

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

Comprehensive Annual

Financial Report

for the fiscal years ended June 30, 2014 and 2013



© Lisa Barnes - Photography

(This page left blank intentionally)

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**2014 COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

for the fiscal years ended June 30, 2014 and 2013



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

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2014 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	26
Changes in Net Position, Last Ten Fiscal Years	A-2	27

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2014 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	28
Permits Issued, Active Accounts and Connected Units, Last Ten Fiscal Years	B-2	29
Select Revenues by Service Class, Last Ten Fiscal Years	B-3	30
Monthly Service Minimums, Usage Charges and Connection Fees by Service Class, Last Ten Fiscal Years	B-4	31
Debt Capacity		
Outstanding Debt Balances, Last Ten Fiscal Years	C-1	32
Debt Service Requirements, Last Ten Fiscal Years	C-2	33
Demographic and Economic Information		
Demographic Statistics – City of Apache Junction, Last Ten Fiscal Years	D-1	34
Principal Employers in the City of Apache Junction, Current Year and Nine Years Ago	D-2	35
Operating Information		
Budgeted Full Time Equivalent Employees by Function, Last Ten Fiscal Years	E-1	36
Operating and Capital Indicators, Last Ten Fiscal Years	E-2	37

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

INTRODUCTORY SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

District Officials



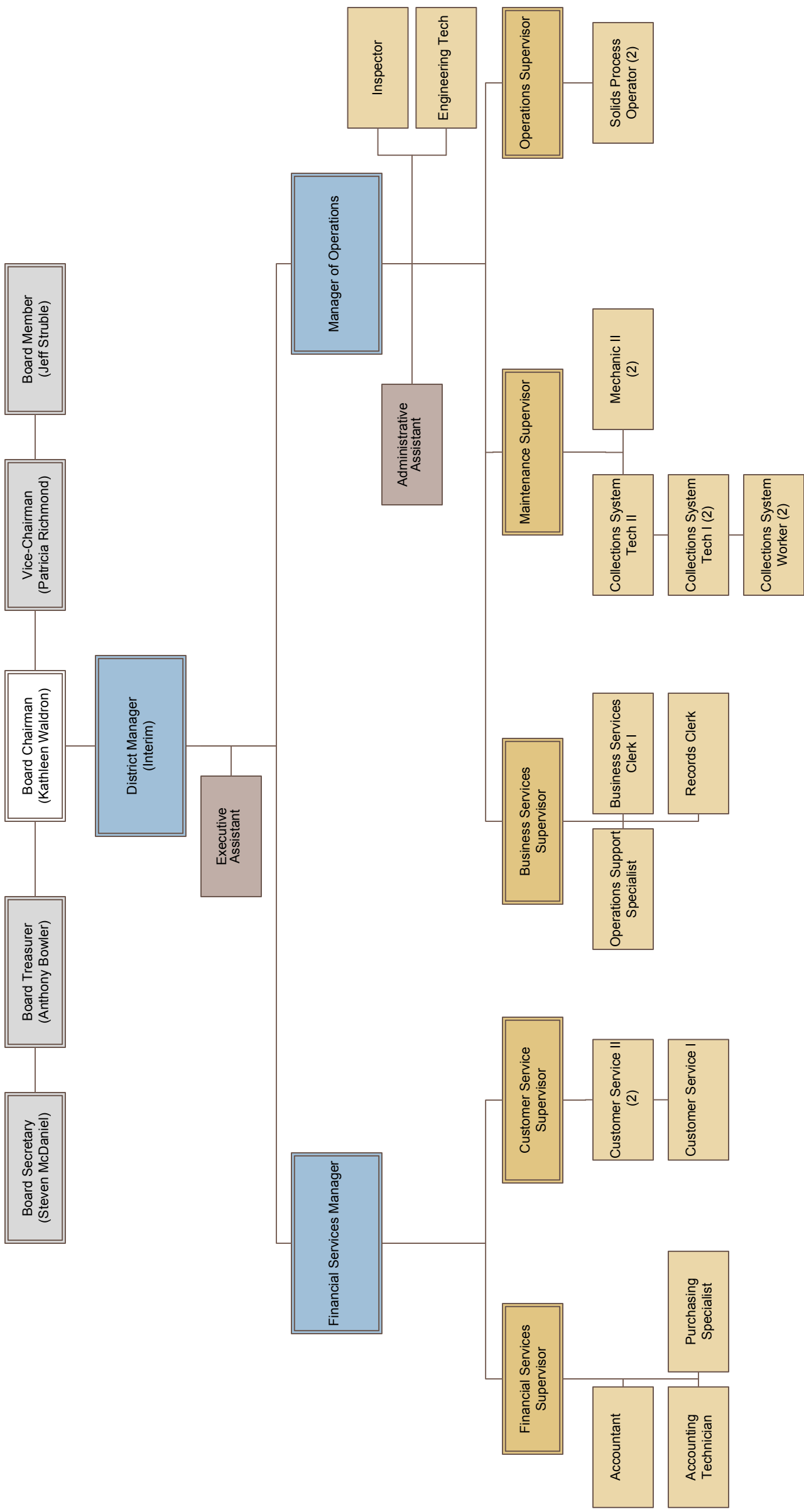
Board of Directors

Kathleen Waldron	Chairman
Patricia Richmond	Vice-Chairman
Steven McDaniel	Secretary
Anthony Bowler	Treasurer
Jeff Struble	Board Member

District Financial Management

Darron Anglin	Interim District Manager
Susan A. Sopko	Financial Services Manager
Maria N. Zagar	Financial Services Supervisor

Superstition Mountains Community Facilities District No. 1 Organization Chart





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, 2013

Executive Director/CEO



SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1

5661 S. Ironwood Drive
Apache Junction - Arizona 85120

October 16, 2014

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

Honorable Chairman and Members of the Board of Directors:

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, 2014. This is the fifth 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, 2014 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, 2014 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.

BACKGROUND INFORMATION ON THE DISTRICT

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.

The District's Board sets the District's long-term strategic direction and provides for funding by adopting an annual budget to meet the strategic objectives. The budget is adopted prior to the beginning of the fiscal year on July 1st.

ECONOMIC CONDITION AND OUTLOOK

Economic conditions during fiscal year 2014 were substantially unchanged from the prior year; local economic growth remained slow. The outlook for the early part of fiscal year 2015 calls for similar conditions. The unemployment rate continued its gradual decline; however, the level remains higher than pre-Great Recession levels¹. The dropping unemployment rate coupled with an anticipated rise in interest rates appears to indicate that the economy will resume growth in the very near future².

