

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

Comprehensive Annual

Financial Report

for the fiscal years ended June 30, 2017 and 2016



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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**2017 COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

for the fiscal years ended June 30, 2017 and 2016



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

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

INTRODUCTORY SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2017 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2017 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

District Officials



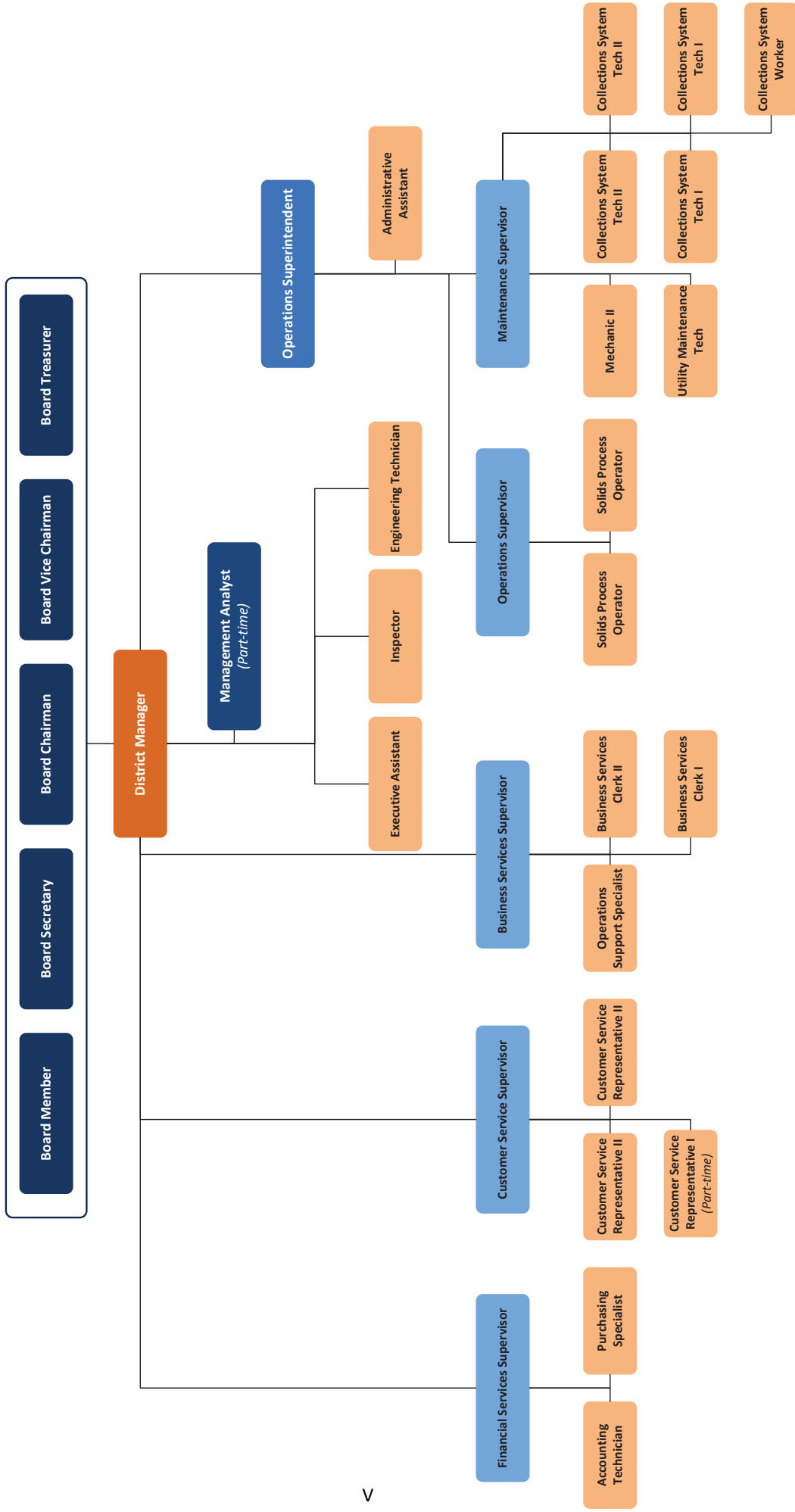
Board of Directors

Kathleen Waldron	Chairman
Jim Reynolds	Vice-Chairman
Chester Burgess	Secretary
Jesse Gage	Treasurer
Terry Dunn	Board Member

District Financial Management

Darron Anglin	District Manager
Maria N. Zagar	Financial Services Supervisor

Superstition Mountains Community Facilities District No. 1 Organizational Chart





Government Finance Officers Association

**Certificate of
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**Superstition Mountains
Community Facilities District No. 1
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

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

December 7, 2017

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, 2017. This is the eighth 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 CoBiz Public Finance, Inc., dated April 11, 2017 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, PLLC, a certified public accounting firm based in Scottsdale, Arizona. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2017 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, 2017 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 (A.R.S). 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.

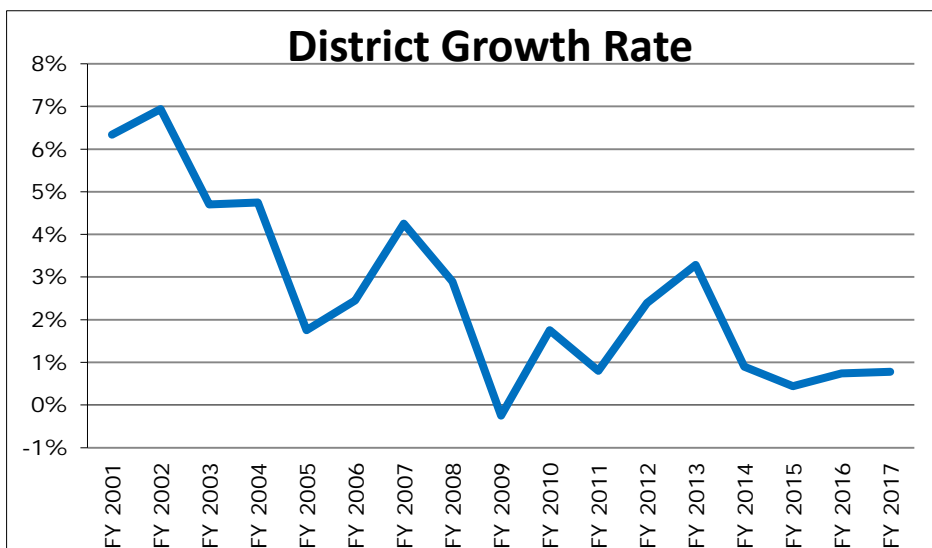
ECONOMIC CONDITION AND OUTLOOK

During fiscal year 2017, economic growth in Apache Junction, as in prior years, remained slow. The District realized a modest increase in new customers and revenue from new connections throughout the year. Some of the growth resulted from the connection of existing homes. There are still a significant number of existing homes in the District’s service area that utilize a septic system. As septic systems age and fail, these properties are required to connect to the sewer. This category of new connections results in customer growth that is independent of new construction. However, in 2017, new construction provided more customer connections than the connection of existing homes.

The fiscal year 2018 economic outlook indicates a minor increase in growth due to projects currently under construction. These include two residential subdivisions and a commercial supermarket development. The residential subdivisions currently under construction will add 205 developable lots. A third residential subdivision, which will contribute 83 additional lots, is under design and is projected to start construction during fiscal year 2018. The commercial development is anchored by a Fry’s Marketplace with surrounding lots that are available for commercial development.

