

TOWN OF SUPERIOR, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2016**

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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, 2016, and the related notes to the financial statements, which collectively comprise the Town'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, 2016, 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 pension related schedules, as listed in the table of contents 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 March 28, 2017, 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
March 28, 2017

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 940,468	\$ -	\$ 940,468
Cash with fiscal agent	234,402	-	234,402
Accounts receivable - net	-	47,843	47,843
Taxes receivable	46,088	25,507	71,595
Due from other governments	122,080	24,353	146,433
Interactivity balances	1,125,194	(1,125,194)	-
Net pension asset	-	34,179	34,179
Capital assets, not being depreciated	152,776	47,253	200,029
Capital assets, being depreciated, net	3,333,717	675,563	4,009,280
Total assets	5,954,725	(270,496)	5,684,229
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	490,822	75,510	566,332
LIABILITIES			
Accounts payable	139,946	66,799	206,745
Accrued expenses	17,854	9,879	27,733
Accrued interest	11,220	-	11,220
Noncurrent liabilities			
Due within one year	151,633	20,804	172,437
Due in more than one year	1,338,520	71,424	1,409,944
Total liabilities	1,659,173	168,906	1,828,079
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	198,632	20,345	218,977
NET POSITION			
Net investment in capital assets	3,083,221	722,816	3,806,037
Restricted for:			
Highways and streets	3,202,371	-	3,202,371
Airport	75,199	-	75,199
Public safety	71,997	-	71,997
Debt service	234,402	-	234,402
Unrestricted (deficit)	(2,079,448)	(1,107,053)	(3,186,501)
Total net position	\$ 4,587,742	\$ (384,237)	\$ 4,203,505

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Activities
Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 620,266	\$ 67,157	\$ 8,906	\$ -	\$ (544,203)	\$ -	\$ (544,203)
Public safety	929,328	184,174	1,943	33,099	(710,112)	-	(710,112)
Highways and streets	462,534	-	212,169	-	(250,365)	-	(250,365)
Welfare	100,207	-	67,787	-	(32,420)	-	(32,420)
Culture and recreation	221,215	4,896	-	-	(216,319)	-	(216,319)
Interest	25,218	-	-	-	(25,218)	-	(25,218)
Total governmental activities	2,358,768	256,227	290,805	33,099	(1,778,637)	-	(1,778,637)
Business-type activities							
Utilities	296,837	248,240	-	47,253	-	(1,344)	(1,344)
Ambulance	336,655	292,823	-	-	-	(43,832)	(43,832)
Total business-type activities	633,492	541,063	-	47,253	-	(45,176)	(45,176)
Total primary government	\$ 2,992,260	\$ 797,290	\$ 290,805	\$ 80,352	(1,778,637)	(45,176)	(1,823,813)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					223,015	278,819	501,834
Local sales taxes					724,009	-	724,009
Franchise tax					122,395	-	122,395
State urban revenue sharing					341,574	-	341,574
Share of state sales taxes					268,351	-	268,351
Share of state auto lieu taxes					153,801	-	153,801
Miscellaneous					16,860	-	16,860
Investment earnings					1,159	-	1,159
Transfers					1,978,981	(1,978,981)	-
Total general revenue and transfers					3,830,145	(1,700,162)	2,129,983
Change in net position					2,051,508	(1,745,338)	306,170
Net position, beginning of year					2,536,234	1,361,101	3,897,335
Net position, end of year					\$ 4,587,742	\$ (384,237)	\$ 4,203,505

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Highways and Streets Fund	Grants Fund	SMPC Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ 940,468	\$ -	\$ -	\$ 940,468
Cash with fiscal agent	-	-	-	234,402	234,402
Taxes receivable	46,088	-	-	-	46,088
Due from other governments	103,457	18,623	-	-	122,080
Due from other funds	-	2,253,676	163,788	-	2,417,464
Total assets	<u>149,545</u>	<u>3,212,767</u>	<u>163,788</u>	<u>234,402</u>	<u>3,760,502</u>
LIABILITIES					
Accounts payable	113,101	10,253	16,592	-	139,946
Accrued expenses	17,711	143	-	-	17,854
Due to other funds	1,292,270	-	-	-	1,292,270
Total liabilities	<u>1,423,082</u>	<u>10,396</u>	<u>16,592</u>	<u>-</u>	<u>1,450,070</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	10,829	-	-	-	10,829
FUND BALANCES					
Restricted for:					
Highways and streets	-	3,202,371	-	-	3,202,371
Airport	-	-	75,199	-	75,199
Public safety	-	-	71,997	-	71,997
Debt service	-	-	-	234,402	234,402
Unassigned	(1,284,366)	-	-	-	(1,284,366)
Total fund balances	<u>(1,284,366)</u>	<u>3,202,371</u>	<u>147,196</u>	<u>234,402</u>	<u>2,299,603</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 149,545</u>	<u>\$ 3,212,767</u>	<u>\$ 163,788</u>	<u>\$ 234,402</u>	<u>\$ 3,760,502</u>

