

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

Comprehensive Annual

Financial Report

for the fiscal years ended June 30, 2019 and 2018



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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

for the fiscal years ended June 30, 2019 and 2018



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

Maria N. Zagar, Financial Services Supervisor

COVER: Aerial view during recharge expansion project in January 2019.

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

INTRODUCTORY SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2019 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2019 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

District Officials



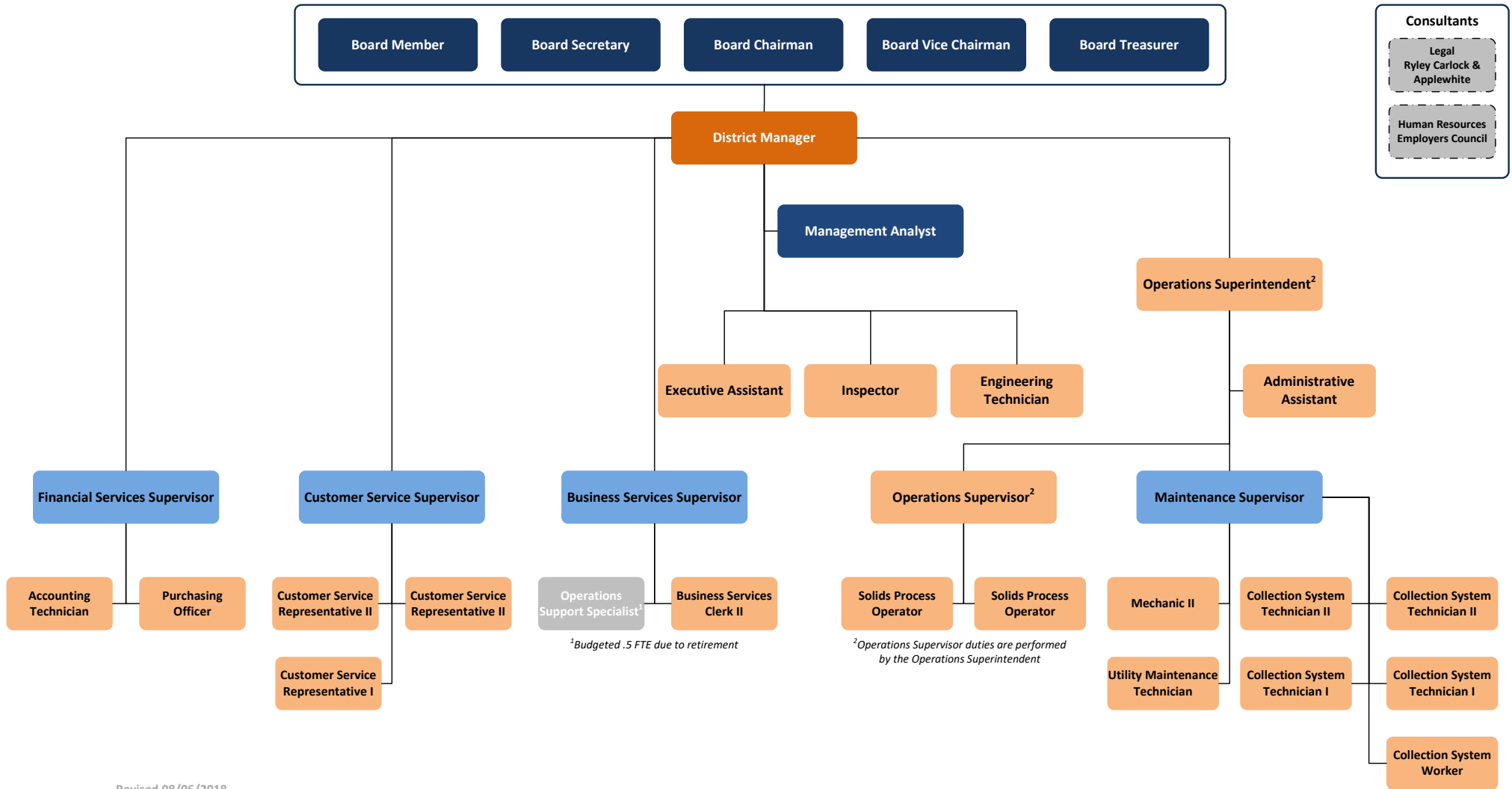
Board of Directors

Kathleen Waldron	Chairman
James Reynolds	Vice Chairman
Terry Dunn	Secretary
Jesse Gage	Treasurer
Philip Tremonti	Board Member

District Financial Management

Darron Anglin	District Manager
Maria N. Zagar	Financial Services Supervisor

**Superstition Mountains Community Facilities District No. 1
Fiscal Year 2019 Organizational Chart**



Consultants

- Legal Ryley Carlock & Applewhite
- Human Resources Employers Council

Revised 08/06/2018



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Superstition Mountains Community
Facilities District No. 1, Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

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 16, 2019

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, 2019. This is the tenth 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, 2019 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, 2019 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).

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.

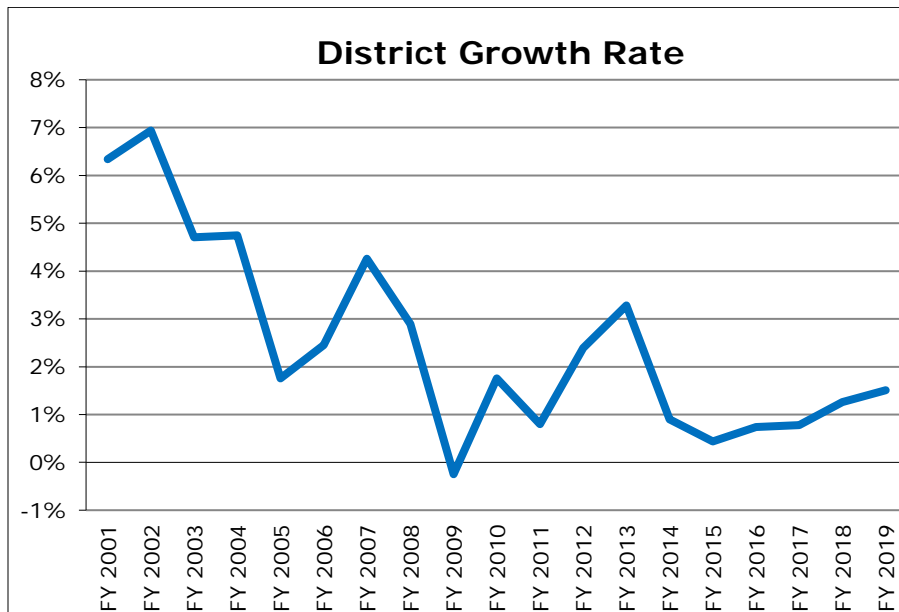
The District's Board determines long-term strategic direction and provides for funding to meet the strategic objectives of the District by adopting an annual budget. The budget is adopted prior to the beginning of the fiscal year.

ECONOMIC CONDITION AND OUTLOOK

During fiscal year 2019, modest economic growth in the Apache Junction area continued. The District benefited from this growth and realized an increase in revenue from new customer connections over fiscal year 2018. Growth has shown to be steady and improving year over year, with several projects in the works for the coming years.

While 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, the economic outlook for fiscal year 2020 indicates an increase in connections from projects currently in the planning phase. These projects include two new residential subdivisions. These new subdivisions will add more than 400 single family lots in the District's service area.

The majority of the developable land remaining in the City is State Trust land. As the remaining privately owned vacant lots are developed and neighboring communities grow eastward, the pressure to develop a portion of the State Trust land increases. The State Land Department recently approved the annexation of over 6,000 acres by the City. This action is anticipated to result in the development of this land. When this development does occur, the City will see significant growth and the District will experience a substantial increase in customers.



FINANCIAL POLICIES AND PRACTICES

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

MAJOR INITIATIVES

Capital Improvements

New capital improvement initiatives for fiscal year 2020 include the replacement of the sewer video inspection unit as well as upgrades to the District's aeration blowers. Both of these significant projects are replacing aging equipment, which helps keep the District operating efficiently. The blower upgrade project is also needed to increase the rated capacity of the treatment plant.

