

TOWN OF SUPERIOR, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2013**

TABLE OF CONTENTS

Independent Auditors' Report	1
Government-wide Statements	
Statement of Net Position	3
Statement of Activities.....	4
Fund Statements	
Governmental Funds	
Balance Sheet.....	5
Reconciliation of the Balance Sheet to the Statement of Net Position	6
Statement of Revenue, Expenditures, and Changes in Fund Balances.....	7
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	8
Proprietary Funds	
Statement of Net Position	9
Statement of Revenue, Expenses, and Changes in Fund Net Position	10
Statement of Cash Flows	11
Fiduciary Funds	
Statement of Fiduciary Net Position	13
Statement of Changes in Fiduciary Net Position	14
Notes to Financial Statements	15
Other Required Supplementary Information	
Budgetary Comparison Schedules	32
Notes to Budgetary Comparison Schedules.....	35
Schedule of Funding Progress.....	36
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37
Schedule of Findings and Responses	39
Independent Auditors' Report on State Legal Compliance	42



INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Superior, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Town of Superior, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Superior, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the Schedule of Funding Progress be presented to supplement the basic financial statements.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by the missing information.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, on our consideration of the Town of Superior, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Superior, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
February 29, 2016

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 296,451	\$ -	\$ 296,451
Cash with fiscal agent	224,165	-	224,165
Accounts receivable - net	-	43,999	43,999
Taxes receivable	61,539	34,111	95,650
Due from other governments	100,546	9,666	110,212
Prepaid expenses	7,520	7,312	14,832
Interactivity balances	(332,877)	332,877	-
Capital assets, not being depreciated	152,776	27,854	180,630
Capital assets, being depreciated, net	4,116,740	367,355	4,484,095
Total assets	4,626,860	823,174	5,450,034
LIABILITIES			
Accounts payable	49,798	90,049	139,847
Accrued expenses	48,206	12,753	60,959
Due to taxpayer	60,856	-	60,856
Accrued interest	16,654	-	16,654
Noncurrent liabilities			
Due within one year	317,104	574	317,678
Due in more than one year	740,504	191	740,695
Total liabilities	1,233,122	103,567	1,336,689
NET POSITION			
Net investment in capital assets	3,427,876	395,209	3,823,085
Restricted for:			
Debt service	224,165	-	224,165
Highways and streets	3,043,161	-	3,043,161
Unrestricted (deficit)	(3,301,464)	324,398	(2,977,066)
Total net position	\$ 3,393,738	\$ 719,607	\$ 4,113,345

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Activities
Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 542,744	\$ 43,908	\$ 125,461	\$ -	\$ (373,375)	\$ -	\$ (373,375)
Public safety	868,789	165,804	22,449	-	(680,536)	-	(680,536)
Highways and streets	360,684	-	279,533	-	(81,151)	-	(81,151)
Welfare	99,755	-	86,825	-	(12,930)	-	(12,930)
Culture and recreation	203,401	9,809	-	2,476	(191,116)	-	(191,116)
Interest	52,818	-	-	-	(52,818)	-	(52,818)
Total governmental activities	2,128,191	219,521	514,268	2,476	(1,391,926)	-	(1,391,926)
Business-type activities							
Utilities	715,728	610,352	-	25,126	-	(80,250)	(80,250)
Ambulance	433,460	287,211	-	-	-	(146,249)	(146,249)
Total business-type activities	1,149,188	897,563	-	25,126	-	(226,499)	(226,499)
Total primary government	\$ 3,277,379	\$ 1,117,084	\$ 514,268	\$ 27,602	(1,391,926)	(226,499)	(1,618,425)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					230,829	294,039	524,868
Local sales taxes					299,396	-	299,396
Franchise tax					95,017	-	95,017
Share of state sales taxes					232,214	-	232,214
Share of state auto lieu taxes					118,884	-	118,884
State urban revenue sharing					289,793	-	289,793
Investment earnings					3,352	-	3,352
Gain on sale of disposal of capital assets					47,532	-	47,532
Miscellaneous					16,968	-	16,968
Total general revenue					1,333,985	294,039	1,628,024
Change in net position					(57,941)	67,540	9,599
Net position, beginning of year					3,451,679	652,067	4,103,746
Net position, end of year					\$ 3,393,738	\$ 719,607	\$ 4,113,345