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, 2016

Fund balances-total governmental funds	\$ 2,299,603
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.	3,486,493
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	10,829
Long-term liabilities, such as net pension liabilities and bonds payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(1,501,373)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>292,190</u>
Net position of governmental activities	<u><u>\$ 4,587,742</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, 2016

	General Fund	Highways and Streets Fund	Grants Fund	SMPC Fund	Total Governmental Funds
Revenue					
Intergovernmental	\$ 831,513	\$ 212,169	\$ 182,245	\$ -	\$ 1,225,927
Taxes	1,076,070	-	-	-	1,076,070
Charges for services	37,389	-	-	-	37,389
Rental income	27,982	-	-	-	27,982
Fines and forfeitures	22,413	-	-	-	22,413
Other revenue	16,861	-	-	-	16,861
Licenses and permits	10,647	-	-	-	10,647
Investment income	1,158	-	-	-	1,158
Total revenue	<u>2,024,033</u>	<u>212,169</u>	<u>182,245</u>	<u>-</u>	<u>2,418,447</u>
Expenditures					
Current					
General government	572,645	-	2,227	3,000	577,872
Public safety	848,317	-	59,362	-	907,679
Public works	145,678	198,815	-	-	344,493
Welfare	92,880	-	-	-	92,880
Culture and recreation	87,843	-	51,981	-	139,824
Debt service					
Principal	1,555	-	-	105,000	106,555
Interest	2,778	-	-	25,905	28,683
Capital outlay	24,049	87,820	13,657	-	125,526
Total expenditures	<u>1,775,745</u>	<u>286,635</u>	<u>127,227</u>	<u>133,905</u>	<u>2,323,512</u>
Excess (deficiency) of revenue over (under) expenditures	<u>248,288</u>	<u>(74,466)</u>	<u>55,018</u>	<u>(133,905)</u>	<u>94,935</u>
Other financing sources (uses)					
Transfers	1,951,164	(115,573)	-	143,390	1,978,981
Net change in fund balances	2,199,452	(190,039)	55,018	9,485	2,073,916
Fund balances, beginning of year	(3,483,818)	3,392,410	92,178	224,917	225,687
Fund balances, end of year	<u>\$ (1,284,366)</u>	<u>\$ 3,202,371</u>	<u>\$ 147,196</u>	<u>\$ 234,402</u>	<u>\$ 2,299,603</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, 2016

Net change in fund balances-total governmental funds		\$ 2,073,916
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 capital acquisitions	125,526	
Current year depreciation expense	<u>(315,896)</u>	(190,370)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		
Donated police vehicles	19,500	
Property taxes	<u>(6,652)</u>	12,848
Town pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.		
Town pension contributions	109,690	
Pension expense	<u>(44,312)</u>	65,378
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		106,555
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.		
Increase in compensated absences payable	(20,284)	
Decrease in accrued interest	<u>3,465</u>	(16,819)
Change in net position of governmental activities		<u><u>\$ 2,051,508</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities--Enterprise Funds		
	Utilities	Ambulance	Total
	Fund	Fund	
ASSETS			
Current assets			
Accounts receivable - net	\$ 22,763	\$ 25,080	\$ 47,843
Taxes receivable	25,507	-	25,507
Due from other governments	24,353	-	24,353
Total current assets	72,623	25,080	97,703
Noncurrent assets			
Net pension asset	-	34,179	34,179
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	437,353	-	437,353
Buildings, net	-	224,490	224,490
Equipment, net	10,492	50,481	60,973
Total noncurrent assets	447,845	309,150	756,995
Total assets	520,468	334,230	854,698
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	7,589	67,921	75,510
LIABILITIES			
Current liabilities			
Accounts payable	62,313	4,486	66,799
Accrued expenses	1,544	8,335	9,879
Due to other funds	-	1,125,194	1,125,194
Compensated absences, current portion	3,088	17,716	20,804
Total current liabilities	66,945	1,155,731	1,222,676
Noncurrent liabilities			
Compensated absences, net of current portion	1,030	5,905	6,935
Net pension liability	45,327	19,162	64,489
Total noncurrent liabilities	46,357	25,067	71,424
Total liabilities	113,302	1,180,798	1,294,100
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	3,828	16,517	20,345
NET POSITION			
Net investment in capital assets	447,845	274,971	722,816
Unrestricted (deficit)	(36,918)	(1,070,135)	(1,107,053)
Total net position	\$ 410,927	\$ (795,164)	\$ (384,237)