Regulatory Permits

After several years of planning, the District submitted an amendment to its regulatory permit which will increase the rated capacity of its treatment facility. The proposed capacity of 3.0 million gallons per day (MGD) represents a 40 percent increase over the current 2.1 MGD capacity. The additional capacity will allow the District to connect more customers before a costly expansion is needed. The permit amendment also included other changes to the treatment plant, including additional recharge basins, replacement of a groundwater monitoring well and the addition of a tertiary effluent filter.

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, 2018. This was the ninth consecutive year the District 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. 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 members of the District's Finance Department are 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 entire 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". The signature is written in a cursive style with a prominent initial "D" and a long, sweeping underline.

Darron Anglin, PE
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, 2019 and 2018, 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 positions of the District, as of June 30, 2019 and 2018, 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/OPEB Liability on page 28, and Schedule of the District Pension/OPEB Contributions on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 listed in the table of contents 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 16, 2019

**SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

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, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL SUMMARY

- Net position increased \$1.9 million during fiscal year 2019.
- Cash and cash equivalents increased by \$327 thousand from fiscal year 2018.
- Capital assets decreased \$727 thousand from the prior year.
- Liabilities decreased by \$2.5 million primarily as a result of the decrease in outstanding debt.
- Operating revenues increased by \$339 thousand, or 5%, over 2018.
- Operating expenses increased by \$198 thousand, or 4%, over fiscal year 2018.
- Interest expense decreased by \$66 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, 2019, June 30, 2018 and June 30, 2017. The information for fiscal year 2019 is provided in greater detail in the basic financial statements which follow this analysis.

NET POSITION

	June 30, 2019	June 30, 2018	Increase (Decrease) current year from prior		June 30, 2017
			Amount	Percentage	
Cash, cash equivalents and investments	\$ 6,305,962	\$ 5,979,252	\$ 326,710	5.46%	\$ 5,662,118
Other current assets	935,406	975,875	(40,469)	-4.15%	984,959
Net OPEB asset	6,132	9,543	(3,411)	-35.74%	-
Capital assets	<u>14,753,927</u>	<u>15,480,705</u>	<u>(726,778)</u>	-4.69%	<u>16,408,223</u>
Total assets	22,001,427	22,445,375	(443,948)	-1.98%	23,055,300
Deferred outflows	<u>395,051</u>	<u>435,126</u>	<u>(40,075)</u>	-9.21%	<u>485,785</u>
Current liabilities	2,799,159	2,683,756	115,403	4.30%	2,537,783
Long term liabilities					
Series 2017 bond	12,392,406	14,697,097	(2,304,691)	-15.68%	16,933,759
Net pension and OPEB liability	<u>2,339,209</u>	<u>2,696,618</u>	<u>(357,409)</u>	-13.25%	<u>2,629,370</u>
Total liabilities	17,530,774	20,077,471	(2,546,697)	-12.68%	22,100,912
Deferred inflows	<u>359,481</u>	<u>231,989</u>	<u>127,492</u>	54.96%	<u>523,250</u>
Net investment in					
capital assets	914,947	(601,021)	1,515,968	252.23%	(1,844,715)
Restricted	756,542	750,744	5,798	0.77%	750,288
Unrestricted	<u>2,834,734</u>	<u>2,421,318</u>	<u>413,416</u>	17.07%	<u>2,011,350</u>
Total net position	\$ 4,506,223	\$ 2,571,041	\$ 1,935,182	75.27%	\$ 916,923

The District's net position as of June 30, 2019 improved by 75%, or \$1.9 million, from the prior year. Total assets decreased by 2% or \$444 thousand; total liabilities decreased 12.7% or \$2.5 million.

The increase in net position from June 30, 2017 to June 30, 2018 was \$1.7 million. A complete discussion of the increase in net position from fiscal year 2017 to fiscal year 2018 can be found in the fiscal year 2018 CAFR.

Cash, cash equivalents, and investments as of June 30, 2019 increased by \$327 thousand from fiscal year 2018. The increase is largely attributed to an increase in the Checking accounts and LGIP investments. A summary of the components of Cash, cash equivalents, and investments is provided in Table 2.

Net additions to Capital assets for fiscal year 2019 totaled \$1.2 million; after normal depreciation of \$1.9 million, Capital assets decreased by \$727 thousand. 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 \$115 thousand over fiscal year 2018 as a result of adherence to the District’s Series 2017 bond repayment schedule.

CASH AND CASH EQUIVALENTS

Table 2 Superstition Mountains Community Facilities District No. 1 Cash, Cash Equivalents and Investments					
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	Increase (Decrease)		<u>June 30, 2017</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Cash, Cash Equivalents and Investments	\$ 4,691,303	\$ 4,376,475	\$ 314,828	7.19%	\$ 4,060,366
Restricted funds					
Debt Service Fund	227,666	226,413	1,253	0.55%	226,224
Debt Service Reserve	630,451	625,620	4,831	0.77%	625,240
Operations Reserve	<u>756,542</u>	<u>750,744</u>	<u>5,798</u>	0.77%	<u>750,288</u>
Total cash, cash equivalents and investments	\$ 6,305,962	\$ 5,979,252	\$ 326,710	5.46%	\$ 5,662,118

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 \$315 thousand over the prior year is the result of increases in the Operations and Maintenance account and the Capital and Replacement account related to the timing of expenses and project expenditures.

In addition to the checking accounts, the District maintains three accounts specifically required by its bondholder, BOK Finance, formerly 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.

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, 2019, the balance of \$228 thousand was held to meet the scheduled debt payment due on July 1, 2019. The balances on hand at June 30, 2018 and 2017 were deposited to make the scheduled debt payments due on July 1, 2018 and 2017, 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, 2019 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.

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, 2019 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, 2019</u>	<u>June 30, 2018</u>	Increase (Decrease)		<u>June 30, 2017</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Operating revenues					
Sewer services	\$ 6,556,098	\$ 6,454,356	\$ 101,742	1.58%	\$ 6,304,736
Connection fees	544,365	343,373	200,992	58.53%	290,455
Septage charges	497,353	449,174	48,179	10.73%	510,284
Recharge credit sales	62,981	71,035	(8,054)	-11.34%	125,309
Miscellaneous	<u>78,870</u>	<u>82,907</u>	<u>(4,037)</u>	-4.87%	<u>72,638</u>
Total operating revenues	7,739,667	7,400,845	338,822	4.58%	7,303,422
Operating expenses	5,416,952	5,219,381	197,571	3.79%	5,132,028
Operating income	2,322,715	2,181,464	141,251	6.48%	2,171,394
Nonoperating revenue/(expense)					
Interest expense	(471,833)	(538,021)	(66,188)	-12.30%	(751,741)
Bond issuance costs	-	-	-	n/a	(109,212)
Other nonoperating	<u>84,300</u>	<u>10,675</u>	<u>73,625</u>	689.70%	<u>10,577</u>
Total nonoperating revenue/(expense)	(387,533)	(527,346)	(139,813)	-26.51%	(850,376)
Increase in net position	\$ 1,935,182	\$ 1,654,118	\$ 281,064	16.99%	\$ 1,321,018
Net position - beginning	<u>2,571,041</u>	<u>916,923</u>	<u>1,654,118</u>	-180.40%	<u>(404,095)</u>
Net position - ending	\$ 4,506,223	\$ 2,571,041	\$ 1,935,182	75.27%	\$ 916,923

Operating Revenues

Operating revenues increased \$339 thousand or 4.6% from the prior year. Revenue gains were realized in Sewer services and Connection fees where income increased \$102 thousand and \$201 thousand respectively over fiscal year 2018. In fiscal year 2018, operating revenues increased \$97 thousand over fiscal year 2017.