As infill projects continue to advance within the city limits, the remaining developable land continues to decline. This poses a significant challenge for new construction in Apache Junction. Future growth is dependent upon State Trust Land becoming available for development. Until this land becomes available, new construction in the City is likely to remain low when compared to surrounding areas.

Other factors that impact future economic conditions include the unemployment rate and interest rates. The unemployment rate improved year over year¹ and while interest rates have increased and will continue to do so, they remain near historic lows. While economic growth is important, the District is not dependent upon growth in order to fund the repayment of its debt, continued operation or currently planned capital and replacement projects.



¹ U.S. Department of Labor, Bureau of Labor Statistics, *THE EMPLOYMENT SITUATION - SEPTEMBER 2017*, NEWS RELEASE, <https://www.bls.gov/news.release/pdf/empsit.pdf> (6 Oct. 2017).

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

Bond Refunding

During fiscal year 2017, the District continued its work towards ensuring financial stability with the refinancing of the District's debt. The refinancing reduced the interest from 3.85% to 3.00% and restructured the debt repayment schedule to a level repayment structure. Although this does place some constraints on the fiscal year 2018 budget, due to the increased payment, it will help with future budgetary planning. After taking into account all expenses of the refinancing the District will save just over one million dollars. The final payment is scheduled to occur on May 1, 2025.

Capital Improvements

Capital improvement initiatives for fiscal year 2018 include the expansion of the recharge facilities, the replacement of the standby generator and improvements to the pump station. These projects are designed to replace aging equipment and help improve operational efficiencies. The District is under contract for the sale of credits that are realized through effluent recharge. Maximizing this renewable resource will help improve future revenues.

Regulatory Permits

During fiscal year 2017, the District amended its regulatory permits in conjunction with capital improvements made to the aeration basins. The changes did not significantly increase the regulatory burden on the District. Other projects from fiscal year 2017 that are currently under design, including the plant re-rating, will require a significant amendment to the District's permits. The District will continue to engage a consultant to assist with these permit changes.

AWARDS AND ACKNOWLEDGMENTS

We are very proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the fiscal year ended June 30, 2016. This was the seventh consecutive year the District prepared a CAFR and was honored with this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year only. We believe

that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another award.

The District's Finance Department is to be commended for their efforts and dedication in preparing the District's CAFR. Special thanks are due to Maria N. Zagar, Financial Services Supervisor, and the Financial Services Department 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 meeting the needs of our customers well into the future.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. Anglin", with a stylized flourish at the end.

Darron Anglin
District Manager

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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, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017 and 2016, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4–10, Schedule of the District's Proportionate Share of the Net Pension Liability on page 26, and Schedule of the District Pension Contributions on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Fester & Chapman, PLLC

December 7, 2017

**SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL SUMMARY

- Net position increased \$1.3 million during fiscal year 2017.
- Cash and cash equivalents decreased by \$115 thousand from fiscal year 2016.
- Capital assets decreased \$1.2 million from the prior year.
- Liabilities decreased by \$2.5 million primarily as a result of a refinancing effort in fiscal year 2017.
- Operating revenues increased by \$206 thousand over 2016.
- Operating expenses increased by \$70 thousand over fiscal year 2016.
- Payroll and payroll related expense increased \$110 thousand from fiscal year 2016.
- Interest expense decreased by \$103 thousand, or 12%, 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, 2017, June 30, 2016 and June 30, 2015. The information for fiscal year 2017 is provided in greater detail in the basic financial statements which follow this analysis.

NET POSITION

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	Increase (Decrease) current year from prior		<u>June 30, 2015</u>
			<u>Amount</u>	<u>Percentage</u>	
Cash and cash equivalents	\$ 5,662,118	\$ 5,776,744	\$ (114,626)	-1.98%	\$ 5,904,483
Other current assets	984,959	1,002,534	(17,575)	-1.75%	1,024,414
Capital assets	<u>16,408,223</u>	<u>17,648,871</u>	<u>(1,240,648)</u>	-7.03%	<u>17,841,025</u>
Total assets	23,055,300	24,428,149	(1,372,849)	-5.62%	24,769,922
Deferred outflows	<u>485,785</u>	<u>273,768</u>	<u>212,017</u>	77.44%	<u>382,303</u>
Current liabilities	2,537,783	2,107,492	430,291	20.42%	1,932,069
Long term liabilities					
Series 2017 bond	16,933,759	-	16,933,759	n/a	-
Series 2013 bond	-	19,897,000	(19,897,000)	-100.00%	21,489,000
Net pension liability	<u>2,629,370</u>	<u>2,629,294</u>	<u>76</u>	0.00%	<u>2,821,146</u>
Total liabilities	22,100,912	24,633,786	(2,532,874)	-10.28%	26,242,215
Deferred inflows	<u>523,250</u>	<u>472,226</u>	<u>51,024</u>	10.80%	<u>493,331</u>
Net investment in capital assets	(1,844,715)	(2,388,456)	543,741	22.77%	(3,722,547)
Restricted	750,288	751,613	(1,325)	-0.18%	751,574
Unrestricted	<u>2,011,350</u>	<u>1,232,748</u>	<u>778,602</u>	63.16%	<u>1,387,652</u>
Total net position (deficit)	\$ 916,923	\$ (404,095)	\$ 1,321,018	326.91%	\$ (1,583,321)

The District's net position as of June 30, 2017 improved by 327%, or \$1.3 million, from the prior year. Total assets decreased by 5.6% or \$1.4 million; total liabilities decreased 10.28% or \$2.5 million.

The increase in net position from June 30, 2015 to June 30, 2016 was \$1.2 million. A complete discussion of the increase in net position from fiscal year 2015 to fiscal year 2016 can be found in the 2016 financial reports.

Cash and cash equivalents as of June 30, 2017 were \$115 thousand lower than fiscal year 2016. The decrease is largely attributed to a decrease in the Debt Service Reserve fund. The District refinanced its outstanding bond debt during fiscal year 2017 and applied \$625 thousand of reserves toward the refunded amount. A summary of the components of Cash and cash equivalents is provided in Table 2.

Net additions to Capital assets for fiscal year 2017 totaled \$530 thousand; after normal depreciation of \$1.8 million, Capital assets decreased by \$1.2 million. A summary of the components of Capital assets is provided in Table 4 and in Note 4 to the Financial Statements.

Current liabilities increased by \$430 thousand over fiscal year 2016 due primarily to the District's new Series 2017 bond repayment schedule. The change in Long term liabilities is also due to the refunding of the Series 2013 bond and the issuance of the Series 2017 obligation.

CASH AND CASH EQUIVALENTS

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	Increase (Decrease) current year from prior		<u>June 30, 2015</u>
			<u>Amount</u>	<u>Percentage</u>	
Checking accounts	\$ 4,060,366	\$ 3,573,458	\$ 486,908	13.63%	\$ 3,724,481
Restricted funds					
Debt Service Fund	226,224	198,944	27,280	13.71%	175,766
Debt Service Reserve	625,240	1,252,729	(627,489)	-50.09%	1,252,662
Operations Reserve	<u>750,288</u>	<u>751,613</u>	<u>(1,325)</u>	-0.18%	<u>751,574</u>
Total cash and cash equivalents	\$ 5,662,118	\$ 5,776,744	\$ (114,626)	-1.98%	\$ 5,904,483

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 increase of \$487 thousand over the prior year is the result of an increase in the Capital and Replacement account.