As the overall health of the national economy improved, new housing starts in many parts of the Phoenix metropolitan market showed improvement. However, new home construction in the Apache Junction market remained low and actually decreased from prior fiscal years. A reason for the local slowdown in new home construction and a significant challenge for the future is the lack of developable lots. At the close of fiscal year 2014, the highest volume developer in Apache Junction held fewer than 20 buildable home lots in inventory.

As we look toward fiscal year 2015, two proposed subdivisions are close to receiving final approval. Together, these projects will add 206 developable lots for the construction of new homes. Based on the current timeframe for construction, these subdivisions will not be ready to bring any new homes forward until the end of fiscal year 2015. Looking outside of these proposed subdivisions and into the future, a significant impediment to growth in the District's service area is the diminishing acreage that is available for future development. The majority of undeveloped land within the District's service area is State Trust Land. Until this land becomes available for development, new home construction in the City and the District's service area is likely to remain low compared to the surrounding areas.

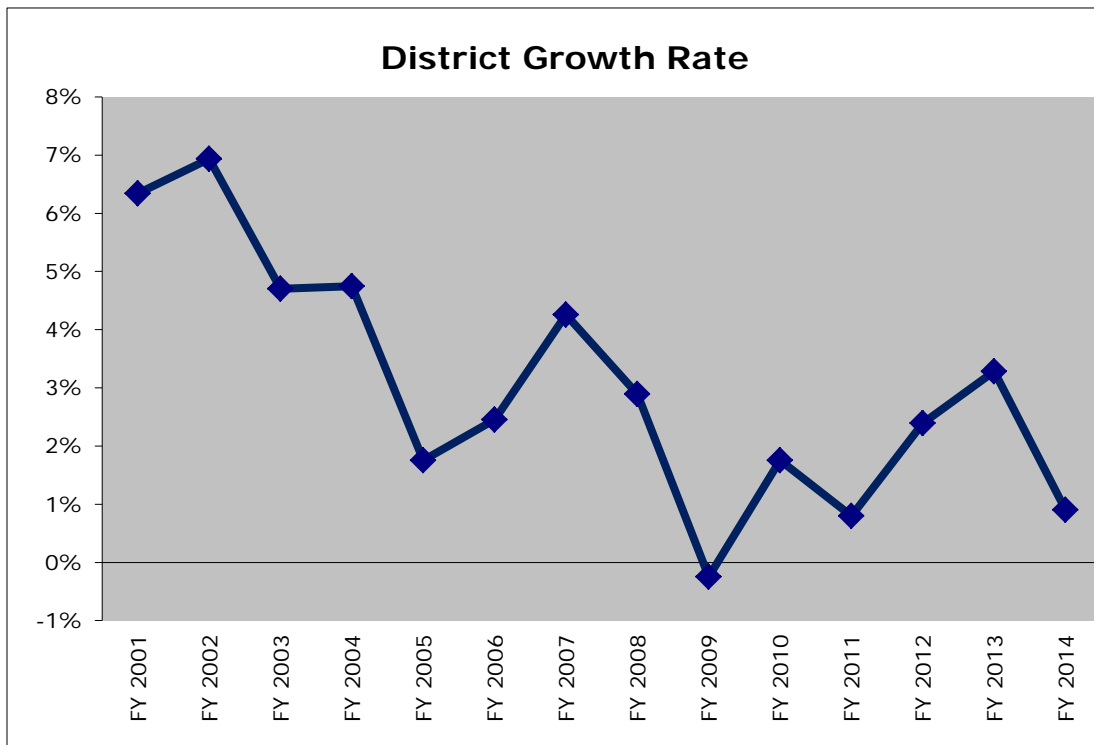
Although no significant growth is anticipated for the near term, the District can benefit from infill opportunities. A significant number of developed properties that can be served by the District are not yet connected to the sewer system because they are utilizing septic systems.

¹ U.S. Department of Labor, Bureau of Labor Statistics, *THE EMPLOYMENT SITUATION - AUGUST 2014*, NEWS RELEASE, <http://www.bls.gov/news.release/pdf/empisit.pdf> (5 Sept. 2014).

² Hilsenrath, Jon. "Fed Keeps Rate Unchanged, Sees Eventual Rise in 2015, 2016." *The Wall Street Journal*, (Dow Jones & Company) <http://online.wsj.com/articles/fed-ups-projections-for-short-term-interest-rates-1403114981> (18 June 2014).

Once these septic systems reach the end of their useful lives, these properties may become eligible to connect to the sewer system.

It is important to emphasize that the even though the local economy is expected to grow at a slow rate, the District is no longer dependent on growth to fund the repayment of its debt or most of the planned capital and replacement projects.



MAJOR INITIATIVES

Tertiary Filter

Wastewater treatment occurs in a series of steps that have increasing effectiveness and complexity; these steps are often referred to as primary, secondary and tertiary treatments. Primary treatment involves the most basic processes to remove suspended solid waste and reduce biochemical oxygen demand (BOD) – the amount of oxygen microorganisms must consume to breakdown the organic material present in the wastewater. Secondary treatment uses biological processes to reduce organic matter remaining after primary treatment. Microbes consume the organic matter as food, converting it to carbon dioxide, water and energy. Secondary treatment can remove up to 85 percent of BOD and total suspended solids. The highest level of wastewater treatment is tertiary treatment, which describes any

process that goes beyond the previous steps and can include the use of sophisticated technology to further remove contaminants or specific pollutants³.

The District currently provides secondary treatment with nutrient removal. The current treatment process is sufficient for the District to meet its environmental permit requirements. However, the level of suspended solids in the effluent has had a negative impact on the total volume of water that can be recharged into the aquifer. The solids accumulate over time and prevent effective percolation in the recharge beds and wells.

The District is committed to achieving 100% recharge of all effluent produced. To improve recharge capacity, the District will be purchasing and installing a tertiary rotating disk filter. The disk filter will provide a higher quality effluent with fewer suspended solids. The filter project is budgeted to begin during fiscal year 2015.

Re-rating of the Water Reclamation Facility

The District, working in conjunction with its engineering consultant, is moving forward with submittal of a request for a major amendment to its existing Aquifer Protection Permit (APP) issued by the Arizona Department of Environmental Quality (ADEQ). Over the past several years, the District has gathered data to support the re-rating of the plant's capacity. After evaluating the data, the District and its engineering consultant have concluded that the plant should be re-rated from 2.1 million gallons per day (MGD) to 2.79 MGD. This additional capacity will allow for the connection of over 3,000 new homes before it becomes necessary to physically expand the existing treatment plant. The documentation and plans must be submitted, reviewed and approved by ADEQ before the capacity increase can be formally recognized. This submittal should occur during fiscal year 2015.

