

Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

Comprehensive Annual

Financial Report

for the fiscal years ended June 30, 2020 and 2019



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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, 2020 and 2019



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

Maria N. Zagar, Financial Services Supervisor

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

INTRODUCTORY SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2020 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

2020 COMPREHENSIVE ANNUAL
FINANCIAL REPORT

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Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

District Officials



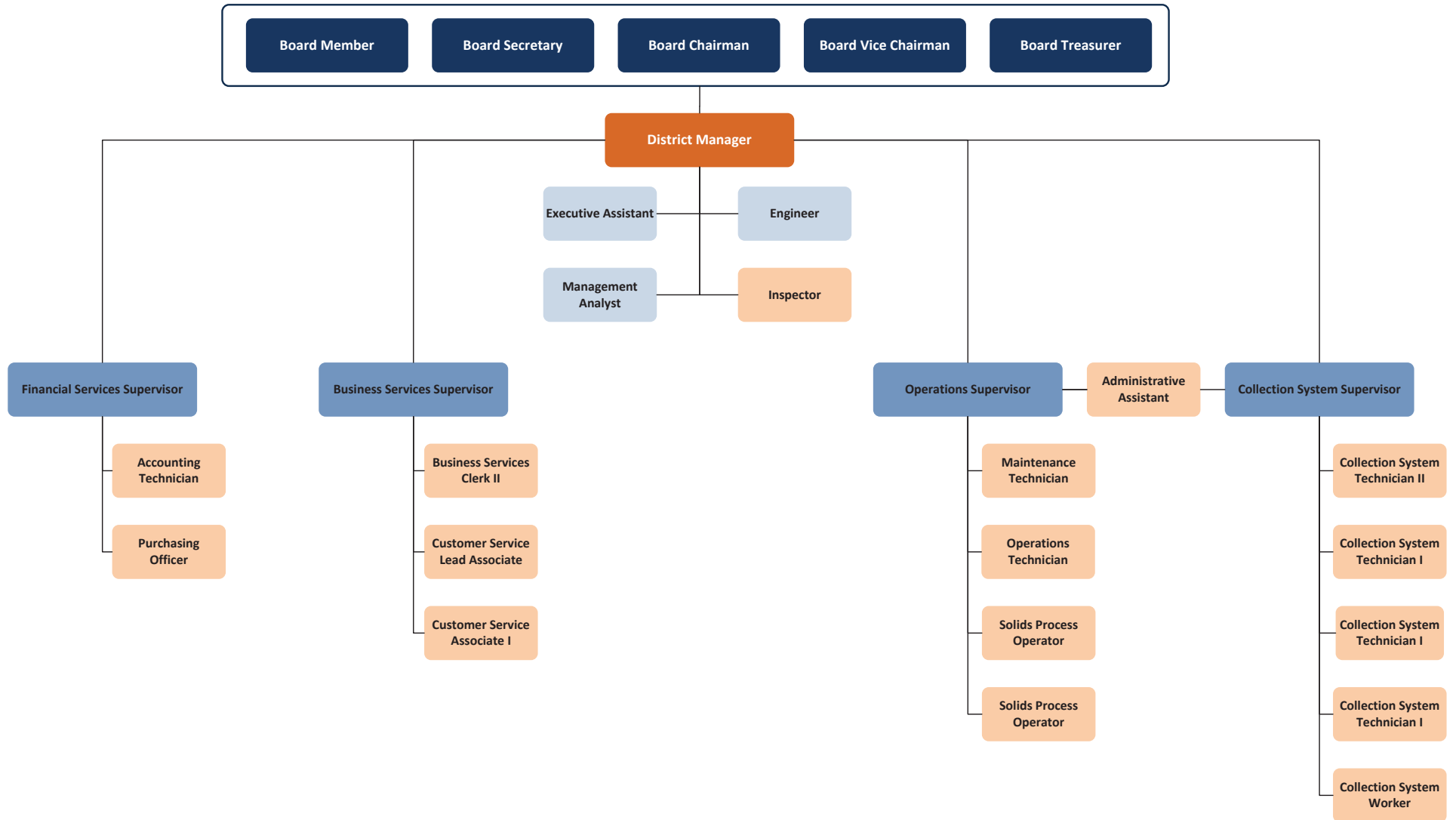
Board of Directors

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 2020 Organizational Chart**





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

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

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

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.smcfd.org

December 16, 2020

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, 2020. This is the eleventh 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 BOK Finance, formerly 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, 2020 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, 2020 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 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.

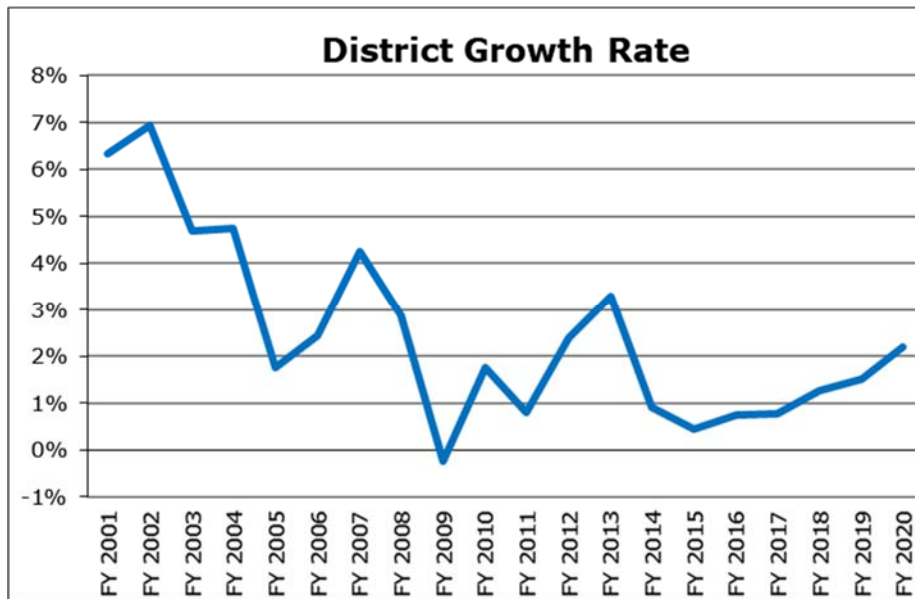
The District's Board determines long-term strategic direction and provides for funding to meet the strategic objectives of the District by adopting an annual budget. The budget is adopted prior to the beginning of the fiscal year.

ECONOMIC CONDITION AND OUTLOOK

During fiscal year 2020, economic growth in the Apache Junction area increased. The District benefited from this increased growth and realized a rise in revenue from new customer connections over fiscal year 2019. Growth has shown to be steady and improving year over year as shown in the chart below, with significant projects in the works during the coming years.