In addition to the checking accounts, the District maintains three accounts specifically required by its bondholder, CoBiz Public Finance, Inc. The purpose and ultimate use of monies in these restricted funds are dictated by the terms of the Bond Resolution between the District and the bondholder. In the prior years presented, the restricted accounts were dictated by the Bond Resolution between the District and its former bondholder, Alliance Bank of Arizona.

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, 2017, the balance of \$226 thousand was held to meet the scheduled debt payment due on July 1, 2017. The balances on hand at June 30, 2016 and 2015 were deposited to make the scheduled debt payment due on July 1, 2016 and 2015, respectively.

Debt Service Reserve

The Debt Service Reserve Fund represents a supplemental source of funds to make scheduled payments on the bond debt. The balance at June 30, 2017 slightly exceeds the requirement of \$625 thousand mandated by the District's Bond Resolution because of accumulated interest. Funds in excess of \$625 thousand are available to be transferred to an unrestricted account in

January and July of each year. In the prior years presented, the District's Bond Resolution mandated a Debt Service Reserve requirement of \$1.25 million.

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 balance at June 30, 2017 slightly exceeds 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. In the prior years presented, the District's Bond Resolution also mandated an Operations Reserve requirement of \$750 thousand.

CHANGES IN NET POSITION

Table 3					
Superstition Mountains Community Facilities District No. 1					
Changes in Net Position					
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	Increase (Decrease)		<u>June 30, 2015</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Operating revenues					
Sewer services	\$ 6,304,736	\$ 6,170,182	\$ 134,554	2.18%	\$ 6,002,153
Connection fees	290,455	227,980	62,475	27.40%	133,700
Septage charges	510,284	486,841	23,443	4.82%	408,143
Recharge credit sales	125,309	142,172	(16,863)	-11.86%	129,105
Miscellaneous	<u>72,638</u>	<u>70,300</u>	<u>2,338</u>	3.33%	<u>88,258</u>
Total operating revenues	7,303,422	7,097,475	205,947	2.90%	6,761,359
Operating expenses	5,132,028	5,061,715	70,313	1.39%	5,126,570
Operating income	2,171,394	2,035,760	135,634	6.66%	1,634,789
Nonoperating revenue/(expense)					
Interest expense	(751,741)	(854,437)	(102,696)	-12.02%	(906,489)
Bond issuance costs	(109,212)	-	109,212	n/a	-
Other nonoperating	<u>10,577</u>	<u>(2,097)</u>	<u>(12,674)</u>	-604.39%	<u>(145,680)</u>
Total nonoperating revenue/(expense)	(850,376)	(856,534)	(6,158)	-0.72%	(1,052,169)
Increase in net position	\$ 1,321,018	\$ 1,179,226	\$ 141,792	12.02%	\$ 582,620
Net position - beginning	<u>(404,095)</u>	<u>(1,583,321)</u>	<u>1,179,226</u>	74.48%	<u>(2,165,941)</u>
Net position - ending	\$ 916,923	\$ (404,095)	\$ 1,321,018	326.91%	\$ (1,583,321)

Operating Revenues

Operating revenues increased \$206 thousand or 2.90% from the prior year. Revenue gains were realized in Sewer services and Septage charges where income increased \$135 thousand and \$23 thousand respectively over fiscal year 2016. In fiscal year 2016 operating revenues increased \$336 thousand over fiscal year 2015.

Revenue from Sewer services increased over the prior year because of a 1.06% rate increase. Another major revenue factor was due to the commercial connection fees for the sizeable development of the Old West Marketplace center which includes a Fry's Marketplace, Fuel Center, Wendy's and other retail pads. In fiscal year 2017, 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 2017 decreased \$17 thousand from the previous year because of maintenance performed on the aging recharge facilities.

Operating Expenses

Operating expenses increased \$70 thousand from fiscal year 2016. The most significant expense categories showing increases were Payroll and payroll related, Consulting and Administrative. Payroll and payroll related expense increased \$110 thousand in fiscal year 2017 primarily due to budgeted wage increases and increases in employee benefit costs. Consulting was higher in 2017 primarily due to expenses relating to the mechanical bar screen replacement, aeration blower and tertiary filter capital projects. Administrative expenses increased in fiscal year 2017 due to a participation with the City of Apache Junction in the development of the City's new Flatiron Community Park. The District contributed \$62 thousand towards the construction of the restroom facilities as well as a permanent educational exhibit explaining the process of wastewater treatment. Repairs and maintenance – treatment facility showed the most significant decrease in fiscal year 2017 because of \$118 thousand in improvements made to the aeration basins during fiscal year 2016.

Operating expenses decreased \$65 from fiscal year 2015 to fiscal year 2016. A discussion of this decrease can be found in the fiscal year 2016 CAFR.

Nonoperating Revenues and Expenses

Total nonoperating expense was \$6 thousand lower than fiscal year 2016. Interest expense decreased by \$103 thousand; Note 5 to the Financial Statements provides additional information about the District's outstanding bond debt. Bond issuance costs of \$109 thousand were incurred in fiscal year 2017 as a result of the District's debt refunding. These were expensed in accordance with GASB 65.

Increase or Decrease in Net Position

The increase in net position for fiscal year 2017 of \$1.32 million reflects an improvement of \$142 thousand over the prior year result. The primary factor for the improvement can be tied to the increase in operating revenues. The increase from fiscal year 2015 to 2016 resulted primarily from operating expense control.

CAPITAL ASSETS

Table 4					
Superstition Mountains Community Facilities District No. 1					
Capital Assets					
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	Increase (Decrease)		<u>June 30, 2015</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Land and easements	\$ 1,275,122	\$ 1,229,706	\$ 45,416	3.69%	\$ 1,229,706
Treatment plant	16,471,618	15,869,412	602,206	3.79%	15,231,776
Collection system	22,799,431	22,756,225	43,206	0.19%	22,502,932
Buildings & grounds	786,158	788,655	(2,497)	-0.32%	754,299
Machinery & equipment	3,291,226	3,242,668	48,558	1.50%	2,923,480
Office equipment & software	342,246	336,110	6,136	1.83%	320,393
Other intangibles	50,241	50,241	-	0.00%	50,241
Construction in process	<u>39,888</u>	<u>437,594</u>	<u>(397,706)</u>	-90.88%	<u>202,188</u>
Total capital assets	45,055,930	44,710,611	345,319	0.77%	43,215,015
Accumulated depreciation	<u>(28,647,707)</u>	<u>(27,061,740)</u>	<u>(1,585,967)</u>	5.86%	<u>(25,373,990)</u>
Net capital assets	\$ 16,408,223	\$ 17,648,871	\$ (1,240,648)	-7.03%	\$ 17,841,025

