

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

Comprehensive Annual

Financial Report

for the fiscal years ended June 30, 2016 and 2015



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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**2016 COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

for the fiscal years ended June 30, 2016 and 2015



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

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

INTRODUCTORY SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2016 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2016 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

District Officials



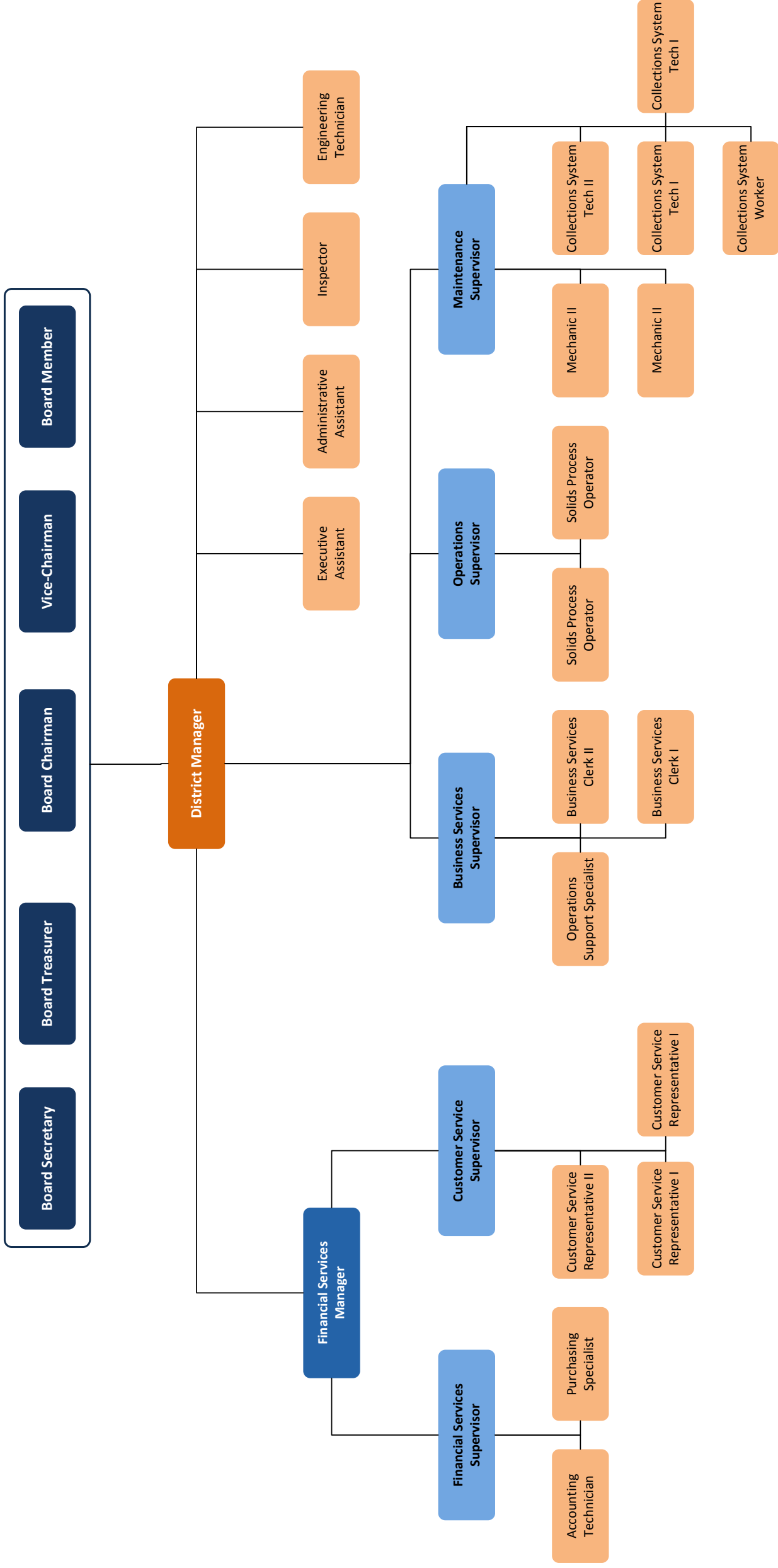
Board of Directors

Kathleen Waldron	Chairman
Anthony Bowler	Vice-Chairman
Steven McDaniel	Secretary
Jeff Struble	Treasurer
Chester Burgess	Board Member

District Financial Management

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

Superstition Mountains Community Facilities District No. 1 Organizational 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, 2015

Executive Director/CEO



SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1

5661 South Ironwood Drive | Apache Junction, Arizona 85120

(480) 941-6754 | Fax (480) 671-3180 | www.smcfcd.org

November 18, 2016

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:

I am 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, 2016. This is the seventh consecutive 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, 2016 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, 2016 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 (ARS). The District was formed to provide sewer service for the City of Apache Junction (City) area.

When Apache Junction was incorporated in 1978, septic tanks 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.

The City sought voter approval to form a utility department but was unsuccessful. As an alternative to municipal service, and 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.

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 29, 1994, the District was expanded to include 2,388 total parcels of land.

The District is governed by a five member Board of Directors, appointed by the City Council. The Board has the authority to 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 Operating Policies and Procedures. Such resolutions have substantially the same purpose as the ordinances of a local governmental entity.

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

ECONOMIC CONDITION AND OUTLOOK

Growth in the local economy in Apache Junction during fiscal year 2016 remained slow, similar to the prior years. The District did, however, realize an increase in new customers and revenue from new connections. A noteworthy portion of these connections resulted from the connection of existing homes. Many homes and businesses in the District's service area are currently utilizing septic systems. As the septic systems fail, these properties are required to connect to the sewer resulting in additional customers independent of new home construction.

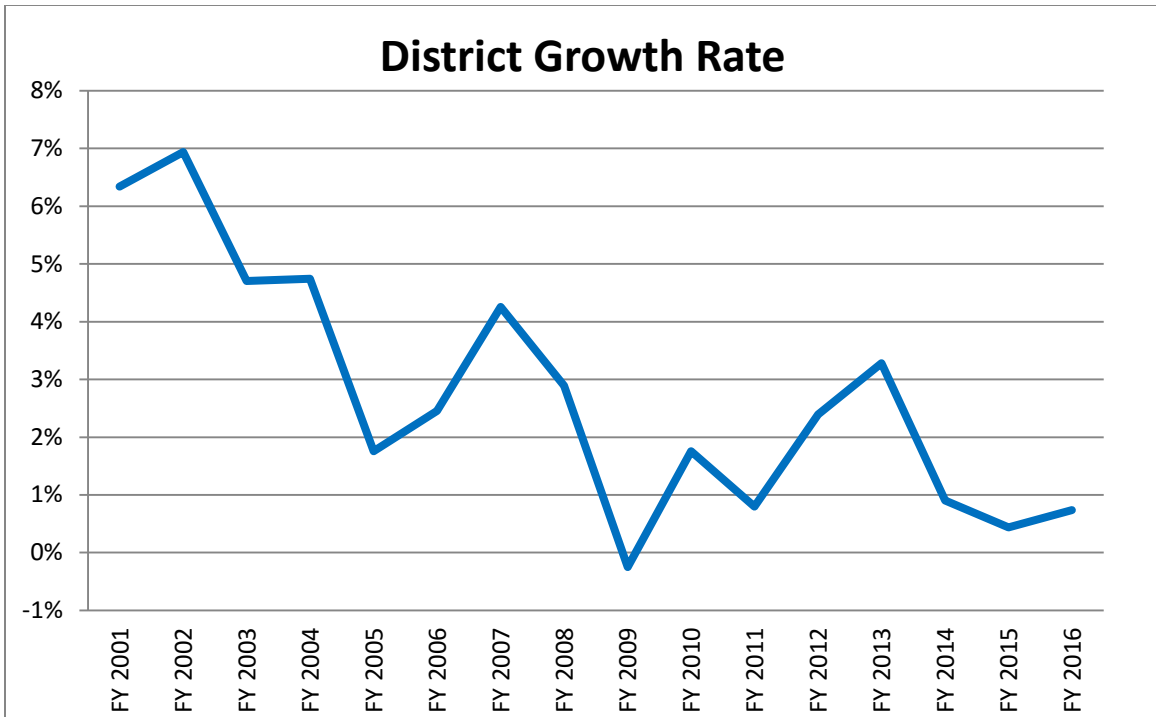
The fiscal year 2017 economic outlook anticipates a slight increase in growth due to projects currently under construction; these include three residential subdivisions and one larger commercial development. The residential subdivisions, which will add 235 developable lots, are located in different areas of the City and are targeted to different demographics. This diversity may help to increase future growth in the new residential construction sector. The commercial development includes a Fry's Marketplace and surrounding lots that will be made ready for other commercial development. While a portion of the benefits of this new construction will be realized during fiscal year 2017, the majority will not be seen until fiscal year 2018 when the construction is complete and these lots are ready for development.

