

TOWN OF SUPERIOR, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2017**

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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, 2017, 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, 2017, 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 January 8, 2018, 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 Arizona, PLLC
Flagstaff, Arizona
January 8, 2018

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,034,952	\$ -	\$ 1,034,952
Cash with trustee	340,801	-	340,801
Accounts receivable - net	-	66,730	66,730
Taxes receivable	75,103	-	75,103
Due from other governments	209,140	-	209,140
Interactivity balances	930,919	(930,919)	-
Net pension asset	-	53,823	53,823
Capital assets, not being depreciated	152,776	-	152,776
Capital assets, being depreciated, net	3,176,383	947,998	4,124,381
Total assets	5,920,074	137,632	6,057,706
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	560,810	122,651	683,461
LIABILITIES			
Accounts payable	89,390	18,826	108,216
Accrued expenses	19,712	10,175	29,887
Accrued interest	7,425	-	7,425
PSPRS-Parker lawsuit liability	57,241	-	57,241
Asbestos remediation liability	250,000	-	250,000
Noncurrent liabilities			
Due within one year	273,062	20,695	293,757
Due in more than one year	1,422,533	76,530	1,499,063
Total liabilities	2,119,363	126,226	2,245,589
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	184,328	77,378	261,706
NET POSITION			
Net investment in capital assets	2,992,288	947,998	3,940,286
Restricted for:			
Highways and streets	2,986,917	-	2,986,917
Debt service	70,561	-	70,561
Public safety	216,589	-	216,589
Airport	232,425	-	232,425
Unrestricted (deficit)	(2,321,587)	(891,319)	(3,212,906)
Total net position	\$ 4,177,193	\$ 56,679	\$ 4,233,872

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Activities
Year Ended June 30, 2017

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		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 730,896	\$ 45,260	\$ 135,595	\$ -	\$ (550,041)	\$ -	\$ (550,041)
Public safety	1,290,285	488,758	1,123	7,605	(792,799)	-	(792,799)
Highways and streets	885,281	1,540	221,844	-	(661,897)	-	(661,897)
Welfare	134,023	-	81,201	-	(52,822)	-	(52,822)
Culture and recreation	207,785	7,014	-	800	(199,971)	-	(199,971)
Interest	20,622	-	-	-	(20,622)	-	(20,622)
Total governmental activities	3,268,892	542,572	439,763	8,405	(2,278,152)	-	(2,278,152)
Business-type activities							
Utilities	370,823	233,310	-	292,166	-	154,653	154,653
Ambulance	340,419	342,249	-	-	-	1,830	1,830
Total business-type activities	711,242	575,559	-	292,166	-	156,483	156,483
Total primary government	\$ 3,980,134	\$ 1,118,131	\$ 439,763	\$ 300,571	(2,278,152)	156,483	(2,121,669)
General revenue:							
Taxes:							
Property taxes, levied for general purposes					227,823	284,433	512,256
Local sales taxes					888,293	-	888,293
Franchise tax					120,891	-	120,891
State urban revenue sharing					360,055	-	360,055
Share of state sales taxes					269,811	-	269,811
Share of state auto lieu taxes					158,654	-	158,654
Miscellaneous					14,865	-	14,865
Investment earnings					803	-	803
Loss on disposal of capital assets					(173,592)	-	(173,592)
Total general revenue					1,867,603	284,433	2,152,036
Change in net position					(410,549)	440,916	30,367
Net position, beginning of year					4,587,742	(384,237)	4,203,505
Net position, end of year					\$ 4,177,193	\$ 56,679	\$ 4,233,872