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, 2016

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Operating revenue			
Charges for services			
Sewer (net of bad debts of \$0)	\$ 248,240	\$ -	\$ 248,240
Ambulance (net of bad debts of \$409417)	-	292,823	292,823
Total operating revenue	248,240	292,823	541,063
Operating expenses			
Personnel	90,216	250,281	340,497
Professional services	75,766	34,742	110,508
Utilities	65,227	4,625	69,852
Materials and supplies	19,482	25,093	44,575
Depreciation	24,200	12,126	36,326
Insurance	9,194	9,194	18,388
Repairs and maintenance	8,062	-	8,062
Other	4,690	594	5,284
Total operating expenses	296,837	336,655	633,492
Operating income (loss)	(48,597)	(43,832)	(92,429)
Nonoperating revenue (expenses)			
Property taxes	278,819	-	278,819
Income (loss) before contributions and transfers	230,222	(43,832)	186,390
Capital grant contributions	47,253	-	47,253
Transfers out	(1,978,981)	-	(1,978,981)
Increase (decrease) in net position	(1,701,506)	(43,832)	(1,745,338)
Total net position, beginning of year	2,112,433	(751,332)	1,361,101
Total net position, end of year	\$ 410,927	\$ (795,164)	\$ (384,237)

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Cash flows from operating activities			
Receipts from customers	\$ 256,748	\$ 313,025	\$ 569,773
Payments to suppliers and providers of goods and services	(196,654)	(78,951)	(275,605)
Payments to employees	(92,774)	(262,274)	(355,048)
Net cash provided (used) by operating activities	<u>(32,680)</u>	<u>(28,200)</u>	<u>(60,880)</u>
Cash flows from noncapital financing activities			
Interfund transfers	(1,978,981)	-	(1,978,981)
Property taxes received	280,252	-	280,252
Interfund loans	1,756,390	28,200	1,784,590
Net cash provided (used) by noncapital financing activities	<u>57,661</u>	<u>28,200</u>	<u>85,861</u>
Cash flows from capital and related financing activities			
Capital grant contributions	22,900	-	22,900
Purchases of capital assets	(47,881)	-	(47,881)
Net cash provided (used) by capital and related financing activities	<u>(24,981)</u>	<u>-</u>	<u>(24,981)</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>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (48,597)	\$ (43,832)	\$ (92,429)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	24,200	12,126	36,326
Pension expense	4,154	14,276	18,430
Employer pension contributions	(3,083)	(14,922)	(18,005)
Bad debts	-	409,417	409,417
(Increase) decrease in:			
Accounts receivable	8,508	(389,215)	(380,707)
Increase (decrease) in:			
Accounts payable	(15,304)	(4,057)	(19,361)
Accrued expenses	(4,961)	(14,807)	(19,768)
Compensated absences payable	2,403	2,814	5,217
	<u>\$ (32,680)</u>	<u>\$ (28,200)</u>	<u>\$ (60,880)</u>
Net cash provided (used) by operating activities			
	<u>\$ (32,680)</u>	<u>\$ (28,200)</u>	<u>\$ (60,880)</u>
Non-cash investing and financing activities:			
Capital assets purchased on account	\$ 47,253	\$ -	\$ 47,253
	<u>\$ 47,253</u>	<u>\$ -</u>	<u>\$ 47,253</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	<u>Investment Trust Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 69,716</u>
NET POSITION	
Held in trust for investment trust participants	<u>\$ 69,716</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, 2016

	<u>Investment Trust Fund</u>
Deductions	
Investment losses	\$ 4,159
Investment fees	2,591
Distributions to participants	<u>1,839</u>
Total deductions	<u>8,589</u>
Change in net position	(8,589)
Net position, beginning of year	<u>78,305</u>
Net position, end of year	<u><u>\$ 69,716</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

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, 2016

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 ***Highway and Streets 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, 2016

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, 2016

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, 2016 in the Utilities and Ambulance Funds, respectively, were \$90,000 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, 2016

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, 2016, 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>
2015 - 2016	\$ 15,665	\$ 19,586	\$ 35,251
Prior	4,737	5,921	10,658
Net total	<u>\$ 20,402</u>	<u>\$ 25,507</u>	<u>\$ 45,909</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, 2016

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

K. 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,

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

L. Impact of Recently Issued Accounting Principles

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Town implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2016.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Town implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension 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 plans. 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.

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, 2016, the carrying amount of the Town's total nonpooled cash in bank was \$1,172,096, and the bank balance was \$1,185,413. Of the bank balance, \$734,402 was covered by insurance. The remainder was covered by collateral held by the pledging financial institution in the Town's name.

Investments—The Town reported investments in the State Treasurer's Investment Pool 5 with a reported amount of \$2,749. 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.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2016 consisted of \$21,998 in state-shared revenue from sales taxes, \$6,864 in state-shared revenue from auto lieu taxes, \$48,754 in local sales taxes collected by the State of Arizona, and \$25,841 in federal and state grants.

Amounts due from other governments in the Highway and Streets Fund at June 30, 2016 consisted of \$18,623 in state-shared revenue from highway user revenue fund (HURF) taxes.