Revenue from Sewer services increased over the prior year because of a 1% increase in rates. Connection fees increased over the prior year due in large part to revenues realized from Apache Junction Villas, a 52-unit, multi-family development. In fiscal year 2019, 118 permits were issued to connect 196 new units, compared to 121 permits issued to connect 127 units in fiscal year 2018 and 71 to connect 96 units 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 an increase in volumes transported by existing customers.

In March 2005, the District received its final permits allowing for the recharge of effluent and the accumulation of saleable recharge credits. The District negotiated agreements to sell its recharge credits to the Water Utilities Community Facilities District, 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 2019 decreased \$8 thousand from the previous year because of decreased capacity in the existing recharge facilities.

Operating Expenses

Operating expenses increased \$198 thousand from fiscal year 2018. The most significant expense categories showing increases were Repairs and maintenance - treatment facility, Administrative and Depreciation and amortization. Administrative expenses were higher than the prior year because of expenses relating to the implementation of a new asset management system. Repairs and maintenance - treatment facility expenses were higher in 2019 primarily due to maintenance of the sludge facilities and repairs and maintenance to the administrative office buildings. Consulting expenses showed the most significant decrease from fiscal year 2018 because the prior year included expenses related to the recharge expansion.

Operating expenses increased \$87 thousand from fiscal year 2017 to fiscal year 2018. A discussion of this increase can be found in the fiscal year 2018 CAFR.

Nonoperating Revenues and Expenses

Total nonoperating expense was \$140 thousand lower than fiscal year 2018. Interest expense decreased by \$66 thousand; Note 5 to the Financial Statements provides additional information about the District's outstanding bond debt.

Increase or Decrease in Net Position

The increase in net position for fiscal year 2019 of \$1.94 million reflects an improvement of \$281 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 2017 to 2018 resulted primarily from the decreased expenses related to the District's bond debt.

CAPITAL ASSETS

Table 4					
Superstition Mountains Community Facilities District No. 1					
Capital Assets					
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	Increase (Decrease)		<u>June 30, 2017</u>
			current year from prior		
			<u>Amount</u>	<u>Percentage</u>	
Land and easements	\$ 1,338,247	\$ 1,275,122	\$ 63,125	4.95%	\$ 1,275,122
Treatment plant	16,686,047	16,564,258	121,789	0.74%	16,471,618
Collection system	22,972,564	22,822,524	150,040	0.66%	22,799,431
Buildings & grounds	981,763	973,713	8,050	0.83%	786,158
Machinery & equipment	3,539,537	3,521,969	17,568	0.50%	3,291,226
Office equipment & software	338,596	330,526	8,070	2.44%	342,246
Other intangibles	50,241	50,241	-	0.00%	50,241
Construction in process	<u>869,478</u>	<u>77,301</u>	<u>792,177</u>	1024.80%	<u>39,888</u>
Total capital assets	46,776,473	45,615,654	1,160,819	2.54%	45,055,930
Accumulated depreciation	<u>(32,022,546)</u>	<u>(30,134,949)</u>	<u>(1,887,597)</u>	6.26%	<u>(28,647,707)</u>
Net capital assets	\$ 14,753,927	\$ 15,480,705	\$ (726,778)	-4.69%	\$ 16,408,223

Capital Assets

The District operates and maintains approximately 114 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 24 years of use, with a small portion of the sewer collection system in excess of 30 years of service.

In fiscal year 2019, increases were realized in most capital asset categories. Improvements made at the District facilities include installation of a new monitoring well for \$65 thousand, fiber optic cable connections to the SCADA system, and drying bed refurbishments. Additions to the collection system during fiscal year 2019 included a \$95 thousand mainline extension to connect Discount Tire which will also serve additional customers. Construction in process at the end of fiscal year 2019 was \$792 thousand higher than 2018 primarily due to the Recharge Expansion project.

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 BOK Financial, formerly 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 2019, this ratio was 1.59 compared to 1.48 in fiscal year 2018 and 1.82 in fiscal year 2017. 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 2019 resulted from the District's practice of annual, modest rate increases for the services it provides. These rate increases, coupled with a modest increase in connection fees from new and infill customers in fiscal year 2019, allowed the District to cover its regular operating expenses and debt service as well as contribute toward capital additions and replacements.

The District is somewhat insulated from economic downturns by its broad residential customer base. Almost 97% of the units billed by the District for sewer service are residential, representing 85% of total sewer service revenue for fiscal year 2019.

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	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,682,877	\$ 4,376,475
Investments	1,008,426	
Cash and cash equivalents, restricted, current	227,666	226,413
Accounts receivable - sewage, net of allowance for doubtful accounts of \$9,827 and \$10,208	644,150	653,944
Accounts receivable - other	149,904	165,144
Inventory	21,090	25,067
Prepaid expenses	<u>120,262</u>	<u>131,720</u>
Total current assets	5,854,375	5,578,763
NONCURRENT ASSETS		
Capital assets:		
Capital assets not being depreciated	2,190,731	1,337,429
Capital assets, net of accumulated depreciation	<u>12,563,196</u>	<u>14,143,276</u>
Total capital assets, net	14,753,927	15,480,705
Other assets:		
Cash and cash equivalents, restricted, noncurrent	1,386,993	1,376,364
Net pension and other postemployment benefits asset	<u>6,132</u>	<u>9,543</u>
Total other assets	<u>1,393,125</u>	<u>1,385,907</u>
Total noncurrent assets	<u>16,147,052</u>	<u>16,866,612</u>
Total assets	<u>22,001,427</u>	<u>22,445,375</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions and other postemployment benefits	<u>395,051</u>	<u>435,126</u>
Total deferred outflows of resources	<u>395,051</u>	<u>435,126</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	198,847	191,474
Accrued expenses	202,502	170,678
Accrued interest payable	36,743	42,334
Current portion, bonds payable	2,304,691	2,236,662
Unearned revenue	<u>56,376</u>	<u>42,608</u>
Total current liabilities	<u>2,799,159</u>	<u>2,683,756</u>
NONCURRENT LIABILITIES		
Revenue bonds payable, less current maturity	12,392,406	14,697,097
Net pension liability	<u>2,339,209</u>	<u>2,696,618</u>
Total noncurrent liabilities	<u>14,731,615</u>	<u>17,393,715</u>
Total liabilities	<u>17,530,774</u>	<u>20,077,471</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions and other postemployment benefits	<u>359,481</u>	<u>231,989</u>
Total deferred inflows of resources	<u>359,481</u>	<u>231,989</u>
NET POSITION		
Net investment in capital assets	914,947	(601,021)
Restricted by debt covenant for:		
Operations	756,542	750,744
Unrestricted	<u>2,834,734</u>	<u>2,421,318</u>
Total net position	<u>\$ 4,506,223</u>	<u>\$ 2,571,041</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>2019</u>	<u>2018</u>
Operating revenues:		
Net charges for services	\$ 7,100,463	\$ 6,797,729
Charges for septage	497,353	449,174
Sales of recharge credits	62,981	71,035
Miscellaneous	<u>78,870</u>	<u>82,907</u>
Total operating revenues	7,739,667	7,400,845
Operating expenses:		
Payroll and payroll related	2,147,575	2,129,076
Repairs and maintenance - treatment facility	353,673	314,329
Repairs and maintenance - other	2,340	2,002
Supplies and services - treatment facility	405,172	371,928
Accounting	23,100	18,100
Consulting	107,066	135,827
Administrative	346,390	289,244
Insurance	66,759	72,980
Legal	48,319	47,358
Depreciation and amortization	1,911,621	1,834,737
Miscellaneous	<u>4,937</u>	<u>3,800</u>
Total expenditures	<u>5,416,952</u>	<u>5,219,381</u>
Operating income	2,322,715	2,181,464
Nonoperating revenues and (expenses):		
Interest income	84,300	10,675
Interest expense	<u>(471,833)</u>	<u>(538,021)</u>
Total nonoperating revenues and (expenses)	<u>(387,533)</u>	<u>(527,346)</u>
Increase in net position	1,935,182	1,654,118
Net position, July 1	<u>2,571,041</u>	<u>916,923</u>
Net position, June 30	<u>\$ 4,506,223</u>	<u>\$ 2,571,041</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>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from customers	\$ 7,778,469	\$ 7,427,665
Cash payments to suppliers for goods and services	(1,322,917)	(1,172,479)
Cash payments to employees for services	<u>(2,314,213)</u>	<u>(2,327,419)</u>
Net cash provided by operating activities	<u>4,141,339</u>	<u>3,927,767</u>
Cash flows from capital and related financing activities:		
Acquisition of structures, sewer improvements and equipment	(1,184,843)	(907,219)
Principal payments on bonds payable	(2,236,662)	(2,170,641)
Bond interest paid	<u>(477,424)</u>	<u>(543,448)</u>
Net cash used by capital and related financing activities	<u>(3,898,929)</u>	<u>(3,621,308)</u>
Cash flows from investing activities:		
Purchase of securities	(1,008,426)	
Interest received from investing activities	<u>84,300</u>	<u>10,675</u>
Net cash (used) provided by investing activities	<u>(924,126)</u>	<u>10,675</u>
Net change in cash	(681,716)	317,134
Cash and cash equivalents, beginning of year	<u>5,979,252</u>	<u>5,662,118</u>
Cash and cash equivalents, end of year	<u>\$ 5,297,536</u>	<u>\$ 5,979,252</u>
Cash and cash equivalents at June 30, 2019 and 2018 consist of:		
Unrestricted cash and cash equivalents	\$ 3,682,877	\$ 4,376,475
Restricted cash and cash equivalents, current	227,666	226,413
Restricted cash and cash equivalents, noncurrent	<u>1,386,993</u>	<u>1,376,364</u>
Total	<u>\$ 5,297,536</u>	<u>\$ 5,979,252</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,322,715	\$ 2,181,464
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,911,621	1,834,737
Pension expense	10,571	12,448
Employer pension contributions	(197,002)	(195,345)
Changes in assets and liabilities:		
Accounts receivable - sewage	9,794	(29,746)
Accounts receivable - other	15,240	55,297
Inventory	3,977	(3,441)
Prepaid expenses	11,458	(13,026)
Accounts payable	7,373	96,945
Accrued expenses	31,824	(12,835)
Unearned revenue	<u>13,768</u>	<u>1,269</u>
Net cash provided by operating activities	<u>\$ 4,141,339</u>	<u>\$ 3,927,767</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, 2019 and 2018