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	HURF/LTAF Fund	Grants Fund	SMPC Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ 296,451	\$ -	\$ -	\$ 296,451
Cash with fiscal agent	-	-	-	224,165	224,165
Taxes receivable	61,539	-	-	-	61,539
Due from other governments	75,402	25,144	-	-	100,546
Prepaid expenses	7,520	-	-	-	7,520
Due from other funds	-	2,727,993	-	-	2,727,993
Total assets	144,461	3,049,588	-	224,165	3,418,214
LIABILITIES					
Accounts payable	43,371	6,427	-	-	49,798
Accrued expenses	48,206	-	-	-	48,206
Due to taxpayer	60,856	-	-	-	60,856
Due to other funds	3,048,267	-	12,603	-	3,060,870
Total liabilities	3,200,700	6,427	12,603	-	3,219,730
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	21,307	-	-	-	21,307
FUND BALANCES					
Nonspendable	7,520	2,726,834	-	-	2,734,354
Restricted for:					
Highways and streets	-	316,327	-	-	316,327
Debt service	-	-	-	224,165	224,165
Unassigned	(3,085,066)	-	(12,603)	-	(3,097,669)
Total fund balances	(3,077,546)	3,043,161	(12,603)	224,165	177,177
Total liabilities, deferred inflows of resources, and fund balances	\$ 144,461	\$ 3,049,588	\$ -	\$ 224,165	\$ 3,418,214

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2013

Fund balances-total governmental funds	\$ 177,177
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	4,269,516
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	21,307
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(1,074,262)</u>
Net position of governmental activities	<u><u>\$ 3,393,738</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	General Fund	HURF/LT AF Fund	Grants Fund	SMPC Fund	Total Governmental Funds
Revenue					
Intergovernmental	\$ 727,716	\$ 279,533	\$ 22,605	\$ -	\$ 1,029,854
Taxes	626,349	-	-	-	626,349
Charges for services	166,582	-	-	-	166,582
Other revenue	116,967	-	125	-	117,092
Fines and forfeitures	54,727	-	-	-	54,727
Licenses and permits	7,682	-	-	-	7,682
Rental income	18,185	-	-	-	18,185
Investment income	3,352	-	-	3	3,355
Total revenue	<u>1,721,560</u>	<u>279,533</u>	<u>22,730</u>	<u>3</u>	<u>2,023,826</u>
Expenditures					
Current					
General government	471,762	-	23,062	3,000	497,824
Public safety	757,800	-	-	-	757,800
Public works	100,999	143,821	-	-	244,820
Welfare	93,331	-	-	-	93,331
Culture and recreation	123,547	-	-	-	123,547
Debt service					
Principal	90,876	-	-	90,000	180,876
Interest	13,508	-	-	45,120	58,628
Total expenditures	<u>1,651,823</u>	<u>143,821</u>	<u>23,062</u>	<u>138,120</u>	<u>1,956,826</u>
Excess (deficiency) of revenue over (under) expenditures	<u>69,737</u>	<u>135,712</u>	<u>(332)</u>	<u>(138,117)</u>	<u>67,000</u>
Other financing sources (uses)					
Sale of capital assets	47,532	-	-	-	47,532
Transfers	(140,209)	-	-	140,209	-
Total other financing sources (uses)	<u>(92,677)</u>	<u>-</u>	<u>-</u>	<u>140,209</u>	<u>47,532</u>
Net change in fund balances	<u>(22,940)</u>	<u>135,712</u>	<u>(332)</u>	<u>2,092</u>	<u>114,532</u>
Fund balances, beginning of year	<u>(3,054,606)</u>	<u>2,907,449</u>	<u>(12,271)</u>	<u>222,073</u>	<u>62,645</u>
Fund balances, end of year	<u>\$ (3,077,546)</u>	<u>\$ 3,043,161</u>	<u>\$ (12,603)</u>	<u>\$ 224,165</u>	<u>\$ 177,177</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2013

Net change in fund balances-total governmental funds		\$ 114,532
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Current year depreciation		(356,490)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		
Property taxes		(1,108)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Debt principal repaid		180,876
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		
Decrease in interest payable	5,810	
Increase in compensated absences payable	(1,561)	
	4,249	
Change in net position of governmental activities		\$ (57,941)

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Utilities</u>	<u>Ambulance</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	
ASSETS			
Current assets			
Accounts receivable - net	\$ 4,962	\$ 39,037	\$ 43,999
Taxes receivable	34,111	-	34,111
Due from other governments	9,666	-	9,666
Prepaid expenses	-	7,312	7,312
Due from other funds	1,286,629	-	1,286,629
Total current assets	1,335,368	46,349	1,381,717
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	64,939	-	64,939
Buildings, net	-	244,898	244,898
Equipment, net	18,922	66,450	85,372
Total noncurrent assets	83,861	311,348	395,209
Total assets	1,419,229	357,697	1,776,926
LIABILITIES			
Current liabilities			
Accounts payable	83,586	6,463	90,049
Accrued expenses	1,765	10,988	12,753
Due to other funds	-	953,752	953,752
Compensated absences, current portion	574	-	574
Total current liabilities	85,925	971,203	1,057,128
Noncurrent liabilities			
Compensated absences, net of current portion	191	-	191
Total liabilities	86,116	971,203	1,057,319
NET POSITION			
Net investment in capital assets	83,861	311,348	395,209
Unrestricted (deficit)	1,249,252	(924,854)	324,398
Total net position	\$ 1,333,113	\$ (613,506)	\$ 719,607