Looking forward, a significant challenge for new residential construction in Apache Junction is the lack of developable lots. The lots that are currently under construction will help fulfill this need for several years. However, the amount of privately owned developable land within the City is very limited. For the City to continue grow, the State Trust Land must become available for development. Until this land is available, new home construction in the City, which corresponds largely with the District's service area, is likely to remain low when compared to surrounding areas.

Other economic factors which could have a bearing on future conditions include the unemployment rate, interest rates and the upcoming election. The unemployment rate showed minor improvement year over year¹ and interest rates remain near historic lows. As long as these trends continue, interest rates will not be a hindrance for future economic development in this area. Future changes in policies based on the election may work to help the economy grow or cause it to remain in its current state². Although economic growth is important, the District is not dependent upon growth to fund the repayment of its existing debt, continued operation or most of the planned capital and replacement projects.

¹ U.S. Department of Labor, Bureau of Labor Statistics, *THE EMPLOYMENT SITUATION - SEPTEMBER 2016*, NEWS RELEASE, <http://www.bls.gov/news.release/pdf/empsit.pdf> (7 Oct. 2016).

² Elliot D. Pollack & Company, The Monday Morning Quarterback, http://www.edpco.com/files/MMQ_101116.pdf (10 Oct. 2016).



FINANCIAL POLICIES AND PRACTICES

The District’s Bond Resolution with its bondholder mandates that certain financial performance measures are maintained. The District follows very conservative budgeting and expense management practices to ensure full compliance with these performance measures.

MAJOR INITIATIVES

Capital Improvements

The District just completed some of the largest capital replacement projects in its history. The projects included liner replacement for the aeration basins, air piping replacements and grading and drainage improvements. These improvements were completed and funded by the District without the need for additional debt.

Capital improvement initiatives for fiscal year 2017 include replacement of the mechanical bar screen at the headworks of the treatment facility, more efficient blowers that supply air for the wastewater treatment process and a tertiary filter. These projects are designed to replace aged equipment and help improve efficiencies. A significant portion of the capital budget for fiscal year 2017 is also planned for the replacement of the District’s sewer cleaning machine. The sewer cleaning machine allows the District to properly maintain the sewer collection system.

Regulatory Permits

As the District plans and prepares for replacements and other improvements at the treatment facility, it has realized the need to amend and update its regulatory permits. Although changing the regulatory permits is required for some of the proposed improvements, modifying the permit can have the effect of increasing regulatory requirements such as sampling and testing. The District will engage a consultant to assist the District with planning and evaluating these permit changes.

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, 2015. This was the sixth year the District prepared a CAFR and 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 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 doing today and are committed to the future long term success of the District in meeting the needs of our customers.

Respectfully submitted,



Darron Anglin
District 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, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2016 and 2015, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4–11, Schedule of the District's Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plan on page 28, and Schedule of the District Pension Contributions on page 29 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Fester & Chapman P.C.

November 18, 2016

**SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

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, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL SUMMARY

- Net position increased \$1.2 million during fiscal year 2016.
- Cash and cash equivalents decreased by \$128 thousand over fiscal year 2015.
- Liabilities decreased by \$1.6 million primarily as a result of the decrease in outstanding debt.
- Operating revenues increased by \$336 thousand over 2015.
- Operating expenses decreased by \$65 thousand from fiscal year 2015.
- Payroll and payroll related expense decreased \$220 thousand from fiscal year 2015.
- Net nonoperating expenses were \$196 thousand lower than fiscal year 2015.
- Interest expense decreased by \$52 thousand, or 6%, 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

Table 1 summarizes the total assets, liabilities and net position of the District for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014. The information for fiscal year 2016 is provided in greater detail in the basic financial statements which follow this analysis.

NET POSITION

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	Increase (Decrease) current year from prior		<i>restated</i> <u>June 30, 2014</u>
			<u>Amount</u>	<u>Percentage</u>	
Cash & cash equivalents	\$ 5,776,744	\$ 5,904,483	\$ (127,739)	-2.16%	\$ 5,080,308
Other current assets	1,002,534	1,024,414	(21,880)	-2.14%	1,086,358
Capital assets	<u>17,648,871</u>	<u>17,841,025</u>	<u>(192,154)</u>	-1.08%	<u>19,241,132</u>
Total assets	24,428,149	24,769,922	(341,773)	-1.38%	25,407,798
Deferred outflows	<u>273,768</u>	<u>382,303</u>	<u>(108,535)</u>	-28.39%	-
Current liabilities	2,107,492	1,932,069	175,423	9.08%	1,689,670
Long term liabilities					
Series 2013 bond	19,897,000	21,489,000	(1,592,000)	-7.41%	22,992,000
Net pension liability	<u>2,629,294</u>	<u>2,821,146</u>	<u>(191,852)</u>	-6.80%	<u>2,892,069</u>
Total liabilities	24,633,786	26,242,215	(1,608,429)	-6.13%	27,573,739
Deferred inflows	<u>472,226</u>	<u>493,331</u>	<u>(21,105)</u>	-4.28%	-
Net investment in					
capital assets	(2,388,456)	(3,722,547)	1,334,091	35.84%	(3,520,176)
Restricted	751,613	751,574	39	0.01%	751,833
Unrestricted	<u>1,232,748</u>	<u>1,387,652</u>	<u>(154,904)</u>	-11.16%	<u>602,402</u>
Total net position (deficit)	\$ (404,095)	\$ (1,583,321)	\$ 1,179,226	74.48%	\$ (2,165,941)

The District's net position as of June 30, 2016 improved by 74%, or \$1.2 million, from the prior year. Total assets decreased by 1.4% or \$342 thousand; total liabilities decreased 6.13% or \$1.6 million.

The increase in net position from June 30, 2014 to June 30, 2015 was \$582.6 thousand. A complete discussion of the increase in net position from fiscal year 2014 to fiscal year 2015 can be found in the 2015 financial reports.

In 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. The objective of this Statement is to improve accounting and financial reporting for pensions. The District does not offer its own pension plan, but instead participates in the Arizona State Retirement System (ASRS) which administers a cost-sharing, multiple-employer, defined benefit pension plan. Thus, the majority of the information required to implement GASB Statement No. 68 was

provided by the ASRS in their audited Schedules of Employer Allocations and Schedule of Pension Amounts by Employer.

As part of the implementation, the District recorded an adjustment to fiscal year ended June 30, 2014 to reflect a net pension liability of \$2,892,069 and a corresponding decrease in unrestricted net position. This liability will be adjusted each fiscal year from 2014 forward.

The net pension liability is not a liability that must be satisfied in a traditional sense. The ASRS describes the liability as “an accounting estimate of the District’s proportional share of the actuarial present value of projected long term benefits, at a point-in-time, that is attributed to past periods of ASRS member service, under the Entry Age Cost actuarial method, less the plan’s fiduciary net position.” In simpler terms, it is the District’s share of the ASRS retirement plan funding shortfall.

GASB Statement No. 68 also mandates that the following amounts related to pensions be recognized and classified as either deferred outflows of resources or deferred inflows of resources accordingly:

- a. Differences between expected and actual experience in the measurement of the total pension liability;
- b. Changes of assumptions or other inputs;
- c. Net difference between projected and actual earnings on pension plan investments;
- d. Changes in the employer’s proportion and differences between the employer’s contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan) and the employer’s proportionate share of contributions; and
- e. Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer’s reporting period should be reported as a deferred outflow of resources related to pensions.