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, 2018, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

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.

Deposits and Investments: The District's board authorize the District to invest public monies in the State's Local Government Investment Pool (LGIP);The LGIP is a part of the State of Arizona Treasurer's office. The State Board of Deposit provides oversight for the State Treasurer's pools, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. Investments in the State of Arizona LGIP are stated at fair value, which also approximates the value of the investment upon withdrawal. All investments are stated at fair value.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

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

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

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

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

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

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

Postemployment Benefits: For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' 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.

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 16, 2019, which was the date the District's financial statements were issued.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 2 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents at June 30, 2019 and 2018 consist 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

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, 2019 and 2018, respectively, are allocated as follows:

	2019	2018
Principal and interest fund	\$ 227,666	\$ 226,413
Debt service reserve fund	630,451	625,620
Operations reserve fund	<u>756,542</u>	<u>750,744</u>
Total restricted cash and cash equivalents	<u>\$ 1,614,659</u>	<u>\$ 1,602,777</u>

NOTE 3 – DEPOSITS AND INVESTMENTS

At June 30, 2019, the carrying amount of the District's deposits was \$3,682,877 and the bank balance was \$3,800,878. The District maintains cash balances with financial institutions located in Phoenix, Arizona. The District utilizes an insured cash sweep program and CDARS to ensure FDIC coverage for all amounts on deposit. The District’s deposits at June 30, 2019, were collateralized with securities held by the pledging financial institution’s trust department in the District’s name.

The District had total investments of \$1,008,426 in the State Treasurer's investment pools measured at fair value. Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the District held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools. The District has not adopted a formal investment policy.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments classified in Level 2 are valued using a matrix pricing model.

Credit Risk - The District’s investment in the State of Arizona local government investment pool is limited to a pool (Pool 5) that invests only in government securities. Pool 5 is rated AA+ by Standard and Poor's.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2019, all of the District’s investments were held by the State of Arizona's Local Government Investment Pool (LGIP).

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. 100% of the District’s investments are in the State Treasurer’s investment pool.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
<u>Nondepreciable assets:</u>				
Land	\$ 1,167,654			\$ 1,167,654
Easements	92,474	\$ 61,125		153,599
Construction in progress	<u>77,301</u>	<u>869,478</u>	<u>\$ (77,301)</u>	<u>869,478</u>
Total capital assets not being depreciated	<u>1,337,429</u>	<u>930,603</u>	<u>(77,301)</u>	<u>2,190,731</u>
<u>Depreciable assets:</u>				
Treatment plant	16,564,258	121,789		16,686,047
Collection system	22,822,524	150,040		22,972,564
Equipment	3,852,495	49,660	(24,022)	3,878,133
Buildings & grounds	973,713	8,050		981,763
Rights of way	14,994	2,000		16,994
Other intangible assets	<u>50,241</u>			<u>50,241</u>
Total capital assets being depreciated	<u>44,278,225</u>	<u>331,539</u>	<u>(24,022)</u>	<u>44,585,742</u>
<u>Accumulated depreciation:</u>				
Treatment plant	(11,318,576)	(766,789)		(12,085,365)
Collection system	(15,351,917)	(764,113)		(16,116,030)
Equipment	(2,777,067)	(274,348)	46,247	(3,005,168)
Buildings & grounds	(664,454)	(126,415)		(790,869)
Rights of way	(11,911)	(505)		(12,416)
Other intangible assets	<u>(11,024)</u>	<u>(1,674)</u>		<u>(12,698)</u>
Total accumulated depreciation	<u>(30,134,949)</u>	<u>(1,933,844)</u>	<u>46,247</u>	<u>(32,022,546)</u>
Total capital assets being depreciated, net	<u>14,143,276</u>	<u>(1,602,305)</u>	<u>22,225</u>	<u>12,563,196</u>
Net capital assets	<u>\$ 15,480,705</u>	<u>\$ (671,702)</u>	<u>\$ (55,076)</u>	<u>\$ 14,753,927</u>

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
<u>Nondepreciable assets:</u>				
Land	\$ 1,167,654			\$ 1,167,654
Easements	92,474			92,474
Construction in progress	<u>39,888</u>	<u>\$ 77,301</u>	<u>\$ (39,888)</u>	<u>77,301</u>
Total capital assets not being depreciated	<u>1,300,016</u>	<u>77,301</u>	<u>(39,888)</u>	<u>1,337,429</u>
<u>Depreciable assets:</u>				
Treatment plant	16,471,618	92,640		16,564,258
Collection system	22,799,431	23,093		22,822,524
Equipment	3,633,472	566,518	(347,495)	3,852,495
Buildings & grounds	786,158	187,555		973,713
Rights of way	14,994			14,994
Other intangible assets	<u>50,241</u>			<u>50,241</u>
Total capital assets being depreciated	<u>43,755,914</u>	<u>869,806</u>	<u>(347,495)</u>	<u>44,278,225</u>
<u>Accumulated depreciation:</u>				
Treatment plant	(10,554,526)	(764,050)		(11,318,576)
Collection system	(14,591,141)	(760,776)		(15,351,917)
Equipment	(2,910,626)	(213,936)	347,495	(2,777,067)
Buildings & grounds	(570,658)	(93,796)		(664,454)
Rights of way	(11,406)	(505)		(11,911)
Other intangible assets	<u>(9,350)</u>	<u>(1,674)</u>		<u>(11,024)</u>
Total accumulated depreciation	<u>(28,647,707)</u>	<u>(1,834,737)</u>	<u>347,495</u>	<u>(30,134,949)</u>
Total capital assets being depreciated, net	<u>15,108,207</u>	<u>(964,931)</u>		<u>14,143,276</u>
Net capital assets	<u>\$ 16,408,223</u>	<u>\$ (887,630)</u>	<u>\$ (39,888)</u>	<u>\$ 15,480,705</u>