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Highways and Streets Fund	Grants Fund	SMPC Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ 763,533	\$ 271,419	\$ -	\$ 1,034,952
Cash with trustee	-	-	-	340,801	340,801
Taxes receivable	75,103	-	-	-	75,103
Due from other governments	100,709	20,312	88,119	-	209,140
Due from other funds	-	2,210,374	-	-	2,210,374
Total assets	<u>175,812</u>	<u>2,994,219</u>	<u>359,538</u>	<u>340,801</u>	<u>3,870,370</u>
LIABILITIES					
Accounts payable	32,327	6,499	50,564	-	89,390
Accrued expenses	18,909	803	-	-	19,712
Due to other funds	1,279,455	-	-	-	1,279,455
Total liabilities	<u>1,330,691</u>	<u>7,302</u>	<u>50,564</u>	<u>-</u>	<u>1,388,557</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	38,136	-	21,824	-	59,960
FUND BALANCES					
Restricted for:					
Highways and streets	-	2,986,917	-	-	2,986,917
Debt service	-	-	-	232,425	232,425
Public safety	-	-	216,589	-	216,589
Airport	-	-	70,561	-	70,561
Unassigned	(1,193,015)	-	-	108,376	(1,084,639)
Total fund balances	<u>(1,193,015)</u>	<u>2,986,917</u>	<u>287,150</u>	<u>340,801</u>	<u>2,421,853</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 175,812</u>	<u>\$ 2,994,219</u>	<u>\$ 359,538</u>	<u>\$ 340,801</u>	<u>\$ 3,870,370</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, 2017

Fund balances-total governmental funds		\$ 2,421,853
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		3,329,159
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue</p>		59,960
<p>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.</p>		
<p style="padding-left: 20px;">Accrued interest</p>	(7,425)	
<p style="padding-left: 20px;">PSPRS-Parker lawsuit liability</p>	(57,241)	
<p style="padding-left: 20px;">Asbestos remediation liability</p>	(250,000)	
<p style="padding-left: 20px;">Long-term liabilities</p>	<u>(1,695,595)</u>	
		(2,010,261)
<p>Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the</p>		<u>376,482</u>
Net position of governmental activities		<u>\$ 4,177,193</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, 2017

	General Fund	Highways and Streets Fund	Grants Fund	SMPC Fund	Total Governmental Funds
Revenue					
Intergovernmental	\$ 869,721	\$ 221,844	\$ 527,553	\$ -	\$ 1,619,118
Taxes	1,208,957	-	-	-	1,208,957
Other revenue	61,289	-	-	-	61,289
Charges for services	34,594	-	-	-	34,594
Fines and forfeitures	25,636	-	-	-	25,636
Rental income	21,605	-	-	-	21,605
Licenses and permits	10,802	-	-	-	10,802
Investment income	609	-	-	194	803
Total revenue	<u>2,233,213</u>	<u>221,844</u>	<u>527,553</u>	<u>194</u>	<u>2,982,804</u>
Expenditures					
Current					
General government	589,908	-	92,757	3,000	685,665
Public safety	844,513	-	138,863	-	983,376
Public works	214,126	288,605	-	-	502,731
Welfare	127,080	-	-	-	127,080
Culture and recreation	106,140	-	13,374	-	119,514
Debt service					
Principal	4,201	2,919	-	115,000	122,120
Interest	4,170	1,602	-	18,645	24,417
Capital outlay	54,685	154,080	142,605	-	351,370
Total expenditures	<u>1,944,823</u>	<u>447,206</u>	<u>387,599</u>	<u>136,645</u>	<u>2,916,273</u>
Excess (deficiency) of revenue over (under) expenditures	<u>288,390</u>	<u>(225,362)</u>	<u>139,954</u>	<u>(136,451)</u>	<u>66,531</u>
Other financing sources (uses)					
Transfers	(242,850)	-	-	242,850	-
Installment purchase agreement	45,811	9,908	-	-	55,719
Total other financing sources (uses)	<u>(197,039)</u>	<u>9,908</u>	<u>-</u>	<u>242,850</u>	<u>55,719</u>
Net change in fund balances	91,351	(215,454)	139,954	106,399	122,250
Fund balances, beginning 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>
Fund balances, end of year	<u>\$ (1,193,015)</u>	<u>\$ 2,986,917</u>	<u>\$ 287,150</u>	<u>\$ 340,801</u>	<u>\$ 2,421,853</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, 2017