Amounts due from other governments in the Utilities Fund at June 30, 2016 consisted of \$24,353 in federal and state grants.

NOTE 4 – HIGHWAY AND STREETS FUND BALANCE

The fund balance for the Highway and Streets Fund consists of the following:

State of Arizona Highway User Revenue Fund	\$ 2,813,379
Pinal County Transportation Excise Tax Fund	311,938
Local Transportation Assistance Fund	77,054
	<u>\$ 3,202,371</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 152,776	\$ -	\$ -	\$ 152,776
Capital assets being depreciated:				
Buildings	3,118,623	-	-	3,118,623
Equipment	2,246,799	131,368	-	2,378,167
Infrastructure	3,957,004	13,658	-	3,970,662
Total	<u>9,322,426</u>	<u>145,026</u>	<u>-</u>	<u>9,467,452</u>
Less accumulated depreciation for:				
Buildings	1,202,463	121,176	-	1,323,639
Equipment	1,830,397	84,043	-	1,914,440
Infrastructure	2,784,979	110,677	-	2,895,656
Total	<u>5,817,839</u>	<u>315,896</u>	<u>-</u>	<u>6,133,735</u>
Total capital assets being depreciated, net	<u>3,504,587</u>	<u>(170,870)</u>	<u>-</u>	<u>3,333,717</u>
Governmental activities capital assets, net	<u>\$ 3,657,363</u>	<u>\$ (170,870)</u>	<u>\$ -</u>	<u>\$ 3,486,493</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 47,253	\$ -	\$ 47,253
Capital assets being depreciated:				
Buildings	272,111	-	-	272,111
Utility systems	4,362,046	47,881	-	4,409,927
Equipment	245,612	-	-	245,612
Total	<u>4,879,769</u>	<u>47,881</u>	<u>-</u>	<u>4,927,650</u>
Less accumulated depreciation for:				
Buildings	40,818	6,803	-	47,621
Utility systems	3,999,390	20,437	-	4,019,827
Equipment	175,553	9,086	-	184,639
Total	<u>4,215,761</u>	<u>36,326</u>	<u>-</u>	<u>4,252,087</u>
Total capital assets being depreciated, net	<u>664,008</u>	<u>11,555</u>	<u>-</u>	<u>675,563</u>
Business-type activities capital assets, net	<u>\$ 664,008</u>	<u>\$ 58,808</u>	<u>\$ -</u>	<u>\$ 722,816</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Highways and streets	\$ 114,424
Public safety	81,190
Culture and recreation	79,854
General government	34,005
Welfare	<u>6,423</u>
Total governmental activities depreciation expense	<u>\$ 315,896</u>
Business-type activities:	
Utilities	\$ 24,200
Ambulance	<u>12,126</u>
Total business-type activities depreciation expense	<u>\$ 36,326</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
Governmental activities:					
Revenue bonds payable	\$ 445,000	\$ -	\$ 105,000	\$ 340,000	\$ 115,000
Notes payable	64,827	-	1,555	63,272	1,369
Net pension liability	759,553	280,310	-	1,039,863	-
Compensated absences	26,734	20,284	-	47,018	35,264
	<u>\$ 1,296,114</u>	<u>\$ 300,594</u>	<u>\$ 106,555</u>	<u>\$ 1,490,153</u>	<u>\$ 151,633</u>
Business-type activities:					
Net pension liability	\$ 56,556	\$ 7,933	\$ -	\$ 64,489	\$ -
Compensated absences	22,522	5,217	-	27,739	20,804
	<u>\$ 79,078</u>	<u>\$ 13,150</u>	<u>\$ -</u>	<u>\$ 92,228</u>	<u>\$ 20,804</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, 2016, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds payable	<u>\$ 1,200,000</u>	2005-2018	6.40-10.00%	<u>\$ 340,000</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 6 – 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>
Building note payable	<u>\$ 69,273</u>	2042	4.00%	<u>\$ 63,272</u>

The following schedule details debt service requirements to maturity for the Town’s bonds and notes payable at June 30, 2016.

Year Ending June 30	<u>Business-type Activities</u>			
	Notes Payable		Revenue bonds payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,369	\$ 2,509	\$ 115,000	\$ 14,850
2018	1,552	2,448	225,000	-
2019	1,615	2,385	-	-
2020	1,681	2,319	-	-
2021	1,750	2,250	-	-
2022-26	9,877	10,123	-	-
2027-31	12,059	7,941	-	-
2032-36	14,725	5,275	-	-
2037-41	17,980	2,020	-	-
2042	<u>664</u>	<u>3</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 63,272</u>	<u>\$ 37,273</u>	<u>\$ 340,000</u>	<u>\$ 14,850</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 7 – 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.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2016, were as follows:

Payable from	Payable to		Total
	HURF/LTAF Fund	Grants Fund	
General Fund	\$ 1,128,482	\$ 163,788	\$ 1,292,270
Ambulance Fund	1,125,194	-	1,125,194
	\$ 2,253,676	\$ 163,788	\$ 2,417,464

The interfund receivables and payables above were necessary in order to fund the ongoing activities of the General 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 service expenditures of the current period of the SMPC (see Note 1). The interfund transfer from the Highway and Streets Fund to the General Fund was to reimburse the General Fund for administrative costs associated with the Highway and Streets Fund. The interfund transfer from the Utilities Fund to the General Fund was redistribute prior year property tax revenue from the Utilities Fund to the General Fund.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Town contributes to the pension plans described below. The plans are component units of the State of Arizona.