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

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 following is a summary of changes in revenue bonds payable for the fiscal year ended June 30, 2019:

	Balance at July 1, 2018	Increases	Decreases	Balance at June 30, 2019
Series 2017 bonds				
Current	\$ 2,236,662	\$ 2,304,691	\$ (2,236,662)	\$ 2,304,691
Noncurrent	<u>14,697,097</u>		<u>(2,304,691)</u>	<u>12,392,406</u>
Total bonds payable	<u>\$ 16,933,759</u>	<u>\$ 2,304,691</u>	<u>\$ (4,541,353)</u>	<u>\$ 14,697,097</u>

The following is a summary of changes in revenue bonds payable for the fiscal year ended June 30, 2018:

	Balance at July 1, 2017	Increases	Decreases	Balance at June 30, 2018
Series 2017 bonds				
Current	\$ 2,170,641	\$ 2,236,662	\$ (2,170,641)	\$ 2,236,662
Noncurrent	<u>16,933,759</u>		<u>(2,236,662)</u>	<u>14,697,097</u>
	<u>\$ 19,104,400</u>	<u>\$ 2,236,662</u>	<u>\$ (4,407,303)</u>	<u>\$ 16,933,759</u>

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

	Principal	Interest	Total
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	2,521,452	192,635	2,714,087
2024	2,598,144	115,942	2,714,086
2025	<u>2,450,995</u>	<u>36,918</u>	<u>2,487,913</u>
Total	<u>\$ 14,697,097</u>	<u>\$ 1,361,249</u>	<u>\$ 16,058,346</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

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 (OPEB) plan; and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB) 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 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

**With actuarially reduced benefits.*

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

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.

Health Insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month, depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

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, 2019, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.80% (11.64% for retirement and 0.16% for long-term disability) of the members' annual covered payroll and statute required the District to contribute at the actuarially determined rate of 11.80% (11.18% for retirement, 0.46% for health insurance premium benefit, and 0.16% for long-term disability) of the active members' annual covered payroll. The District's contributions for the year ended June 30, 2019 and 2018 were as follows.

	2019	2018
Pension	\$ 185,299	\$ 179,718
Health Insurance Premium	7,624	7,255
Long-Term Disability	2,657	2,622

Liability

The District reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	June 30, 2019	June 30, 2018
	Net pension/OPEB (asset) liability	Net pension/OPEB (asset) liability
ASRS		
Pension	\$ 2,330,457	\$ 2,690,329
Health insurance premium benefit	(6,132)	(9,543)
Long-term disability	8,752	6,289

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 6 – RETIREMENT PLAN (CONTINUED)

The net asset and net liabilities for June 30, 2019 were measured as of June 30, 2018. The total liability used to calculate the net asset or net liability was determined using updated procedures to roll forward the total liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total pension liability as of June 30, 2018, reflects a change in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2018, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3-6.75 percent to 2.7-7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The District's proportion of the net asset and net 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, 2018. The District's proportions measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, were:

ASRS	Proportion June 30, 2018	Increase (decrease) from June 30, 2017
Pension	0.016710 %	0.000560 %
Health insurance premium benefit	0.017030 %	0.000500 %
Long-term disability	0.016750 %	0.000600 %

The net liability for June 30, 2018, was measured as of June 30, 2017. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The District's proportion of the net 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, 2017.

Expense

The District recognized the following pension and OPEB expense for the fiscal year ended June 30.

ASRS	2019 Pension/OPEB expense	2018 Pension/OPEB expense
Pension	\$1,348	\$3,513
Health insurance premium benefit	6,091	5,581
Long-term disability	3,132	3,354

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Deferred Outflows/Inflows of Resources

At June 30, 2019 the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	June 30, 2019					
	Pension		Health insurance premium benefit		Long-term disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 64,202	\$ 12,847		\$ 5,660	\$ 224	
Changes of assumptions or other inputs	61,668	206,627	\$ 11,826		1,896	
Net difference between projected and actual earnings on pension plan investments	59,655	56,042		12,250		\$ 848
Changes in proportion and differences between District contributions and proportionate share of contributions		64,938		45		
District contributions subsequent to the measurement date	<u>185,299</u>		<u>7,624</u>		<u>2,657</u>	<u>224</u>
Total	<u>\$ 370,824</u>	<u>\$ 340,454</u>	<u>\$ 19,450</u>	<u>\$ 17,955</u>	<u>\$ 4,777</u>	<u>\$ 1,072</u>
	June 30, 2018					
	Pension		Health insurance premium benefit		Long-term disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience		\$ 80,671				
Changes of assumptions or other inputs	\$ 116,847	80,446				
Net difference between projected and actual earnings on pension plan investments	19,315			\$ 10,745		\$ 941
Changes in proportion and differences between District contributions and proportionate share of contributions	109,369	59,174		12		
District contributions subsequent to the measurement date	<u>179,718</u>		<u>\$ 7,255</u>		<u>\$ 2,622</u>	
Total	<u>\$ 425,249</u>	<u>\$ 220,291</u>	<u>\$ 7,255</u>	<u>\$ 10,757</u>	<u>\$ 2,622</u>	<u>\$ 941</u>

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from District contributions subsequent to the measurement dates will be recognized as an increase of the net asset or a reduction of the net pension liability in the year ending June 30, 2020.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ending June 30,	<u>Pension</u>	<u>Health insurance premium benefit</u>	<u>Long-term disability</u>
2020	\$ 32,670	\$ (2,387)	\$ (7)
2020	(77,454)	(2,386)	(6)
2021	(85,012)	(2,386)	(6)
2022	(25,133)	226	221
2023		804	262
Thereafter			584

Actuarial Assumptions

The significant actuarial assumptions used to measure the total pension/OPEB liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB 2017 SRA Scale U-MP for pensions and health insurance premium benefit
Mortality rates	2012 GLDT for long-term disability
Recovery rates	Not applicable
Healthcare cost trend rate	

For actuarial assumptions used in June 30, 2017, the valuations were based on the results of an actuarial experience study for the 5 year period ended June 30, 2016.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	<u>Target</u>	<u>Long-term Expected Geometric Real Rate of Return</u>
Equity	50%	5.50%
Fixed income	30%	3.82%
Real estate	20%	5.85%
Total	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Discount Rate

At June 30, 2018, the discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent, which was a decrease of 0.5 percent from the discount rate used as of June 30, 2017. 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 plans' 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

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

The following table presents the District’s proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.5%, as well as what the District’s proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

ASRS District's proportionate share of the	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability	\$ 3,322,120	\$ 2,330,457	\$ 1,501,938
Net insurance premium benefit liability (asset)	21,728	(6,132)	(9,543)
Net long-term disability liability	9,918	8,752	7,620

Plan fiduciary net position

Detailed information about the 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.