Net change in fund balances-total governmental funds		\$ 122,250
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.		
Capital outlay	351,370	
Depreciation expense	<u>(335,112)</u>	16,258
In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.		
		(173,592)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Unavailable grant revenue	21,824	
Property taxes	<u>27,307</u>	49,131
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	123,316	
Pension expense	<u>(309,439)</u>	(186,123)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the		
Debt principal repaid	122,120	
Capital leases incurred	<u>(55,719)</u>	66,401
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.		
Asbestos remediation liability	(250,000)	
PSPRS-Parker lawsuit liability	(57,241)	
Increase in compensated absences payable	(1,428)	
Decrease in accrued interest	<u>3,795</u>	(304,874)
Change in net position of governmental activities		<u><u>\$ (410,549)</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
ASSETS			
Current assets			
Accounts receivable - net	\$ 11,169	\$ 55,561	\$ 66,730
Due from other funds	217,599	-	217,599
Total current assets	228,768	55,561	284,329
Noncurrent assets			
Net pension asset	-	53,823	53,823
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	676,393	-	676,393
Buildings, net	-	217,687	217,687
Equipment, net	8,760	45,158	53,918
Total noncurrent assets	685,153	316,668	1,001,821
Total assets	913,921	372,229	1,286,150
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	11,934	110,717	122,651
LIABILITIES			
Current liabilities			
Accounts payable	16,072	2,754	18,826
Accrued expenses	885	9,290	10,175
Due to other funds	-	1,148,518	1,148,518
Compensated absences, current portion	2,991	17,704	20,695
Total current liabilities	19,948	1,178,266	1,198,214
Noncurrent liabilities			
Compensated absences, net of current portion	997	5,902	6,899
Net pension liability	48,941	20,690	69,631
Total noncurrent liabilities	49,938	26,592	76,530
Total liabilities	69,886	1,204,858	1,274,744
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	5,956	71,422	77,378
NET POSITION			
Net investment in capital assets	685,153	262,845	947,998
Unrestricted (deficit)	164,860	(1,056,179)	(891,319)
Total net position	\$ 850,013	\$ (793,334)	\$ 56,679

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, 2017

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Operating revenue			
Charges for services			
Sewer (net of bad debts of \$30,000)	\$ 230,490	\$ -	\$ 230,490
Sanitation	2,820	-	2,820
Ambulance (net of bad debts of \$400,710)	-	342,249	342,249
Total operating revenue	<u>233,310</u>	<u>342,249</u>	<u>575,559</u>
Operating expenses			
Personnel	105,175	263,354	368,529
Professional services	120,534	23,276	143,810
Utilities	68,351	5,850	74,201
Materials and supplies	21,521	28,603	50,124
Depreciation	22,766	12,126	34,892
Insurance	12,966	6,483	19,449
Other	10,044	727	10,771
Repairs and maintenance	5,342	-	5,342
Landfill fees	4,124	-	4,124
Total operating expenses	<u>370,823</u>	<u>340,419</u>	<u>711,242</u>
Operating income (loss)	<u>(137,513)</u>	<u>1,830</u>	<u>(135,683)</u>
Nonoperating revenue (expenses)			
Property taxes	284,433	-	284,433
Income (loss) before contributions and transfers	<u>146,920</u>	<u>1,830</u>	<u>148,750</u>
Capital grant contributions	292,166	-	292,166
Increase (decrease) in net position	<u>439,086</u>	<u>1,830</u>	<u>440,916</u>
Total net position, beginning of year	410,927	(795,164)	(384,237)
Total net position, end of year	<u>\$ 850,013</u>	<u>\$ (793,334)</u>	<u>\$ 56,679</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Cash flows from operating activities			
Receipts from customers	\$ 244,904	\$ 311,768	\$ 556,672
Payments to suppliers and providers of goods and services	(240,473)	(72,678)	(313,151)
Payments to employees	(105,964)	(262,414)	(368,378)
Net cash provided (used) by operating activities	<u>(101,533)</u>	<u>(23,324)</u>	<u>(124,857)</u>
Cash flows from noncapital financing activities			
Property taxes received	309,940	-	309,940
Interfund loans	(217,599)	23,324	(194,275)
Net cash provided (used) by noncapital financing activities	<u>92,341</u>	<u>23,324</u>	<u>115,665</u>
Cash flows from capital and related financing activities			
Capital grant contributions	316,519	-	316,519
Purchases of capital assets	(307,327)	-	(307,327)
Net cash provided (used) by capital and related financing activities	<u>9,192</u>	<u>-</u>	<u>9,192</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, 2017