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, 2013. This was the fourth year the District prepared a CAFR and the fourth time the District was honored with this prestigious award.

The District's Finance 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 N. Zagar, Financial Services Supervisor, 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. We are proud of the job that we are

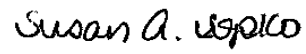
³ Malik, Omar, *Primary vs. Secondary: Types of Wastewater Treatment*, Environmental Performance Index, News & Insights, Case Study, <http://epi.yale.edu/case-study/primary-vs-secondary-types-wastewater-treatment>. [Original Source: Malik, Omar, Yale School of Forestry & Environmental Studies, Case Study]

doing today, and are committed to the long term success of the District in meeting the needs of our customers.

Respectfully submitted,

Handwritten signature of Darron Anglin in black ink, featuring a stylized 'D' and 'A'.

Darron Anglin
Interim District Manager

Handwritten signature of Susan A. Sopko in black ink, written in a cursive style.

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 Superstition Mountains Community Facilities District No. 1 (the District) as of June 30, 2014 and 2013, 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, 2014 and 2013, 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.

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.

Fester & Chapman P.C.

October 16, 2014

**SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL SUMMARY

- Net position increased by \$431 thousand to end the fiscal year at \$726 thousand.
- Cash, cash equivalents and investments increased \$310 thousand over fiscal year 2013.
- Liabilities decreased by over \$1.6 million reflecting the decrease in the outstanding debt.
- Operating revenues decreased by \$236 thousand, or 3%, from fiscal year 2013.
- Operating expenses decreased by \$13 thousand, or .24%, from fiscal year 2013.
- Net nonoperating expenses were almost \$1.1 million less than fiscal year 2013.
- Interest expense decreased by \$584 thousand, or 38%, from the prior year.

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, 2014, June 30, 2013 and June 30, 2012. 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, 2014</u>	<u>June 30, 2013</u>	Increase (Decrease)		<i>restated</i> <u>June 30, 2012</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Cash & cash equivalents	\$ 5,080,308	\$ 4,770,387	\$ 309,921	6.50%	\$ 5,552,038
Investments	-	-	-	n/a	3,376,566
Other current assets	1,086,358	1,062,613	23,745	2.23%	1,025,817
Capital assets	<u>19,241,132</u>	<u>20,762,360</u>	<u>(1,521,228)</u>	-7.33%	<u>21,011,530</u>
Total assets	25,407,798	26,595,360	(1,187,562)	-4.47%	30,965,951
Current liabilities	1,689,670	2,099,403	(409,733)	-19.52%	1,598,537
Long term liabilities					
Series 2013 bond	22,992,000	24,201,000	(1,209,000)	-5.00%	-
Series 2000 bond	<u>-</u>	<u>-</u>	<u>-</u>	n/a	<u>28,670,000</u>
Total liabilities	24,681,670	26,300,403	(1,618,733)	-6.15%	30,268,537
Net investment in capital asset	(3,520,176)	(3,106,982)	(413,194)	13.30%	(4,375,973)
Restricted	751,833	750,473	1,360	0.18%	4,711,386
Unrestricted	<u>3,494,471</u>	<u>2,651,466</u>	<u>843,005</u>	31.79%	<u>362,001</u>
Total net position	\$ 726,128	\$ 294,957	\$ 431,171	146.18%	\$ 697,414

The District's net position as of June 30, 2014, defined as total assets less total liabilities, increased by 146%, or \$431 thousand, from the prior year. Total assets decreased by 4.47% or \$1.2 million; total liabilities decreased \$1.6 million, or 6.15%.

The decrease in net position from June 30, 2012 to June 30, 2013 was \$402 thousand. A complete discussion of the decrease in net position from fiscal year 2012 to fiscal year 2013 can be found in the 2013 financial reports.

In 2013, 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 of \$830,479 which represented the unamortized bond issuance costs at that point in time. The District's financial statements and accompanying notes, schedules and exhibits reflect the results of this restatement for all years presented.

The combined decrease in Cash and cash equivalents and Investments was \$310 thousand when compared to fiscal year 2013. The decrease is largely attributed to a decrease in the Debt Service fund. The change from 2012 to 2013 was a result of the refinancing, which occurred in fiscal year 2013; \$2.8 million of reserves were applied toward the refunding of the Series 2000 bond. Cash and cash equivalents and Investments also decreased by \$750 thousand from 2012 to 2013 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 additions to Capital assets for fiscal year 2014 totaled \$174 thousand; after normal depreciation of \$1.8 million, Capital assets decreased by \$1.5 million. A summary of the components of Capital assets is provided in Table 4 and in Note 4 to the Financial Statements.

The decrease of \$410 thousand in Current liabilities and \$1.2 million in Long term liabilities is a result of adherence to the District's Series 2013 bond repayment schedule.

Cash, Cash Equivalents and Investments

<p style="text-align: center;">Table 2 Superstition Mountains Community Facilities District No. 1 Cash, Cash Equivalents and Investments</p>						
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	Increase (Decrease)		<u>June 30, 2012</u>	
			current year from prior			
			<u>Amount</u>	<u>Percentage</u>		
Checking accounts	\$ 2,888,784	\$ 2,244,255	\$ 644,529	28.72%	\$ 534,721	
Restricted funds						
Debt Service Fund(s)	186,645	524,804	(338,159)	-64.44%	1,042,114	
Debt Service Reserve	1,253,046	1,250,855	2,191	0.18%	2,640,383	
Capital Fund(s)	-	-	-	n/a	730,365	
Land Purchase Fund	-	-	-	n/a	2,368,585	
Operations Reserve	<u>751,833</u>	<u>750,473</u>	<u>1,360</u>	0.18%	<u>1,612,436</u>	
Total cash, cash equivalents and investments	\$ 5,080,308	\$ 4,770,387	\$ 309,921	6.50%	\$ 8,928,604	

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 fiscal year 2012, the restricted accounts were governed by the Trust Indenture between the District and its Trustee, on behalf of its former bondholder, Allstate Insurance.

Debt Service Fund

The Debt Service Fund serves to accumulate the full amount of the next debt payment due on the District's bonds, both principal and interest. As of June 30, 2014, the balance of \$187 thousand was held to meet the scheduled debt payment due on July 1, 2014.

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, 2014 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 fiscal year 2012, the District's Trust Indenture mandated a Debt Service Reserve requirement of \$2.68 million.