At June 30, 2016, the Town reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net pension assets	\$ -	\$ 34,179	\$ 34,179
Net pension liabilities	1,039,863	64,489	1,104,352
Deferred outflows of resources	490,822	75,510	566,332
Deferred inflows of resources	198,632	20,345	218,977
Pension expense	44,312	18,430	62,742

The Town reported \$109,690 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description – Town employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS 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. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. 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 Web site at www.azasrs.gov.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

*With actuarially reduced benefits.

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 retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. The Town’s contributions to the pension plan for the year ended June 30, 2016,

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

were \$44,949. The Town’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-term Disability Fund
Year ended June 30,		
2016	\$ 2,071	\$ 497
2015	2,305	469
2014	2,118	847

During fiscal year 2016, the Town paid for ASRS pension and OPEB contributions as follows: 86.06 percent from the General Fund, 4.18 percent from the Highway and Streets Fund, 6.86 percent from the Utilities Fund, and 2.90 percent from the Ambulance Fund.

Pension Liability – At June 30, 2016, the Town reported a liability of \$660,744 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Town’s proportion of the net pension liability was based on the Town’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2015. The Town’s proportion measured as of June 30, 2015, was .004240 percent, which was an increase of .000324 from its proportion measured as of June 30, 2014.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the Town recognized pension expense for ASRS of \$130,643. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 18,030	\$ 34,624
Net difference between projected and actual earnings on pension plan investments	-	21,175
Changes in proportion and differences between Town contributions and proportionate share of contributions	47,651	-
Town contributions subsequent to the measurement date	<u>44,949</u>	<u>-</u>
Total	<u>\$ 110,630</u>	<u>\$ 55,799</u>

The \$44,949 reported as deferred outflows of resources related to ASRS pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,		
2017	\$	10,928
2018		(4,412)
2019		(11,920)
2020		15,286
2021		-
Thereafter		-

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS

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

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 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 pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	1 % Decrease (7 %)	Current Discount Rate (8 %)	1 % Increase (9 %)
Town's proportionate share of the net pension liability	\$ 865,800	\$ 660,744	\$ 520,213

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System

Plan Descriptions – Town police employees participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues publicly available financial report that includes financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS

	<u>Initial membership date:</u>	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% of retired member's pension benefit	
Active Members	80% if accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2016, the following employees were covered by the agent pension plans’ benefit terms:

	<u>PSPRS Police</u>	<u>PSPRS Fire</u>
Inactive employees or beneficiaries currently receiving benefits	3	1
Inactive employees entitled to but not yet receiving benefits	5	1
Active employees	8	5
Total	<u>16</u>	<u>7</u>

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. 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. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<u>PSPRS Police</u>	<u>PSPRS Fire</u>
Active Members - Pension	11.65%	11.65%
Town Pension	18.44%	10.81%
Health insurance premium benefit	0.00%	0.40%

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

For the agent plans, the Town’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

	PSPRS Police		PSPRS Fire	
Contributions Made	\$ 71,062		\$ 13,247	
Health Insurance Premium Benefit				
Annual OPEB cost	-		896	
Contributions made	-		896	

During fiscal year 2015, the Town paid for 100 percent of PSPRS-Police pension and OPEB contributions from the General Fund. For PSPRS-Fire, the Town paid 100 percent of the pension and OPEB contributions from the Ambulance Fund.

Net Pension Liability (Asset) – At June 30, 2016, the Town reported the following net pension liability:

		Net Pension Liability (Asset)
PSPRS Police	\$	443,608
PSPRS Fire		(34,179)

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the Town’s net pension liability as a result of the statutory adjustments is not known.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

PSPRS

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed Income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – The discount rate used to measure the PSPRS total pension liability was 7.85 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension Liability (Asset)

PSPRS Police	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 1,157,803	\$ 921,163	\$ 236,640
Changes for the year			
Service Cost	68,017	-	68,017
Interest on the total pension liability	90,186	-	90,186
Differences between expected and actual experience in the measurement of the pension liability	282,746	-	282,746
Contributions-employer	-	67,338	(67,338)
Contributions-employee	-	40,615	(40,615)
Net investment income	-	36,594	(36,594)
Benefit payments, including refunds of employee	(85,900)	(85,900)	-
Administrative expense	-	(1,263)	1,263
Other changes	-	90,697	(90,697)
Net changes	355,049	148,081	206,968
Balances at June 30, 2016	\$ 1,512,852	\$ 1,069,244	\$ 443,608