The District is also preparing for the development of over 2,700 acres of State Trust Land that has been in the preliminary planning phases and was recently sold at public auction. This section of land will be the first phase of over 8,000 acres of future development in the southwest portion of the City. Since the majority of developable land remaining in the City is State Trust land, the sale and development of the first area should help set the groundwork for additional land to be developed. Growth is expected to increase significantly over the next several 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 2021 indicates an increase in connections from projects currently in the planning phase. These projects include several new residential subdivisions, which combined will add more than 400 units within the District's service area.



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

Regulatory Permits

After several years of planning, the District has amended its regulatory permit which will increase the rated capacity of the treatment facility. The new capacity of 3.0 million gallons per day (MGD), which represents a 40 percent increase over the current 2.1 MGD capacity, will be achieved in two phases upon completion of key improvements to the treatment facility. The additional capacity will allow the District to connect more customers before a costly expansion of the treatment facility is required. The permit amendment also contains other changes, including additional recharge basins and the replacement of a groundwater monitoring well.

Capital Improvements

New capital improvement initiatives for fiscal year 2021 include the installation of a tertiary filter, and upgrades to the District's aeration blowers. These improvements will allow the District to increase the capacity of the treatment plant from 2.1 MGD to 2.6 MGD. The new filter will improve the overall quality of the treated effluent and increase the disinfection effectiveness. The new blowers will add additional aeration capacity and operate more efficiently than the current units.

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, 2019. This was the tenth 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 fluid and cursive, with a prominent initial "D" and a long, sweeping tail.

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, 2020 and 2019, 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, 2020 and 2019, 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 27, and Schedule of the District Pension/OPEB Contributions on page 28 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, 2020

**SUPERSTITION MOUNTAINS COMMUNITY FACILITIES DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

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, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL SUMMARY

- Net position increased \$2.3 million during fiscal year 2020.
- Cash and cash equivalents increased by \$609 thousand from fiscal year 2019.
- Capital assets decreased \$534 thousand from the prior year.
- Liabilities decreased by \$2.3 million primarily as a result of the decrease in outstanding debt.
- Operating revenues increased by \$480 thousand, or 6%, over 2019.
- Operating expenses increased by \$230 thousand, or 4%, over fiscal year 2019.
- Interest expense decreased by \$68 thousand, or 14%, 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, 2020, June 30, 2019 and June 30, 2018. The information for fiscal year 2020 is provided in greater detail in the basic financial statements which follow this analysis.

NET POSITION

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	Increase (Decrease) current year from prior		<u>June 30, 2018</u>
			<u>Amount</u>	<u>Percentage</u>	
Cash, cash equivalents and investments	\$ 6,914,839	\$ 6,305,962	\$ 608,877	9.66%	\$ 5,979,252
Other current assets	910,865	935,406	(24,541)	-2.62%	975,875
Net OPEB asset	4,397	6,132	(1,735)	-28.29%	9,543
Capital assets	<u>14,219,469</u>	<u>14,753,927</u>	<u>(534,458)</u>	-3.62%	<u>15,480,705</u>
Total assets	22,049,570	22,001,427	48,143	0.22%	22,445,375
Deferred outflows	<u>267,161</u>	<u>339,009</u>	<u>(71,848)</u>	-21.19%	<u>435,126</u>
Current liabilities	2,974,103	2,799,159	174,944	6.25%	2,683,756
Long term liabilities					
Series 2017 bond	10,017,616	12,392,406	(2,374,790)	-19.16%	14,697,097
Net pension and OPEB liability	<u>2,270,069</u>	<u>2,339,209</u>	<u>(69,140)</u>	-2.96%	<u>2,696,618</u>
Total liabilities	15,261,788	17,530,774	(2,268,986)	-12.94%	20,077,471
Deferred inflows	<u>297,400</u>	<u>303,439</u>	<u>(6,039)</u>	-1.99%	<u>231,989</u>
Net investment in					
capital assets	2,684,320	914,947	1,769,373	-193.39%	(601,021)
Restricted	754,228	756,542	(2,314)	-0.31%	750,744
Unrestricted	<u>3,318,995</u>	<u>2,834,734</u>	<u>484,261</u>	17.08%	<u>2,421,318</u>
Total net position	\$ 6,757,543	\$ 4,506,223	\$ 2,251,320	49.96%	\$ 2,571,041

The District's net position as of June 30, 2020 improved by 50%, or \$2.3 million, from the prior year. Total assets increased by \$48 thousand; total liabilities decreased 13% or \$2.3 million.

The increase in net position from June 30, 2018 to June 30, 2019 was \$1.9 million. A complete discussion of the increase in net position from fiscal year 2018 to fiscal year 2019 can be found in the fiscal year 2019 CAFR.

Cash, cash equivalents and investments as of June 30, 2020 increased by \$609 thousand from fiscal year 2019. 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 are provided in Table 2.

Net additions to Capital assets for fiscal year 2020 totaled \$1.3 million; after normal depreciation of \$1.9 million, Capital assets decreased by \$534 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 \$175 thousand over fiscal year 2019 as a result of adherence to the District’s Series 2017 bond repayment schedule.

CASH AND CASH EQUIVALENTS

<p align="center">Table 2 Superstition Mountains Community Facilities District No. 1 Cash, Cash Equivalents and Investments</p>						
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	Increase (Decrease)		<u>June 30, 2018</u>	
			current year from prior			
			<u>Amount</u>	<u>Percentage</u>		
Cash, Cash Equivalents and Investments	\$ 5,303,354	\$ 4,691,303	\$ 612,051	13.05%	\$ 4,376,475	
Restricted funds						
Debt Service Fund	228,734	227,666	1,068	0.47%	226,413	
Debt Service Reserve	628,523	630,451	(1,928)	-0.31%	625,620	
Operations Reserve	<u>754,228</u>	<u>756,542</u>	<u>(2,314)</u>	-0.31%	<u>750,744</u>	
Total cash, cash equivalents and investments	\$ 6,914,839	\$ 6,305,962	\$ 608,877	9.66%	\$ 5,979,252	