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Operating revenue			
Charges for services			
Sewer (net of bad debts of \$-20000)	\$ 234,073	\$ -	\$ 234,073
Sanitation (net of bad debts of \$-93769)	376,279	-	376,279
Ambulance (net of bad debts of \$299979)	-	287,211	287,211
Total operating revenue	<u>610,352</u>	<u>287,211</u>	<u>897,563</u>
Operating expenses			
Personnel	88,054	349,117	437,171
Landfill fees	263,265	-	263,265
Professional services	144,544	19,985	164,529
Depreciation	121,461	12,126	133,587
Utilities	56,676	4,042	60,718
Materials and supplies	11,235	25,198	36,433
Other	11,904	3,258	15,162
Insurance	15,785	15,452	31,237
Repairs and maintenance	2,804	4,282	7,086
Total operating expenses	<u>715,728</u>	<u>433,460</u>	<u>1,149,188</u>
Operating income (loss)	(105,376)	(146,249)	(251,625)
Nonoperating revenue (expenses)			
Property taxes	294,039	-	294,039
Income (loss) before contributions	188,663	(146,249)	42,414
Capital grant contributions	25,126	-	25,126
Increase (decrease) in net position	213,789	(146,249)	67,540
Total net position, beginning of year	1,119,324	(467,257)	652,067
Total net position, end of year	<u>\$ 1,333,113</u>	<u>\$ (613,506)</u>	<u>\$ 719,607</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Cash flows from operating activities			
Receipts from customers	\$ 624,440	\$ 274,439	\$ 898,879
Payments to suppliers and providers of goods and services	(546,983)	(156,060)	(703,043)
Payments to employees	(65,185)	(267,400)	(332,585)
Net cash provided (used) by operating activities	<u>12,272</u>	<u>(149,021)</u>	<u>(136,749)</u>
Cash flows from noncapital financing activities			
Property taxes received	294,871	-	294,871
Interfund loans	(313,685)	149,021	(164,664)
Net cash provided (used) by noncapital financing activities	<u>(18,814)</u>	<u>149,021</u>	<u>130,207</u>
Cash flows from capital and related financing activities			
Capital grant contributions	24,730	-	24,730
Purchases of capital assets	(18,188)	-	(18,188)
Net cash provided (used) by capital and related financing activities	<u>6,542</u>	<u>-</u>	<u>6,542</u>
Net increase (decrease) in cash	-	-	-
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities:			
Acquisition of capital assets financed by: Accounts payable	<u>\$ 9,666</u>	<u>\$ -</u>	<u>\$ 9,666</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities--Enterprise Funds		
	Utilities	Ambulance	Total
	Fund	Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (105,376)	\$ (146,249)	\$ (251,625)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	121,461	12,126	133,587
Bad debts	(113,769)	299,979	186,210
(Increase) decrease in:			
Accounts receivable	127,857	(312,751)	(184,894)
Increase (decrease) in:			
Accounts payable	(16,180)	(554)	(16,734)
Accrued expenses	(2,305)	(1,572)	(3,877)
Compensated absences payable	584	-	584
Net cash provided (used) by operating activities	<u>\$ 12,272</u>	<u>\$ (149,021)</u>	<u>\$ (136,749)</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	<u>Investment Trust Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 84,087</u>
NET POSITION	
Held in trust for investment trust participants	<u>\$ 84,087</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	<u>Investment Trust Fund</u>
Additions	
Investment income	<u>\$ 8,559</u>
Deductions	
Investment fees	<u>4,065</u>
Change in net position	4,494
Net position, beginning of year	<u>79,593</u>
Net position, end of year	<u><u>\$ 84,087</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Superior, Arizona have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Reporting Entity

The Town is a general purpose local government that is governed by a separately elected Town Council. The accompanying financial statements present the activities of the Town (the primary government) and its component units.

Component units are legally separate entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the Town. The Town has no discretely presented component units, however, it does have a blended component unit. The blended component unit discussed below has a June 30 year-end.

The *Town of Superior Municipal Property Corporation* (SMPC) is a nonprofit corporation incorporated under the laws of the State of Arizona. The principal objective of the SMPC is to assist the Town in acquiring, constructing, financing, operating, improving or modifying public facilities for the benefit of all residents. To accomplish this purpose, the SMPC issued \$1,200,000 of excise tax revenue bonds in December 1997 (see Note 5). The SMPC's board of directors is appointed by the Superior Town Council.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund statements. The government-wide statements focus on the Town as a whole, while the fund statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the Town). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Town does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund statements—provide information about the Town's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The Town reports the following major governmental funds:

The ***General Fund*** is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***HURF/LTAF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund, Local Transportation Assistance Fund, and Pinal County Transportation Excise Tax Fund that is legally restricted to expenditures for specified purposes.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The ***Grants Fund*** accounts for specific revenue received that is legally restricted to expenditures for specified purposes.