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

In fiscal year 2017, increases were realized in most capital asset categories. The most notable improvements made at the District's facilities were at the west aeration basin for \$405 thousand, improvements to clarifiers for \$117 thousand and grading and drainage improvements for \$72 thousand. Construction in process at the end of fiscal year 2017 was \$398 thousand lower than 2016 primarily due to several large projects that were 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 2017, held by CoBiz Public Finance, Inc. This obligation replaced the Series 2013 bond obligation which was refunded during fiscal year 2017. As was the case with the Series 2013 bond, the Series 2017 obligation requires that the District maintain a ratio of net revenues to bond service charges of at least 1.20. For fiscal year 2017, this ratio was 1.82 compared to 1.60 in fiscal 2016 and 1.52 in fiscal year 2015. Note 5 to the Financial Statements provides additional information about the District's bond debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S RESULTS

As noted in prior years, revenue growth in fiscal year 2017 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 the Old West Marketplace development in fiscal year 2017, 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 85% of total sewer service revenue for fiscal year 2017.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Superstition Mountains Community Facilities District No. 1

STATEMENTS OF NET POSITION

June 30,

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,060,366	\$ 3,573,458
Cash and cash equivalents, restricted, current	226,224	198,944
Accounts receivable - sewage, net of allowance for doubtful accounts of \$10,441 and \$12,249	624,198	627,164
Accounts receivable - other	220,441	225,574
Inventory	21,626	24,461
Prepaid expenses	<u>118,694</u>	<u>125,335</u>
Total current assets	5,271,549	4,774,936
NONCURRENT ASSETS		
Capital assets:		
Capital assets not being depreciated	1,300,016	1,652,306
Capital assets, net of accumulated depreciation	<u>15,108,207</u>	<u>15,996,565</u>
Total capital assets	16,408,223	17,648,871
Other assets:		
Cash and cash equivalents, restricted, noncurrent	<u>1,375,528</u>	<u>2,004,342</u>
Total other assets	<u>1,375,528</u>	<u>2,004,342</u>
Total noncurrent assets	<u>17,783,751</u>	<u>19,653,213</u>
Total assets	<u>23,055,300</u>	<u>24,428,149</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pensions	<u>485,785</u>	<u>273,768</u>
Total deferred outflows of resources	<u>485,785</u>	<u>273,768</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	94,529	131,096
Accrued expenses	183,513	262,153
Accrued interest payable	47,761	68,944
Current portion, bonds payable	2,170,641	1,592,000
Unearned revenue	<u>41,339</u>	<u>53,299</u>
Total current liabilities	2,537,783	2,107,492
NONCURRENT LIABILITIES		
Revenue bonds payable, less current maturity	16,933,759	19,897,000
Net pension liability	<u>2,629,370</u>	<u>2,629,294</u>
Total noncurrent liabilities	<u>19,563,129</u>	<u>22,526,294</u>
Total liabilities	<u>22,100,912</u>	<u>24,633,786</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	<u>523,250</u>	<u>472,226</u>
Total deferred inflows of resources	<u>523,250</u>	<u>472,226</u>
NET POSITION		
Net investment in capital assets	(1,844,715)	(2,388,456)
Restricted by debt covenant for:		
Operations	750,288	751,613
Unrestricted	<u>2,011,350</u>	<u>1,232,748</u>
Total net position	<u>\$ 916,923</u>	<u>\$ (404,095)</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>2017</u>	<u>2016</u>
Operating revenues:		
Net charges for services	\$ 6,595,191	\$ 6,398,162
Charges for septage	510,284	486,841
Sales of recharge credits	125,309	142,172
Miscellaneous	<u>72,638</u>	<u>70,300</u>
Total operating revenues	7,303,422	7,097,475
Operating expenses:		
Payroll and payroll related	2,120,958	2,010,788
Repairs and maintenance - treatment facility	273,010	395,582
Repairs and maintenance - other	1,964	3,699
Supplies and services - treatment facility	339,224	330,771
Accounting	15,600	15,600
Consulting	85,479	50,578
Administrative	387,485	360,291
Insurance	83,887	84,549
Legal	53,254	53,812
Depreciation and amortization	1,770,480	1,755,306
Miscellaneous	<u>687</u>	<u>739</u>
Total expenditures	<u>5,132,028</u>	<u>5,061,715</u>
Operating income	2,171,394	2,035,760
Nonoperating revenues and (expenses):		
Interest income	10,577	12,139
Loss on equipment disposed		(14,236)
Bond issuance costs	(109,212)	
Interest expense	<u>(751,741)</u>	<u>(854,437)</u>
Total nonoperating revenues and (expenses)	<u>(850,376)</u>	<u>(856,534)</u>
Increase in net position	1,321,018	1,179,226
Net position, July 1	<u>(404,095)</u>	<u>(1,583,321)</u>
Net position, June 30	<u>\$ 916,923</u>	<u>\$ (404,095)</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>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 7,299,561	\$ 7,133,887
Cash payments to suppliers for goods and services	(1,359,034)	(1,218,397)
Cash payments to employees for services	<u>(2,269,162)</u>	<u>(2,115,721)</u>
Net cash provided by operating activities	<u>3,671,365</u>	<u>3,799,769</u>
Cash flows from capital and related financing activities:		
Proceeds from sales of capital assets		1,693
Acquisition of structures, sewer improvements and equipment	(529,832)	(1,579,081)
Principal payments on bonds payable	(2,384,600)	(1,503,000)
Bond issuance costs	(109,212)	
Bond interest paid	<u>(772,924)</u>	<u>(859,259)</u>
Net cash used by capital and related financing activities	<u>(3,796,568)</u>	<u>(3,939,647)</u>
Cash flows from investing activities:		
Interest received from investing activities	<u>10,577</u>	<u>12,139</u>
Total expenditures	<u>10,577</u>	<u>12,139</u>
Net change in cash	(114,626)	(127,739)
Cash and cash equivalents, beginning of year	<u>5,776,744</u>	<u>5,904,483</u>
Cash and cash equivalents, end of year	<u>\$ 5,662,118</u>	<u>\$ 5,776,744</u>
Cash and cash equivalents at June 30, 2017 and 2016 consist of:		
Unrestricted cash and cash equivalents	\$ 4,060,366	\$ 3,573,458
Restricted cash and cash equivalents, current	226,224	198,944
Restricted cash and cash equivalents, noncurrent	<u>1,375,528</u>	<u>2,004,342</u>
Total	<u>\$ 5,662,118</u>	<u>\$ 5,776,744</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,171,394	\$ 2,035,760
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,770,480	1,755,306
Pension expense	15,729	56,283
Employer pension contributions	(176,646)	(160,705)
Changes in assets and liabilities:		
Accounts receivable - sewage	2,966	10,964
Accounts receivable - other	5,133	16,679
Inventory	2,835	747
Prepaid expenses	6,641	(6,510)
Accounts payable	(36,567)	9,906
Accrued expenses	(78,640)	72,570
Unearned revenue	<u>(11,960)</u>	<u>8,769</u>
Net cash provided by operating activities	<u>\$ 3,671,365</u>	<u>\$ 3,799,769</u>
Noncash capital and related financing activities:		
Refinancing of bond payable	<u>\$ 19,282,000</u>	<u>\$ -</u>

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

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

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

Inventory: Inventory is stated at purchased cost (which approximates market). Inventory on hand at yearend 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 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.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

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 December 7, 2017, which was the date the District's financial statements were issued.

NOTE 2 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents at June 30, 2017 consists of amounts established relative to the District's Bond Resolution with CoBiz Public Finance, Inc. The Bond Resolution mandates that the District maintain a Debt Service Reserve of \$625,000 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.