PSPRS Fire	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 422,243	\$ 493,985	\$ (71,742)
Changes for the year			
Service Cost	38,649	-	38,649
Interest on the total pension liability	33,972	-	33,972
Differences between expected and actual experience in the measurement of the pension liability	30,392	-	30,392
Contributions-employer	-	23,591	(23,591)
Contributions-employee	-	24,522	(24,522)
Net investment income	-	18,586	(18,586)
Benefit payments, including refunds of employee	(17,597)	(17,597)	-
Administrative expense	-	(833)	833
Other changes	-	(416)	416
Net changes	85,416	47,853	37,563
Balances at June 30, 2016	\$ 507,659	\$ 541,838	\$ (34,179)

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the Town’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Town’s net pension liabilities (assets) calculated using the discount rate of 7.85 percent, as well as what the Town’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	<u>1% Decrease (6.85%)</u>	<u>Current Discount Rate (7.85%)</u>	<u>1% Increase (8.85%)</u>
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 586,015	\$ 443,608	\$ 322,388
PSPRS Fire			
Rate	6.85%	7.85%	8.85%
Net pension liability (asset)	\$ 38,732	\$ (34,179)	\$ (94,818)

Pension Plan Fiduciary Net Position – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2016, the Town recognized the following pension expense:

	<u>Pension Expense (Income)</u>
PSPRS Police	\$ (10,338)
PSPRS Fire	12,519

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Deferred Outflows/Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS Police

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 219,729	\$ 120,287
Changes of assumptions or other inputs	70,794	-
Net difference between projected and actual earnings on pension plan investments	32,074	27,992
Town contributions subsequent to the measurement date	68,392	-
Total	<u>\$ 390,989</u>	<u>\$ 148,279</u>

PSPRS Fire

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 27,492	\$ 719
Changes of assumptions or other inputs	6,901	-
Net difference between projected and actual earnings on pension plan investments	17,073	14,180
Town contributions subsequent to the measurement date	13,247	-
Total	<u>\$ 64,713</u>	<u>\$ 14,899</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PSPRS

Year ended June 30,	<u>PSPRS Police</u>	<u>PSPRS Fire</u>
2017	\$ 38,195	\$ 3,098
2018	38,195	3,098
2019	59,233	3,099
2020	38,695	7,826
2021	-	3,557
Thereafter	-	15,889

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status 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 progress for the health insurance premium benefit presented as required supplementary information 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.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Projections of benefits are based on (1) the plans as understood by the Town and plans’ 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 plans’ 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 actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Agent Plan OPEB Trend Information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2016	\$ -	100%	\$ -
2015	3,772	100%	-
2014	3,786	100%	-
PSPRS Fire			
2016	\$ 896	100%	\$ -
2015	3,163	100%	-
2014	3,161	100%	-

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2016

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

	<u>PSPRS Police</u>	<u>PSPRS Fire</u>
Actuarial value of assets (a)	\$ 93,483	\$ 31,501
Actuarial accrued liability (b)	\$ 33,818	\$ 22,199
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ (59,665)	\$ (9,302)
Funded ratio (a)/(b)	276.43%	141.90%
Annual covered payroll (c)	\$ 370,891	\$ 122,547
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	0.00%	0.00%

The actuarial methods and assumptions for the most recent valuation date are as follows:

