341,376	\$ 516,656	\$ 419,455	\$ 284,261	\$ 98,854	\$ 240,170	\$ 134,732	\$ 388,924	\$ 600,093

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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Single Family	\$ 30.25	\$ 30.85	\$ 31.55	\$ 32.40	\$ 33.50	\$ 34.60	\$ 35.80	\$ 37.00	\$ 38.15	\$ 39.35
Multi Family ¹	23.75	24.25	25.70	26.40	27.30	28.20	29.20	30.20	31.15	32.15
Undeveloped Land ²	6.96	7.10	7.25	7.45	7.70	7.95	8.25	8.55	8.80	9.10
RV Parks ¹	7.00	7.15	7.40	7.60	7.85	8.10	8.40	8.70	8.95	9.25
Mobile Home Parks ¹	12.00	12.25	16.25	16.70	17.25	17.80	18.40	19.00	19.60	20.20
Church/Government	30.25	30.85	31.55	32.40	33.50	34.60	35.80	37.00	38.15	39.35
Light Commercial	35.75	36.50	37.45	38.50	39.80	41.10	42.55	44.00	45.40	46.85
Medium Commercial	40.00	41.00	42.10	43.25	44.70	46.15	47.75	49.35	50.90	52.50
Heavy Commercial	45.25	46.25	46.80	48.10	49.75	51.35	53.15	54.95	56.70	58.50
Industrial	106.00	108.50	112.30	115.40	119.20	123.05	127.35	131.60	135.75	140.05

Service Class	USAGE CHARGES, per gallon ³									
	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
RV Parks	\$ 0.188	\$ 0.192	\$ 0.213	\$ 0.219	\$ 0.226	\$ 0.234	\$ 0.242	\$ 0.250	\$ 0.258	\$ 0.266
Mobile Home Parks	0.188	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258	0.266
Church/Government	0.188	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258	0.266
Light Commercial	0.188	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258	0.266
Medium Commercial	0.208	0.212	0.240	0.246	0.254	0.263	0.271	0.280	0.289	0.298
Heavy Commercial	0.233	0.238	0.266	0.274	0.283	0.292	0.302	0.312	0.322	0.332
Industrial	0.562	0.573	0.639	0.657	0.678	0.700	0.724	0.748	0.771	0.796

Service Class	MINIMUM CONNECTION FEES									
	Fiscal Year Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Single Family	\$ 2,250	\$ 2,300	\$ 2,500	\$ 2,575	\$ 2,750	\$ 2,850	\$ 2,950	\$ 3,050	\$ 3,145	\$ 3,245
Multi Family ¹	1,125	1,150	2,040	2,100	2,250	2,350	2,430	2,510	2,590	2,670
RV Parks ¹	450	460	585	605	650	675	700	725	750	775
Mobile Home Parks ¹	450	460	1,290	1,330	1,425	1,480	1,530	1,580	1,630	1,680
Church/Government	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245
Light Commercial	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245
Medium Commercial	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245
Heavy Commercial	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245
Industrial	2,250	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245

¹ per unit

² per acre

³ 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

Fiscal Year Ended June 30	Series 2000 Sewer Revenue Bond ¹				Series 2013 Sewer Revenue Bond ¹			Per Active Unit ³
	Beginning Balance	Accreted Interest	Principal Reductions ²	Ending Balance	Beginning Balance ⁴	Principal Reductions ²	Ending Balance	
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				1,992
2012	29,380,000	-	(310,000)	29,070,000	26,182,000	(537,000)	25,645,000	1,971
2013	29,070,000	-	(29,070,000)	-				1,738

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

² Shows principal payments by fiscal year as made. Schedule C-2 shows principal payments as funded.

³ 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.

⁴ The Series 2000 Sewer Revenue Bonds were refunded on March 27, 2013 with the Series 2013 Sewer Revenue Bonds.

Source: Series 2000 and Series 2013 Sewer Revenue Bond Amortization Schedules

**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 ²	Net Revenues Available for Debt Service ³	Debt Service Requirements ¹			Required Coverage Ratio ³	
				Principal	Interest	Total		
2004	4,885,154	1,820,835	3,064,319	-	1,500,000	1,500,000	2.04	1.10
2005	5,189,364	1,824,083	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	3,128,296	3,352,444	-	1,788,420	1,788,420	1.87	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
2013	7,000,432	4,130,313	2,870,119	1,034,000	1,538,553	2,572,553	1.12 ⁴	1.20

¹ 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

² Operating expenses before depreciation, amortization and interest

³ As defined in the Trust Indenture for years prior to 2013; as defined in the Bond Resolution for 2013 and years thereafter.