The ***SMPC Fund*** accounts for the SMPC which is a blended component unit.

The Town reports the following major enterprise funds:

The ***Utilities*** and ***Ambulance Funds*** account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council 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; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Town reports the following fiduciary fund types:

The ***Investment Trust Fund*** accounts for pooled assets held and invested by the Town Treasurer on behalf of Town employees and other governmental entities.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Cash and Investments

For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the Town. The amount recorded as uncollectible at June 30, 2013 in the Utilities and Ambulance Funds, respectively, were \$66,231 and \$37,500.

F. Property Tax Calendar

Property taxes are recognized as revenue in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end are reported as unavailable revenue. Property taxes collected in advance of the fiscal year for which they are levied are reported as deferred revenue.

The Town levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2013, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Utilities Fund</u>	<u>Total</u>
2012 - 2013	\$ 22,955	\$ 28,699	\$ 51,654
Prior	<u>4,329</u>	<u>5,412</u>	<u>9,741</u>
Net total	<u>\$ 27,284</u>	<u>\$ 34,111</u>	<u>\$ 61,395</u>

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	N/A	N/A
Construction in progress	5,000	N/A	N/A
Buildings	5,000	Straight-line	40
Equipment	5,000	Straight-line	15
Infrastructure	5,000	Straight-line	25
Utility systems	5,000	Straight-line	30

H. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Employees may accumulate up to 120 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. However, employees may request in writing to the Town Manager to have excess hours carried forward. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate 240 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

J. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,
3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the town council,
4. *Assigned* fund balances are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the Town's governmental funds and includes all spendable amounts not contained in other classifications.

The Town's policy for committed fund balances is through formal resolutions passed through the elected town council. The process of rescinding a committed fund balance requires the same process.

The Town's policy for assigned fund balances is through motions passed by the elected town council. Assigned fund balances do not require a formal resolution.

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the Town's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

The Town has not formally adopted deposit and investment policies that limit the Town's allowable deposits or investments and address the specific types of risk to which the Town is exposed.

Deposits—At June 30, 2013, the carrying amount of the Town's total nonpooled cash in bank was \$291,862, and the bank balance was \$315,245. The entire bank balance was covered by federal depository insurance.

Investments—The Town reported investments in the State Treasurer's Investment Pool 5 with a reported amount of \$1,514. The Standard and Poor's credit quality rating of the pool is AAA. The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2013 consisted of \$20,217 in state-shared revenue from sales taxes, \$4,910 in state-shared revenue from auto lieu taxes, \$17,887 in local sales taxes collected by the State of Arizona, and \$32,388 in federal and state grants.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2013 consisted of \$8,791 in county-shared revenue from county road taxes and \$16,353 in state-shared revenue from highway user revenue fund (HURF) taxes.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS

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

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 152,776	\$ -	\$ -	\$ 152,776
Capital assets being depreciated:				
Buildings	3,118,623	-	-	3,118,623
Equipment	2,184,329	-	-	2,184,329
Infrastructure	3,957,004	-	-	3,957,004
Total	<u>9,259,956</u>	<u>-</u>	<u>-</u>	<u>9,259,956</u>
Less accumulated depreciation for:				
Buildings	829,200	127,620	-	956,820
Equipment	1,502,529	118,876	-	1,621,405
Infrastructure	2,454,997	109,994	-	2,564,991
Total	<u>4,786,726</u>	<u>356,490</u>	<u>-</u>	<u>5,143,216</u>
Total capital assets being depreciated, net	<u>4,473,230</u>	<u>(356,490)</u>	<u>-</u>	<u>4,116,740</u>
Governmental activities capital assets, net	<u>\$ 4,626,006</u>	<u>\$ (356,490)</u>	<u>\$ -</u>	<u>\$ 4,269,516</u>
	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 27,854	\$ -	\$ 27,854
Capital assets being depreciated:				
Buildings	272,110	-	-	272,110
Utility systems	3,988,939	-	-	3,988,939
Equipment	242,112	-	-	242,112
Total	<u>4,503,161</u>	<u>-</u>	<u>-</u>	<u>4,503,161</u>
Less accumulated depreciation for:				
Buildings	20,409	6,803	-	27,212
Utility systems	3,834,372	117,482	-	3,951,854
Equipment	147,438	9,302	-	156,740
Total	<u>4,002,219</u>	<u>133,587</u>	<u>-</u>	<u>4,135,806</u>
Total capital assets being depreciated, net	<u>500,942</u>	<u>(133,587)</u>	<u>-</u>	<u>367,355</u>
Business-type activities capital assets, net	<u>\$ 500,942</u>	<u>\$ (105,733)</u>	<u>\$ -</u>	<u>\$ 395,209</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
Highways and streets	\$ 121,270
Public safety	112,856
General government	36,086
Culture and recreation	79,854
Welfare	<u>6,424</u>
Total governmental activities depreciation expense	<u><u>\$ 356,490</u></u>
Business-type activities:	
Utilities	\$ 121,461
Ambulance	<u>12,126</u>
Total business-type activities depreciation expense	<u><u>\$ 133,587</u></u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2013.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
Governmental activities:					
Revenue bonds payable	\$ 730,000	\$ -	\$ 90,000	\$ 640,000	\$ 95,000
Notes payable	238,798	-	65,438	173,360	1,323
Capital leases payable	45,819	-	25,438	20,381	20,381
Contigent liability	130,000	-	-	130,000	130,000
Compensated absences	92,306	1,561	-	93,867	70,400
	<u>\$ 1,236,923</u>	<u>\$ 1,561</u>	<u>\$ 180,876</u>	<u>\$ 1,057,608</u>	<u>\$ 317,104</u>
Business-type activities:					
Compensated absences	<u>\$ 181</u>	<u>\$ 584</u>	<u>\$ -</u>	<u>\$ 765</u>	<u>\$ 574</u>