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 \$612 thousand over the prior year is attributed to an increase in the Capital and Replacement account related to the timing of 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, 2020, the balance of \$229 thousand was held to meet the scheduled debt payment due on July 1, 2020. The balances on hand at June 30, 2019 and 2018 were deposited to make the scheduled debt payments due on July 1, 2019 and 2018, 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, 2020 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, 2020 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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	Increase (Decrease) current year from prior		<u>June 30, 2018</u>
			<u>Amount</u>	<u>Percentage</u>	
Operating revenues					
Sewer services	\$ 6,821,957	\$ 6,556,098	\$ 265,859	4.06%	\$ 6,454,356
Connection fees	656,748	544,365	112,383	20.64%	343,373
Septage charges	616,152	497,353	118,799	23.89%	449,174
Recharge credit sales	58,771	62,981	(4,210)	-6.68%	71,035
Miscellaneous	<u>66,490</u>	<u>78,870</u>	<u>(12,380)</u>	-15.70%	<u>82,907</u>
Total operating revenues	8,220,118	7,739,667	480,451	6.21%	7,400,845
Operating expenses	5,646,678	5,416,952	229,726	4.24%	5,219,381
Operating income	2,573,440	2,322,715	250,725	10.79%	2,181,464
Nonoperating revenue/(expense)					
Interest expense	(403,633)	(471,833)	(68,200)	-14.45%	(538,021)
Other nonoperating	<u>81,513</u>	<u>84,300</u>	<u>2,787</u>	3.31%	<u>10,675</u>
Total nonoperating revenue/(expense)	(322,120)	(387,533)	(65,413)	-16.88%	(527,346)
Increase in net position	\$ 2,251,320	\$ 1,935,182	\$ 316,138	16.34%	\$ 1,654,118
Net position - beginning	<u>4,506,223</u>	<u>2,571,041</u>	<u>1,935,182</u>	-75.27%	<u>916,923</u>
Net position - ending	\$ 6,757,543	\$ 4,506,223	\$ 2,251,320	49.96%	\$ 2,571,041

Operating Revenues

Operating revenues increased \$480 thousand or 6.2% from the prior year. Revenue gains were realized in Sewer services, Connection fees and Septage charges where income increased \$266 thousand, \$112 thousand and \$119 thousand respectively over fiscal year 2019. In fiscal year 2019, operating revenues increased \$339 thousand over fiscal year 2018.

Revenue from Sewer services increased over the prior year because of a 1% increase in rates as well as customer growth. In fiscal year 2020, 187 permits were issued to connect 205 new units, compared to 120 permits issued to connect 196 units in fiscal year 2019 and 121 to connect 127 units in fiscal year 2018. 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 2020 decreased \$4 thousand from the previous year because of decreased capacity in the existing recharge facilities.

Operating Expenses

Operating expenses increased \$230 thousand from fiscal year 2019. The most significant expense categories showing increases were Payroll and payroll related and Consulting. Payroll and payroll related expenses increased \$181 thousand primarily due to the ASRS pension expense and increases in employee benefit costs. Consulting was higher in 2020 primarily due to updates for the Water Reclamation Facility Master Plan and the Collection System Master Plan. Repairs and maintenance - treatment facility expenses showed the most significant decrease from fiscal year 2019 because the prior year included expenses primarily related to maintenance of the sludge facilities and repairs and maintenance to the administrative office buildings.

Operating expenses increased \$198 thousand from fiscal year 2018 to fiscal year 2019. A discussion of this increase can be found in the fiscal year 2019 CAFR.

Nonoperating Revenues and Expenses

Total nonoperating expense was \$65 thousand lower than fiscal year 2019. Interest expense decreased by \$68 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 2020 of \$2.25 million reflects an improvement of \$316 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 2018 to 2019 resulted primarily from operating expense control.

CAPITAL ASSETS

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	Increase (Decrease) current year from prior		<u>June 30, 2018</u>
			<u>Amount</u>	<u>Percentage</u>	
Land and easements	\$ 1,339,807	\$ 1,338,247	\$ 1,560	0.12%	\$ 1,275,122
Treatment plant	16,905,617	16,686,047	219,570	1.32%	16,564,258
Collection system	23,265,305	22,972,564	292,741	1.27%	22,822,524
Buildings & grounds	1,001,252	981,763	19,489	1.99%	973,713
Machinery & equipment	4,117,470	3,539,537	577,933	16.33%	3,521,969
Office equipment & software	359,896	338,596	21,300	6.29%	330,526
Other intangibles	50,241	50,241	-	0.00%	50,241
Construction in process	<u>1,082,992</u>	<u>869,478</u>	<u>213,514</u>	<u>24.56%</u>	<u>77,301</u>
Total capital assets	48,122,580	46,776,473	1,346,107	2.88%	45,615,654
Accumulated depreciation	<u>(33,903,111)</u>	<u>(32,022,546)</u>	<u>(1,880,565)</u>	5.87%	<u>(30,134,949)</u>
Net capital assets	\$ 14,219,469	\$ 14,753,927	\$ (534,458)	-3.62%	\$ 15,480,705

Capital Assets

The District operates and maintains approximately 115 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 25 years of use, with a small portion of the sewer collection system in excess of 30 years of service.

In fiscal year 2020, increases were realized in most capital asset categories. The most notable increases at the District's facilities was the acquisition of a sewer video inspection truck for \$324 thousand, a 500kw generator for \$214 thousand and the installation of a new bar screen at the headworks for \$157 thousand. Additions to the collection system during fiscal year 2020 included a \$248 thousand mainline extension north of the Fry's Marketplace which will service approximately 100 acres of land marked for development. Construction in process at the end of fiscal year 2020 was \$214 thousand higher than 2019 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 2020, this ratio was 1.68 compared to 1.59 in fiscal year 2019 and 1.48 in fiscal year 2018.

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 2020 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 2020, 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. 97% of the units billed by the District for sewer service are residential, representing 85% of total sewer service revenue for fiscal year 2020.

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.

The District's operation may be affected by the recent and ongoing outbreak of the Coronavirus disease (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The disruption which may be caused by the outbreak is uncertain; however, it may result in an adverse impact on the District's financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to the District's revenue streams, absenteeism in the workforce, unavailability of services and supplies used in operations, and a decline in value of assets held by the District, including inventories, property and equipment, and marketable securities.