Restricted cash and cash equivalents at June 30, 2016 consisted of amounts established relative to the District's Bond Resolution with Alliance Bank of Arizona, a division of Western Alliance Bank. The Bond Resolution mandated that the District maintain a Debt Service Reserve of \$1,250,000 and an Operations Reserve of \$750,000. The Bond Resolution authorized 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

Restricted cash and cash equivalents, consisting of deposits in Arizona Business Bank and with the Certificate of Deposit Account Registry Service (CDARS) as of June 30, 2017; and deposits in Alliance Bank and with CDARS as of June 30, 2016 are allocated as follows:

	<u>2017</u>	<u>2016</u>
Principal and interest fund	\$ 226,224	\$ 198,944
Debt service reserve fund	625,240	1,252,729
Operations reserve fund	<u>750,288</u>	<u>751,613</u>
Total restricted cash and cash equivalents	<u>\$ 1,601,752</u>	<u>\$ 2,203,286</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, 2017 and 2016, all cash balances were fully insured by the FDIC.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
<u>Nondepreciable assets:</u>				
Land	\$ 1,122,238	\$ 45,416	\$ -	\$ 1,167,654
Easements	92,474	-	-	92,474
Construction in progress	<u>437,594</u>	<u>390,116</u>	<u>(787,822)</u>	<u>39,888</u>
Total capital assets not being depreciated	<u>1,652,306</u>	<u>435,532</u>	<u>(787,822)</u>	<u>1,300,016</u>
<u>Depreciable assets:</u>				
Treatment plant	15,869,412	602,206	-	16,471,618
Collection system	22,756,225	43,206	-	22,799,431
Equipment	3,578,778	236,710	(182,016)	3,633,472
Buildings & grounds	788,655	-	(2,497)	786,158
Rights of way	14,994	-	-	14,994
Other intangible assets	<u>50,241</u>	<u>-</u>	<u>-</u>	<u>50,241</u>
Total capital assets being depreciated	<u>43,058,305</u>	<u>882,122</u>	<u>(184,513)</u>	<u>43,755,914</u>
<u>Accumulated depreciation:</u>				
Treatment plant	(9,803,045)	(751,481)	-	(10,554,526)
Collection system	(13,832,149)	(758,992)	-	(14,591,141)
Equipment	(2,918,507)	(174,135)	182,016	(2,910,626)
Buildings & grounds	(489,461)	(83,694)	2,497	(570,658)
Rights of way	(10,902)	(504)	-	(11,406)
Other intangible assets	<u>(7,676)</u>	<u>(1,674)</u>	<u>-</u>	<u>(9,350)</u>
Total accumulated depreciation	<u>(27,061,740)</u>	<u>(1,770,480)</u>	<u>184,513</u>	<u>(28,647,707)</u>
Total capital assets being depreciated, net	<u>15,996,565</u>	<u>(888,358)</u>	<u>-</u>	<u>15,108,207</u>
Net capital assets	<u>\$ 17,648,871</u>	<u>\$ (452,826)</u>	<u>\$ (787,822)</u>	<u>\$ 16,408,223</u>

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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 progress	<u>202,188</u>	<u>440,290</u>	<u>(204,884)</u>	<u>437,594</u>
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	<u>50,241</u>	<u>-</u>	<u>-</u>	<u>50,241</u>
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	<u>(6,002)</u>	<u>(1,674)</u>	<u>-</u>	<u>(7,676)</u>
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 Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5 – BONDS PAYABLE

The Series 2017 revenue refunding bonds, with a stated interest rate of 3.00%, were issued at par on April 12, 2017 and were held by a single bondholder, CoBiz Public Finance, Inc. The bonds were 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, 2017, and continuing through May 1, 2025. All revenues of the District were assigned and used as security for the bond.

The Series 2013 sewer revenue bonds, with a stated interest rate of 3.85%, were issued at par on March 27, 2013, and were held by a single bondholder, Alliance Bank of Arizona. The bonds were 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 April 12, 2017 when the outstanding balance was refunded and redeemed.

The following is a summary of changes in revenue bonds payable for the fiscal year ended June 30, 2017:

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017
Series 2017 bonds				
Current	\$ -	\$ 2,170,641	\$ -	\$ 2,170,641
Noncurrent	-	17,111,359	(177,600)	16,933,759
	-	19,282,000	(177,600)	19,104,400
Series 2013 bonds				
Current	1,592,000	-	(1,592,000)	-
Noncurrent	19,897,000	-	(19,897,000)	-
	21,489,000	-	(21,489,000)	-
Total bonds payable	<u>\$ 21,489,000</u>	<u>\$ 19,282,000</u>	<u>\$ (21,666,600)</u>	<u>\$ 19,104,400</u>

The following is a summary of changes in revenue bonds payable for the fiscal year ended June 30, 2016:

	Balance at July 1, 2015	Increases	Decreases	Balance at June 30, 2016
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>

Maturities of the Series 2017 revenue refinancing bonds, including interest payments, are as follows for June 30:

	Principal	Interest	Total
2018	\$ 2,170,641	\$ 543,447	\$ 2,714,088
2019	2,236,662	477,425	2,714,087
2020	2,304,691	409,395	2,714,086
2021	2,374,790	339,295	2,714,085
2022	2,447,025	267,064	2,714,089
2023 - 2025	7,570,591	345,496	7,916,087
Total	<u>\$ 19,104,400</u>	<u>\$ 2,382,122</u>	<u>\$ 21,486,522</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5 – BONDS PAYABLE (CONTINUED)

On April 12, 2017, the District issued revenue and refunding bonds. The purpose of the bonds was to take advantage of lower interest rates.

Amount of refunding general obligation bonds issued	\$ 19,282,000
Amount of general obligation bonds refunded	\$ 20,167,000
Decrease in total debt service payments	\$ 1,960,786
Economic gain	\$ 1,075,786

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:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 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.*

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 6 – RETIREMENT PLAN (CONTINUED)

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.

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, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48% (11.34% for retirement and 0.14% for long-term disability) of the members’ annual covered payroll. The rate for the year ended June 30, 2016 was 11.47% (11.35% for retirement and 0.12% for long-term disability).

For the year ended June 30, 2017, the District was required by statute to contribute at the actuarially determined rate of 11.48% (10.78% for retirement, 0.56% for health insurance premium benefit and 0.14% for long-term disability) of the active members’ annual covered payroll. The rate for the year ended June 30, 2016 was 11.47% (10.85% for retirement, 0.50% for health insurance premium benefit and 0.12% for long-term disability).

The District’s contributions into the pension plan for the years ended June 30, 2017 and 2016 were \$176,381 and \$165,233, 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
2017	\$ 9,163	\$ 2,320
2016	7,614	1,855
2015	8,933	1,819

Pension Liability

At June 30, 2017, the District reported a liability of \$2,629,370 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. 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, 2016. The District’s proportion measured as of June 30, 2016 was .016290%, which was a decrease of .000590% from its proportion measured as of June 30, 2015.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 6 – RETIREMENT PLAN (CONTINUED)

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 update 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.