Bonds—The Town’s bonded debt consists of various issues of revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Revenue bonds are repaid from charges excise taxes. Bonds outstanding at June 30, 2013, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Revenue bonds payable	<u>\$ 1,200,000</u>	2005-2018	6.40-10.00%	<u>\$ 640,000</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 5 – LONG-TERM LIABILITIES – Continued

Notes payable—consisted of the following:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
GADA note payable	\$ 500,000	2016	3.00-5.00%	\$ 105,833
Building note payable	<u>69,273</u>	2042	4.00%	<u>67,527</u>
Total	<u>\$ 569,273</u>			<u>\$ 173,360</u>

The following schedule details debt service requirements to maturity for the Town's bonds and notes payable at June 30, 2013.

Year Ending June 30	<u>Governmental Activities</u>			
	Notes Payable		Revenue bonds payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,323	\$ 7,981	\$ 95,000	\$ 35,970
2015	47,210	5,177	100,000	29,370
2016	61,433	2,761	105,000	22,440
2017	1,491	2,509	115,000	14,850
2018	1,552	2,448	225,000	-
2019-23	8,762	11,238	-	-
2024-28	10,698	9,302	-	-
2029-33	13,062	6,938	-	-
2034-38	15,950	4,050	-	-
2039-43	<u>11,879</u>	<u>788</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 173,360</u>	<u>\$ 53,192</u>	<u>\$ 640,000</u>	<u>\$ 102,630</u>

Capital leases – The Town has acquired its accounting software under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 5 – LONG-TERM LIABILITIES – Continued

The carrying value of the software acquired through a capital lease is as follows:

	Governmental Activities
Accounting software	\$ 111,551
Less: accumulated depreciation	(44,620)
Carrying value	\$ 66,931

The following schedule details debt service requirements to maturity for the Town’s capital lease payable at June 30, 2013:

Year Ending June 30	Governmental Activities
2014	\$ 21,031
Less amount representing interest	(650)
Present value of net minimum lease payments	\$ 20,381

NOTE 6 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for all such risks of loss, including workers’ compensation and employees’ health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 7 – RETIREMENT PLANS

Plan Descriptions – The Town contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and dependents

The *Arizona State Retirement System* (ASRS) administers cost-sharing multiple-employer defined benefit pension, health insurance premium, and long-term disability plans that cover employees of the State of Arizona and participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The system issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, Arizona, 85067-3910 or by calling (602) 240-2000 or 1 (800) 621-3778.

The *Public Safety Personnel Retirement System* (PSPRS) administers agent multiple-employer defined benefit pension and health insurance premium plans that cover public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016-4416, or by calling (602) 255-5575.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates for both ASRS and PSPRS.

Cost-sharing plans – For the year ended June 30, 2013, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 11.15 percent (10.90 percent for retirement and 0.25 percent for long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2013, 2012, and 2011, were \$38,551, \$56,428, and \$68,467, respectively, which were equal to the required contributions for the year.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 7 – RETIREMENT PLANS – Continued

Agent plans – For the year ended June 30, 2013, active members of the PSPRS police system were required by statute to contribute 9.55 percent of the members’ annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 19.00 percent, of which 1.43 percent was the health insurance premium portion.