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	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,278,626	\$ 3,682,877
Investments	1,024,728	1,008,426
Cash and cash equivalents, restricted, current	228,734	227,666
Accounts receivable - sewage, net of allowance for doubtful accounts of \$9,827 and \$9,827	626,099	644,150
Accounts receivable - other	143,512	149,904
Inventory	24,438	21,090
Prepaid expenses	116,816	120,262
Total current assets	6,442,953	5,854,375
NONCURRENT ASSETS		
Capital assets:		
Capital assets not being depreciated	2,404,245	2,190,731
Capital assets, net of accumulated depreciation	11,815,224	12,563,196
Total capital assets, net	14,219,469	14,753,927
Other assets:		
Cash and cash equivalents, restricted, noncurrent	1,382,751	1,386,993
Net pension and other postemployment benefits asset	4,397	6,132
Total other assets	1,387,148	1,393,125
Total noncurrent assets	15,606,617	16,147,052
Total assets	22,049,570	22,001,427
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions and other postemployment benefits	267,161	339,009
Total deferred outflows of resources	267,161	339,009
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	312,555	198,847
Accrued expenses	211,538	202,502
Accrued interest payable	30,981	36,743
Current portion, bonds payable	2,374,790	2,304,691
Unearned revenue	44,239	56,376
Total current liabilities	2,974,103	2,799,159
NONCURRENT LIABILITIES		
Revenue bonds payable, less current maturity	10,017,616	12,392,406
Net pension liability	2,270,069	2,339,209
Total noncurrent liabilities	12,287,685	14,731,615
Total liabilities	15,261,788	17,530,774
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions and other postemployment benefits	297,400	303,439
Total deferred inflows of resources	297,400	303,439
NET POSITION		
Net investment in capital assets	2,684,320	914,947
Restricted by debt covenant for:		
Operations	754,228	756,542
Unrestricted	3,318,995	2,834,734
Total net position	\$ 6,757,543	\$ 4,506,223

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>2020</u>	<u>2019</u>
Operating revenues:		
Net charges for services	\$ 7,478,705	\$ 7,100,463
Charges for septage	616,152	497,353
Sales of recharge credits	58,771	62,981
Miscellaneous	<u>66,490</u>	<u>78,870</u>
Total operating revenues	8,220,118	7,739,667
Operating expenses:		
Payroll and payroll related	2,328,712	2,147,575
Repairs and maintenance - treatment facility	293,982	353,673
Repairs and maintenance - other	2,948	2,340
Supplies and services - treatment facility	386,029	405,172
Accounting	18,100	23,100
Consulting	215,694	107,066
Administrative	335,636	346,390
Insurance	70,036	66,759
Legal	84,942	48,319
Depreciation and amortization	1,910,471	1,911,621
Miscellaneous	<u>128</u>	<u>4,937</u>
Total expenditures	<u>5,646,678</u>	<u>5,416,952</u>
Operating income	2,573,440	2,322,715
Nonoperating revenues and (expenses):		
Interest income	81,513	84,300
Interest expense	<u>(403,633)</u>	<u>(471,833)</u>
Total nonoperating revenues and (expenses)	<u>(322,120)</u>	<u>(387,533)</u>
Increase in net position	2,251,320	1,935,182
Net position, July 1	<u>4,506,223</u>	<u>2,571,041</u>
Net position, June 30	<u>\$ 6,757,543</u>	<u>\$ 4,506,223</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>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 8,232,423	\$ 7,778,469
Cash payments to suppliers for goods and services	(1,309,113)	(1,322,917)
Cash payments to employees for services	<u>(2,305,845)</u>	<u>(2,314,213)</u>
Net cash provided by operating activities	<u>4,617,465</u>	<u>4,141,339</u>
Cash flows from capital and related financing activities:		
Acquisition of structures, sewer improvements and equipment	(1,376,015)	(1,184,843)
Principal payments on bonds payable	(2,304,691)	(2,236,662)
Bond interest paid	<u>(409,395)</u>	<u>(477,424)</u>
Net cash used by capital and related financing activities	<u>(4,090,101)</u>	<u>(3,898,929)</u>
Cash flows from investing activities:		
Purchase of securities	(16,302)	(1,008,426)
Interest received from investing activities	<u>81,513</u>	<u>84,300</u>
Net cash (used) provided by investing activities	<u>65,211</u>	<u>(924,126)</u>
Net change in cash	592,575	(681,716)
Cash and cash equivalents, beginning of year	<u>5,297,536</u>	<u>5,979,252</u>
Cash and cash equivalents, end of year	<u>\$ 5,890,111</u>	<u>\$ 5,297,536</u>
Cash and cash equivalents at June 30, 2020 and 2019 consist of:		
Unrestricted cash and cash equivalents	\$ 4,278,626	\$ 3,682,877
Restricted cash and cash equivalents, current	228,734	227,666
Restricted cash and cash equivalents, noncurrent	<u>1,382,751</u>	<u>1,386,993</u>
Total	<u>\$ 5,890,111</u>	<u>\$ 5,297,536</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,573,440	\$ 2,322,715
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,910,471	1,911,621
Pension expense	191,509	10,571
Employer pension contributions	(193,106)	(197,002)
Changes in assets and liabilities:		
Accounts receivable - sewage	18,053	9,794
Accounts receivable - other	6,392	15,240
Inventory	(3,348)	3,977
Prepaid expenses	3,446	11,458
Accounts payable	113,708	7,373
Accrued expenses	9,037	31,824
Unearned revenue	<u>(12,137)</u>	<u>13,768</u>
Net cash provided by operating activities	<u>\$ 4,617,465</u>	<u>\$ 4,141,339</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, 2020 and 2019

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

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
Rights of way	25 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 10, 2020**, which was the date the District's financial statements were issued.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents at June 30, 2020 and 2019 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 BOK Financial and insured cash sweep program (ICS) as of June 30, 2020 and 2019, respectively, are allocated as follows:

	<u>2020</u>	<u>2019</u>
Principal and interest fund	\$ 228,734	\$ 227,666
Debt service reserve fund	628,523	630,451
Operations reserve fund	<u>754,228</u>	<u>756,542</u>
Total restricted cash and cash equivalents	<u>\$ 1,611,485</u>	<u>\$ 1,614,659</u>

NOTE 3 – DEPOSITS AND INVESTMENTS

At June 30, 2020, the carrying amount of the District's deposits was \$4,278,626 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 to ensure FDIC coverage for all amounts on deposit. The District’s deposits at June 30, 2020, were collateralized with securities held by the pledging financial institution’s trust department in the District’s name.

The District had total investments of \$1,024,728 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 Af/S1+ by Standard and Poor's.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2020, 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.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
<u>Nondepreciable assets:</u>				
Land	\$ 1,167,654			\$ 1,167,654
Easements	153,599			153,599
Construction in progress	<u>869,478</u>	\$ 618,813	\$ (405,299)	<u>1,082,992</u>
Total capital assets not being depreciated	<u>2,190,731</u>	<u>618,813</u>	<u>(405,299)</u>	<u>2,404,245</u>
<u>Depreciable assets:</u>				
Treatment plant	16,686,047	219,570		16,905,617
Collection system	22,972,564	292,741		23,265,305
Equipment	3,878,133	622,796	(23,563)	4,477,366
Buildings & grounds	981,763	25,185	(5,696)	1,001,252
Rights of way	16,994	2,210	(650)	18,554
Other intangible assets	<u>50,241</u>			<u>50,241</u>
Total capital assets being depreciated	<u>44,585,742</u>	<u>1,162,502</u>	<u>(29,909)</u>	<u>45,718,335</u>
<u>Accumulated depreciation:</u>				
Treatment plant	(12,085,365)	(777,130)		(12,862,495)
Collection system	(16,116,030)	(767,307)		(16,883,337)
Equipment	(3,005,168)	(288,741)	23,563	(3,270,346)
Buildings & grounds	(790,869)	(74,992)	5,696	(860,165)
Rights of way	(12,416)	(627)	650	(12,393)
Other intangible assets	<u>(12,698)</u>	<u>(1,677)</u>		<u>(14,375)</u>
Total accumulated depreciation	<u>(32,022,546)</u>	<u>(1,910,474)</u>	<u>29,909</u>	<u>(33,903,111)</u>
Total capital assets being depreciated, net	<u>12,563,196</u>	<u>(747,972)</u>		<u>11,815,224</u>
Net capital assets	<u>\$ 14,753,927</u>	<u>\$ (129,159)</u>	<u>\$ (405,299)</u>	<u>\$ 14,219,469</u>