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

Required Supplementary Information

Superstition Mountains Community Facilities District No. 1

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION/OPEB LIABILITY COST-SHARING PLANS

June 30, 2019

	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
ASRS - Pension						
District's proportion of the net pension liability	0.016710%	0.017270%	0.016290%	0.016880%	0.019066%	Information not available
District's proportionate share of the net pension liability	\$ 2,330,457	\$ 2,690,329	\$ 2,629,370	\$ 2,629,294	\$ 2,821,146	
District's covered payroll	1,657,415	1,636,868	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	140.61%	164.36%	170.53%	168.65%	163.30%	
District's fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%	
ASRS - Health Insurance Premium Benefit						
	2019 (2018)	2018 (2017)	2017 through 2010			
District's proportion of the net OPEB (asset)	0.017030%	0.017530%	Information not available			
District's proportionate share of the net OPEB (asset)	\$ (6,132)	\$ (9,543)				
District's covered payroll	1,657,415	1,636,868				
District's proportionate share of the net OPEB (asset) as a percentage of its covered payroll	(0.37)%	(0.58)%				
District's fiduciary net position as a percentage of the total OPEB liability	102.20%	103.57%				
ASRS - Long-term Disability						
	2019 (2018)	2018 (2017)	2017 through 2010			
District's proportion of the net OPEB liability	0.016750%	0.017350%	Information not available			
District's proportionate share of the net OPEB liability	\$ 8,752	\$ 6,289				
District's covered payroll	1,657,415	1,636,868				
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.53%	0.38%				
District's fiduciary net position as a percentage of the total OPEB liability	77.83%	84.44%				

* 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/OPEB CONTRIBUTIONS

June 30, 2019

	2019	2018	2017	2016	2015	2014	2013 through 2009
ASRS - Pension							
Statutorily required contribution	\$ 185,299	\$ 179,718	\$ 176,381	\$ 165,233	\$ 173,839	\$ 183,914	Information not available
District's contributions in relation to the statutorily required contribution	<u>185,299</u>	<u>179,718</u>	<u>176,381</u>	<u>165,233</u>	<u>173,839</u>	<u>183,914</u>	
District's contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered payroll	1,657,415	1,646,294	1,636,868	1,541,915	1,559,035	1,727,616	
District's contributions as a percentage of covered payroll	11.18%	10.92%	10.78%	10.72%	11.15%	10.65%	
ASRS - Health Insurance Premium Benefit							
Statutorily required contribution	\$ 7,624	\$ 7,255	\$ 9,436	2016 through 2010 Information not available			
District's contributions in relation to the statutorily required contribution	<u>7,624</u>	<u>7,255</u>	<u>9,436</u>				
District's contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
District's covered payroll	1,657,415	1,646,294	1,636,868				
District's contributions as a percentage of covered payroll	0.46%	0.44%	0.50%				
ASRS - Long-term Disability							
Statutorily required contribution	\$ 2,657	\$ 2,622	\$ 2,359	2016 through 2010 Information not available			
District's contributions in relation to the statutorily required contribution	<u>2,657</u>	<u>2,622</u>	<u>2,359</u>				
District's contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
District's covered payroll	1,657,415	1,646,294	1,636,868				
District's contributions as a percentage of covered payroll	0.16%	0.16%	0.12%				

* 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	33
These schedules contain trend information to assist the reader in understanding how the District's financial performance and well-being has changed over time.	
Revenue Capacity	35
These schedules contain information to assist the reader in assessing the District's most significant revenue source, sewer fees.	
Debt Capacity	39
These schedules present information to assist the reader in assessing the affordability of the District's current level of outstanding debt.	
Demographic and Economic Information	41
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.	
Operating Information	43
These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services that the District provides and the activities that it performs.	

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

	Fiscal Year Ended June 30,									
	2010	2011	2012	2013	2014 ³	2015	2016	2017	2018	2019
Net position:										
Net investment in capital assets	\$ (2,752,352)	\$ (3,481,676)	\$ (4,375,973)	\$ (3,106,982)	\$ (3,520,176)	\$ (3,722,547)	\$ (2,388,456)	\$ (1,844,715)	\$ (601,021)	\$ 914,947
Restricted by debt covenants for:										
Debt service										
Capital acquisition	3,488,216	3,157,895	3,884,453							
Operations	1,148,971	1,166,675	826,933	750,473	751,833	751,574	751,613	750,288	750,744	756,542
Unrestricted ²	<u>66,219</u>	<u>261,021</u>	<u>362,001</u>	<u>2,651,466</u>	<u>602,402</u>	<u>1,387,652</u>	<u>1,232,748</u>	<u>2,011,350</u>	<u>2,421,318</u>	<u>2,834,734</u>
Total net position	<u>\$ 1,951,054</u>	<u>\$ 1,103,915</u>	<u>\$ 697,414</u>	<u>\$ 294,957</u>	<u>\$ (2,165,941)</u>	<u>\$ (1,583,321)</u>	<u>\$ (404,095)</u>	<u>\$ 916,923</u>	<u>\$ 2,571,041</u>	<u>\$ 4,506,223</u>

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,									
	2010	2011	2012	2013	2014	2015 ²	2016	2017	2018 ³	2019
Operating revenues:										
Charges for services	\$ 5,383,544	\$ 5,252,671	\$ 5,785,728	\$ 6,219,595	\$ 6,049,730	\$ 6,135,853	\$ 6,398,162	\$ 6,595,191	\$ 6,797,729	\$ 7,100,463
Charges for septage	421,608	500,324	425,095	478,723	452,860	408,143	486,841	510,284	449,174	497,353
Sales of recharge credits	110,210	139,385	178,676	179,507	169,493	129,105	142,172	125,309	71,035	62,981
Miscellaneous	171,994	236,669	204,643	118,755	88,474	88,258	70,300	72,638	82,907	78,870
Total operating revenue	<u>6,087,356</u>	<u>6,129,049</u>	<u>6,594,142</u>	<u>6,996,580</u>	<u>6,760,557</u>	<u>6,761,359</u>	<u>7,097,475</u>	<u>7,303,422</u>	<u>7,400,845</u>	<u>7,739,667</u>
Operating expenses:										
Payroll and payroll related	\$ 2,362,689	\$ 2,310,810	\$ 2,284,174	\$ 2,382,128	\$ 2,444,042	\$ 2,231,122	\$ 2,010,788	\$ 2,120,958	\$ 2,129,076	\$ 2,147,575
Repairs and maintenance - treatment facility	385,595	325,013	308,866	321,320	257,555	277,139	395,582	273,010	314,329	353,673
Repairs and maintenance - other	6,408	10,283	16,690	3,738	6,875	3,316	3,699	1,964	2,002	2,340
Supplies and services	346,623	330,145	357,845	355,682	353,727	346,803	330,771	339,224	371,928	405,172
Accounting	14,000	14,900	14,900	14,950	14,950	15,250	15,600	15,600	18,100	23,100
Consulting	14,903	22,893	41,698	6,105	30,736	37,800	50,578	85,479	135,827	107,066
Administrative	249,851	222,417	277,362	398,788	313,841	321,160	360,291	387,485	289,244	346,390
Insurance	71,563	74,546	75,234	84,743	84,993	81,620	84,549	83,887	72,980	66,759
Legal	63,810	162,865	66,978	90,353	98,046	81,672	53,812	53,254	47,358	48,319
Office rent	11,704	-	-	-	-	-	-	-	-	-
Depreciation and amortization ¹	1,697,816	1,731,906	1,811,856	1,734,023	1,766,400	1,724,608	1,755,306	1,770,480	1,834,737	1,911,621
Miscellaneous	504	383	511	2,142	10,068	6,080	739	687	3,800	4,937
Total operating expenses	<u>5,225,466</u>	<u>5,206,161</u>	<u>5,256,114</u>	<u>5,393,972</u>	<u>5,381,233</u>	<u>5,126,570</u>	<u>5,061,715</u>	<u>5,132,028</u>	<u>5,219,381</u>	<u>5,416,952</u>
Operating income	861,890	922,888	1,338,028	1,602,608	1,379,324	1,634,789	2,035,760	2,171,394	2,181,464	2,322,715
Nonoperating revenues and (expenses):										
Interest income	\$ 3,598	\$ 10,180	\$ 6,944	\$ 3,852	\$ 13,075	\$ 11,788	\$ 12,139	\$ 10,577	\$ 10,675	\$ 84,300
Equipment scrapped or abandoned	(12,417)	(5,207)	5,677	(116,384)	(6,710)	(157,468)	(14,236)	-	-	-
Trust and cash management fees	(8,000)	(8,000)	(8,000)	(10,000)	-	-	-	-	-	-
Interest expense	(1,781,100)	(1,767,000)	(1,749,150)	(1,538,553)	(954,518)	(906,489)	(854,437)	(751,741)	(538,021)	(471,833)
Bond issuance costs	-	-	-	(343,980)	-	-	-	(109,212)	-	-
Total nonoperating revenue and (expense)	<u>(1,797,919)</u>	<u>(1,770,027)</u>	<u>(1,744,529)</u>	<u>(2,005,065)</u>	<u>(948,153)</u>	<u>(1,052,169)</u>	<u>(856,534)</u>	<u>(850,376)</u>	<u>(527,346)</u>	<u>(387,533)</u>
Change in net position	<u>\$ (936,029)</u>	<u>\$ (847,139)</u>	<u>\$ (406,501)</u>	<u>\$ (402,457)</u>	<u>\$ 431,171</u>	<u>\$ 582,620</u>	<u>\$ 1,179,226</u>	<u>\$ 1,321,018</u>	<u>\$ 1,654,118</u>	<u>\$ 1,935,182</u>

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.