For the year ended June 30, 2013, active members of the PSPRS fire system were required by statute to contribute 9.55 percent of the members’ annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 13.54 percent, of which 1.14 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2013, were established by the June 30, 2011 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding status presented below provides multiyear trend information that shows whether the actuarial value of the plans’ assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on 1) the plans as understood by the Town of Superior, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2013 contribution requirements are as follows:

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	25 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.00% - 8.00%
Payroll growth	5.00%

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 7 – RETIREMENT PLANS – Continued

Trend Information – Annual pension cost information for the current and two preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Pension - Police	2013	\$ 47,477	100 %	\$ -
	2012	37,371	100	-
	2011	42,458	100	-
Health Insurance - Police	2013	\$ 4,207	0 %	\$ 4,207
	2012	4,425	0	4,425
	2011	4,804	0	4,804
Pension - Fire	2013	\$ 30,975	100 %	\$ -
	2012	26,125	100	-
	2011	28,081	100	-
Health Insurance - Fire	2013	\$ 3,136	0 %	\$ 3,136
	2012	3,554	0	3,554
	2011	3,064	0	3,064

Schedules of Funded Status – Following are the schedules of funded status of the plans as of the most recent valuation date, June 30, 2013, and the previous two fiscal years. The fiscal year 2013 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2012 actuarial methods and assumptions as described on page above.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 7 – RETIREMENT PLANS – Continued

Pension - Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ 992,391	\$ 1,154,716	\$ (162,325)	85.9 %	\$ 213,242	76.1 %
6/30/2012	965,505	1,185,510	(220,005)	81.4	276,969	79.4
6/30/2011	950,136	1,109,216	(159,080)	85.7	266,814	59.6

Health Insurance - Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ -	\$ 30,171	\$ (30,171)	0.0 %	\$ 213,242	14.1 %
6/30/2012	-	28,544	(28,544)	0.0	276,969	10.3
6/30/2011	-	28,233	(28,233)	0.0	266,814	10.6

Pension - Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ 471,859	\$ 356,483	\$ 115,376	132.4 %	\$ 206,858	0.0 %
6/30/2012	418,882	362,733	56,149	115.5	258,284	0.0
6/30/2011	341,900	330,813	11,087	103.4	249,511	0.0

Health Insurance - Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ -	\$ 23,598	\$ (23,598)	0.0 %	\$ 206,858	11.4 %
6/30/2012	-	21,289	(21,289)	0.0	258,284	8.2
6/30/2011	-	21,818	(21,818)	0.0	249,511	8.7

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2013

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2013, were as follows:

Payable from	Payable to		
	HURF/LTAF Fund	Utilities Fund	Total
General Fund	\$ 2,715,390	\$ 332,877	\$ 3,048,267
Grants Fund	12,603	-	12,603
Ambulance Fund	-	953,752	953,752
	<u>\$ 2,727,993</u>	<u>\$ 1,286,629</u>	<u>\$ 4,014,622</u>

The interfund receivables and payables above were necessary in order to fund the ongoing activities of the General, Grants, and Ambulance Funds in current and prior periods.

Interfund transfers—The interfund transfer from the General Fund to the SMPC Fund was to pay for debt services expenditures of the current period of the SMPC (see Note 1).

NOTE 9 – CONTINGENT LIABILITY

In September 2013, the Town settled an ongoing lawsuit. The amount of the settlement was \$130,000. This amount has been recognized as an expense of the Governmental Activities and has been accrued as a liability as of June 30, 2013.