	Business-type Activities--Enterprise Funds		
	Utilities	Ambulance	Total
	Fund	Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (137,513)	\$ 1,830	\$ (135,683)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	22,766	12,126	34,892
Pension expense	4,789	20,392	25,181
Employer pension contributions	(3,392)	(26,399)	(29,791)
Bad debts	30,000	400,710	430,710
(Increase) decrease in:			
Accounts receivable	(18,406)	(431,191)	(449,597)
Increase (decrease) in:			
Accounts payable	1,012	(1,732)	(720)
Accrued expenses	(659)	955	296
Compensated absences payable	(130)	(15)	(145)
Net cash provided (used) by operating activities	<u>\$ (101,533)</u>	<u>\$ (23,324)</u>	<u>\$ (124,857)</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	<u>Pension Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 3,335
Investments	<u>80,944</u>
Total assets	<u>84,279</u>
NET POSITION	
Held in trust for pension trust participants	<u>\$ 84,279</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, 2017

	<u>Pension Trust Fund</u>
Additions	
Investment income	<u>\$ 15,684</u>
Deductions	
Investment fees	<u>1,121</u>
Change in net position	14,563
Net position, beginning of year	<u>69,716</u>
Net position, end of year	<u><u>\$ 84,279</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

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 6). 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 financial 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 information's usefulness.

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 overall government's financial activities, except for fiduciary activities. They also distinguish between the Town's governmental and business-type activities. 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, 2017

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, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the Town levies or imposes, 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 financial 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 financial 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 revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as user charges and insurance premiums, in which each party receives and gives up essentially equal values are operating revenues. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered nonoperating expenses.

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.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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 ***Pension Trust Fund*** accounts for the Town's Volunteer Firefighter's Relief and Pension Fund, a defined contribution plan for which the assets are held by the Town in a trustee capacity.

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.

Under the terms of grant agreements, the Town funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. The Town applies grant resources to such programs before using general revenues.

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 they become both measurable and available. The Town considers

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The Town's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. 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, landfill closure and postclosure care costs, and pollution remediation obligations, 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.

D. Cash and Investments

For the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of three months or less when purchased.

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, 2017 in the Utilities and Ambulance Funds, respectively, were \$120,000 and \$55,000.

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.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property taxes receivable consist of uncollected property taxes as determined from the records of the Town Treasurer’s Office, and at June 30, 2017, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2016 - 2017	\$ 34,845
Prior	11,938
Total	\$ 46,783

G. Capital Assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

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 are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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, 2017

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

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

K. Fund Balance Reporting

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the Town Council has approved, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but that are neither restricted nor committed. The Town Council has authorized the Town manager to assign resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the Town's policy to use (the Town will use) restricted fund balance first. It is the Town's policy to use (the Town will use) committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

L. Impact of Recently Issued Accounting Principles

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. The Town implemented this standard during this fiscal period.

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 December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. 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, 2017, 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 reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the Town Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

3. Fixed income securities must carry one of the two highest ratings by Moody's investor's service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

The Town's investment policy states that the Town will conform with Arizona Revised Statutes. The Town does not have a formal investment policy with respect to custodial credit risk, concentration of credit risk, or foreign currency risk.

Deposits—At June 30, 2017, the carrying amount of the Town's total cash in bank was \$1,032,044, and the bank balances were \$1,167,583. Of the bank balances, \$500,000 was covered by federal depository insurance or similar 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 \$2,908. The Standard and Poor's credit quality rating of the pool is AAA.