⁴ Deductible Operating Expenses for 2013 include Bond Issuance Costs of \$343,980 expensed with the early adoption of GASB 65. The Coverage Ratio prior to the recognition of the expense related to the Bond Issuance Costs is 1.25.

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**

	Population Year Round	Per Capita Personal Income	Per Capita Personal Income National Average	Unemployment Rates
2004	35,117	21,519	33,909	4.6%
2005	34,070	22,999	35,452	3.9%
2006	35,685	24,122	37,725	3.7%
2007	37,538	25,895	39,506	3.1%
2008	37,917	21,330	40,947	3.6%
2009	37,864	20,271	38,637	6.9%
2010	35,828	20,271	39,791	8.9%
2011	36,539	20,271	41,560	8.2%
2012	36,770	21,308	42,693	11.7%
2013 ¹	unavailable	unavailable	unavailable	9.3%

Source: City of Apache Junction, Office of Economic Development

¹ 2013 Unemployment Rates from the U.S. Department of Commerce, Bureau of Economic Analysis, Local Area Unemployment Statics (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, 2013</u>		<u>Year ended June 30, 2004</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>
<u>Employer</u>				
Apache Junction Unified School District #43	625	7.30%	610	4.45%
Wal-Mart Supercenter Store # 1831	350	4.09%	620	4.53%
Mountain Health & Wellness*	278	3.25%	122	0.89%
City of Apache Junction	241	2.82%	255	1.86%
Fry's Food and Drug	155	1.81%	130	0.95%
Banner Goldfield**	95	1.11%	115	0.84%
Apache Junction Fire District	95	1.11%	73	0.53%
Empire Southwest	88	1.03%		
United States Postal Service	86	1.00%	107	0.78%
Central Arizona College - Superstition Mtn	43	0.50%		
Earnhardt Ford			150	1.10%
Safeway Stores			125	0.91%
Total	<u>2,056</u>	<u>24.01%</u>	<u>2,307</u>	<u>16.85%</u>

Source: City of Apache Junction, Office of Economic Development

* Formerly Superstition Mountain Mental Health Center

** Formerly Apache Junction Medical Center

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

Division	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Administrative Division										
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	3.00	3.00	3.00	3.00	3.00	3.00
Finance	2.00	2.00	2.00	2.00	3.00	3.25	3.60	3.60	3.60	3.60
Business Services	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00	3.00
Customer Service	2.00	2.00	3.25	4.75	4.00	3.75	4.00	4.00	4.00	5.00
Total Administrative Division	7.00	7.00	8.25	9.75	13.00	13.00	13.60	13.60	13.60	15.60
Operations Division										
Manager of Operations	-	-	-	1.00	1.00	1.00	-	-	-	1.00
Operations Administration	-	-	-	1.00	2.00	2.00	2.00	2.00	2.00	3.00
Treatment Plant	6.00	6.00	8.00	8.00	8.00	8.00	8.00	8.00	7.00	7.00
Collection System	4.00	4.00	5.00	5.00	7.00	7.00	6.00	6.00	6.00	5.00
Total Operations Division	10.00	10.00	13.00	15.00	18.00	18.00	16.00	16.00	15.00	16.00
Total	17.00	17.00	21.25	24.75	31.00	31.00	29.60	29.60	28.60	31.60

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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Collection System										
Miles of Collection Mains <12" dia.	87.2	87.7	88.1	92.0	93.0	93.0	93.2	93.9	94.5	95.5
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	5,334	5,432	5,570	5,811	5,983	5,971	6,086	6,140	6,290	6,506
Pumping										
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
Treatment										
Water Reclamation Facilities	1	1	1	1	1	1	1	1	1	1
Permitted Capacity, MGD ¹	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 ¹	1.19	1.23	1.31	1.36	1.40	1.43	1.41	1.38	1.38	1.43
% of Total Permitted Capacity	55.6%	57.5%	61.2%	63.6%	65.4%	66.8%	65.9%	64.5%	64.5%	66.8%
Population Served (75 gpd/pop. eq.) ²	15,867	16,400	17,467	18,133	18,667	19,067	18,800	18,400	18,400	19,067
Effluent Disposal										
Effluent Recharge Basin Surface Acres	1.6	1.6	1.6	4.4	4.4	4.4	4.4	4.4	5.0	5.0
Effluent Recharge Vadose Zone Wells	6	6	6	20	20	20	20	20	32	32

¹ Million Gallons per Day

² Wastewater Engineering, Treatment and Reuse, Fourth Edition, by Metcalf & Eddy, Inc.

Source: District Operational Records