Thus, effective with fiscal year 2015, the District’s Statements of Net Position reflect deferred outflows and deferred inflows of resources related to pensions.

Note 6 to the Financial Statements provides additional information about the District's pension obligation.

The decrease in Cash and cash equivalents was \$128 thousand when compared to fiscal year 2015. The decrease is largely attributed to a decrease in the Capital and Replacement account. A summary of the components of Cash and cash equivalents is provided in Table 2.

Net additions to Capital assets for fiscal year 2016 totaled \$1.5 million; after normal depreciation of \$1.8 million, Capital assets decreased by \$192 thousand. A summary of the components of Capital assets is provided in Table 4 and in Note 4 to the Financial Statements.

The decrease of \$1.6 million in Total liabilities is a result of adherence to the District's Series 2013 bond repayment schedule.

CASH AND CASH EQUIVALENTS

Table 2					
Superstition Mountains Community Facilities District No. 1					
Cash and Cash Equivalents					
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	Increase (Decrease)		<u>June 30, 2014</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Checking accounts	\$ 3,573,458	\$ 3,724,481	\$ (151,023)	-4.05%	\$ 2,888,784
Restricted funds					
Debt Service Fund	198,944	175,766	23,178	13.19%	186,645
Debt Service Reserve	1,252,729	1,252,662	67	0.01%	1,253,046
Operations Reserve	<u>751,613</u>	<u>751,574</u>	<u>39</u>	0.01%	<u>751,833</u>
Total cash and cash equivalents	\$ 5,776,744	\$ 5,904,483	\$ (127,739)	-2.16%	\$ 5,080,308

The District's checking accounts are used to accumulate daily receipts for services provided and to disburse periodic payments for payroll, goods and services received. The decrease of \$128 thousand over the prior year is the result of a decrease in the Capital and Replacement account.

In addition to the checking accounts, 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.

Debt Service Fund

The Debt Service Fund serves to accumulate the full amount of the next monthly debt payment due on the District's bonds, both principal and interest. As of June 30, 2016, the balance of \$198.9 thousand was held to meet the scheduled debt payment due on July 1, 2016. The balances on hand at June 30, 2015 and 2014 were deposited to make the scheduled debt payment due on July 1, 2015 and 2014, respectively.

Debt Service Reserve

The Debt Service Reserve Fund represents a supplemental source of funds to make scheduled payments on the bond debt. The balances at June 30, 2016, 2015 and 2014 slightly exceed 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.

Operations Reserve

Funds in the Operations Reserve can be used 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. The balances at June 30, 2016, 2015 and 2014 slightly exceed the requirement because of the accumulation of interest. Funds in excess of \$750 thousand are available to be transferred to an unrestricted account in January and July of each year.

CHANGES IN NET POSITION

Table 3					
Superstition Mountains Community Facilities District No. 1					
Changes in Net Position					
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	Increase (Decrease)		<i>restated</i> <u>June 30, 2014</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Operating revenues					
Sewer services	\$ 6,170,182	\$ 6,002,153	\$ 168,029	2.80%	\$ 5,780,527
Connection fees	227,980	133,700	94,280	70.52%	269,203
Septage charges	486,841	408,143	78,698	19.28%	452,860
Recharge credit sales	142,172	129,105	13,067	10.12%	169,493
Miscellaneous	<u>70,300</u>	<u>88,258</u>	<u>(17,958)</u>	-20.35%	<u>88,474</u>
Total operating revenues	7,097,475	6,761,359	336,116	4.97%	6,760,557
Operating expenses	5,061,715	5,126,570	(64,855)	-1.27%	5,381,233
Operating income	2,035,760	1,634,789	400,971	24.53%	1,379,324
Nonoperating revenue/(expense)					
Interest expense	(854,437)	(906,489)	(52,052)	-5.74%	(954,518)
Other nonoperating	<u>(2,097)</u>	<u>(145,680)</u>	<u>(143,583)</u>	-98.56%	<u>6,365</u>
Total nonoperating revenue/(expense)	(856,534)	(1,052,169)	(195,635)	-18.59%	(948,153)
Increase in net position	\$ 1,179,226	\$ 582,620	\$ 596,606	102.40%	\$ 431,171
Net position - beginning	(1,583,321)	(2,165,941)	582,620	26.90%	294,957
Restatement for GASB 68	<u>-</u>	<u>-</u>	<u>-</u>	n/a	<u>(2,892,069)</u>
Net position - ending	\$ (404,095)	\$ (1,583,321)	\$ 1,179,226	74.48%	\$ (2,165,941)

Operating Revenues

Operating revenues increased \$336 thousand or 4.97% from the prior year. Revenue gains were realized in Sewer services, Connection fees and Septage charges where income increased \$168 thousand, \$94 thousand and \$79 thousand respectively over fiscal year 2015. In fiscal year 2015 operating revenues remained virtually unchanged over fiscal year 2014.

Revenue from Sewer services increased over the prior year because of a 2.3% rate increase as well as customer growth. In fiscal year 2016, 75 permits were issued for connection to the sewer system compared to 59 in fiscal year 2015 and 74 in fiscal year 2014. 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 because of 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, operating as Apache Junction Water District, the Central Arizona Water Conservation District and Roadhaven RV Resort HOA. Revenues realized from recharge activities in fiscal year 2016 increased \$13 thousand from the previous year because of increased volumes.

Miscellaneous revenues decreased by \$18 thousand primarily because of a reduction in disconnection activity.

Operating Expenses

Operating expenses decreased \$65 thousand from fiscal year 2015. The most significant expense categories showing decreases were Payroll and payroll related and Legal. Categories showing increases were Repairs and maintenance – treatment facility, Administrative and Depreciation and amortization. Payroll and payroll related expense decreased \$220 thousand in fiscal year 2016 primarily due to the decrease in ASRS pension expense and decreases in employee benefit costs. Legal expense was lower in 2016 because of fewer demands for general services. Increases to Repairs and maintenance – treatment facility of \$118 thousand can be largely attributed to improvements made to the aeration basins. Administrative expense increased in fiscal year 2016 because of costs related to the updating of District computer hardware and software.

Operating expenses decreased \$255 from fiscal year 2014 to fiscal year 2015. A discussion of this decrease can be found in the fiscal year 2015 CAFR.

Nonoperating Revenues and Expenses

Total nonoperating expense decreased \$196 thousand over 2015. Interest expense decreased by \$52 thousand; Note 5 to the Financial Statements provides additional information about the District's outstanding bond debt. Losses on assets disposed totaled \$14 thousand in fiscal year 2016 compared to \$157 thousand in fiscal year 2015 and \$7 thousand in fiscal year 2014.

Increase or Decrease in Net Position

The increase in net position for fiscal year 2016 of \$1.18 million reflects an improvement of \$597 thousand over the prior year result. The primary factor for the improvement can be tied the increase in operating revenues. The increase from fiscal year 2014 to 2015 resulted primarily from operating expense control.

CAPITAL ASSETS

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	Increase (Decrease) current year from prior		<u>June 30, 2014</u>
			<u>Amount</u>	<u>Percentage</u>	
Land and easements	\$ 1,229,706	\$ 1,229,706	\$ -	0.00%	\$ 1,233,104
Treatment plant	15,869,412	15,231,776	637,636	4.19%	15,140,640
Collection system	22,756,225	22,502,932	253,293	1.13%	22,400,686
Buildings & grounds	788,655	754,299	34,356	4.55%	645,200
Machinery & equipment	3,242,668	2,923,480	319,188	10.92%	2,876,016
Office equipment & software	336,110	320,393	15,717	4.91%	301,920
Other intangibles	50,241	50,241	-	0.00%	50,241
Construction in process	<u>437,594</u>	<u>202,188</u>	<u>235,406</u>	116.43%	<u>262,060</u>
Total capital assets	44,710,611	43,215,015	1,495,596	3.46%	42,909,867
Accumulated depreciation	<u>(27,061,740)</u>	<u>(25,373,990)</u>	<u>(1,687,750)</u>	6.65%	<u>(23,668,735)</u>
Net capital assets	\$ 17,648,871	\$ 17,841,025	\$ (192,154)	-1.08%	\$ 19,241,132

Capital Assets

The District operates and maintains approximately 112 miles of sewer line throughout the Apache Junction area as well as a 2.1 MGD (million gallons per day) capacity wastewater treatment facility. The District is continually expanding, replacing and maintaining the sewer collection system and treatment facility. Most components of the sewer collection system and treatment facility have exceeded 21 years of use, with a small portion of the sewer collection system in excess of 30 years of service.