The Town's Pension Trust Fund had investments in mutual funds of \$80,944 at June 30, 2017, categorized within the fair value hierarchy established by generally accepted accounting principles as Level 1. Investments categorized as Level 1 are valued using prices quoted in active markets for those investments.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the Town held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

	Governmental activities	Business-type activities	Pension trust funds	Total
Cash and cash equivalents:				
Amount of deposits	\$ 1,032,044	\$ -	\$ -	\$ 1,032,044
Cash with trustee	340,801	-	-	340,801
Money market	-	-	3,335	3,335
State Treasurer's investment pool 5	2,908	-	-	2,908
Total	<u>\$ 1,375,753</u>	<u>\$ -</u>	<u>\$ 3,335</u>	<u>\$ 1,379,088</u>

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2017 consisted of \$23,561 in state-shared revenue from sales taxes, \$6,582 in state-shared revenue from auto lieu taxes, \$55,256 in local sales taxes collected by the State of Arizona, and \$15,310 in revenue for AAA grants.

Amounts due from other governments in the Highway and Streets Fund at June 30, 2017 consisted of \$20,312 in state-shared revenue from highway user revenue fund (HURF) taxes.

Amounts due from other governments in the Grants Fund at June 30, 2017 consisted of \$88,119 in federal and state grants.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

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	\$	2,589,852
Pinal County Transportation Excise Tax Fund		320,011
Local Transportation Assistance Fund		77,054
		\$ 2,986,917

NOTE 5 – CAPITAL ASSETS

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 152,776	\$ -	\$ -	\$ 152,776
Capital assets being depreciated:				
Buildings	3,118,623	11,372	-	3,129,995
Equipment	2,378,167	226,089	1,110,996	1,493,260
Infrastructure	3,970,662	113,909	231,456	3,853,115
Total	9,467,452	351,370	1,342,452	8,476,370
Less accumulated depreciation for:				
Buildings	1,323,639	128,753	-	1,452,392
Equipment	1,914,440	95,455	1,110,996	898,899
Infrastructure	2,895,656	110,904	57,864	2,948,696
Total	6,133,735	335,112	1,168,860	5,299,987
Total capital assets being depreciated, net	3,333,717	16,258	173,592	3,176,383
Governmental activities capital assets, net	\$ 3,486,493	\$ 16,258	\$ 173,592	\$ 3,329,159

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 5 – CAPITAL ASSETS – Continued

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 47,253	\$ 252,871	\$ 300,124	\$ -
Capital assets being depreciated:				
Buildings	272,111	-	-	272,111
Utility systems	4,409,927	307,327	-	4,717,254
Equipment	245,612	-	-	245,612
Total	<u>4,927,650</u>	<u>307,327</u>	<u>-</u>	<u>5,234,977</u>
Less accumulated depreciation for:				
Buildings	47,621	6,803	-	54,424
Utility systems	4,019,827	21,035	-	4,040,862
Equipment	184,639	7,054	-	191,693
Total	<u>4,252,087</u>	<u>34,892</u>	<u>-</u>	<u>4,286,979</u>
Total capital assets being depreciated, net	<u>675,563</u>	<u>272,435</u>	<u>-</u>	<u>947,998</u>
Business-type activities capital assets, net	<u>\$ 722,816</u>	<u>\$ 525,306</u>	<u>\$ 300,124</u>	<u>\$ 947,998</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Highways and streets	\$ 126,543
Public safety	80,607
Culture and recreation	87,578
General government	34,905
Welfare	5,479
Total governmental activities depreciation expense	<u>\$ 335,112</u>
Business-type activities:	
Utilities	\$ 22,766
Ambulance	12,126
Total business-type activities depreciation expense	<u>\$ 34,892</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 6 – LONG-TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2017.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within one year
Governmental activities:					
Revenue bonds payable	\$ 340,000	\$ -	\$ 115,000	\$ 225,000	\$ 225,000
Notes payable	63,272	-	1,370	61,902	1,552
Capital leases payable	-	55,719	5,750	49,969	10,175
Net pension liability	1,039,863	270,415	-	1,310,278	-
Compensated absences	47,018	1,428	-	48,446	36,335
	<u>\$ 1,490,153</u>	<u>\$ 327,562</u>	<u>\$ 122,120</u>	<u>\$ 1,695,595</u>	<u>\$ 273,062</u>
Business-type activities:					
Net pension liability	\$ 64,489	\$ 5,142	\$ -	\$ 69,631	\$ -
Compensated absences	27,739	-	145	27,594	20,695
	<u>\$ 92,228</u>	<u>\$ 5,142</u>	<u>\$ 145</u>	<u>\$ 97,225</u>	<u>\$ 20,695</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 excise taxes. Bonds outstanding at June 30, 2017, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Revenue bonds payable	<u>\$ 1,200,000</u>	2005-2018	6.40-10.00%	<u>\$ 225,000</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