Capital Fund

The Capital Fund is not a restricted fund under the District's current Bond Resolution. The District continues to maintain a Capital and Replacement account for the acquisition of capital improvements, expansions, equipment and other capital items. The balance of \$1.4 million in the Capital and Replacement account is included with the Checking accounts for the year ended June 30, 2014.

In fiscal year 2012, the Trust Indenture contained restrictive language that governed the use of the Capital Funds.

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.

Operations Reserve

These monies serve to supplement shortfalls that may occur in other funds. This reserve can be used for District operations, capital acquisitions or debt repayment. Under the current Bond Resolution, the Operations Reserve is mandated to maintain a balance of \$750 thousand. In fiscal year 2012, the Operations Reserve consisted of two segments; the Operations Reserve segment was mandated by the Trust Indenture to maintain a balance of \$750 thousand and the District Reserve segment contained any funds collected in excess of budgeted needs during the fiscal year. For all years presented, the reserve balances met or exceeded required minimums.

CHANGES IN NET POSITION

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	Increase (Decrease) current year from prior		<i>restated</i>
			<u>Amount</u>	<u>Percentage</u>	<u>June 30, 2012</u>
Operating revenues					
Sewer services	\$ 5,780,527	\$ 5,619,503	\$ 161,024	2.87%	\$ 5,396,804
Connection fees	269,203	600,093	(330,890)	-55.14%	388,924
Septage charges	452,860	478,723	(25,863)	-5.40%	425,095
Recharge credit sales	169,493	179,507	(10,014)	-5.58%	178,676
Miscellaneous	<u>88,474</u>	<u>118,755</u>	<u>(30,281)</u>	-25.50%	<u>204,643</u>
Total operating revenue	6,760,557	6,996,580	(236,024)	-3.37%	6,594,142
Operating expenses	5,381,233	5,393,972	(12,739)	-0.24%	5,256,114
Operating income	1,379,324	1,602,608	(223,285)	-13.93%	1,338,028
Nonoperating income/(expense)					
Interest expense	(954,518)	(1,538,553)	584,035	-37.96%	(1,749,150)
Bond issuance costs	-	(343,980)	343,980	-100.00%	-
Other nonoperating	<u>6,365</u>	<u>(122,532)</u>	<u>128,897</u>	-105.19%	<u>4,621</u>
Total nonoperating revenue/(expense)	(948,153)	(2,005,065)	1,056,912	-52.71%	(1,744,529)
Increase/(decrease) in net position	\$ 431,171	\$ (402,457)	\$ 833,627	-207.13%	\$ (406,501)

Operating Revenues

Operating revenues decreased \$236 thousand or 3.37% from the prior year. A modest revenue gain was realized in Sewer services; however, all other revenue categories decreased from fiscal year 2013. In fiscal year 2013, operating revenues increased \$402 thousand over fiscal year 2012.

Revenue from Sewer services increased over the prior year because of modest rate increases as well as modest customer growth. Connection fees decreased by over 50% because of a drop in the number of new connections to the system. In fiscal year 2014, 66 permits were issued for connection to the sewer system compared to 217 in fiscal year 2013 and 162 in fiscal year 2012.

Septage charges, realized from commercial haulers who remove waste from septic tanks and transport it to the District's facility for treatment and disposal, decreased by \$26 thousand because of a decline in volumes transported by 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 2014 declined from the previous year because of maintenance performed

on the recharge facilities. The increase from fiscal year 2012 to fiscal year 2013 is attributed primarily to modest increases in flows recharged.

Miscellaneous revenues decreased by \$30 thousand from 2013 because of a continued reduction in disconnection activity and fewer non-recurring damage reimbursements.

Operating Expenses

Operating expenses decreased by \$13 thousand over fiscal year 2013. The most significant expense categories showing decreases were Administrative expense and Repairs and maintenance - Treatment facility. Categories showing increases were Payroll and payroll related and Depreciation and amortization. Administrative expense decreased in fiscal year 2014 because of expenses realized in the prior year to update the District's computer hardware and software. Payroll and payroll related expenses increased over the prior year because of budgeted wage increases and an increase in employee benefit costs.

Operating expenses increased \$138 thousand from fiscal year 2012 to fiscal year 2013. A discussion of this increase can be found in the fiscal year 2013 CAFR.

Nonoperating Revenues and Expenses

Total nonoperating expense decreased \$1.1 million over 2013. Interest expense decreased by \$584 thousand; Note 5 to the Financial Statements provides additional information about the District's outstanding bond debt. Bond issuance costs of \$344 thousand were recognized in fiscal year 2013 as a result of the District's debt refunding. These were expensed in accordance with GASB 65. Gain/(loss) on assets disposed was a \$116 thousand loss in fiscal year 2013 compared to a much smaller loss in 2014 and a slight gain in fiscal 2012.

Increase or Decrease in Net Position

The increase in net position for fiscal year 2014 of \$431 thousand reflects an improvement of \$834 thousand over the prior year result. Two primary factors for the improvement are the full year reduction of interest expense in fiscal year 2014 and the prior year recognition of bond issuance costs related to the debt refunding near the end of fiscal year 2013. The decrease in fiscal year 2013 of \$402 thousand was very similar to the decrease of \$407 thousand noted in fiscal year 2012. A discussion of these decreases can be found in the 2013 and 2012 CAFRs.

CAPITAL ASSETS

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	Increase (Decrease) current year from prior		<u>June 30, 2012</u>
			<u>Amount</u>	<u>Percentage</u>	
Land and easements	\$ 1,233,104	\$ 1,233,104	\$ -	0.00%	\$ 331,791
Treatment plant	15,140,640	15,107,408	33,232	0.22%	14,701,463
Collection system	22,400,686	22,400,686	-	0.00%	22,346,095
Buildings & grounds	645,200	645,200	-	0.00%	645,200
Machinery & equipment	2,876,016	2,578,906	297,110	11.52%	2,573,377
Office equipment & software	301,920	295,778	6,142	2.08%	295,778
Other intangibles	50,241	50,241	-	0.00%	50,241
Construction in process	<u>262,060</u>	<u>424,610</u>	<u>(162,550)</u>	-38.28%	<u>309,596</u>
Total capital assets	42,909,867	42,735,933	173,935	0.41%	41,253,541
Accumulated depreciation	<u>(23,668,735)</u>	<u>(21,973,573)</u>	<u>(1,695,162)</u>	7.71%	<u>(20,242,011)</u>
Net capital assets	\$ 19,241,132	\$ 20,762,360	\$ (1,521,227)	-7.33%	\$ 21,011,530

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 19 years of use, with a small portion of the sewer collection system in excess of 30 years of service.