In fiscal year 2016, increases were noted in most capital asset categories. The most notable improvements made at the District's facilities were the east aeration basin for \$449 thousand and improvements to the septage receiving station for \$288 thousand. Several small additions were made to the collection system during fiscal year 2016 to serve additional customers. Construction in process at the end of fiscal year 2016 was \$235 thousand higher than 2015 primarily due to a large project, improvements to the west aeration basin, that was nearing completion at the end of fiscal year 2016.

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 2016, this ratio was 1.60 compared to 1.52 in fiscal 2015 and 1.22 in fiscal year 2014. 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 2016 resulted primarily from the District's practice of annual, modest rate increases for the services it provides. These rate increases, coupled with a modest increase in connection fees from infill customers in fiscal year 2016, 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 96% of the units billed by the District for sewer service are residential, representing 84% of total sewer service revenue for fiscal year 2016.

The District also benefits from a high number of infill opportunities. There are several hundred units in the District's service area that can be connected to sewer when existing septic systems cease to function. This will allow the District to increase its customer base even in the absence of large scale development.

The decrease 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.smcfcd.org.

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF NET POSITION

June 30,

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,573,458	\$ 3,724,481
Cash and cash equivalents, restricted	198,944	175,766
Accounts receivable – sewage, net of allowance for doubtful accounts of \$12,249 and \$47,079	627,164	638,128
Accounts receivable - other	225,574	242,253
Inventory	24,461	25,208
Prepaid expenses	125,335	118,825
Total current assets	<u>4,774,936</u>	<u>4,924,661</u>
NONCURRENT ASSETS		
Capital assets:		
Capital assets not being depreciated	1,652,306	1,416,900
Capital assets, net of accumulated depreciation	<u>15,996,565</u>	<u>16,424,125</u>
Total capital assets	<u>17,648,871</u>	<u>17,841,025</u>
Other assets:		
Cash and cash equivalents, restricted	<u>2,004,342</u>	<u>2,004,236</u>
Total other assets	<u>2,004,342</u>	<u>2,004,236</u>
Total noncurrent assets	<u>19,653,213</u>	<u>19,845,261</u>
Total assets	<u>24,428,149</u>	<u>24,769,922</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	<u>273,768</u>	<u>382,303</u>
Total deferred outflows of resources	<u>273,768</u>	<u>382,303</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	131,096	121,190
Accrued expenses	262,153	189,583
Accrued interest payable	68,944	73,766
Current portion, bonds payable	1,592,000	1,503,000
Unearned revenue	53,299	44,530
Total current liabilities	<u>2,107,492</u>	<u>1,932,069</u>
NONCURRENT LIABILITIES		
Series 2013 bonds payable, less current maturity	19,897,000	21,489,000
Net pension liability	<u>2,629,294</u>	<u>2,821,146</u>
Total noncurrent liabilities	<u>22,526,294</u>	<u>24,310,146</u>
Total liabilities	<u>24,633,786</u>	<u>26,242,215</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	<u>472,226</u>	<u>493,331</u>
Total deferred inflows of resources	<u>472,226</u>	<u>493,331</u>
NET POSITION		
Net investment in capital assets	(2,388,456)	(3,722,547)
Restricted by debt covenant for:		
Operations	751,613	751,574
Unrestricted	<u>1,232,748</u>	<u>1,387,652</u>
Total net position	<u>\$ (404,095)</u>	<u>\$ (1,583,321)</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>2016</u>	<u>2015</u>
Operating revenues:		
Net charges for services	\$ 6,398,162	\$ 6,135,853
Charges for septage	486,841	408,143
Sales of recharge credits	142,172	129,105
Miscellaneous	70,300	88,258
Total operating revenues	<u>7,097,475</u>	<u>6,761,359</u>
Operating expenses:		
Payroll and payroll related	2,010,788	2,231,122
Repairs and maintenance - treatment facility	395,582	277,139
Repairs and maintenance - other	3,699	3,316
Supplies and services - treatment facility	330,771	346,803
Accounting	15,600	15,250
Consulting	50,578	37,800
Administrative	360,291	321,160
Insurance	84,549	81,620
Legal	53,812	81,672
Depreciation and amortization	1,755,306	1,724,608
Miscellaneous	739	6,080
Total operating expenses	<u>5,061,715</u>	<u>5,126,570</u>
Operating income	2,035,760	1,634,789
Nonoperating revenues and (expenses):		
Interest income	12,139	11,788
Loss on equipment disposed	(14,236)	(157,468)
Interest expense	(854,437)	(906,489)
Total nonoperating revenues and (expenses)	<u>(856,534)</u>	<u>(1,052,169)</u>
Increase in net position	1,179,226	582,620
Net position, July 1	<u>(1,583,321)</u>	<u>(2,165,941)</u>
Net position, June 30	<u>\$ (404,095)</u>	<u>\$ (1,583,321)</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>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 7,133,887	\$ 6,838,174
Cash payments to suppliers for goods and services	(1,218,397)	(1,177,920)
Cash payments to employees for services	<u>(2,115,721)</u>	<u>(2,246,530)</u>
Net cash provided by operating activities	<u>3,799,769</u>	<u>3,413,724</u>
Cash flows from capital and related financing activities:		
Proceeds from sales of capital assets	1,693	-
Acquisition of structures, sewer improvements and equipment	(1,579,081)	(481,969)
Principal payments on bonds payable	(1,503,000)	(1,209,000)
Bond interest paid	<u>(859,259)</u>	<u>(910,368)</u>
Net cash used by capital and related financing activities	<u>(3,939,647)</u>	<u>(2,601,337)</u>
Cash flows from investing activities:		
Interest received from investing activities	<u>12,139</u>	<u>11,788</u>
Net cash provided by investing activities	<u>12,139</u>	<u>11,788</u>
Net change in cash	(127,739)	824,175
Cash and cash equivalents, beginning of year	<u>5,904,483</u>	<u>5,080,308</u>
Cash and cash equivalents, end of year	<u>\$ 5,776,744</u>	<u>\$ 5,904,483</u>
Cash and cash equivalents at June 30, 2016 and 2015 consist of:		
Unrestricted cash and cash equivalents	\$ 3,573,458	\$ 3,724,481
Restricted cash and cash equivalents, current	198,944	175,766
Restricted cash and cash equivalents, noncurrent	<u>2,004,342</u>	<u>2,004,236</u>
Total	<u>\$ 5,776,744</u>	<u>\$ 5,904,483</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,035,760	\$ 1,634,789
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,755,306	1,724,608
Pension expense	56,283	213,944
Employer pension contributions	(160,705)	(173,839)
Changes in assets and liabilities:		
Accounts receivable - sewage	10,964	3,842
Accounts receivable - other	16,679	63,228
Inventory	747	(2,412)
Prepaid expenses	(6,510)	(2,714)
Accounts payable	9,906	(1,954)
Accrued expenses	72,570	(55,513)
Unearned revenue	8,769	9,745
Net cash provided by operating activities	<u>\$ 3,799,769</u>	<u>\$ 3,413,724</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, 2016 and 2015

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 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: For the year ended June 30, 2016, the District implemented the provisions of GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 73 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

For the year ended June 30, 2016, the District early implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts and related ratios presented in the required supplementary information for the District's cost sharing pension plan reflect covered payroll for all years presented.

For the year ended June 30, 2015, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

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.

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.