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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, 2020 and 2019

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, BOK Financial, formerly CoBiz Public Finance. 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, 2020:

	Balance at July 1, 2019	Increases	Decreases	Balance at June 30, 2020
Series 2017 bonds				
Current	\$ 2,304,691	\$ 2,374,790	\$ (2,304,691)	\$ 2,374,790
Noncurrent	<u>12,392,406</u>		<u>(2,374,790)</u>	<u>10,017,616</u>
Total bonds payable	<u>\$ 14,697,097</u>	<u>\$ 2,374,790</u>	<u>\$ (4,679,481)</u>	<u>\$ 12,392,406</u>

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>

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

	Principal	Interest	Total
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	115,943	2,714,087
2025	<u>2,450,995</u>	<u>36,918</u>	<u>2,487,913</u>
Total	<u>\$ 12,392,406</u>	<u>\$ 951,855</u>	<u>\$ 13,344,261</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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, 2020 and 2019

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, 2020, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.11% (11.94% for retirement and 0.17% for long-term disability) of the members' annual covered payroll and statute required the District to contribute at the actuarially determined rate of 12.11% (11.45% for retirement, 0.49% for health insurance premium benefit, and 0.17% for long-term disability) of the active members' annual covered payroll. The District's contributions for the year ended June 30, 2020 and 2019 were as follows.

	2020	2019
Pension	\$ 184,796	\$ 185,299
Health insurance premium benefit	7,908	7,624
Long-term disability	2,742	2,657

Liability

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

	June 30, 2020	June 30, 2019
	Net pension/OPEB (asset) liability	Net pension/OPEB (asset) liability
ASRS		
Pension	\$ 2,259,796	\$ 2,330,457
Health insurance premium benefit	(4,397)	(6,132)
Long-term disability	10,273	8,752

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – RETIREMENT PLAN (CONTINUED)

The net asset and net liabilities for June 30, 2020 were measured as of June 30, 2019. 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, 2018, to the measurement date of June 30, 2019.

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, 2019. The District's proportions measured as of June 30, 2019, and the change from its proportions measured as of June 30, 2018, were:

ASRS	Proportion June 30, 2019	Increase (decrease) from June 30, 2018
Pension	0.015530 %	0.016710 %
Health insurance premium benefit	0.015910 %	0.017030 %
Long-term disability	0.015770 %	0.016750 %

The net liability for June 30, 2019, was measured as of June 30, 2018. 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, 2017, to the measurement date of June 30, 2018. 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, 2018. The total pension liability as of June 30, 2019, 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.

Expense

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

ASRS	2020 Pension/OPEB expense	2019 Pension/OPEB expense
Pension	\$ 182,771	\$ 1,348
Health insurance premium benefit	5,502	6,091
Long-term disability	3,236	3,132
Total	<u>\$ 191,509</u>	<u>\$ 10,571</u>

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Deferred Outflows/Inflows of Resources

At June 30, 2020 the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	June 30, 2020					
	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	\$ 40,824	\$ 425		\$ 5,256	\$ 1,214	
Changes of assumptions or other inputs	9,552	89,989	\$ 8,647		1,537	
Net difference between projected and actual earnings on pension plan investments		50,792		5,718		\$ 219
Changes in proportion and differences between District contributions and proportionate share of contributions	9,941	144,386		36		579
District contributions subsequent to the measurement date	<u>184,796</u>		<u>7,908</u>		<u>2,742</u>	
Total	<u>\$ 245,113</u>	<u>\$ 285,592</u>	<u>\$ 16,555</u>	<u>\$ 11,010</u>	<u>\$ 5,493</u>	<u>\$ 798</u>
	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	3,613			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>\$ 314,782</u>	<u>\$ 284,412</u>	<u>\$ 19,450</u>	<u>\$ 17,955</u>	<u>\$ 4,777</u>	<u>\$ 1,072</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, 2021.

Superstition Mountains Communities Facilities District No. 1

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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>
2021	\$ (114,649)	\$ (1,915)	\$ 163
2021	(114,649)	(1,916)	163
2022	(9,754)	525	377
2023	13,604	1,067	416
2025		(124)	335
Thereafter			499

Actuarial Assumptions

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

ASRS	
Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
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, 2018, 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%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	20%	5.85%
Total	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent. 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	\$ 3,216,213	\$ 2,259,796	\$ 1,460,477
Net insurance premium benefit liability (asset)	22,272	(4,397)	(27,120)
Net long-term disability liability	11,370	10,273	9,210

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

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

June 30, 2020

	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
ASRS - Pension							
District's proportion of the net pension liability	0.01553%	0.016710%	0.017270%	0.016290%	0.016880%	0.019066%	Information not available
District's proportionate share of the net pension liability	\$ 2,259,796	\$ 2,330,457	\$ 2,690,329	\$ 2,690,329	\$ 2,629,370	\$ 2,821,146	
District's covered payroll	1,657,415	1,646,294	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	136.34%	141.56%	164.36%	174.48%	168.65%	163.30%	
District's fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	
ASRS - Health Insurance Premium Benefit							
	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2011			
District's proportion of the net OPEB (asset)	0.01591%	0.017030%	0.017530%	Information not available			
District's proportionate share of the net OPEB (asset)	\$ (4,397)	\$ (6,132)	\$ (9,543)				
District's covered payroll	1,657,415	1,646,294	1,636,868				
District's proportionate share of the net OPEB (asset) as a percentage of its covered payroll	(0.27)%	(0.37)%	(0.58)%				
District's fiduciary net position as a percentage of the total OPEB liability	101.62%	102.20%	103.57%				
ASRS - Long-term Disability							
	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2011			
District's proportion of the net OPEB liability	0.01577%	0.016750%	0.017350%	Information not available			
District's proportionate share of the net OPEB liability	\$ 10,273	\$ 8,752	\$ 6,289				
District's covered payroll	1,657,415	1,646,294	1,636,868				
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.62%	0.53%	0.38%				
District's fiduciary net position as a percentage of the total OPEB liability	72.85%	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 THE DISTRICT PENSION/OPEB CONTRIBUTIONS