In fiscal year 2014, modest increases were noted in Machinery and equipment. In fiscal year 2013, increases in Capital assets resulted primarily from the acquisition of buffer land for \$901 thousand, improvements at the Baseline Pump Station for \$341 thousand and a modest mainline extension for \$55 thousand.

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 2014, this ratio was 1.22; for 2013, this ratio was 1.07 because of the recognition of 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

As noted in prior years, revenue growth in fiscal year 2014 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 2014.

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 or visit our website at www.smcfd.org.

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF NET POSITION

June 30,

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,888,784	\$ 2,244,255
Cash and cash equivalents, restricted	186,645	524,804
Accounts receivable – sewage, net of allowance for doubtful accounts of \$58,747 and \$57,537	641,970	608,742
Accounts receivable - other	305,481	314,658
Inventory	22,796	30,707
Prepaid expenses	116,111	108,506
Total current assets	<u>4,161,787</u>	<u>3,831,672</u>
NONCURRENT ASSETS		
Capital assets:		
Capital assets not being depreciated	1,476,772	1,639,322
Capital assets, net of accumulated depreciation	<u>17,764,360</u>	<u>19,123,038</u>
Total capital assets	19,241,132	20,762,360
Other assets:		
Cash and cash equivalents, restricted	<u>2,004,879</u>	<u>2,001,328</u>
Total other assets	2,004,879	2,001,328
Total noncurrent assets	<u>21,246,011</u>	<u>22,763,688</u>
Total assets	<u>25,407,798</u>	<u>26,595,360</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	123,144	134,819
Accrued expenses	245,096	216,386
Accrued interest payable	77,645	257,803
Current portion, bonds payable	1,209,000	1,444,000
Unearned revenue	<u>34,785</u>	<u>46,395</u>
Total current liabilities	1,689,670	2,099,403
NONCURRENT LIABILITIES		
Long term debt:		
Series 2013 bonds payable, less current maturity	<u>22,992,000</u>	<u>24,201,000</u>
Total liabilities	24,681,670	26,300,403
NET POSITION		
Net investment in capital assets	(3,520,176)	(3,106,982)
Restricted by debt covenant for:		
Operations	751,833	750,473
Unrestricted	<u>3,494,471</u>	<u>2,651,466</u>
Total net position	<u>\$ 726,128</u>	<u>\$ 294,957</u>

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

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30,

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Net charges for services	\$ 6,049,730	\$ 6,219,595
Charges for septage	452,860	478,723
Sales of recharge credits	169,493	179,507
Miscellaneous	88,474	118,755
Total operating revenues	<u>6,760,557</u>	<u>6,996,580</u>
Operating expenses:		
Payroll and payroll related	2,444,042	2,382,128
Repairs and maintenance - treatment facility	257,555	321,320
Repairs and maintenance - other	6,875	3,738
Supplies and services - treatment facility	353,727	355,682
Accounting	14,950	14,950
Consulting	30,736	6,105
Administrative	313,841	398,788
Insurance	84,993	84,743
Legal	98,046	90,353
Depreciation and amortization	1,766,400	1,734,023
Miscellaneous	10,068	2,142
Total operating expenses	<u>5,381,233</u>	<u>5,393,972</u>
Operating income	1,379,324	1,602,608
Nonoperating revenues and (expenses):		
Interest income	13,075	3,852
Loss on equipment disposed	(6,710)	(116,384)
Trust management fees	-	(10,000)
Interest expense	(954,518)	(1,538,553)
Bond issuance costs	-	(343,980)
Total nonoperating revenues and (expenses)	<u>(948,153)</u>	<u>(2,005,065)</u>
Increase/(decrease) in net position	431,171	(402,457)
Total net position, July 1	<u>294,957</u>	<u>697,414</u>
Total net position, June 30	<u>\$ 726,128</u>	<u>\$ 294,957</u>

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

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF CASH FLOWS

Years Ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 6,724,896	\$ 6,963,187
Cash payments to suppliers for goods and services	(1,182,160)	(1,195,502)
Cash payments to employees for services	<u>(2,415,332)</u>	<u>(2,396,687)</u>
Net cash provided by operating activities	3,127,404	3,370,998
Cash flows from capital and related financing activities:		
Acquisition of structures, sewer improvements and equipment	(251,882)	(1,601,237)
Proceeds from refunding of bonds payable	-	26,182,000
Principal payments on bonds payable	(1,444,000)	(29,607,000)
Bond interest paid	(1,134,676)	(2,152,850)
Bond issuance costs	-	(343,980)
Trust management fees	<u>-</u>	<u>(10,000)</u>
Net cash used by capital and related financing activities	(2,830,558)	(7,533,067)
Cash flows from investing activities:		
Purchase of securities	-	(3,427,622)
Proceeds from securities matured or redeemed	-	6,804,188
Interest received from investing activities	<u>13,075</u>	<u>3,852</u>
Net cash provided by investing activities	13,075	3,380,418
Net change in cash	309,921	(781,651)
Cash and cash equivalents, beginning of year	<u>4,770,387</u>	<u>5,552,038</u>
Cash and cash equivalents, end of year	<u>\$ 5,080,308</u>	<u>\$ 4,770,387</u>
Cash and cash equivalents at June 30, 2014 and 2013 consist of:		
Unrestricted cash and cash equivalents	\$ 2,888,784	\$ 2,244,255
Restricted cash and cash equivalents, current	186,645	524,804
Restricted cash and cash equivalents, noncurrent	<u>2,004,879</u>	<u>2,001,328</u>
Total	<u>\$ 5,080,308</u>	<u>\$ 4,770,387</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,379,324	\$ 1,602,608
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,766,400	1,734,023
Changes in assets and liabilities:		
Accounts receivable - sewage	(33,228)	(71,414)
Accounts receivable - other	9,177	24,276
Inventory	7,911	427
Prepaid expenses	(7,605)	9,915
Accounts payable	(11,675)	71,977
Accrued expenses	28,710	(14,559)
Unearned revenue	<u>(11,610)</u>	<u>13,745</u>
Net cash provided by operating activities	<u>\$ 3,127,404</u>	<u>\$ 3,370,998</u>

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

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 accounting principles generally accepted in the United States of America 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 on July 1, 2012, by \$830,479, which is the amount of unamortized bond issuance costs at July 1, 2012.

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.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

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

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.

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.

Subsequent Events: Subsequent events have been evaluated through October 16, 2014, which was the date the District's financial statements were issued.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 2 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents at June 30, 2014 and 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.