Deferred Outflows and Inflows of Resources: The Statements of Net Position include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 November 18, 2016, which was the date the District's financial statements were issued.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 2 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents at June 30, 2016 and 2015 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 of \$1,250,000 and an Operations Reserve of \$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 (CDARS) are allocated as follows as of June 30,

	<u>2016</u>	<u>2015</u>
Principal and interest fund	\$ 198,944	\$ 175,766
Debt service reserve fund	1,252,729	1,252,662
Operations reserve fund	<u>751,613</u>	<u>751,574</u>
Total restricted cash and cash equivalents	<u>\$ 2,203,286</u>	<u>\$ 2,180,002</u>

NOTE 3 – CONCENTRATION OF CREDIT RISK

The District maintains cash balances with financial institutions located in Phoenix, Arizona. The District utilizes an insured cash sweep program and the CDARS to ensure FDIC coverage for all amounts on deposit. At June 30, 2016 and 2015, all cash balances were fully insured by the FDIC.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
<u>Nondepreciable assets:</u>				
Land	\$ 1,122,238	\$ -	\$ -	\$ 1,122,238
Easements	92,474	-	-	92,474
Construction in process	202,188	440,290	(204,884)	437,594
Total capital assets not being depreciated	<u>1,416,900</u>	<u>440,290</u>	<u>(204,884)</u>	<u>1,652,306</u>
<u>Depreciable assets:</u>				
Treatment plant	15,231,776	697,371	(59,735)	15,869,412
Collection system	22,502,932	253,293	-	22,756,225
Equipment	3,243,873	358,656	(23,751)	3,578,778
Buildings & grounds	754,299	34,356	-	788,655
Rights of way	14,994	-	-	14,994
Other intangible assets	50,241	-	-	50,241
Total capital assets being depreciated	<u>41,798,115</u>	<u>1,343,676</u>	<u>(83,486)</u>	<u>43,058,305</u>
<u>Accumulated depreciation:</u>				
Treatment plant	(9,155,001)	(691,849)	43,805	(9,803,045)
Collection system	(13,075,977)	(756,172)	-	(13,832,149)
Equipment	(2,716,820)	(225,438)	23,751	(2,918,507)
Buildings & grounds	(409,792)	(79,669)	-	(489,461)
Rights of way	(10,398)	(504)	-	(10,902)
Other intangible assets	(6,002)	(1,674)	-	(7,676)
Total accumulated depreciation	<u>(25,373,990)</u>	<u>(1,755,306)</u>	<u>67,556</u>	<u>(27,061,740)</u>
Total capital assets being depreciated, net	<u>16,424,125</u>	<u>(411,630)</u>	<u>(15,930)</u>	<u>15,996,565</u>
Net capital assets	<u>\$ 17,841,025</u>	<u>\$ 28,660</u>	<u>\$ (220,814)</u>	<u>\$ 17,648,871</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
<u>Nondepreciable assets:</u>				
Land	\$ 1,122,238	\$ -	\$ -	\$ 1,122,238
Easements	92,474	-	-	92,474
Construction in process	262,060	188,388	(248,260)	202,188
Total capital assets not being depreciated	<u>1,476,772</u>	<u>188,388</u>	<u>(248,260)</u>	<u>1,416,900</u>
<u>Depreciable assets:</u>				
Treatment plant	15,140,640	100,170	(9,034)	15,231,776
Collection system	22,400,686	102,246	-	22,502,932
Equipment	3,177,936	81,384	(15,447)	3,243,873
Buildings & grounds	645,200	109,099	-	754,299
Rights of way	18,392	-	(3,398)	14,994
Other intangible assets	50,241	-	-	50,241
Total capital assets being depreciated	<u>41,433,095</u>	<u>392,899</u>	<u>(27,879)</u>	<u>41,798,115</u>
<u>Accumulated depreciation:</u>				
Treatment plant	(8,500,388)	(663,647)	9,034	(9,155,001)
Collection system	(12,325,331)	(750,646)	-	(13,075,977)
Equipment	(2,492,585)	(231,156)	6,921	(2,716,820)
Buildings & grounds	(333,180)	(76,612)	-	(409,792)
Rights of way	(12,924)	(872)	3,398	(10,398)
Other intangible assets	(4,327)	(1,675)	-	(6,002)
Total accumulated depreciation	<u>(23,668,735)</u>	<u>(1,724,608)</u>	<u>19,353</u>	<u>(25,373,990)</u>
Total capital assets being depreciated, net	<u>17,764,360</u>	<u>(1,331,709)</u>	<u>(8,526)</u>	<u>16,424,125</u>
Net capital assets	<u>\$ 19,241,132</u>	<u>\$ (1,143,321)</u>	<u>\$ (256,786)</u>	<u>\$ 17,841,025</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 5 – SERIES 2013 BONDS PAYABLE

The Series 2013 sewer revenue bonds, with a stated interest rate of 3.85%, were issued at par on March 27, 2013 and are 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 following is a summary of changes in revenue bonds payable for the fiscal years ended June 30, 2016 and 2015:

	<u>Balance at July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2016</u>
Series 2013 bonds:				
Current	\$ 1,503,000	\$ 1,592,000	\$ 1,503,000	\$ 1,592,000
Noncurrent	21,489,000	-	1,592,000	19,897,000
Total bonds payable	<u>\$ 22,992,000</u>	<u>\$ 1,592,000</u>	<u>\$ 3,095,000</u>	<u>\$ 21,489,000</u>

	<u>Balance at July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2015</u>
Series 2013 bonds:				
Current	\$ 1,209,000	\$ 1,503,000	\$ 1,209,000	\$ 1,503,000
Noncurrent	22,992,000	-	1,503,000	21,489,000
Total bonds payable	<u>\$ 24,201,000</u>	<u>\$ 1,503,000</u>	<u>\$ 2,712,000</u>	<u>\$ 22,992,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,059,000	588,825	2,647,825
2021	2,218,000	506,750	2,724,750
2022 - 2026	11,951,000	1,070,964	13,021,964
Total	<u>\$ 21,489,000</u>	<u>\$ 4,365,831</u>	<u>\$ 25,854,831</u>

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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 ARS. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits Provided

The ASRS provides retirement, health insurance premium supplement, long-term disability and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation and service credit as follows:

	Retirement	
	Initial membership date:	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
	Sum of years and age equals	30 years, age 55
	80	25 years, age 60
Years of service and age required to receive benefit	10 years, age 62 5 years, age 50* any years, age 65	10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

**With actuarially reduced benefits.*

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Contributions

In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% for retirement and 0.12% for long-term disability) of the members' annual covered payroll. Rates for the years ended June 30, 2015 and 2014 were 11.6% (11.48% for retirement and 0.12% for long-term disability) and 11.54% (11.30% retirement and .24% long-term disability), respectively.

For the year ended June 30, 2016, the District was required by statute to contribute at the actuarially determined rate of 11.47% (10.85% for retirement, 0.50% for health insurance premium benefit and 0.12% for long-term disability) of the active members' annual covered payroll. Rates for the years ended June 30, 2015 and 2014 were 11.6% (10.89% for retirement, 0.59% for health insurance premium benefit and 0.12% for long-term disability) and 11.54% (10.70% for retirement, 0.60% for health insurance premium benefit and 0.24% for long-term disability), respectively.

The District's contributions into the pension plan for the years ended June 30, 2016, 2015 and 2014 were \$165,233, \$173,839 and \$183,914, respectively.

The District's contributions for the current and 2 preceding years for the Health Benefit Supplement and Long Term Disability, which are required contributions, were as follows:

Year ended June 30,	Health Benefit Supplement Fund	Long Term Disability Fund
2016	\$ 7,614	\$ 1,855
2015	8,933	1,819
2014	10,312	3,907

Pension Liability

At June 30, 2016, the District reported a liability of \$2,629,294 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using updated procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015 was .016880%, which was a decrease of .002186% from its proportion measured as of June 30, 2014.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 6 – RETIREMENT PLAN (CONTINUED)

At June 30, 2015, the District reported a liability of \$2,821,146 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2014. The District's proportion measured as of June 30, 2014, was .019066%, which increased from its proportion of .018503% measured as of June 30, 2013.