June 30, 2020

	2020	2019	2018	2017	2016	2015	2014	2013 through 2008
<u>ASRS - Pension</u>								
Statutorily required contribution	\$ 184,796	\$ 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>184,796</u>	<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>	<u>\$ -</u>	
District's covered payroll	1,613,936	1,646,294	1,646,294	1,636,868	1,541,915	1,559,035	1,727,616	
District's contributions as a percentage of covered payroll	11.45%	11.26%	10.92%	10.78%	10.72%	11.15%	10.65%	
<u>ASRS - Health Insurance Premium Benefit</u>								
Statutorily required contribution	\$ 7,908	\$ 7,624	\$ 7,255	\$ 9,436	2016 through 2011 Information not available			
District's contributions in relation to the statutorily required contribution	<u>7,908</u>	<u>7,624</u>	<u>7,255</u>	<u>9,436</u>				
District's contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
District's covered payroll	1,613,936	1,646,294	1,646,294	1,636,868				
District's contributions as a percentage of covered payroll	0.49%	0.46%	0.44%	0.58%				
<u>ASRS - Long-term Disability</u>								
Statutorily required contribution	\$ 2,742	\$ 2,657	\$ 2,622	\$ 2,359	2016 through 2011 Information not available			
District's contributions in relation to the statutorily required contribution	<u>2,742</u>	<u>2,657</u>	<u>2,622</u>	<u>2,359</u>				
District's contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
District's covered payroll	1,613,936	1,646,294	1,646,294	1,636,868				
District's contributions as a percentage of covered payroll	0.17%	0.16%	0.16%	0.14%				

* 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

Apache Junction, Arizona

STATISTICAL SECTION



Superstition Mountains Community Facilities District No. 1

Apache Junction, Arizona

STATISTICAL SECTION

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

<u>Contents</u>	<u>Page</u>
Financial Trends	31
These schedules contain trend information to assist the reader in understanding how the District's financial performance and well-being has changed over time.	
Revenue Capacity	33
These schedules contain information to assist the reader in assessing the District's most significant revenue source, sewer fees.	
Debt Capacity	37
These schedules present information to assist the reader in assessing the affordability of the District's current level of outstanding debt.	
Demographic and Economic Information	39
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.	
Operating Information	41
These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services that the District provides and the activities that it performs.	

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014¹</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net position:										
Net investment in capital assets	\$ (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	\$ 2,684,320
Restricted by debt covenants for:										
Debt service										
Capital acquisition	3,157,895	3,884,453								
Operations	1,166,675	826,933	750,473	751,833	751,574	751,613	750,288	750,744	756,542	754,228
Unrestricted	<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>	<u>3,318,995</u>
Total net position	<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>	<u>\$ 6,757,543</u>

¹ 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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015¹</u>	<u>2016</u>	<u>2017</u>	<u>2018²</u>	<u>2019</u>	<u>2020</u>
Operating revenues:										
Charges for services	\$ 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	\$ 7,478,705
Charges for septage	500,324	425,095	478,723	452,860	408,143	486,841	510,284	449,174	497,353	616,152
Sales of recharge credits	139,385	178,676	179,507	169,493	129,105	142,172	125,309	71,035	62,981	58,771
Miscellaneous	236,669	204,643	118,755	88,474	88,258	70,300	72,638	82,907	78,870	66,490
Total operating revenue	<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>	<u>8,220,118</u>
Operating expenses:										
Payroll and payroll related	\$ 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	\$ 2,328,712
Repairs and maintenance - treatment facility	325,013	308,866	321,320	257,555	277,139	395,582	273,010	314,329	353,673	293,982
Repairs and maintenance - other	10,283	16,690	3,738	6,875	3,316	3,699	1,964	2,002	2,340	2,948
Supplies and services	330,145	357,845	355,682	353,727	346,803	330,771	339,224	371,928	405,172	386,029
Accounting	14,900	14,900	14,950	14,950	15,250	15,600	15,600	18,100	23,100	18,100
Consulting	22,893	41,698	6,105	30,736	37,800	50,578	85,479	135,827	107,066	215,694
Administrative	222,417	277,362	398,788	313,841	321,160	360,291	387,485	289,244	346,390	335,636
Insurance	74,546	75,234	84,743	84,993	81,620	84,549	83,887	72,980	66,759	70,036
Legal	162,865	66,978	90,353	98,046	81,672	53,812	53,254	47,358	48,319	84,942
Depreciation and amortization	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	1,910,471
Miscellaneous	383	511	2,142	10,068	6,080	739	687	3,800	4,937	128
Total operating expenses	<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>	<u>5,646,678</u>
Operating income	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	2,573,440
Nonoperating revenues and (expenses):										
Interest income	\$ 10,180	\$ 6,944	\$ 3,852	\$ 13,075	\$ 11,788	\$ 12,139	\$ 10,577	\$ 10,675	\$ 84,300	\$ 81,513
Equipment scrapped or abandoned	(5,207)	5,677	(116,384)	(6,710)	(157,468)	(14,236)	-	-	-	-
Trust and cash management fees	(8,000)	(8,000)	(10,000)	-	-	-	-	-	-	-
Interest expense	(1,767,000)	(1,749,150)	(1,538,553)	(954,518)	(906,489)	(854,437)	(751,741)	(538,021)	(471,833)	(403,633)
Bond issuance costs	-	-	(343,980)	-	-	-	(109,212)	-	-	-
Total nonoperating revenue and (expense)	<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>	<u>(322,120)</u>
Change in net position	<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>	<u>\$ 2,251,320</u>

¹ Beginning in fiscal year 2015 pension expense included in Payroll and payroll related expense reflects the adoption of GASB 68.