NOTE 10 – SANITATION SERVICES

On April 1, 2013, the Town turned sanitation services over to a private company. The company purchased all sanitation receivables as of March 31, 2013. The gross amount of all the receivables purchased by the company totaled \$134,902. In consideration for the receivables, the Town received a credit of \$40,470 for collection services for the months of April, May and June 2013. As part of the agreement, the Town continued to bill sanitation customers on behalf of the company until July 1, 2013 at which point, the company began to bill customers directly.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 709,361	\$ 709,361	\$ 727,716	\$ 18,355
Taxes	745,757	745,757	626,349	(119,408)
Charges for services	255,500	255,500	166,582	(88,918)
Other revenue	120,000	120,000	116,967	(3,033)
Fines and forfeitures	34,000	34,000	54,727	20,727
Licenses and permits	19,000	19,000	7,682	(11,318)
Rental income	1,000	1,000	18,185	17,185
Investment income	2,000	2,000	3,352	1,352
Total revenue	<u>1,886,618</u>	<u>1,886,618</u>	<u>1,721,560</u>	<u>(165,058)</u>
Expenditures				
Current				
General government	925,552	925,552	471,762	453,790
Public safety	836,183	836,183	757,800	78,383
Public works	159,091	159,091	100,999	58,092
Welfare	186,849	186,849	93,331	93,518
Culture and recreation	103,110	103,110	123,547	(20,437)
Debt service				
Principal	81,358	81,358	90,876	(9,518)
Interest	13,508	13,508	13,508	-
Total expenditures	<u>2,305,651</u>	<u>2,305,651</u>	<u>1,651,823</u>	<u>653,828</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(419,033)</u>	<u>(419,033)</u>	<u>69,737</u>	<u>488,770</u>
Other financing sources (uses)				
Sale of capital assets	-	-	47,532	47,532
Transfers	716,417	716,417	(140,209)	(856,626)
Total other financing sources (uses)	<u>716,417</u>	<u>716,417</u>	<u>(92,677)</u>	<u>(809,094)</u>
Net change in fund balance	297,384	297,384	(22,940)	(320,324)
Fund balances, beginning of year	<u>(3,054,606)</u>	<u>(3,054,606)</u>	<u>(3,054,606)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (2,757,222)</u>	<u>\$ (2,757,222)</u>	<u>\$ (3,077,546)</u>	<u>\$ (320,324)</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 281,789	\$ 281,789	\$ 279,533	\$ (2,256)
Expenditures				
Current				
Public works	214,411	214,411	143,821	70,590
Net change in fund balance	67,378	67,378	135,712	68,334
Fund balances, beginning of year	2,907,449	2,907,449	2,907,449	-
Fund balances, end of year	<u>\$ 2,974,827</u>	<u>\$ 2,974,827</u>	<u>\$ 3,043,161</u>	<u>\$ 68,334</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ -	\$ -	\$ 22,605	\$ 22,605
Other revenue	-	-	125	125
Total revenue	<u>-</u>	<u>-</u>	<u>22,730</u>	<u>22,730</u>
Expenditures				
Current				
General government	-	-	23,062	(23,062)
Net change in fund balance	-	-	(332)	(332)
Fund balances, beginning of year	<u>(12,271)</u>	<u>(12,271)</u>	<u>(12,271)</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ (12,271)</u></u>	<u><u>\$ (12,271)</u></u>	<u><u>\$ (12,603)</u></u>	<u><u>\$ (332)</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2013

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

A.R.S. requires the Town to prepare and adopt a balanced budget annually for each governmental fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Council's approval. With the exception of the General Fund, each fund includes only one department. For the year ending June 30, 2013, the Town exceeded its budgets for the swimming pool, recreation, and grants departments.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

The Town's budget is prepared on a basis consistent with generally accepted accounting principles.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2013

Pension - Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ 992,391	\$ 1,154,716	\$ (162,325)	85.9 %	\$ 213,242	76.1 %
6/30/2012	965,505	1,185,510	(220,005)	81.4	276,969	79.4
6/30/2011	950,136	1,109,216	(159,080)	85.7	266,814	59.6

Health Insurance - Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ -	\$ 30,171	\$ (30,171)	0.0 %	\$ 213,242	14.1 %
6/30/2012	-	28,544	(28,544)	0.0	276,969	10.3
6/30/2011	-	28,233	(28,233)	0.0	266,814	10.6

Pension - Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ 471,859	\$ 356,483	\$ 115,376	132.4 %	\$ 206,858	0.0 %
6/30/2012	418,882	362,733	56,149	115.5	258,284	0.0
6/30/2011	341,900	330,813	11,087	103.4	249,511	0.0

Health Insurance - Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2013	\$ -	\$ 23,598	\$ (23,598)	0.0 %	\$ 206,858	11.4 %
6/30/2012	-	21,289	(21,289)	0.0	258,284	8.2
6/30/2011	-	21,818	(21,818)	0.0	249,511	8.7

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Town Council
Town of Superior, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Superior, Arizona as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Superior, Arizona's basic financial statements and have issued our report thereon dated February 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Superior, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Superior, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Superior, Arizona's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did identify certain deficiencies in internal control, described in the schedule of findings and recommendations that we consider to be material weaknesses.

2011-001 – Lack of Documentation

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control, described in the schedule of findings and recommendations that we consider to be significant deficiencies.

2011-002 – Accounting Adjustments and Capital Assets

2011-004 – Timeliness of Reports and Reconciliations

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Superior Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the schedule of findings and recommendations as items:

2011-003 – Budgetary Compliance

2012-001 – Highway User Revenue Funds

Town of Superior, Arizona’s Response to Findings

The Town of Superior, Arizona’s responses to the findings identified in our audit are described in a separate schedule of responses. The Town’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the Town’s responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC
Flagstaff, Arizona
February 29, 2016

TOWN OF SUPERIOR, ARIZONA
Schedule of Findings and Responses
June 30, 2013

Financial Statement Findings

Audit findings and responses are as follows:

Item: 2011-001

Lack of Documentation

We noted a few instances where the Town lacked proper documentation to support transactions recorded in the accounting system or the Town's records were otherwise incomplete. We were able to obtain documentation from other sources in order to complete the audit, however, the Town should retain documentation to support the transactions recorded in the accounting system.

In addition, in prior years, we noted that documentation related to employee use of Town debit cards lacked proper documentation. While we did not note any particular issues during the fiscal year 2013 audit, it appears the Town still lacks proper controls over the use of debit cards.