Pension expense and deferred outflows/inflows of resources

For the years ended June 30, 2017 and June 30, 2016 the District recognized pension expense for ASRS of \$15,729 and \$56,283, 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, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 15,979	\$ 180,881	\$ 71,748	\$ 137,778
Changes of assumptions or other inputs	284,936	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	139,115	-	84,263
Changes in proportion and differences between District contributions and proportionate share of contributions	8,489	203,254	36,787	250,185
District contributions subsequent to the measurement date	176,381	-	165,233	-
Total	<u>\$ 485,785</u>	<u>\$ 523,250</u>	<u>\$ 273,768</u>	<u>\$ 472,226</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.

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 ended June 30,	
2018	\$ (259,315)
2019	(144,457)
2020	110,030
2021	79,896

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

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

	<u>2017</u>	<u>2016</u>
Actuarial valuation date	June 30, 2015	June 30, 2014
Actuarial roll forward date	June 30, 2016	June 30, 2015
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, 2013.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent 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	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Equity	58%	6.73%	58%	6.79%
Fixed income	25%	3.70%	25%	3.70%
Real estate	10%	4.25%	8%	4.25%
Multi-asset	5%	3.41%	5%	3.41%
Commodities	2%	3.84%	4%	3.93%
Total	<u>100%</u>		<u>100%</u>	
Long-Term Expected Arithmetic Rate of Return		<u>8.75%</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 Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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%)
2017	\$ 3,352,646	\$ 2,629,370	\$ 2,049,460
2016	3,445,273	2,629,294	2,070,080

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, 2017 and 2016

Arizona State Retirement System	Reporting Fiscal Year			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
District's proportion of the net pension liability	0.016290%	0.016880%	0.019066%	Information not available
District's proportionate share of the net pension liability	\$ 2,629,370	\$ 2,629,294	\$ 2,821,146	
District's covered payroll	1,541,915	1,559,035	1,727,616	
District's proportionate share of the net pension liability as a percentage of its covered payroll	170.53%	168.65%	163.30%	
District's fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

* The pension schedule is intended to show information for ten years, and additional years' information will be displayed as it becomes available.

Superstition Mountains Community Facilities District No. 1

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS

June 30, 2017 and 2016

Arizona State Retirement System	Reporting Fiscal Year					2013 through 2008 Information not available
	2017	2016	2015	2014	2013 through 2008	
Statutorily required contribution	\$ 176,381	\$ 165,233	\$ 173,839	\$ 183,914		
District's contributions in relation to the statutorily required contribution	<u>176,381</u>	<u>165,233</u>	<u>173,839</u>	<u>183,914</u>		
District's contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -		
District's covered payroll	1,636,868	1,541,915	1,559,035	1,727,616		
District's contributions as a percentage of covered payroll	10.78%	10.72%	11.15%	10.65%		

* The pension schedule is intended to show information for ten years, and additional years' information will be displayed as it becomes available.

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

STATISTICAL SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

STATISTICAL SECTION

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

<u>Contents</u>	<u>Page</u>
Financial Trends	31
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	33
These schedules contain information to assist the reader in assessing the District's most significant revenue source, sewer fees.	
Debt Capacity	37
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	39
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	41
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**

	2008	2009 ¹	2010	2011	2012	2013	2014 ³	2015	2016	2017
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)	\$ (1,844,715)
Restricted by debt covenants for:										
Debt service	\$ 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	750,288
Unrestricted ²	2,042,005	410,528	66,219	261,021	362,001	2,651,466	602,402	1,387,652	1,232,748	2,011,350
Total net position	\$ 3,862,425	\$ 2,887,083	\$ 1,951,054	\$ 1,103,915	\$ 697,414	\$ 294,957	\$ (2,165,941)	\$ (1,583,321)	\$ (404,095)	\$ 916,923

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,									
	2008	2009	2010	2011	2012	2013	2014	2015 ²	2016	2017
Operating revenues:										
Charges for services	\$ 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	\$ 6,595,191
Charges for seepage	388,145	411,627	421,608	500,324	425,095	478,723	452,860	408,143	486,841	510,284
Sales of recharge credits	154,364	158,326	110,210	139,385	178,676	179,507	169,493	129,105	142,172	125,309
Miscellaneous	122,621	203,750	171,994	236,669	204,643	118,755	88,474	88,258	70,300	72,638
Total operating revenue	5,797,099	5,866,013	6,087,356	6,129,049	6,594,142	6,996,580	6,760,557	6,761,359	7,097,475	7,303,422
Operating expenses:										
Payroll and payroll related	\$ 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	\$ 2,120,958
Repairs and maintenance - treatment facility	269,925	321,350	385,595	325,013	308,866	321,320	257,555	277,139	395,582	273,010
Repairs and maintenance - other	21,521	9,483	6,408	10,283	16,690	3,738	6,875	3,316	3,699	1,964
Supplies and services	338,507	315,627	346,623	330,145	357,845	355,682	353,727	346,803	330,771	339,224
Accounting	13,500	14,900	14,000	14,900	14,900	14,950	14,950	15,250	15,600	15,600
Consulting	43,924	154,309	14,903	22,893	41,698	6,105	30,736	37,800	50,578	85,479
Administrative	213,769	185,480	249,851	222,417	277,362	398,788	313,841	321,160	360,291	387,485
Insurance	84,451	79,525	71,563	74,546	75,234	84,743	84,993	81,620	84,549	83,887
Legal	97,645	96,575	63,810	162,865	66,978	90,353	98,046	81,672	53,812	53,254
Office rent	38,238	40,087	11,704	-	-	-	-	-	-	-
Depreciation and amortization ¹	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	1,770,480
Miscellaneous	3,235	21,000	504	383	511	2,142	10,068	6,080	739	687
Total operating expenses	4,635,076	4,998,073	5,225,466	5,206,161	5,256,114	5,393,972	5,381,233	5,126,570	5,061,715	5,132,028
Operating income	1,162,023	867,940	861,890	922,888	1,338,028	1,602,608	1,379,324	1,634,789	2,035,760	2,171,394
Nonoperating revenues and (expenses):										
Contributed capital assets	\$ 235,902	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mediation and litigation settlement	184,152	-	-	-	-	-	-	-	-	-
Interest income	263,587	52,658	3,598	10,180	6,944	3,852	13,075	11,788	12,139	10,577
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	(27,574)	(17,434)	(8,000)	(8,000)	(8,000)	(10,000)	-	-	-	-
Interest expense	(1,788,420)	(1,787,460)	(1,781,100)	(1,767,000)	(1,749,150)	(1,538,553)	(954,518)	(906,489)	(854,437)	(751,741)
Bond issuance costs	-	-	-	-	-	(343,980)	-	-	-	(109,212)
Total nonoperating revenue and (expense)	(1,132,353)	(1,843,281)	(1,797,919)	(1,770,027)	(1,744,529)	(2,005,065)	(948,153)	(1,052,169)	(856,534)	(850,376)
Change in net position	\$ 29,670	\$ (975,341)	\$ (936,029)	\$ (847,139)	\$ (406,501)	\$ (402,457)	\$ 431,171	\$ 582,620	\$ 1,179,226	\$ 1,321,018