² 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, 2020</u>		<u>Year Ended June 30, 2011</u>	
	<u>Sales</u>	<u>Percentage of Sales</u>	<u>Sales</u>	<u>Percentage of Sales</u>
Coopers Septic	\$ 285,865	3.90%	\$ 268,174	4.72%
Northwestern Mutual	207,793	2.84%	115,729	2.04%
Roadhaven Resort	189,703	2.59%	111,082	1.95%
Golden Vista RV	183,762	2.51%	148,520	2.61%
Leesburg Group/Rock Shadows	115,968	1.58%	70,992	1.25%
Rancho Mirage MHP	101,537	1.39%	96,702	1.70%
R C Roberts Sunrise RV Park	84,839	1.16%		
Quail Creek	81,166	1.11%		
Sonoma Valley, LLC	69,773	0.95%		
Central Arizona Water Conservation District	61,134	0.83%		
Apache Junction Water District			131,111	2.31%
Desert Harbor			71,396	1.26%
La Casa Blanca			68,694	1.21%
Indian Wells Apartments			64,145	1.13%
Subtotal of ten largest customers	<u>1,381,540</u>	<u>18.86%</u>	<u>1,146,544</u>	<u>20.16%</u>
Balance from other customers	<u>5,942,775</u>	<u>81.14%</u>	<u>4,540,121</u>	<u>79.84%</u>
Total sewer, septage & recharge credit revenue	<u>\$ 7,324,315</u>	<u>100.00%</u>	<u>\$ 5,686,664</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,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Single Family	63	151	207	58	33	48	48	100	98	150
Multi Family	0	1	4	2	0	1	2	0	3	4
RV & MH Parks	1	3	1	11	23	20	17	17	11	28
All Other	3	7	5	3	3	6	4	4	8	5
Total permits	67	162	217	74	59	75	71	121	120	187
% Change ²	-59.39%	141.79%	33.95%	-65.90%	-20.27%	27.12%	-5.33%	70.42%	69.01%	54.55%

Service Class	ACTIVE ACCOUNTS									
	Fiscal Year Ended June 30,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Single Family	5,753	5,898	6,106	6,160	6,190	6,236	6,288	6,385	6,482	6,632
Multi Family	113	112	115	117	113	114	115	111	113	117
Undeveloped Land ¹	53	52	46	44	44	42	39	40	37	32
RV Parks	25	25	25	26	26	24	23	25	25	26
Manufactured Home Parks	26	27	27	28	28	28	28	27	27	27
Church/Government	40	41	41	41	41	41	43	50	49	49
Light Commercial	119	122	125	127	130	134	136			
Medium Commercial	55	55	55	56	56	58	57			
Commercial ³								178	186	188
Heavy Commercial	5	5	5	5	5	5	5	3	3	3
Industrial	0	0	0	0	0	0	0	0	0	0
Total accounts	6,189	6,337	6,545	6,604	6,633	6,682	6,734	6,819	6,922	7,074
% Change ²	0.80%	2.39%	3.28%	0.90%	0.44%	0.74%	0.78%	1.26%	2.79%	3.74%

Service Class	ACTIVE UNITS									
	Fiscal Year Ended June 30,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Single Family	5,757	5,903	6,113	6,166	6,196	6,243	6,292	6,626	6,723	6,873
Multi Family	1,059	1,057	1,069	1,079	1,065	1,219	1,225	982	1,047	1,077
Undeveloped Land ¹	246	244	238	234	234	230	227	225	222	209
RV Parks	4,774	4,774	4,774	4,793	4,793	4,630	4,579	4,635	4,626	4,626
Manufactured Home Parks	2,333	2,331	2,332	2,366	2,387	2,406	2,424	2,388	2,411	2,437
All other	219	223	226	229	232	238	241	231	238	240
Total units	14,388	14,532	14,752	14,867	14,907	14,966	14,988	15,087	15,267	15,462
% Change ²	0.24%	1.00%	1.51%	0.78%	0.27%	0.40%	0.15%	0.66%	1.86%	2.49%

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 ¹										
	Fiscal Year Ended June 30,										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Single Family	\$ 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	\$ 3,542,281	
Multi Family	386,704	395,086	409,507	425,429	436,124	508,238	516,339	380,621	387,606	409,481	
Undeveloped Land	25,469	25,766	26,279	26,254	26,957	27,186	27,136	27,415	27,058	22,404	
RV Parks	592,440	642,475	649,378	676,105	723,756	668,772	659,325	776,818	788,161	796,893	
Manufactured Home Parks	698,343	747,093	701,047	689,897	746,143	791,865	839,495	849,544	856,863	874,616	
Church/Government	128,212	154,087	163,300	184,856	207,672	207,741	168,355	185,387	207,865	207,547	
Light Commercial	251,604	280,443	285,322	278,340	249,030	258,778	272,433				
Medium Commercial	315,615	302,624	303,634	323,855	328,144	346,120	332,560				
Commercial ²								599,687	645,093	683,488	
Heavy Commercial	127,189	130,947	107,524	110,159	120,120	123,322	89,727	109,193	126,438	112,682	
Total sewer service revenue	\$ 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	\$ 6,649,392	

Service Class	CONNECTION FEE REVENUE										
	Fiscal Year Ended June 30,										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Single Family	\$ 116,750	\$ 305,065	\$ 556,518	\$ 153,640	\$ 92,475	\$ 161,230	\$ 164,205	\$ 283,187	\$ 313,740	\$ 487,803	
Multi Family	0	10,360	32,040	22,000	0	11,540	17,490	0	151,105	79,050	
RV and Manufactured Home Parks	1,580	8,440	1,680	79,120	31,950	35,392	18,350	23,760	34,560	64,025	
All Other	16,402	65,059	9,855	14,443	9,275	19,818	90,410	36,425	44,960	25,870	
Total connection fee revenue	\$ 134,732	\$ 388,924	\$ 600,093	\$ 269,203	\$ 133,700	\$ 227,980	\$ 290,455	\$ 343,372	\$ 544,365	\$ 656,748	

¹ Excludes revenues from application and onsite fees.

² Light 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

Service Class	MONTHLY MINIMUMS										
	Fiscal Year Ended June 30,										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Single Family	\$ 37.00	\$ 38.15	\$ 39.35	\$ 40.55	\$ 41.55	\$ 42.50	\$ 42.95	\$ 43.35	\$ 43.75	\$ 44.15	
Multi Family ¹	30.20	31.15	32.15	33.10	33.95	34.75	35.15	32.25	32.55	32.85	
Undeveloped Land ²	8.55	8.80	9.10	9.35	9.60	9.80	9.90	10.00	10.10	10.20	
RV Parks ¹	8.70	8.95	9.25	9.55	9.80	10.05	10.15	13.65	13.75	13.90	
Manufactured Home Parks ¹	19.00	19.60	20.20	20.80	21.30	21.80	22.05	26.45	26.70	26.95	
Church/Government	37.00	38.15	39.35	40.55	41.55	42.50	42.95	43.35	43.75	44.15	
Light Commercial	44.00	45.40	46.85	48.25	49.45	50.60	51.15				
Medium Commercial	49.35	50.90	52.50	54.10	55.45	56.75	57.35				
Commercial ⁴								52.00	52.50	53.00	
Heavy Commercial	54.95	56.70	58.50	60.25	61.75	63.15	63.85	65.05	65.65	66.25	
Industrial	131.60	135.75	140.05	144.25	147.85	151.25	152.90	151.70	153.15	154.55	