Pension expense and deferred outflows/inflows of resources

For the years ended June 30, 2016 and June 30, 2015 the District recognized pension expense for ASRS of \$56,283 and \$213,944, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at years ended:

	June 30, 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 71,748	\$ -	\$ 143,379	\$ -
Net difference between projected and actual earnings on pension plan investments	-	472,226	-	493,331
Changes in proportion and differences between District contributions and proportionate share of contributions	36,787	-	65,085	-
District contributions subsequent to the measurement date	165,233	-	173,839	-
Total	<u>\$ 273,768</u>	<u>\$ 472,226</u>	<u>\$ 382,303</u>	<u>\$ 493,331</u>

The amounts reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement dates will be recognized as reductions of the net pension liability in the subsequent year.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ 141,222
2018	199,664
2019	83,633
2020	(60,828)

Actuarial Assumptions

The significant actuarial assumptions used to measure the total pension liability are as follows for June 30,

	2016	2015
Actuarial valuation date	June 30, 2014	June 30, 2013
Actuarial roll forward date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	8%	8%
Projected salary increases	3–6.75%	3–6.75%
Inflation	3%	3%
Permanent benefit increase	Included	Included
Mortality rates	1994 GAM Scale BB	1994 GAM Scale BB

Actuarial assumptions used in the valuations were based on the results of an actuarial experience study for the 5 year period ended June 30, 2012.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 6 – RETIREMENT PLAN (CONTINUED)

The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	June 30, 2016		June 30, 2015	
	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Equity	58%	6.79%	63%	7.03%
Fixed income	25%	3.70%	25%	3.20%
Real estate	10%	4.25%	8%	4.75%
Multi-asset	5%	3.41%		
Commodities	2%	3.93%	4%	4.50%
Total	<u>100%</u>		<u>100%</u>	
Long-Term Expected Arithmetic Rate of Return		<u>8.79%</u>	<u>8.79%</u>	

Discount Rate

For the years presented the discount rate used to measure the ASRS total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Superstition Mountains Community Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Sensitivity of the District’s proportionate share of the ASRS net pension liability to changes in the discount rate

The following table presents the District’s proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

Year ended June 30,	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
2016	\$ 3,445,273	\$ 2,629,294	\$ 2,070,080
2015	3,565,784	2,821,146	2,417,143

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available from the ASRS in the separately issued ASRS financial report.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

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

REQUIRED SUPPLEMENTARY INFORMATION

Superstition Mountains Community Facilities District No. 1

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

June 30, 2016 and 2015

	Reporting Fiscal Year		
	2016 <u>(2015)</u>	2015 <u>(2014)</u>	2014 through <u>2007</u>
Arizona State Retirement System			
District's proportion of the net pension liability	0.016880%	0.019066%	Information
District's proportionate share of the net pension liability	\$ 2,629,294	\$ 2,821,146	not available
District's covered payroll	1,541,915	1,559,035	
District's proportionate share of the net pension liability as a percentage of its covered payroll	170.52%	180.95%	
District's fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

Superstition Mountains Community Facilities District No. 1

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS

June 30, 2016 and 2015

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Arizona State Retirement System				
Statutorily required contribution	\$ 165,233	\$ 173,839	\$ 183,914	Information not available
District's contributions in relation to the statutorily required contribution	<u>165,233</u>	<u>173,839</u>	<u>183,914</u>	
District's contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered payroll	1,541,915	1,559,035	1,727,616	
District's contributions as a percentage of covered payroll	10.72%	11.15%	10.65%	

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	33
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	35
These schedules contain information to assist the reader in assessing the District's most significant revenue source, sewer fees.	
Debt Capacity	39
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	41
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	43
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,									
	2007	2008	2009 ¹	2010	2011	2012	2013	restated 2014 ³	2015	2016
Net position:										
Net investment in capital assets			\$ (1,802,439)	\$ (2,752,352)	\$ (3,481,676)	\$ (4,375,973)	\$ (3,106,982)	\$ (3,520,176)	\$ (3,722,547)	\$ (2,388,456)
Restricted by debt covenants for:										
Debt service	\$ 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	751,833	751,574	751,613
Unrestricted ²	2,044,335	2,042,005	410,528	66,219	261,021	362,001	2,651,466	602,402	1,387,652	1,232,748
Total net position	\$ 3,832,755	\$ 3,862,425	\$ 2,887,083	\$ 1,951,054	\$ 1,103,915	\$ 697,414	\$ 294,957	\$ (2,165,941)	\$ (1,583,321)	\$ (404,095)

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.

³ The District adopted GASB 68 in fiscal year 2015; as part of this adoption, a prior period restatement of Net Position was required for fiscal year 2014.

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,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015 ²	2016
Operating revenues:										
Charges for services	\$ 5,096,524	\$ 5,131,969	\$ 5,092,310	\$ 5,383,544	\$ 5,252,671	\$ 5,785,728	\$ 6,219,595	\$ 6,049,730	\$ 6,135,853	\$ 6,398,162
Charges for septage	404,169	388,145	411,627	421,608	500,324	425,095	478,723	452,860	408,143	486,841
Sales of recharge credits	135,201	154,364	158,326	110,210	139,385	178,676	179,507	169,493	129,105	142,172
Miscellaneous	73,723	122,621	203,750	171,994	236,669	204,643	118,755	88,474	88,258	70,300
Total operating revenue	<u>5,709,617</u>	<u>5,797,099</u>	<u>5,866,013</u>	<u>6,087,356</u>	<u>6,129,049</u>	<u>6,594,142</u>	<u>6,996,580</u>	<u>6,760,557</u>	<u>6,761,359</u>	<u>7,097,475</u>
Operating expenses:										
Payroll and payroll related	\$ 1,276,237	\$ 1,975,047	\$ 2,079,004	\$ 2,362,689	\$ 2,310,810	\$ 2,284,174	\$ 2,382,128	\$ 2,444,042	\$ 2,231,122	\$ 2,010,788
Repairs and maintenance - treatment facility	253,666	269,925	321,350	385,595	325,013	308,866	321,320	257,139	277,139	395,582
Repairs and maintenance - other	17,497	21,521	9,483	6,408	10,283	16,690	3,738	6,875	3,316	3,699
Supplies and services	315,232	338,507	315,627	346,623	330,145	357,845	355,682	353,727	346,803	330,771
Accounting	13,300	13,500	14,900	14,000	14,900	14,900	14,950	14,950	15,250	15,600
Consulting	37,672	43,924	154,309	14,903	22,893	41,698	6,105	30,736	37,800	50,578
Administrative	207,755	213,769	185,480	249,851	222,417	277,362	398,788	313,841	321,160	360,291
Insurance	85,082	84,451	79,525	71,563	74,546	75,234	84,743	84,993	81,620	84,549
Legal	93,545	97,645	96,575	63,810	162,865	66,978	90,353	98,046	81,672	53,812
Office rent	41,474	38,238	40,087	11,704	-	-	-	-	-	-
Depreciation and amortization ¹	1,370,898	1,535,314	1,680,733	1,697,816	1,731,906	1,811,856	1,734,023	1,766,400	1,724,608	1,755,306
Miscellaneous	189	3,235	21,000	504	383	511	2,142	10,068	6,080	739
Total operating expenses	<u>3,712,547</u>	<u>4,635,076</u>	<u>4,998,073</u>	<u>5,225,466</u>	<u>5,206,161</u>	<u>5,256,114</u>	<u>5,393,972</u>	<u>5,381,233</u>	<u>5,126,570</u>	<u>5,061,715</u>
Operating income	1,997,070	1,162,023	867,940	861,890	922,888	1,338,028	1,602,608	1,379,324	1,634,789	2,035,760
Nonoperating revenues and (expenses):										
Contributed capital assets	\$ 156,680	\$ 235,902	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mediation and litigation settlement	586,184	184,152	-	-	-	-	-	-	-	-
Interest income	397,785	263,587	52,658	3,598	10,180	6,944	3,852	13,075	11,788	12,139
Equipment scrapped or abandoned	-	-	(91,045)	(12,417)	(5,207)	5,677	(116,384)	(6,710)	(157,468)	(14,236)
Trust and cash management fees	(28,401)	(27,574)	(17,434)	(8,000)	(8,000)	(8,000)	(10,000)	-	-	-
Interest expense	(1,788,420)	(1,788,420)	(1,787,460)	(1,781,100)	(1,767,000)	(1,749,150)	(1,538,553)	(954,518)	(906,489)	(854,437)
Bond issuance costs	-	-	-	-	-	-	(343,980)	-	-	-
Total nonoperating revenue and (expense)	<u>(676,172)</u>	<u>(1,132,353)</u>	<u>(1,843,281)</u>	<u>(1,797,919)</u>	<u>(1,770,027)</u>	<u>(1,744,529)</u>	<u>(2,005,065)</u>	<u>(948,153)</u>	<u>(1,052,169)</u>	<u>(856,534)</u>
Change in net position	\$ 1,320,898	\$ 29,670	\$ (975,341)	\$ (936,029)	\$ (847,139)	\$ (406,501)	\$ (402,457)	\$ 431,171	\$ 582,620	\$ 1,179,226