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 are allocated as follows as of June 30,

	<u>2014</u>	<u>2013</u>
Principal and interest fund	\$ 186,645	\$ 524,804
Debt service reserve fund	1,253,046	1,250,855
Operations reserve fund	<u>751,833</u>	<u>750,473</u>
Total restricted cash and cash equivalents	<u>\$ 2,191,524</u>	<u>\$ 2,526,132</u>

NOTE 3 – CONCENTRATION OF CREDIT RISK

The District maintains its cash balances with financial institutions located in Phoenix, Arizona. At June 30, 2014 and 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.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
<u>Nondepreciable assets:</u>				
Land	\$ 1,122,238	\$ -	\$ -	\$ 1,122,238
Easements	92,474	-	-	92,474
Construction in process	424,610	116,913	(279,463)	262,060
<u>Depreciable assets:</u>				
Treatment plant	15,107,408	33,232	-	15,140,640
Collection system	22,400,686	-	-	22,400,686
Equipment	2,874,684	374,491	(71,239)	3,177,936
Buildings & grounds	645,200	-	-	645,200
Rights of way	18,392	-	-	18,392
Other intangible assets	50,241	-	-	50,241
Total assets	42,735,933	524,636	(350,702)	42,909,867
<u>Accumulated depreciation:</u>				
Treatment plant	(7,827,292)	(673,096)	-	(8,500,388)
Collection system	(11,577,151)	(748,180)	-	(12,325,331)
Equipment	(2,286,492)	(277,331)	71,238	(2,492,585)
Buildings & grounds	(267,906)	(65,274)	-	(333,180)
Rights of way	(12,080)	(844)	-	(12,924)
Other intangible assets	(2,652)	(1,675)	-	(4,327)
Total accumulated depreciation	(21,973,573)	(1,766,400)	71,238	(23,668,735)
Net capital assets	<u>\$ 20,762,360</u>	<u>\$ (1,241,764)</u>	<u>\$ (279,464)</u>	<u>\$ 19,241,132</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
<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	<u>\$ 21,011,530</u>	<u>\$ (29,984)</u>	<u>\$ (219,186)</u>	<u>\$ 20,762,360</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 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 fiscal years ended June 30, 2014 and 2013:

	Balance at July 1, 2013	Increases	Decreases	Balance at June 30, 2014
Series 2013 bonds:				
Current portion	\$ 1,444,000	\$ 1,209,000	\$ 1,444,000	\$ 1,209,000
Noncurrent portion	24,201,000	-	1,209,000	22,992,000
Total bonds payable	<u>\$ 25,645,000</u>	<u>\$ 1,209,000</u>	<u>\$ 2,653,000</u>	<u>\$ 24,201,000</u>

	Balance at July 1, 2012	Increases	Decreases	Balance at June 30, 2013
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>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 5 – LONG TERM DEBT (CONTINUED)

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>
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	1,898,000	664,654	2,562,654
2020 - 2024	12,092,000	2,054,305	14,146,305
2025 - 2026	4,136,000	112,234	4,248,234
Total	<u>\$ 24,201,000</u>	<u>\$ 6,135,459</u>	<u>\$ 30,336,459</u>

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, 2014, active ASRS members and employers were each required by statute to contribute at the actuarially determined rate of 11.54% (11.30% retirement and .24% long-term disability) of the members' annual covered payroll. Rates for the years ended June 30, 2013 and 2012 were 11.14% (10.90% retirement and .24% long term disability) and 10.74% (10.50% retirement and .24% long term disability) respectively. The District's contributions to ASRS for the years ended June 30, 2014, 2013 and 2012 were \$198,133, \$182,861 and \$181,788 respectively, which equaled the required contributions for each year.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of an Independent Consulting Contractor Agreement entered into on June 13, 2014 with the former District Manager, the District is obligated to make five monthly payments of \$7,200 each, totaling \$36,000, for consulting services to be performed from August 2014 through December 2014. The District did not record a liability for this amount as of June 30, 2014, since the consulting services had not commenced as of that date.

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.

(This page left blank intentionally)

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	28
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	28
These schedules contain information to assist the reader in assessing the District's most significant revenue source, sewer fees.	
Debt Capacity	32
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	34
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	36
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,									
	2005	2006	2007	2008	2009 ¹	2010	2011	2012	2013	2014
Net position:										
Net investment in capital assets	\$ 1,825,820	\$ 1,803,870	\$ 1,788,420	\$ 1,820,420	3,469,944	3,488,216	3,157,895	3,884,453		
Restricted by debt covenants for:					\$ (1,802,439)	\$ (2,752,352)	\$ (3,481,676)	\$ (4,375,973)	\$ (3,106,982)	\$ (3,520,176)
Debt service										
Capital acquisition					809,050	1,148,971	1,166,675	826,933	750,473	751,833
Operations	(764,661)	707,987	2,044,335	2,042,005	410,528	66,219	261,021	362,001	2,651,466	3,494,471
Unrestricted ²	\$ 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	\$ 726,128
Total net position										

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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating revenues:										
Charges for services	\$ 4,207,070	\$ 4,838,257	\$ 5,086,524	\$ 5,131,969	\$ 5,092,310	\$ 5,363,544	\$ 5,252,671	\$ 5,785,728	\$ 6,219,595	\$ 6,049,730
Charges for septage	386,691	382,572	404,169	388,145	411,627	421,608	500,324	425,095	478,723	452,860
Sales of recharge credits	27,882	74,717	135,201	154,364	158,326	110,210	139,385	178,676	179,507	169,493
Miscellaneous	76,978	63,057	73,723	122,621	203,750	171,994	236,669	204,643	118,755	88,474
Total operating revenue	4,698,621	5,358,603	5,709,617	5,797,099	5,866,013	6,067,356	6,123,049	6,594,142	6,996,580	6,780,557
Operating expenses:										
Payroll and payroll related	\$ 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	\$ 2,444,042
Repairs and maintenance - treatment facility	148,111	188,786	253,666	269,925	321,350	385,595	325,013	308,866	321,320	257,555
Repairs and maintenance - other	11,615	10,028	17,497	21,521	9,483	6,408	10,283	16,690	3,738	6,875
Supplies and services	227,838	291,449	315,232	338,507	315,627	346,623	330,145	357,845	355,682	353,727
Accounting	12,000	12,600	13,300	13,500	14,900	14,000	14,900	14,900	14,950	14,950
Consulting	59,716	51,436	37,672	43,924	154,309	14,903	22,893	41,698	6,105	30,736
Administrative	137,278	144,605	207,755	213,769	185,480	249,851	222,417	277,362	398,788	313,841
Insurance	88,107	88,961	85,082	84,451	79,525	71,563	74,546	75,234	84,743	84,993
Legal	63,804	72,429	93,545	97,645	96,575	63,810	162,865	66,978	90,353	98,046
Office rent	27,646	27,068	41,474	38,238	40,087	11,704	-	-	-	-
Depreciation and amortization ¹	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	1,766,400
Miscellaneous	383	110	189	3,235	21,000	504	383	511	2,142	10,068
Total operating expenses	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	5,381,233
Operating income	1,628,970	2,066,273	1,997,070	1,162,023	867,940	861,890	922,888	1,338,028	1,602,608	1,379,324
Nonoperating revenues and (expenses):										
Contributed capital assets	\$ 46,163	\$ 786,827	\$ 156,680	\$ 235,902	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mediation and litigation settlement	334,190	139,074	586,184	184,152	-	-	-	-	-	-
Interest income	110,390	273,306	397,785	263,587	52,658	3,598	10,180	6,944	3,852	13,075
Equipment scrapped or abandoned	29	(1,862)	-	-	(91,045)	(12,417)	(5,207)	5,677	(116,384)	(6,710)
Trust and cash management fees	(19,750)	(23,150)	(28,401)	(27,574)	(17,434)	(8,000)	(8,000)	(8,000)	(10,000)	-
Interest expense	(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)	(954,518)
Bond issuance costs	-	-	-	-	-	-	-	-	(343,980)	-
Total nonoperating revenue and (expense)	(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)	(948,153)
Change in net position	\$ 308,148	\$ 1,450,698	\$ 1,320,898	\$ 29,670	\$ (975,341)	\$ (936,029)	\$ (847,139)	\$ (406,501)	\$ (402,457)	\$ 431,171