We understand that the location of the Town offices has changed multiple times since fiscal year 2011 and that records may have been misplaced during these moves. We also understand that there have been significant changes in management and accounting personnel since 2011. These factors have likely contributed to these deficiencies.

Recommendation

We recommend that the Town continue to make every effort to ensure that adequate documentation is retained to support the Town's revenues, expenditures, and significant decisions made by management. In addition, we recommend the Town review its procedures for employee use of debit cards. The Town may want to consider discontinuing the practice of issuing debit cards to employees.

Response

Management agrees with this finding and is working to improve record retention policies and procedures.

Item: 2011-002

Accounting Adjustments and Capital Assets

During our audit we made recommendations for various journal entries which were needed to properly state various account balances. The effect of these journal entries was material to the financial statements. We also noted that the Town has not adequately accounted for capital asset

TOWN OF SUPERIOR, ARIZONA
Schedule of Findings and Responses
June 30, 2013

activity including purchases and disposals of capital assets. In addition, the Town did not complete an inventory of capital assets.

Recommendation

We recommend that the Town continue its efforts to implement monthly and year-end accounting procedures to eliminate or reduce the number of year-end audit adjustments. We further recommend that management review our proposed adjustments and ensure they understand the underlying accounting principles associated with each entry. We also recommend the Town perform a periodic inventory of capital assets to ensure that that the Town's capital asset records are accurate and properly reflect the assets owned by the Town.

Response

Management agrees with this finding and has hired outside consultants to help with year-end closing and preparation of the trial balance for audit. The Town is also working to create and implement policies and procedures over capital assets.

2011-004

Timeliness of Reports and Reconciliations

The Town did not reconcile their bank accounts in a timely manner and the Town's audited financial statements and the Annual Expenditure Limitation Report were not filed with the State of Arizona in a timely manner. We understand the Town has faced significant challenges which have made completing these tasks difficult. However, bank reconciliations provide an important control in safeguarding the Town's cash and in ensuring all accounting information is properly recorded. In order for bank reconciliations to provide the desired control they must be completed in a timely manner. In addition, in order to comply with State law and for the information contained in the audited financial statements to be useful, it is important they be completed in timely manner.

Recommendation

We recommend that the Town continue its efforts to become current on its bank reconciliations and accounting records and to complete the financial reporting requirements for fiscal years 2014 - 2015 as soon as possible.

Response

Management agrees with this finding and has hired outside consultants to help the Town get current with its accounting records and reporting requirements.

TOWN OF SUPERIOR, ARIZONA
Schedule of Findings and Responses
June 30, 2013

2011-003

Budgetary Compliance

The Budgetary Comparison Schedule for the General Fund identifies the departments which have over-expended budgeted amounts.

Recommendation

We recommend that the Town take care to ensure that budgets are adhered to and monitored regularly and that established procedures are followed to amend the budget if necessary.

Response

Management agrees with this finding and is working on getting its accounting records current so that financial data is more reliable and timely so that budgets can be better monitored and amended, if necessary.

2012-001

Highway User Revenue Funds

We noted there is a large interfund receivable balance in the Highway User Revenue Fund (HURF). This balance indicates that other Funds of the Town have borrowed monies from the HURF to meet their operating needs. As HURF funds are restricted for the construction and maintenance of roads, the borrowing of these monies by other Funds is not appropriate.

Recommendation

We recommend the Town make every effort to have the Funds that have borrowed monies from the Highway User Revenue Fund repay those amounts as soon as possible. Failure to do so may result in the State withholding future Highway Revenue Funds from the Town.

Response

Management has hired outside consultants to help bring accounting records current to make financial information more reliable and timely. With more reliable and timely information, management can better formulate a plan for addressing its HURF borrowing.

**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
Town Council
Superior, Arizona

We have audited the basic financial statements of the Town of Superior, Arizona for the year ended June 30, 2013, and have issued our report thereon dated February 29, 2016. Our audit also included test work on the Town of Superior's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the Town of Superior is responsible for the Town's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

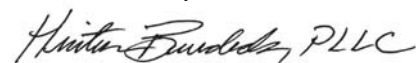
The Town of Superior has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the Town of Superior pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year do not appear to have been used solely for authorized purposes. The expenditures recorded in the Highway User Special Revenue Fund appear to have been made for allowable purposes; however, the Fund reports a large interfund receivable balance. This indicates that other Funds of the Town have borrowed cash from the Highway User Revenue Fund to meet their operating needs. The amount due from other funds decreased from \$2,808,006 in fiscal year 2012 to \$2,727,993 in fiscal year 2013. This is not an appropriate use of Highway User Funds.

Our opinion regarding the Town's compliance with annual expenditure limitations has been issued separately with the Town's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except as noted above, the Town of Superior complied in all material respects, with the requirements identified above for the year ended June 30, 2013.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.



HintonBurdick, PLLC
Flagstaff, Arizona
February 29, 2016