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

² Beginning in fiscal year 2015, pension expense included in Payroll and payroll related expense reflects the adoption of GASB 68.

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, 2016</u>		<u>Year Ended June 30, 2007</u>	
	<u>Sales</u>	<u>Percentage of Sales</u>	<u>Sales</u>	<u>Percentage of Sales</u>
Coopers Sewer & Drain Inc	\$ 236,494	3.53%	\$ 227,948	4.49%
Golden Vista RV	161,390	2.41%	138,851	2.74%
Nortwestern Mutual	153,456	2.29%	92,404	1.82%
Roadhaven Resort	140,043	2.09%	119,601	2.36%
Central Arizona Water Conservation District	135,398	2.02%		
Rancho Mirage MHP	107,233	1.60%	77,289	1.52%
Leesburg Group/Rock Shadows	91,269	1.36%	62,914	1.24%
R C Roberts Sunrise RV Park	80,688	1.20%		
Overley's Inc.	68,358	1.02%	61,014	1.20%
La Casa Blanca East	66,619	0.99%		
A J Health Center			59,736	1.18%
Apache Junction Water Company			65,825	1.30%
Frys Food Stores of AZ			73,520	1.45%
Subtotal of ten largest customers	<u>1,240,948</u>	<u>18.52%</u>	<u>979,102</u>	<u>19.30%</u>
Balance from other customers	<u>5,460,252</u>	<u>81.48%</u>	<u>4,093,928</u>	<u>80.70%</u>
Total sewer, septage & recharge credit revenue	<u>\$ 6,701,200</u>	<u>100.00%</u>	<u>\$ 5,073,030</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,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Single Family	210	80	15	125	63	151	207	58	33	48
Multi Family	6	8	7	18	0	1	4	2	0	1
RV & Mobile Home Parks	58	9	15	12	1	3	1	11	23	20
All Other	5	17	9	10	3	7	5	3	3	6
Total permits	279	114	46	165	67	162	217	74	59	75
% Change ²	-55.36%	-59.14%	-59.65%	258.70%	-59.39%	141.79%	33.95%	-65.90%	-20.27%	27.12%

Service Class	ACTIVE ACCOUNTS									
	Fiscal Year Ended June 30,									
	2007	2008	2009 ³	2010	2011	2012	2013	2014	2015	2016
Single Family	5,449	5,605	5,593	5,697	5,753	5,898	6,106	6,160	6,190	6,236
Multi Family	112	115	114	114	113	112	115	117	113	114
Undeveloped Land ¹	71	70	65	57	53	52	46	44	44	42
RV Parks	25	25	25	25	25	25	25	26	26	24
Mobile Home Parks	25	26	26	26	26	27	27	28	28	28
Church/Government	36	36	37	40	40	41	41	41	41	41
Light Commercial	108	116	115	120	119	122	125	127	130	134
Medium Commercial	47	50	53	56	55	55	55	56	56	58
Heavy Commercial	6	6	6	5	5	5	5	5	5	5
Industrial	0	0	0	0	0	0	0	0	0	0
Total accounts	5,879	6,049	6,034	6,140	6,189	6,337	6,545	6,604	6,633	6,682
% Change ²	4.26%	2.89%	-0.25%	1.76%	0.80%	2.39%	3.28%	0.90%	0.44%	0.74%

Service Class	ACTIVE UNITS									
	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Single Family	5,452	5,609	5,595	5,700	5,757	5,903	6,113	6,166	6,196	6,243
Multi Family	1,073	1,085	1,085	1,075	1,059	1,057	1,069	1,079	1,065	1,219
Undeveloped Land ¹	337	326	310	251	246	244	238	234	234	230
RV Parks	4,764	4,764	4,754	4,774	4,774	4,774	4,774	4,793	4,793	4,630
Mobile Home Parks	2,299	2,308	2,317	2,332	2,333	2,331	2,332	2,366	2,387	2,406
All other	197	208	211	221	219	223	226	229	232	238
Total units	14,122	14,300	14,272	14,353	14,388	14,532	14,752	14,867	14,907	14,966
% Change ²	2.23%	1.26%	-0.20%	0.57%	0.24%	1.00%	1.51%	0.78%	0.27%	0.40%

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$ 2,074,625	\$ 2,220,534	\$ 2,313,242	\$ 2,399,104	\$ 2,521,379	\$ 2,642,038	\$ 2,758,781	\$ 2,955,784	\$ 3,057,664	\$ 3,140,168
Single Family										
Multi Family	338,997	352,639	366,130	377,405	386,704	395,086	409,507	425,429	436,124	508,238
Undeveloped Land	30,038	30,809	29,607	25,882	25,469	25,766	26,279	26,254	26,957	27,186
RV Parks	555,560	587,430	563,613	566,921	592,440	642,475	649,378	676,105	723,756	668,772
Mobile Home Parks	586,634	632,668	686,851	677,142	698,343	747,093	701,047	689,897	746,143	791,865
Church/Government	220,646	225,735	244,957	246,273	128,212	154,087	163,300	184,856	207,672	207,741
Light Commercial	243,334	241,976	256,762	282,828	251,604	280,443	285,322	278,340	249,030	258,778
Medium Commercial	303,170	317,278	339,987	290,330	315,615	302,624	303,634	323,855	328,144	346,120
Heavy Commercial	180,657	182,346	167,378	174,066	127,189	130,947	107,524	110,159	120,120	123,322
Industrial	0	0	0	0	0	0	0	0	0	0
Total sewer service revenue	\$ 4,533,661	\$ 4,791,415	\$ 4,968,527	\$ 5,039,951	\$ 5,046,955	\$ 5,320,559	\$ 5,404,772	\$ 5,670,679	\$ 5,895,610	\$ 6,072,190

Service Class	CONNECTION FEE REVENUE									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$ 361,200	\$ 166,514	\$ 25,650	\$ 193,183	\$ 116,750	\$ 305,065	\$ 556,518	\$ 153,640	\$ 92,475	\$ 161,230
Single Family										
Multi Family	6,300	17,303	9,400	0	0	10,360	32,040	22,000	0	11,540
RV and Mobile Home Parks	20,240	10,205	11,465	10,100	1,580	8,440	1,680	79,120	31,950	35,393
All Other	31,715	90,239	52,339	36,887	16,402	65,059	9,855	14,443	9,275	19,818
Total connection fee revenue	\$ 419,455	\$ 284,261	\$ 98,854	\$ 240,170	\$ 134,732	\$ 388,924	\$ 600,093	\$ 269,203	\$ 133,700	\$ 227,981