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**

Customer Name ²	Year Ended June 30, 2014		Year Ended June 30, 2005	
	Sales	Percentage of Sales	Sales	Percentage of Sales
Coopers Sewer & Drain Inc	\$ 296,504	4.71%	\$ 187,879	4.51%
Golden Vista RV	177,651	2.82%	123,727	2.97%
Apache Junction Water Company	170,451	2.71%		
Roadhaven Resort	131,314	2.09%	46,142	1.11%
Rancho Mirage MHP	91,515	1.45%		
Leesburg Group/Rock Shadows	80,388	1.28%		
Superstition Falls Resort LLC	79,664	1.27%	59,470	1.43%
Desert Harbor	72,852	1.16%		
Indian Wells Apartments	70,304	1.12%		
Windsong Associates	49,393	0.78%		
AJUSD High School			96,612	2.32%
Frys Food Stores of AZ			52,607	1.26%
Windsong Associates			46,220	1.11%
Walmart			44,114	1.06%
Merril Gardens			42,251	1.01%
AJ Health Center			38,381	0.92%
Subtotal of ten largest customers	1,220,036	19.39%	737,403	17.70%
Balance from other customers	5,072,996	80.61%	3,428,386	82.30%
Total sewer, septage & recharge credit revenue	<u>\$ 6,293,032</u>	<u>100.00%</u>	<u>\$ 4,165,789</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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Single Family	90	179	210	80	15	125	63	151	207	58
Multi Family	73	18	6	8	7	18	0	1	4	2
RV & Mobile Home Parks	135	414	58	9	15	12	1	3	1	3
All Other	11	14	5	17	9	10	3	7	5	3
Total permits	309	625	279	114	46	165	67	162	217	66
% Change ²	48.56%	102.27%	-55.36%	-59.14%	-59.65%	258.70%	-59.39%	141.79%	33.95%	-69.59%

Service Class	ACTIVE ACCOUNTS									
	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009 ³	2010	2011	2012	2013	2014
Single Family	5,095	5,218	5,449	5,605	5,593	5,697	5,753	5,898	6,106	6,160
Multi Family	110	112	112	115	114	114	113	112	115	117
Undeveloped Land	73	71	71	70	65	57	53	52	46	44
RV Parks	25	25	25	25	25	25	25	25	25	26
Mobile Home Parks	24	24	25	26	26	26	26	27	27	28
Church/Government	33	34	36	36	37	40	40	41	41	41
Light Commercial	94	105	108	116	115	120	119	122	125	127
Medium Commercial	44	44	47	50	53	56	55	55	55	56
Heavy Commercial	6	6	6	6	6	5	5	5	5	5
Industrial	0	0	0	0	0	0	0	0	0	0
Total accounts	5,504	5,639	5,879	6,049	6,034	6,140	6,189	6,337	6,545	6,604
% Change ²	1.76%	2.45%	4.26%	2.89%	-0.25%	1.76%	0.80%	2.39%	3.28%	0.90%

Service Class	ACTIVE UNITS									
	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Single Family	5,096	5,220	5,452	5,609	5,595	5,700	5,757	5,903	6,113	6,166
Multi Family	1,060	1,069	1,073	1,085	1,085	1,075	1,059	1,057	1,069	1,079
Undeveloped Land ¹	352	337	337	326	310	251	246	244	238	234
RV Parks	3,700	4,764	4,764	4,764	4,754	4,774	4,774	4,774	4,774	4,793
Mobile Home Parks	1,761	2,235	2,299	2,308	2,317	2,332	2,333	2,331	2,332	2,366
All other	177	189	197	208	211	221	219	223	226	229
Total units	12,146	13,814	14,122	14,300	14,272	14,353	14,388	14,532	14,752	14,867
% Change ²	1.96%	13.73%	2.23%	1.26%	-0.20%	0.57%	0.24%	1.00%	1.51%	0.78%

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-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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Single Family	\$ 30.85	\$ 31.55	\$ 32.40	\$ 33.50	\$ 34.60	\$ 35.80	\$ 37.00	\$ 38.15	\$ 39.35	\$ 40.55
Multi Family ¹	24.25	25.70	26.40	27.30	28.20	29.20	30.20	31.15	32.15	33.10
Undeveloped Land ²	7.10	7.25	7.45	7.70	7.95	8.25	8.55	8.80	9.10	9.35
RV Parks ¹	7.15	7.40	7.60	7.85	8.10	8.40	8.70	8.95	9.25	9.55
Mobile Home Parks ¹	12.25	16.25	16.70	17.25	17.80	18.40	19.00	19.60	20.20	20.80
Church/Government	30.85	31.55	32.40	33.50	34.60	35.80	37.00	38.15	39.35	40.55
Light Commercial	36.50	37.45	38.50	39.80	41.10	42.55	44.00	45.40	46.85	48.25
Medium Commercial	41.00	42.10	43.25	44.70	46.15	47.75	49.35	50.90	52.50	54.10
Heavy Commercial	46.25	46.80	48.10	49.75	51.35	53.15	54.95	56.70	58.50	60.25
Industrial	108.50	112.30	115.40	119.20	123.05	127.35	131.60	135.75	140.05	144.25