³ Beginning in fiscal year 2018 OPEB expense included in Payroll and payroll related expense reflects the adoption of GASB 75.

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, 2019</u>		<u>Year Ended June 30, 2010</u>	
	<u>Sales</u>	<u>Percentage of Sales</u>	<u>Sales</u>	<u>Percentage of Sales</u>
Coopers Septic	\$ 237,428	3.26%	\$ 250,834	4.50%
Northwestern Mutual	201,181	2.76%	131,229	2.36%
Roadhaven Resort	189,672	2.60%	112,944	2.03%
Golden Vista RV	181,785	2.50%	131,742	2.36%
Leesburg Group/Rock Shadows	114,720	1.58%	68,544	1.23%
Rancho Mirage MHP	100,736	1.38%		
R C Roberts Sunrise RV Park	83,925	1.15%		
Central Arizona Water Conservation District	80,760	1.11%		
Quail Creek	80,430	1.10%		
Sonoma Valley, LLC	69,136	0.95%		
Desert Harbor			72,031	1.29%
La Casa Banca			68,157	1.22%
A J Health Center			71,980	1.29%
A JUSD High School			109,323	1.96%
Water Utility Community Facilities District			104,517	1.88%
Subtotal of ten largest customers	<u>1,339,773</u>	<u>18.40%</u>	<u>1,121,301</u>	<u>20.12%</u>
Balance from other customers	<u>5,943,086</u>	<u>81.60%</u>	<u>4,450,468</u>	<u>79.88%</u>
Total sewer, septage & recharge credit revenue	<u>\$ 7,282,859</u>	<u>100.00%</u>	<u>\$ 5,571,769</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,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single Family	125	63	151	207	58	33	48	48	100	98
Multi Family	18	0	1	4	2	0	1	2	0	3
RV & MH Parks	12	1	3	1	11	23	20	17	17	11
All Other	10	3	7	5	3	3	6	4	4	8
Total permits	165	67	162	217	74	59	75	71	121	120
% Change ²	258.70%	-59.39%	141.79%	33.95%	-65.90%	-20.27%	27.12%	-5.33%	70.42%	-0.83%

Service Class	ACTIVE ACCOUNTS									
	Fiscal Year Ended June 30,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single Family	5,697	5,753	5,898	6,106	6,160	6,190	6,236	6,288	6,385	6,482
Multi Family	114	113	112	115	117	113	114	115	111	113
Undeveloped Land ¹	57	53	52	46	44	44	42	39	40	37
RV Parks	25	25	25	25	26	26	24	23	25	25
Manufactured Home Parks	26	26	27	27	28	28	28	28	27	27
Church/Government	40	40	41	41	41	41	41	43	50	49
Light Commercial	120	119	122	125	127	130	134	136		
Medium Commercial	56	55	55	55	56	56	58	57		
Commercial ³									178	186
Heavy Commercial	5	5	5	5	5	5	5	5	3	3
Industrial	0	0	0	0	0	0	0	0	0	0
Total accounts	6,140	6,189	6,337	6,545	6,604	6,633	6,682	6,734	6,819	6,922
% Change ²	1.76%	0.80%	2.39%	3.28%	0.90%	0.44%	0.74%	0.78%	1.26%	1.51%

Service Class	ACTIVE UNITS									
	Fiscal Year Ended June 30,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single Family	5,700	5,757	5,903	6,113	6,166	6,196	6,243	6,292	6,626	6,723
Multi Family	1,075	1,059	1,057	1,069	1,079	1,065	1,219	1,225	982	1,047
Undeveloped Land ¹	251	246	244	238	234	234	230	227	225	222
RV Parks	4,774	4,774	4,774	4,774	4,793	4,793	4,630	4,579	4,635	4,626
Manufactured Home Parks	2,332	2,333	2,331	2,332	2,366	2,387	2,406	2,424	2,388	2,411
All other	221	219	223	226	229	232	238	241	231	238
Total units	14,353	14,388	14,532	14,752	14,867	14,907	14,966	14,988	15,087	15,267
% Change ²	0.57%	0.24%	1.00%	1.51%	0.78%	0.27%	0.40%	0.15%	0.66%	1.19%

¹ Number of acres

² From prior year

³ Light Commercial and Medium Commercial Service Classes were combined into Commercial in FY18

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

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

Service Class	SEWER SERVICE REVENUE									
	Fiscal Year Ended June 30,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single Family	\$ 2,399,104	\$ 2,521,379	\$ 2,642,038	\$ 2,758,781	\$ 2,955,784	\$ 3,057,664	\$ 3,140,168	\$ 3,207,067	\$ 3,385,863	\$ 3,452,485
Multi Family	377,405	386,704	395,086	409,507	425,429	436,124	508,238	516,339	380,621	387,606
Undeveloped Land	25,882	25,469	25,766	26,279	26,254	26,957	27,186	27,136	27,415	27,058
RV Parks	566,921	592,440	642,475	649,378	676,105	723,756	668,772	659,325	776,818	788,161
Manufactured Home Parks	677,142	698,343	747,093	701,047	689,897	746,143	791,865	839,495	849,544	856,863
Church/Government	246,273	128,212	154,087	163,300	184,856	207,672	207,741	168,355	185,387	207,865
Light Commercial	282,828	251,604	280,443	285,322	278,340	249,030	258,778	272,433		
Medium Commercial	290,330	315,615	302,624	303,634	323,855	328,144	346,120	332,560		
Commercial ¹									599,687	645,093
Heavy Commercial	174,066	127,189	130,947	107,524	110,159	120,120	123,322	89,727	109,193	126,438
Total sewer service revenue	\$ 5,039,951	\$ 5,046,955	\$ 5,320,559	\$ 5,404,772	\$ 5,670,679	\$ 5,895,610	\$ 6,072,190	\$ 6,112,437	\$ 6,314,528	\$ 6,491,569

Service Class	CONNECTION FEE REVENUE									
	Fiscal Year Ended June 30,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single Family	\$ 193,183	\$ 116,750	\$ 305,065	\$ 556,518	\$ 153,640	\$ 92,475	\$ 161,230	\$ 164,205	\$ 283,187	\$ 313,740
Multi Family	0	0	10,360	32,040	22,000	0	11,540	17,490	0	151,105
RV and Manufactured Home Parks	10,100	1,580	8,440	1,680	79,120	31,950	35,392	18,350	23,760	34,560
All Other	36,887	16,402	65,059	9,855	14,443	9,275	19,818	90,410	36,425	44,960
Total connection fee revenue	\$ 240,170	\$ 134,732	\$ 388,924	\$ 600,093	\$ 269,203	\$ 133,700	\$ 227,980	\$ 290,455	\$ 343,372	\$ 544,365

¹Light Commercial and Medium Commercial Service Classes were combined into Commercial in FY18