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,										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Single Family	\$ 32.40	\$ 33.50	\$ 34.60	\$ 35.80	\$ 37.00	\$ 38.15	\$ 39.35	\$ 40.55	\$ 41.55	\$ 42.50	
Multi Family ¹	26.40	27.30	28.20	29.20	30.20	31.15	32.15	33.10	33.95	34.75	
Undeveloped Land ²	7.45	7.70	7.95	8.25	8.55	8.80	9.10	9.35	9.60	9.80	
RV Parks ¹	7.60	7.85	8.10	8.40	8.70	8.95	9.25	9.55	9.80	10.05	
Mobile Home Parks ¹	16.70	17.25	17.80	18.40	19.00	19.60	20.20	20.80	21.30	21.80	
Church/Government	32.40	33.50	34.60	35.80	37.00	38.15	39.35	40.55	41.55	42.50	
Light Commercial	38.50	39.80	41.10	42.55	44.00	45.40	46.85	48.25	49.45	50.60	
Medium Commercial	43.25	44.70	46.15	47.75	49.35	50.90	52.50	54.10	55.45	56.75	
Heavy Commercial	48.10	49.75	51.35	53.15	54.95	56.70	58.50	60.25	61.75	63.15	
Industrial	115.40	119.20	123.05	127.35	131.60	135.75	140.05	144.25	147.85	151.25	

Service Class	USAGE CHARGES, per gallon ³										
	Fiscal Year Ended June 30,										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
RV Parks	\$ 0.219	\$ 0.226	\$ 0.234	\$ 0.242	\$ 0.250	\$ 0.258	\$ 0.266	\$ 0.274	\$ 0.281	\$ 0.287	
Mobile Home Parks	0.219	0.226	0.234	0.242	0.250	0.258	0.266	0.274	0.281	0.287	
Church/Government	0.219	0.226	0.234	0.242	0.250	0.258	0.266	0.274	0.281	0.287	
Light Commercial	0.219	0.226	0.234	0.242	0.250	0.258	0.266	0.274	0.281	0.287	
Medium Commercial	0.246	0.254	0.263	0.271	0.280	0.289	0.298	0.307	0.315	0.322	
Heavy Commercial	0.274	0.283	0.292	0.302	0.312	0.322	0.332	0.342	0.351	0.359	
Industrial	0.657	0.678	0.700	0.724	0.748	0.771	0.796	0.820	0.840	0.859	

Service Class	MINIMUM CONNECTION FEES										
	Fiscal Year Ended June 30,										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Single Family	\$ 2,575	\$ 2,750	\$ 2,850	\$ 2,950	\$ 3,050	\$ 3,145	\$ 3,245	\$ 3,340	\$ 3,425	\$ 3,505	
Multi Family ¹	2,100	2,250	2,350	2,430	2,510	2,590	2,670	2,750	2,820	2,885	
RV Parks ¹	605	650	675	700	725	750	775	800	820	840	
Mobile Home Parks ¹	1,330	1,425	1,480	1,530	1,580	1,630	1,680	1,730	1,775	1,815	
Church/Government	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	
Light Commercial	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	
Medium Commercial	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	
Heavy Commercial	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	
Industrial	2,575	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	

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		
2007	29,822,000	-	(15,000)	29,807,000				2,111	
2008	29,807,000	-	-	29,807,000				2,084	
2009	29,807,000	-	(32,000)	29,775,000				2,086	
2010	29,775,000	-	(145,000)	29,630,000				2,064	
2011	29,630,000	-	(250,000)	29,380,000				2,042	
2012	29,380,000	-	(310,000)	29,070,000				2,000	
2013	29,070,000	-	(29,070,000)	-	26,182,000	(537,000)	25,645,000	1,738	
2014	-	-	-	-	25,645,000	(1,444,000)	24,201,000	1,628	
2015	-	-	-	-	24,201,000	(1,209,000)	22,992,000	1,542	
2016	-	-	-	-	22,992,000	(1,503,000)	21,489,000	1,436	

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			Coverage Ratio	Required Coverage Ratio ³
				Principal	Interest	Total		
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
2014	6,773,632	3,621,543	3,152,089	1,286,000	954,518	2,240,518	1.41	1.20
2015	6,773,147	3,559,430	3,213,717	1,202,000	906,489	2,108,489	1.52	1.20
2016	7,109,614	3,320,645	3,788,969	1,531,000	854,437	2,385,437	1.59	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 and 2013 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	Per Capita	Per Capita	Unemployment
	Round		Personal Income	Personal Income	Rates
				National Average¹	
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	7.1%
2010	35,828		20,271	39,791	8.9%
2011	36,539		20,271	41,560	10.1%
2012	36,928		21,308	42,693	11.1%
2013	37,246		21,315	39,415	9.6%
2014	37,639		20,297	40,977	8.2%
2015	38,437		21,271	41,386	8.7%
2016	39,146		21,734	43,075	7.3%

Source: City of Apache Junction, Office of Economic Development except as noted

¹ Per the US Department of Commerce, Bureau of Economic Analysis.

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, 2016</u>		<u>Year ended June 30, 2007</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	476	3.85%	704	3.87%
City of Apache Junction	287	2.32%	296	1.63%
Wal-Mart Supercenter Store # 1831	220	1.78%	331	1.82%
Mountain Health and Wellness ¹	187	1.51%	186	1.02%
Robert Horne Ford/Hyundai ³	172	1.39%	75	0.41%
Western Industrial Resources	132	1.07%		
Central Arizona College - Superstition Mtn. Campus	125	1.01%	77	0.42%
Fry's Food and Drug	110	0.89%	87	0.48%
United States Postal Service	100	0.81%	88	0.48%
Superstition Fire and Medical ⁴	99	0.80%	88	0.48%
Banner Goldfield ²			157	0.86%
Total	<u>1,908</u>	<u>15.43%</u>	<u>2,089</u>	<u>11.47%</u>

Source: City of Apache Junction, Office of Economic Development

¹ Formerly Superstition Mountain Mental Health Center

² Formerly Apache Junction Medical Center

³ Formerly Earnhardt Ford

⁴ Formerly Apache Junction Fire District

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

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administrative Division										
District Manager	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.04	1.00
District Administration	1.37	3.02	3.00	3.00	3.00	2.00	1.42	0.75	0.96	1.00
Finance	1.80	2.58	3.46	3.60	3.60	3.60	3.54	3.80	3.61	3.80
Business Services	-	-	-	-	-	-	2.42	4.00	3.13	3.00
Customer Service	2.81	3.42	3.58	4.00	3.54	4.00	3.43	3.21	3.96	3.41
Total Administrative Division	6.98	10.02	11.04	11.60	11.14	10.60	11.81	12.76	12.70	12.21
Operations Division										
Manager of Operations	-	-	-	-	-	0.35	1.00	1.00	0.08	0.00
Operations Administration	0.42	2.10	4.00	4.00	4.00	4.16	3.77	4.12	4.00	4.00
Treatment Plant	5.31	7.65	6.24	7.00	7.04	7.94	6.42	5.00	5.15	4.58
Collection System	5.98	5.92	6.69	5.87	6.00	4.65	3.42	5.04	4.00	4.00
Total Operations Division	11.71	15.67	16.93	16.87	17.04	17.10	14.61	15.16	13.23	12.58
Total	18.69	25.69	27.97	28.47	28.18	27.70	26.42	27.92	25.93	24.79

Source: Payroll Reasonableness Review

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

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Collection System										
Miles of Collection Mains <12" dia.	92.0	93.0	93.0	93.2	93.9	94.5	95.5	95.5	95.9	96.1
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	5,811	5,983	5,971	6,086	6,140	6,290	6,506	6,566	6,595	6,647
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	1.36	1.40	1.43	1.41	1.38	1.38	1.43	1.37	1.37	1.37
% of Total Permitted Capacity	63.6%	65.4%	66.8%	65.9%	64.5%	64.5%	66.8%	64.0%	64.0%	64.0%
Population Served (75 gpd/pop. eq.) ²	18,133	18,667	19,067	18,800	18,400	18,400	19,067	18,267	18,267	18,267
Effluent Disposal										
Effluent Recharge Basin Surface Acres	4.4	4.4	4.4	4.4	4.4	5.0	5.0	5.0	5.0	7.3
Effluent Recharge Vadose Zone Wells	20	20	20	20	20	32	32	32	32	36

¹ Million Gallons per Day

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

Source: District Operational Records