Service Class	USAGE CHARGES, per gallon ³										
	Fiscal Year Ended June 30,										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
RV Parks	\$ 0.250	\$ 0.258	\$ 0.266	\$ 0.274	\$ 0.281	\$ 0.287	\$ 0.290	\$ 0.256	\$ 0.258	\$ 0.261	
Manufactured Home Parks	0.250	0.258	0.266	0.274	0.281	0.287	0.290	0.256	0.258	0.260	
Church/Government	0.250	0.258	0.266	0.274	0.281	0.287	0.290	0.255	0.258	0.260	
Light Commercial	0.250	0.258	0.266	0.274	0.281	0.287	0.290				
Medium Commercial	0.280	0.289	0.298	0.307	0.315	0.322	0.326				
Commercial ⁴								0.306	0.309	0.312	
Heavy Commercial	0.312	0.322	0.332	0.342	0.351	0.359	0.363	0.383	0.387	0.390	
Industrial	0.748	0.771	0.796	0.820	0.840	0.859	0.869	0.894	0.902	0.910	

Service Class	MINIMUM CONNECTION FEES										
	Fiscal Year Ended June 30,										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Single Family	\$ 3,050	\$ 3,145	\$ 3,245	\$ 3,340	\$ 3,425	\$ 3,505	\$ 3,545	\$ 3,545	\$ 3,545	\$ 3,545	
Multi Family ¹	2,510	2,590	2,670	2,750	2,820	2,885	2,915	2,635	2,635	2,635	
RV Parks ¹	725	750	775	800	820	840	850	1,115	1,115	1,115	
Manufactured Home Parks ¹	1,580	1,630	1,680	1,730	1,775	1,815	1,835	2,160	2,160	2,160	
Church/Government	3,050	3,145	3,245	3,340	3,425	3,505	3,545	3,545	3,545	3,545	
Light Commercial	3,050	3,145	3,245	3,340	3,425	3,505	3,545				
Medium Commercial	3,050	3,145	3,245	3,340	3,425	3,505	3,545				
Commercial ⁴								3,545	3,545	3,545	
Heavy Commercial	3,050	3,145	3,245	3,340	3,425	3,505	3,545	3,545	3,545	3,545	
Industrial	3,050	3,145	3,245	3,340	3,425	3,505	3,545	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		
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
2020	-	-	-	-	14,697,097	(2,304,691)	12,392,406	801

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		
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	3,506,481	4,317,486	2,242,254	471,833	2,714,087	1.59	1.20
2020	8,301,631	3,736,207	4,565,424	2,310,453	403,633	2,714,086	1.68	1.20

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

² Operating expenses before depreciation, amortization and bond interest.

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

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

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

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

Schedule D-1
Superstition Mountains Community Facilities District No. 1
Demographic Statistics - City of Apache Junction
Last Ten Fiscal Years

	Population	Year	Per Capita	Per Capita	Unemployment
	Round		Personal Income	Personal Income	Rates
				National Average¹	
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		23,307	48,223	5.3%
2020	39,674		23,628	32,621	9.3%

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

Employer	Year ended June 30, 2020		Year ended June 30, 2011	
	Full Time Equivalent Employees	Percentage of Total City Employment	Full Time Equivalent Employees	Percentage of Total City Employment
Banner Health ¹	381	2.93%	80	0.47%
Apache Junction Unified School District #43	378	2.91%	607	3.58%
City of Apache Junction	300	2.31%	221	1.30%
Wal-Mart Supercenter Store # 1831	220	1.69%	352	2.08%
Horizon Health and Wellness ²	146	1.12%	238	1.40%
Western Industrial Resources	132	1.02%		
Central Arizona College - Superstition Mtn. Campus	125	0.96%		
Fry's Food and Drug	110	0.85%		
United States Postal Service	100	0.77%	75	0.44%
Superstition Fire and Medical District ³	80	0.62%	81	0.48%
Robert Horne Ford/Hyundai			79	0.47%
Walgreens			53	0.31%
Empire Southwest			53	0.31%
Total	1,972	15.17%	1,839	10.85%

Source: City of Apache Junction, Office of Economic Development

¹ Formerly Apache Junction Medical Center

² Formerly Superstition Mountain Mental Health Center

³ 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,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administrative Division										
District Manager	1.00	1.00	1.00	1.00	1.04	1.00	1.00	1.00	1.00	1.00
District Administration	3.00	2.00	1.42	0.75	0.96	1.00	1.63	1.63	1.63	1.63
Finance	3.60	3.60	3.54	3.80	3.61	3.80	3.00	3.00	3.00	3.00
Business Services	-	-	2.42	4.00	3.13	3.00	3.00	2.87	1.90	2.00
Customer Service	3.54	4.00	3.43	3.21	3.96	3.41	3.63	3.63	3.63	3.63
Total Administrative Division	11.14	10.60	11.81	12.76	12.70	12.21	12.26	12.13	11.16	11.26
Operations Division										
Manager of Operations	-	0.35	1.00	1.00	0.08	0.00	0.00	0.00	0.00	0.00
Operations Administration	4.00	4.16	3.77	4.12	4.00	4.00	5.00	5.00	5.00	5.00
Treatment Plant	7.04	7.94	6.42	5.00	5.15	4.58	4.00	4.04	4.00	3.69
Collection System	6.00	4.65	3.42	5.04	4.00	4.00	4.79	5.00	5.00	5.27
Total Operations Division	17.04	17.10	14.61	15.16	13.23	12.58	13.79	14.04	14.00	13.96
Total	28.18	27.70	26.42	27.92	25.93	24.79	26.05	26.17	25.16	25.22

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,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Collection System										
Miles of Collection Mains <12" dia.	93.9	94.5	95.5	95.5	95.9	96.1	96.1	97.8	97.8	99.0
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	6,140	6,290	6,506	6,566	6,595	6,647	6,699	7,020	7,126	7,283
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	1.378	1.377	1.425	1.369	1.372	1.353	1.411	1.434	1.436	1.473
Highest Monthly Average Daily Flow, MGD ¹	1.637	1.627	1.607	1.628	1.606	1.590	1.629	1.615	1.667	1.630
% of Total Permitted Capacity ²	76.5%	76.0%	75.1%	76.1%	75.0%	74.3%	76.1%	75.5%	77.9%	76.2%
Population Served (75 gpd/pop. eq.) ³	18,373	18,360	19,000	18,253	18,293	18,040	18,813	19,120	19,147	19,640
Effluent Disposal										
Effluent Recharge Basin Surface Acres	4.4	5.0	5.0	5.0	5.0	7.3	7.3	7.3	7.3	7.3
Effluent Recharge Vadose Zone Wells	20	32	32	32	32	36	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