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4% -8%
Wage growth	4%

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 810,694	\$ 810,694	\$ 831,513	\$ 20,819
Taxes	1,098,752	1,098,752	1,076,070	(22,682)
Charges for services	69,677	69,677	37,389	(32,288)
Rental income	30,000	30,000	27,982	(2,018)
Fines and forfeitures	15,000	15,000	22,413	7,413
Other revenue	15,000	15,000	16,861	1,861
Licenses and permits	10,000	10,000	10,647	647
Investment income	100	100	1,158	1,058
Total revenue	<u>2,049,223</u>	<u>2,049,223</u>	<u>2,024,033</u>	<u>(25,190)</u>
Expenditures				
Current				
General government	573,873	573,873	572,645	1,228
Public safety	979,094	979,094	848,317	130,777
Public works	164,750	164,750	145,678	19,072
Welfare	116,539	116,539	92,880	23,659
Culture and recreation	101,375	101,375	87,843	13,532
Debt service				
Principal	1,555	1,555	1,555	-
Interest	2,445	2,445	2,778	(333)
Capital outlay	24,049	24,049	24,049	-
Total expenditures	<u>1,963,680</u>	<u>1,963,680</u>	<u>1,775,745</u>	<u>187,935</u>
Excess (deficiency) of revenue over (under) expenditures	<u>85,543</u>	<u>85,543</u>	<u>248,288</u>	<u>162,745</u>
Other financing sources (uses)				
Transfers	<u>(472,491)</u>	<u>(472,491)</u>	<u>1,951,164</u>	<u>2,423,655</u>
Net change in fund balance	(386,948)	(386,948)	2,199,452	2,586,400
Fund balances, beginning of year	<u>(3,483,818)</u>	<u>(3,483,818)</u>	<u>(3,483,818)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (3,870,766)</u>	<u>\$ (3,870,766)</u>	<u>\$ (1,284,366)</u>	<u>\$ 2,586,400</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 310,547	\$ 310,547	\$ 212,169	\$ (98,378)
Expenditures				
Current				
Public works	601,496	601,496	198,815	402,681
Capital outlay	87,820	87,820	87,820	-
Total expenditures	<u>689,316</u>	<u>689,316</u>	<u>286,635</u>	<u>402,681</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(378,769)</u>	<u>(378,769)</u>	<u>(74,466)</u>	<u>304,303</u>
Other financing sources (uses)				
Transfers	<u>299,367</u>	<u>299,367</u>	<u>(115,573)</u>	<u>(414,940)</u>
Net change in fund balance	(79,402)	(79,402)	(190,039)	(110,637)
Fund balances, beginning of year	<u>3,392,410</u>	<u>3,392,410</u>	<u>3,392,410</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 3,313,008</u></u>	<u><u>\$ 3,313,008</u></u>	<u><u>\$ 3,202,371</u></u>	<u><u>\$ (110,637)</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 3,000,000	\$ 3,000,000	\$ 182,245	\$ (2,817,755)
Expenditures				
Current				
General government	2,875,000	2,875,000	2,227	2,872,773
Public safety	59,362	59,362	59,362	-
Culture and recreation	51,981	51,981	51,981	-
Capital outlay	13,657	13,657	13,657	-
Total expenditures	<u>3,000,000</u>	<u>3,000,000</u>	<u>127,227</u>	<u>2,872,773</u>
Net change in fund balance	-	-	55,018	55,018
Fund balances, beginning of year	<u>92,178</u>	<u>92,178</u>	<u>92,178</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 92,178</u></u>	<u><u>\$ 92,178</u></u>	<u><u>\$ 147,196</u></u>	<u><u>\$ 55,018</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2016

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.

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 the Town's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Town's proportion of the net pension liability	0.004240%	0.003916%	Information not available
Town's proportionate share of the net pension liability	\$ 660,744	\$ 579,469	Information not available
Town's covered-employee payroll	\$ 390,707	\$ 353,019	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

See accompanying notes to pension plan schedules.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2016

PSPRS Police

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 68,017	\$ 41,275	
Interest on the total pension liability	90,186	89,927	
Changes of benefit terms	-	27,961	
Differences between expected and actual experience in the measurement of the pension liability	282,746	(234,565)	
Changes of assumptions or other inputs	-	138,052	
Benefit payments, including refunds of employee contributions	<u>(85,900)</u>	<u>(59,563)</u>	
Net change in total pension liability	355,049	3,087	
Total pension liability - beginning	<u>1,157,803</u>	<u>1,154,716</u>	
Total pension liability - ending (a)	<u><u>\$ 1,512,852</u></u>	<u><u>\$ 1,157,803</u></u>	
Plan fiduciary net position			
Contributions - employer	\$ 67,338	\$ 45,890	
Contributions - employee	40,615	25,911	
Net investment income	36,594	113,188	
Benefit payments, including refunds of employee contributions	(85,900)	(59,563)	
Administrative expense	(1,263)	-	
Other changes	<u>90,697</u>	<u>(91,421)</u>	
Net change in plan fiduciary net position	148,081	34,005	
Plan fiduciary net position - beginning	<u>921,163</u>	<u>887,158</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 1,069,244</u></u>	<u><u>\$ 921,163</u></u>	
Town's net pension liability (asset) - ending (a) - (b)	<u><u>\$ 443,608</u></u>	<u><u>\$ 236,640</u></u>	
Plan fiduciary net position as a percentage of the total pension liability	70.68%	79.56%	
Covered-employee payroll	\$ 373,585	\$ 323,968	
Town's net pension liability (asset) as a percentage of covered-employee payroll	118.74%	73.04%	

See accompanying notes to pension plan schedules.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Changes in the Town's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2016