Service Class	USAGE CHARGES, per gallon ³									
	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
RV Parks	\$ 0.192	\$ 0.213	\$ 0.219	\$ 0.226	\$ 0.234	\$ 0.242	\$ 0.250	\$ 0.258	\$ 0.266	\$ 0.274
Mobile Home Parks	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258	0.266	0.274
Church/Government	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258	0.266	0.274
Light Commercial	0.192	0.213	0.219	0.226	0.234	0.242	0.250	0.258	0.266	0.274
Medium Commercial	0.212	0.240	0.246	0.254	0.263	0.271	0.280	0.289	0.298	0.307
Heavy Commercial	0.238	0.266	0.274	0.283	0.292	0.302	0.312	0.322	0.332	0.342
Industrial	0.573	0.639	0.657	0.678	0.700	0.724	0.748	0.771	0.796	0.820

Service Class	MINIMUM CONNECTION FEES									
	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Single Family	\$ 2,300	\$ 2,500	\$ 2,575	\$ 2,750	\$ 2,850	\$ 2,950	\$ 3,050	\$ 3,145	\$ 3,245	\$ 3,340
Multi Family ¹	1,150	2,040	2,100	2,250	2,350	2,430	2,510	2,590	2,670	2,750
RV Parks ¹	460	585	605	650	675	700	725	750	775	800
Mobile Home Parks ¹	460	1,290	1,330	1,425	1,480	1,530	1,580	1,630	1,680	1,730
Church/Government	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340
Light Commercial	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340
Medium Commercial	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340
Heavy Commercial	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340
Industrial	2,300	2,500	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340

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	
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)	-	25,645,000	(1,444,000)	24,201,000	1,738
2014	-	-	-	-				1,628

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	
2005	5,189,364	1,824,083	3,365,281	33,866	1,791,844	1,825,710	1.10
2006	6,557,810	2,022,043	4,535,767	30,000	1,789,770	1,819,770	1.10
2007	6,850,266	2,370,050	4,480,216	-	1,788,420	1,788,420	1.10
2008	6,480,740	3,128,296	3,352,444	-	1,788,420	1,788,420	1.10
2009	5,918,671	3,425,819	2,492,852	67,000	1,787,460	1,854,460	1.10
2010	6,090,954	3,548,067	2,542,887	220,000	1,781,100	2,001,100	1.10
2011	6,139,229	3,487,462	2,651,767	285,000	1,767,000	2,052,000	1.10
2012	6,601,086	3,446,581	3,154,505	335,000	1,749,150	2,084,150	1.10
2013	7,000,432	4,130,313	2,870,119	1,034,000	1,538,553	2,572,553	1.12 ⁴
2014	6,773,632	3,621,543	3,152,089	1,286,000	954,518	2,240,518	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 1.20.

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
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	37,246	21,315	unavailable	9.6%
2014	37,242	unavailable	unavailable	8.2%

Source: City of Apache Junction, Office of Economic Development

**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>Employer</u>	<u>Year ended June 30, 2014</u>		<u>Year ended June 30, 2005</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>
Apache Junction Unified School District #43	607	4.91%	610	4.45%
Wal-Mart Supercenter Store # 1831	352	2.85%	620	4.53%
Mountain Health and Wellness*	238	1.93%	122	0.89%
City of Apache Junction	221	1.79%	278	2.03%
Apache Junction Fire District	81	0.66%	73	0.53%
Banner Goldfield**	80	0.65%	115	0.84%
Robert Horne Ford/Hyundai***	79	0.64%	150	1.10%
United States Postal Service	75	0.61%	107	0.78%
Empire Southwest	53	0.43%		
Walgreens	53	0.43%		
Fry's Food and Drug	49	0.40%	130	0.95%
Pinal County - AJ Roy Hudson Complex	47	0.38%		
Central Arizona College - Superstition Mtn	41	0.33%		
Safeway Stores			125	0.91%
Total	<u>1,976</u>	<u>16.00%</u>	<u>2,330</u>	<u>17.01%</u>

Source: City of Apache Junction, Office of Economic Development

* Formerly Superstition Mountain Mental Health Center

** Formerly Apache Junction Medical Center

*** Formerly Earnhardt Ford

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

Division	Fiscal Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	3.00	3.00	3.00	3.00	3.00	3.00	1.00
Finance	2.00	2.00	2.00	3.00	3.25	3.60	3.60	3.60	3.60	3.70
Business Services	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00	3.00	4.00
Customer Service	2.00	3.25	4.75	4.00	3.75	4.00	4.00	4.00	5.00	4.60
Total Administrative Division	7.00	8.25	9.75	13.00	13.00	13.60	13.60	13.60	15.60	14.30
Operations Division										
Manager of Operations	-	-	1.00	1.00	1.00	-	-	-	1.00	1.00
Operations Administration	-	-	1.00	2.00	2.00	2.00	2.00	2.00	3.00	3.00
Treatment Plant	6.00	8.00	8.00	8.00	8.00	8.00	8.00	7.00	7.00	6.00
Collection System	4.00	5.00	5.00	7.00	7.00	6.00	6.00	6.00	5.00	5.00
Total Operations Division	10.00	13.00	15.00	18.00	18.00	16.00	16.00	15.00	16.00	15.00
Total	17.00	21.25	24.75	31.00	31.00	29.60	29.60	28.60	31.60	29.30

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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Collection System										
Miles of Collection Mains <12" dia.	87.7	88.1	92.0	93.0	93.0	93.2	93.9	94.5	95.5	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	5,432	5,570	5,811	5,983	5,971	6,086	6,140	6,290	6,506	6,566
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	1.23	1.31	1.36	1.40	1.43	1.41	1.38	1.38	1.43	1.37
% of Total Permitted Capacity	57.5%	61.2%	63.6%	65.4%	66.8%	65.9%	64.5%	64.5%	66.8%	64.0%
Population Served (75 gpd/pop. eq.) ²	16,400	17,467	18,133	18,667	19,067	18,800	18,400	18,400	19,067	18,267
Effluent Disposal										
Effluent Recharge Basin Surface Acres	1.6	1.6	4.4	4.4	4.4	4.4	4.4	5.0	5.0	5.0
Effluent Recharge Vadose Zone Wells	6	6	20	20	20	20	20	32	32	32

¹ Million Gallons per Day

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

Source: District Operational Records