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, 2017</u>		<u>Year Ended June 30, 2008</u>	
	<u>Sales</u>	<u>Percentage of Sales</u>	<u>Sales</u>	<u>Percentage of Sales</u>
Coopers Sewer & Drain Inc	\$ 222,756	3.30%	\$ 228,045	4.28%
Northwestern Mutual	181,557	2.69%	129,665	2.43%
Roadhaven Resort	166,029	2.46%	110,813	2.08%
Golden Vista RV	135,232	2.00%	148,305	2.78%
Central Arizona Water Conservation District	132,527	1.96%		
Rancho Mirage MHP	118,021	1.75%	78,624	1.47%
R C Roberts Sunrise RV Park	89,943	1.33%	69,506	1.30%
Leesburg Group/Rock Shadows	89,262	1.32%		
Right Away Disposal, LLC	74,908	1.11%		
La Casa Blanca	66,635	0.99%		
Apache Junction Water Company			83,146	1.56%
A J Health Center			71,925	1.35%
Frys Food Stores of AZ			70,853	1.33%
La Casa Blanca East			69,376	1.30%
Subtotal of ten largest customers	<u>1,276,869</u>	<u>18.92%</u>	<u>1,060,259</u>	<u>19.88%</u>
Balance from other customers	<u>5,471,162</u>	<u>81.08%</u>	<u>4,273,666</u>	<u>80.12%</u>
Total sewer, septage & recharge credit revenue	<u>\$ 6,748,031</u>	<u>100.00%</u>	<u>\$ 5,333,924</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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single Family	80	15	125	63	151	207	58	33	48	48
Multi Family	8	7	18	0	1	4	2	0	1	2
RV & MH Parks	9	15	12	1	3	1	11	23	20	17
All Other	17	9	10	3	7	5	3	3	6	4
Total permits	114	46	165	67	162	217	74	59	75	71
% Change ²	-59.14%	-59.65%	258.70%	-59.39%	141.79%	33.95%	-65.90%	-20.27%	27.12%	-5.33%

Service Class	ACTIVE ACCOUNTS									
	Fiscal Year Ended June 30,									
	2008	2009 ³	2010	2011	2012	2013	2014	2015	2016	2017
Single Family	5,605	5,593	5,697	5,753	5,898	6,106	6,160	6,190	6,236	6,288
Multi Family	115	114	114	113	112	115	117	113	114	115
Undeveloped Land ¹	70	65	57	53	52	46	44	44	42	39
RV Parks	25	25	25	25	25	25	26	26	24	23
Manufactured Home Parks	26	26	26	26	27	27	28	28	28	28
Church/Government	36	37	40	40	41	41	41	41	41	43
Light Commercial	116	115	120	119	122	125	127	130	134	136
Medium Commercial	50	53	56	55	55	55	56	56	58	57
Heavy Commercial	6	6	5	5	5	5	5	5	5	5
Industrial	0	0	0	0	0	0	0	0	0	0
Total accounts	6,049	6,034	6,140	6,189	6,337	6,545	6,604	6,633	6,682	6,734
% Change ²	2.89%	-0.25%	1.76%	0.80%	2.39%	3.28%	0.90%	0.44%	0.74%	0.78%

Service Class	ACTIVE UNITS									
	Fiscal Year Ended June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single Family	5,609	5,595	5,700	5,757	5,903	6,113	6,166	6,196	6,243	6,292
Multi Family	1,085	1,085	1,075	1,059	1,057	1,069	1,079	1,065	1,219	1,225
Undeveloped Land ¹	326	310	251	246	244	238	234	234	230	227
RV Parks	4,764	4,754	4,774	4,774	4,774	4,774	4,793	4,793	4,630	4,579
Manufactured Home Parks	2,308	2,317	2,332	2,333	2,331	2,332	2,366	2,387	2,406	2,424
All other	208	211	221	219	223	226	229	232	238	241
Total units	14,300	14,272	14,353	14,388	14,532	14,752	14,867	14,907	14,966	14,988
% Change ²	1.26%	-0.20%	0.57%	0.24%	1.00%	1.51%	0.78%	0.27%	0.40%	0.15%

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single Family	\$ 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	\$ 3,207,067
Multi Family	352,639	366,130	377,405	386,704	395,086	409,507	425,429	436,124	508,238	516,339
Undeveloped Land	30,809	29,607	25,882	25,469	25,766	26,279	26,254	26,957	27,186	27,136
RV Parks	587,430	563,613	566,921	592,440	642,475	649,378	676,105	723,756	668,772	659,325
Manufactured Home Parks	632,668	686,851	677,142	698,343	747,093	701,047	689,897	746,143	791,865	839,495
Church/Government	225,735	244,957	246,273	128,212	154,087	163,300	184,856	207,672	207,741	168,355
Light Commercial	241,976	256,762	282,828	251,604	280,443	285,322	278,340	249,030	258,778	272,433
Medium Commercial	317,278	339,987	290,330	315,615	302,624	303,634	323,855	328,144	346,120	332,560
Heavy Commercial	182,346	167,378	174,066	127,189	130,947	107,524	110,159	120,120	123,322	89,727
Industrial	0	0	0	0	0	0	0	0	0	0
Total sewer service revenue	\$ 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	\$ 6,112,437

Service Class	CONNECTION FEE REVENUE									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single Family	\$ 166,514	\$ 25,650	\$ 193,183	\$ 116,750	\$ 305,065	\$ 556,518	\$ 153,640	\$ 92,475	\$ 161,230	\$ 164,205
Multi Family	17,303	9,400	0	0	10,360	32,040	22,000	0	11,540	17,490
RV and Manufactured Home Parks	10,205	11,465	10,100	1,580	8,440	1,680	79,120	31,950	35,392	18,350
All Other	90,239	52,339	36,887	16,402	65,059	9,855	14,443	9,275	19,818	90,410
Total connection fee revenue	\$ 284,261	\$ 98,854	\$ 240,170	\$ 134,732	\$ 388,924	\$ 600,093	\$ 269,203	\$ 133,700	\$ 227,980	\$ 290,455

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,										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Single Family	\$ 33.50	\$ 34.60	\$ 35.80	\$ 37.00	\$ 38.15	\$ 39.35	\$ 40.55	\$ 41.55	\$ 42.50	\$ 42.95	
Multi Family ¹	27.30	28.20	29.20	30.20	31.15	32.15	33.10	33.95	34.75	35.15	
Undeveloped Land ²	7.70	7.95	8.25	8.55	8.80	9.10	9.35	9.60	9.80	9.90	
RV Parks ¹	7.85	8.10	8.40	8.70	8.95	9.25	9.55	9.80	10.05	10.15	
Mobile Home Parks ¹	17.25	17.80	18.40	19.00	19.60	20.20	20.80	21.30	21.80	22.05	
Church/Government	33.50	34.60	35.80	37.00	38.15	39.35	40.55	41.55	42.50	42.95	
Light Commercial	39.80	41.10	42.55	44.00	45.40	46.85	48.25	49.45	50.60	51.15	
Medium Commercial	44.70	46.15	47.75	49.35	50.90	52.50	54.10	55.45	56.75	57.35	
Heavy Commercial	49.75	51.35	53.15	54.95	56.70	58.50	60.25	61.75	63.15	63.85	
Industrial	119.20	123.05	127.35	131.60	135.75	140.05	144.25	147.85	151.25	152.90	