PSPRS Fire

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 38,649	\$ 38,842	
Interest on the total pension liability	33,972	29,163	
Changes of benefit terms	-	(942)	
Differences between expected and actual experience in the measurement of the pension liability	30,392	(873)	
Changes of assumptions or other inputs	-	8,369	
Benefit payments, including refunds of employee contributions	(17,597)	(8,799)	
Net change in total pension liability	85,416	65,760	
Total pension liability - beginning	422,243	356,483	
Total pension liability - ending (a)	<u>\$ 507,659</u>	<u>\$ 422,243</u>	
Plan fiduciary net position			
Contributions - employer	\$ 23,591	\$ 24,120	
Contributions - employee	24,522	21,221	
Net investment income	18,586	57,337	
Benefit payments, including refunds of employee contributions	(17,597)	(8,799)	
Administrative expense	(833)	-	
Other changes	(416)	(21,932)	
Net change in plan fiduciary net position	47,853	71,947	
Plan fiduciary net position - beginning	493,985	422,038	
Plan fiduciary net position - ending (b)	<u>\$ 541,838</u>	<u>\$ 493,985</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ (34,179)</u>	<u>\$ (71,742)</u>	
Plan fiduciary net position as a percentage of the total pension liability	106.73%	116.99%	
Covered-employee payroll	\$ 223,513	\$ 207,206	
Town's net pension liability (asset) as a percentage of covered-employee payroll	-15.29%	-34.62%	

See accompanying notes to pension plan schedules.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2016

Arizona State Retirement System

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 44,949	\$ 42,548	\$ 37,773	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(44,949)</u>	<u>(42,548)</u>	<u>(37,773)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 414,276	\$ 390,707	\$ 353,019	
Town's contributions as a percentage of covered- employee payroll	10.85%	10.89%	10.70%	

PSPRS - Police

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 68,392	\$ 67,338	\$ 45,890	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(68,392)</u>	<u>(67,338)</u>	<u>(45,890)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 370,891	\$ 373,585	\$ 323,968	
Town's contributions as a percentage of covered- employee payroll	18.44%	18.02%	14.16%	

PSPRS - Fire

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 13,247	\$ 23,591	\$ 24,120	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(13,247)</u>	<u>(23,591)</u>	<u>(24,120)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 122,547	\$ 223,513	\$ 207,207	
Town's contributions as a percentage of covered- employee payroll	10.81%	10.55%	11.64%	

See accompanying notes to pension plan schedules.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2016

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%.
Wage growth	In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2016

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)
6/30/2016	\$ 93,483	\$ 33,818	\$ 59,665	276.4 %	\$ 370,891	0.0 %
6/30/2015	87,631	21,217	66,414	413.0	373,585	0.0
6/30/2014	77,938	16,885	61,053	461.6	323,968	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)
6/30/2016	\$ 31,501	\$ 22,199	\$ 9,302	141.9 %	\$ 122,547	0.0 %
6/30/2015	29,911	25,924	3,987	115.4	223,513	0.0
6/30/2014	26,738	23,820	2,918	112.3	207,207	0.0

See accompanying notes to schedule of agent OPEB plans' funding progress.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2016

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.

See accompanying notes to schedule of agent OPEB plans' funding progress.

**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, 2016, 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 March 28, 2017.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies.

2011-004 – Timeliness of Reports

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:

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.



HintonBurdick, PLLC
Flagstaff, Arizona
March 28, 2017

TOWN OF SUPERIOR, ARIZONA
Schedule of Findings and Responses
June 30, 2016

Item: 2011-004 (reissued/reworded)

Timeliness of Reports

- *Statement of Condition:* The Town's fiscal year 2105 audited financial statements, Annual Expenditure Limitation Report, and the annual Bonded Indebtedness Report were not filed with the State of Arizona in a timely manner.
- *Criteria:* Arizona Revised Statutes require filing of these reports within a specified time limit.
- *Effect of Condition:* The Town has been out of compliance with state filing requirements.
- *Cause of Condition:* Management decisions in previous years and personnel changes have caused the Town to fall behind in its, audits, and filing of required reports with the state.
- *Recommendation:* We recognize the Town has been working to catch up on filings. We recommend the Town continue its efforts to become current by completing the financial reporting requirements for fiscal year 2016 as soon as possible.
- *Response:* The Town has completed their 2016 audit financial statements, Annual Expenditure Limitation Report and the annual Bonded Indebtedness Report which will all be submitted to the State of Arizona on time.

Item: 2012-001 (reissued)

Highway User Revenue Funds

- *Statement of Condition:* There is a large interfund receivable balance in the Highway User Revenue Fund (HURF).
- *Criteria:* Arizona Revised Statutes restricts HURF funds for the construction and maintenance of roads and disallows the borrowing of these monies by other Funds and departments.
- *Effect of Condition:* Other Funds and departments of the Town have borrowed monies from the HURF to meet their operating needs. This may result in the State withholding future Highway Revenue Funds from the Town.
- *Cause of Condition:* Funds and departments incurred expenses in excess of their available resources.
- *Recommendation:* The Town should make every effort to have the Funds and departments that have borrowed monies from the Highway User Revenue Fund repay those amounts as soon as possible.
- *Response:* The Town agrees with this issue. The Town Council has adopted a repayment plan to pay these funds back.



**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, 2016, and have issued our report thereon dated March 28, 2017. 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 \$2,646,211 in fiscal year 2015 to \$2,253,676 in fiscal year 2016. 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, 2016.

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
March 28, 2017