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

MONTHLY MINIMUMS											
Fiscal Year Ended June 30,											
Service Class	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Single Family	\$ 35.80	\$ 37.00	\$ 38.15	\$ 39.35	\$ 40.55	\$ 41.55	\$ 42.50	\$ 42.95	\$ 43.35	\$ 43.75	
Multi Family ¹	29.20	30.20	31.15	32.15	33.10	33.95	34.75	35.15	32.25	32.55	
Undeveloped Land ²	8.25	8.55	8.80	9.10	9.35	9.60	9.80	9.90	10.00	10.10	
RV Parks ¹	8.40	8.70	8.95	9.25	9.55	9.80	10.05	10.15	13.65	13.75	
Manufactured Home Parks ¹	18.40	19.00	19.60	20.20	20.80	21.30	21.80	22.05	26.45	26.70	
Church/Government	35.80	37.00	38.15	39.35	40.55	41.55	42.50	42.95	43.35	43.75	
Light Commercial	42.55	44.00	45.40	46.85	48.25	49.45	50.60	51.15			
Medium Commercial	47.75	49.35	50.90	52.50	54.10	55.45	56.75	57.35			
Commercial									52.00	52.50	
Heavy Commercial	53.15	54.95	56.70	58.50	60.25	61.75	63.15	63.85	65.05	65.65	
Industrial	127.35	131.60	135.75	140.05	144.25	147.85	151.25	152.90	151.70	153.15	

USAGE CHARGES, per gallon ³											
Fiscal Year Ended June 30,											
Service Class	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
RV Parks	\$ 0.242	\$ 0.250	\$ 0.258	\$ 0.266	\$ 0.274	\$ 0.281	\$ 0.287	\$ 0.290	\$ 0.256	\$ 0.258	
Manufactured Home Parks	0.242	0.250	0.258	0.266	0.274	0.281	0.287	0.290	0.256	0.258	
Church/Government	0.242	0.250	0.258	0.266	0.274	0.281	0.287	0.290	0.255	0.258	
Light Commercial	0.242	0.250	0.258	0.266	0.274	0.281	0.287	0.290			
Medium Commercial	0.271	0.280	0.289	0.298	0.307	0.315	0.322	0.326			
Commercial ⁴									0.306	0.309	
Heavy Commercial	0.302	0.312	0.322	0.332	0.342	0.351	0.359	0.363	0.383	0.387	
Industrial	0.724	0.748	0.771	0.796	0.820	0.840	0.859	0.869	0.894	0.902	

MINIMUM CONNECTION FEES											
Fiscal Year Ended June 30,											
Service Class	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Single Family	\$ 2,950	\$ 3,050	\$ 3,145	\$ 3,245	\$ 3,340	\$ 3,425	\$ 3,505	\$ 3,545	\$ 3,545	\$ 3,545	
Multi Family ¹	2,430	2,510	2,590	2,670	2,750	2,820	2,885	2,915	2,635	2,635	
RV Parks ¹	700	725	750	775	800	820	840	850	1,115	1,115	
Manufactured Home Parks ¹	1,530	1,580	1,630	1,680	1,730	1,775	1,815	1,835	2,160	2,160	
Church/Government	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	3,545	3,545	
Light Commercial	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545			
Medium Commercial	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545			
Commercial ⁴									3,545	3,545	
Heavy Commercial	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	3,545	3,545	
Industrial	2,950	3,050	3,145	3,245	3,340	3,425	3,505	3,545	3,545	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.

⁴ Light Commercial and Medium Commercial Service Classes were combined into Commercial in FY18

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		
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
2018	-	-	-	-	19,104,400	(2,170,641)	16,933,759	1,122
2019	-	-	-	-	16,933,759	(2,236,662)	14,697,097	963

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			Coverage Ratio	Required Coverage Ratio ³
				Principal	Interest	Total		
2010	6,090,954	3,548,067	2,542,887	220,000	1,781,100	2,001,100	1.27	1.10
2011	6,139,229	3,487,462	2,651,767	285,000	1,767,000	2,052,000	1.29	1.10
2012	6,601,086	3,446,581	3,154,505	335,000	1,749,150	2,084,150	1.51	1.10
2013	7,000,432	4,130,313	2,870,119	1,034,000	1,538,553	2,572,553	1.12 ⁴	1.20
2014	6,773,632	3,621,543	3,152,089	1,286,000	954,518	2,240,518	1.41	1.20
2015	6,773,147	3,559,430	3,213,717	1,202,000	906,489	2,108,489	1.52	1.20
2016	7,109,614	3,320,645	3,788,969	1,531,000	854,437	2,385,437	1.59	1.20
2017	7,313,999	3,361,548	3,952,451	1,548,013	751,741	2,299,754	1.72	1.20
2018	7,411,520	3,384,644	4,026,876	2,176,067	538,021	2,714,088	1.48	1.20
2019	7,823,967	3,505,331	4,318,636	2,242,254	471,833	2,714,087	1.59	1.20

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

² Operating expenses before depreciation, amortization and 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
			Personal Income	National Average¹	
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	39,200		22,526	42,867	7.6%
2017	39,954		23,855	43,658	6.6%
2018	40,030		27,964	45,430	4.7%
2019	38,452		unavailable	unavailable	5.3%

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

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

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

	<u>Year ended June 30, 2019</u>		<u>Year ended June 30, 2010</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	340	2.62%	668	4.44%
City of Apache Junction	280	2.15%	239	1.59%
Wal-Mart Supercenter Store # 1831	220	1.69%	370	2.46%
Horizon Health and Wellness ¹	130	1.00%	220	1.46%
Western Industrial Resources	130	1.00%		
Central Arizona College - Superstition Mtn. Campus	130	1.00%	112	0.74%
Fry's Food and Drug	110	0.85%	143	0.95%
United States Postal Service	100	0.77%	89	0.59%
Banner Goldfield ²	99	0.76%	170	1.13%
Superstition Fire and Medical ⁴	85	0.65%	85	0.67%
Safeway			70	0.46%
Total	<u>1,624</u>	<u>12.49%</u>	<u>2,166</u>	<u>14.38%</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,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Administrative Division										
District Manager	1.00	1.00	1.00	1.00	1.00	1.04	1.00	1.00	1.00	1.00
District Administration	3.00	3.00	2.00	1.42	0.75	0.96	1.00	1.63	1.63	1.63
Finance	3.60	3.60	3.60	3.54	3.80	3.61	3.80	3.00	3.00	3.00
Business Services	-	-	-	2.42	4.00	3.13	3.00	3.00	2.87	1.90
Customer Service	4.00	3.54	4.00	3.43	3.21	3.96	3.41	3.63	3.63	3.63
Total Administrative Division	11.60	11.14	10.60	11.81	12.76	12.70	12.21	12.26	12.13	11.16
Operations Division										
Manager of Operations	-	-	0.35	1.00	1.00	0.08	0.00	0.00	0.00	0.00
Operations Administration	4.00	4.00	4.16	3.77	4.12	4.00	4.00	5.00	5.00	5.00
Treatment Plant	7.00	7.04	7.94	6.42	5.00	5.15	4.58	4.00	4.04	4.00
Collection System	5.87	6.00	4.65	3.42	5.04	4.00	4.00	4.79	5.00	5.00
Total Operations Division	16.87	17.04	17.10	14.61	15.16	13.23	12.58	13.79	14.04	14.00
Total	28.47	28.18	27.70	26.42	27.92	25.93	24.79	26.05	26.17	25.16

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,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Collection System										
Miles of Collection Mains <12" dia.	93.2	93.9	94.5	95.5	95.5	95.9	96.1	96.1	97.8	97.8
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	6,086	6,140	6,290	6,506	6,566	6,595	6,647	6,699	7,020	7,126
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	1.406	1.378	1.377	1.425	1.369	1.372	1.353	1.411	1.434	1.436
Highest Monthly Average Daily Flow, MGD ¹	1.646	1.637	1.627	1.607	1.628	1.606	1.590	1.629	1.615	1.667
% of Total Permitted Capacity ²	76.9%	76.5%	76.0%	75.1%	76.1%	75.0%	74.3%	76.1%	75.5%	77.9%
Population Served (75 gpd/pop. eq.) ³	18,747	18,373	18,360	19,000	18,253	18,293	18,040	18,813	19,120	19,147
Effluent Disposal										
Effluent Recharge Basin Surface Acres	4.4	4.4	5.0	5.0	5.0	5.0	7.3	7.3	7.3	7.3
Effluent Recharge Vadose Zone Wells	20	20	32	32	32	32	36	36	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