Service Class	USAGE CHARGES, per gallon ³										
	Fiscal Year Ended June 30,										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
RV Parks	\$ 0.226	\$ 0.234	\$ 0.242	\$ 0.250	\$ 0.258	\$ 0.266	\$ 0.274	\$ 0.281	\$ 0.287	\$ 0.290	
Mobile Home Parks	0.226	0.234	0.242	0.250	0.258	0.266	0.274	0.281	0.287	0.290	
Church/Government	0.226	0.234	0.242	0.250	0.258	0.266	0.274	0.281	0.287	0.290	
Light Commercial	0.226	0.234	0.242	0.250	0.258	0.266	0.274	0.281	0.287	0.290	
Medium Commercial	0.254	0.263	0.271	0.280	0.289	0.298	0.307	0.315	0.322	0.326	
Heavy Commercial	0.283	0.292	0.302	0.312	0.322	0.332	0.342	0.351	0.359	0.363	
Industrial	0.678	0.700	0.724	0.748	0.771	0.796	0.820	0.840	0.859	0.869	

Service Class	MINIMUM CONNECTION FEES										
	Fiscal Year Ended June 30,										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Single Family	\$ 2,750	\$ 2,850	\$ 2,950	\$ 3,050	\$ 3,145	\$ 3,245	\$ 3,340	\$ 3,425	\$ 3,505	\$ 3,545	
Multi Family ¹	2,250	2,350	2,430	2,510	2,590	2,670	2,750	2,820	2,885	2,915	
RV Parks ¹	650	675	700	725	750	775	800	820	840	850	
Mobile Home Parks ¹	1,425	1,480	1,530	1,580	1,630	1,680	1,730	1,775	1,815	1,835	
Church/Government	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	
Light Commercial	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	
Medium Commercial	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	
Heavy Commercial	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	
Industrial	2,750	2,850	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	

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		Series 2017 Sewer Revenue Bond ¹		Ending Balance	Per Active Unit ³
	Beginning Balance	Principal Reductions ²	Beginning Balance ⁴	Principal Reductions ²	Beginning Balance ⁵	Principal Reductions ²		
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
2017	-	-	21,489,000	(21,489,000)	19,282,000	(177,600)	19,104,400	1,275

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 because the District's service area does not completely 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.

⁵ The Series 2013 Sewer Revenue Bonds were refunded on April 12, 2017 with the Series 2017 Sewer Revenue Bonds.

Source: Series 2000, Series 2013 and Series 2017 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 ^{2,5}	Net Revenues Available for Debt Service ³	Debt Service Requirements ¹			Required Coverage Ratio ³
				Principal	Interest	Total	
2008	6,480,740	3,128,296	3,352,444	-	1,788,420	1,788,420	1.10
2009	5,918,671	3,425,819	2,492,852	67,000	1,787,460	1,854,460	1.10
2010	6,090,954	3,548,067	2,542,887	220,000	1,781,100	2,001,100	1.10
2011	6,139,229	3,487,462	2,651,767	285,000	1,767,000	2,052,000	1.10
2012	6,601,086	3,446,581	3,154,505	335,000	1,749,150	2,084,150	1.10
2013	7,000,432	4,130,313	2,870,119	1,034,000	1,538,553	2,572,553	1.20
2014	6,773,632	3,621,543	3,152,089	1,286,000	954,518	2,240,518	1.20
2015	6,773,147	3,559,430	3,213,717	1,202,000	906,489	2,108,489	1.20
2016	7,109,614	3,320,645	3,788,969	1,531,000	854,437	2,385,437	1.20
2017	7,313,999	3,361,548	3,952,451	1,548,013	751,741	2,299,754	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 bond interest.

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

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

⁵ Deductible Operating Expenses for 2017 exclude Bond Issuance Costs of \$109,212 as defined in the Bond Resolution for 2017.

Source: Statements of Revenues, Expenses and Changes in Fund Net Assets; Amortization Schedules for the Series 2000, 2013 and 2017 Sewer Revenue Bonds

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 Average 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	42,867	7.3%
2017	39,954		unavailable	43,658	5.7%

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, 2017</u>		<u>Year ended June 30, 2008</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	488	3.95%	750	5.37%
City of Apache Junction	284	2.30%	313	2.24%
Wal-Mart Supercenter Store # 1831	220	1.78%	311	2.23%
Horizon Health and Wellness ¹	208	1.68%	185	1.32%
Western Industrial Resources	132	1.07%		
Central Arizona College - Superstition Mtn. Campus	125	1.01%	63	0.45%
Fry's Food and Drug	110	0.89%	69	0.49%
United States Postal Service	100	0.81%	85	0.61%
Superstition Fire and Medical ⁴	99	0.80%	90	0.64%
Robert Horne Ford/Hyundai ³	91	0.74%	75	0.54%
Banner Goldfield ²			167	1.20%
Total	<u>1,857</u>	<u>15.03%</u>	<u>2,108</u>	<u>15.09%</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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administrative Division										
District Manager	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.04	1.00	1.00
District Administration	3.02	3.00	3.00	3.00	2.00	1.42	0.75	0.96	1.00	1.63
Finance	2.58	3.46	3.60	3.60	3.60	3.54	3.80	3.61	3.80	3.00
Business Services	-	-	-	-	-	2.42	4.00	3.13	3.00	3.00
Customer Service	3.42	3.58	4.00	3.54	4.00	3.43	3.21	3.96	3.41	3.63
Total Administrative Division	10.02	11.04	11.60	11.14	10.60	11.81	12.76	12.70	12.21	12.26
Operations Division										
Manager of Operations	-	-	-	-	0.35	1.00	1.00	0.08	0.00	0.00
Operations Administration	2.10	4.00	4.00	4.00	4.16	3.77	4.12	4.00	4.00	5.00
Treatment Plant	7.65	6.24	7.00	7.04	7.94	6.42	5.00	5.15	4.58	4.00
Collection System	5.92	6.69	5.87	6.00	4.65	3.42	5.04	4.00	4.00	4.79
Total Operations Division	15.67	16.93	16.87	17.04	17.10	14.61	15.16	13.23	12.58	13.79
Total	25.69	27.97	28.47	28.18	27.70	26.42	27.92	25.93	24.79	26.05

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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Collection System										
Miles of Collection Mains <12" dia.	93.0	93.0	93.2	93.9	94.5	95.5	95.5	95.9	96.1	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	5,983	5,971	6,086	6,140	6,290	6,506	6,566	6,595	6,647	6,699
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	1.395	1.427	1.406	1.378	1.377	1.425	1.369	1.372	1.353	1.411
Highest Monthly Average Daily Flow, MGD ¹	1.583	1.723	1.646	1.637	1.627	1.607	1.628	1.606	1.590	1.629
% of Total Permitted Capacity ²	74.0%	80.5%	76.9%	76.5%	76.0%	75.1%	76.1%	75.0%	74.3%	76.1%
Population Served (75 gpd/pop. eq.) ³	18,600	19,027	18,747	18,373	18,360	19,000	18,253	18,293	18,040	18,813
Effluent Disposal										
Effluent Recharge Basin Surface Acres	4.4	4.4	4.4	4.4	5.0	5.0	5.0	5.0	7.3	7.3
Effluent Recharge Vadose Zone Wells	20	20	20	20	32	32	32	32	36	36

¹ Million Gallons per Day

² Based on Highest Monthly Average Daily Flow

³ Wastewater Engineering Treatment and Reuse, Fourth Edition, by Metcalf & Eddy, Inc.

Source: District Operational Records