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>\$ 61,902</u>

The following schedule details debt service requirements to maturity for the Town’s bonds and notes payable at June 30, 2017.

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>
2018	\$ 1,552	\$ 2,448	\$ 225,000	\$ -
2019	1,615	2,385	-	-
2020	1,681	2,319	-	-
2021	1,750	2,250	-	-
2022	1,821	2,179	-	-
2023-27	10,279	9,721	-	-
2028-32	12,551	7,449	-	-
2033-37	15,325	4,675	-	-
2038-42	15,328	1,338	-	-
Total	<u>\$ 61,902</u>	<u>\$ 34,764</u>	<u>\$ 225,000</u>	<u>\$ -</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 6 – LONG-TERM LIABILITIES – Continued

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Skid Steer	\$ 39,632
Copiers	16,087
Less: accumulated depreciation	(3,983)
Carrying value	\$ 51,736

The following schedule details debt service requirements to maturity for the Town’s capital leases payable at June 30, 2017:

Year Ending June 30	Governmental Activities
2018	\$ 15,814
2019	14,598
2020	14,598
2021	14,598
2022	4,157
Total minimum lease payments	63,765
Less amount representing interest	(13,796)
Present value of net minimum lease payments	\$ 49,969

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

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, 2017, were as follows:

Payable from	Payable to		Total
	HURF/LTAF Fund	Utilities Fund	
General Fund	\$ 1,279,455	\$ -	\$ 1,279,455
Ambulance Fund	930,919	217,599	1,148,518
	\$ 2,210,374	\$ 217,599	\$ 2,427,973

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).

NOTE 9 – CONTINGENT LIABILITIES

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—Hall for EORP and Parker for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in Hall that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the Parker case was stayed (put on hold) pending the final outcome of Hall. Nevertheless, the facts and circumstances are essentially the same where both parties to Parker agreed, at the time of stay, to appropriately apply the remedies of Hall when finalized.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – CONTINGENT LIABILITIES – Continued

PSPRS members who became members of the system prior to July 20, 2011 and who paid employee contributions that exceeded 7.65% are eligible to receive a refund of those excess contributions unless they terminated and already received a refund. PSPRS has prepared a list of affected members for each employer, along with the amount of excess contributions that must be returned to them. The Town has estimated that the total amount of refunds due to employees (including applicable interest) will be \$57,241.

In a prior period, the Town had accepted refuse at its transfer station contaminated with asbestos. As of June 30, 2017, the estimated disposal cost of the asbestos remaining at the Town’s transfer station is estimated to be approximately \$250,000.

NOTE 10 – 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, 2017, 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	\$ -	\$ 53,823	\$ 53,823
Net pension liabilities	1,310,278	69,631	1,379,909
Deferred outflows of resources	560,810	122,651	683,461
Deferred inflows of resources	184,328	77,378	261,706
Pension expense	309,439	34,998	344,437

The Town reported \$123,316 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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes 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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and statute required the Town to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

premium benefit, and 0.14 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, 2017, were \$49,427. The Town’s OPEB contributions for the current and two preceding years, 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,		
2017	\$ 2,568	\$ 642
2016	2,071	497
2015	2,305	469

During fiscal year 2017, 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, 2017, the Town reported a liability of \$713,432 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

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, 2016. The Town’s proportion measured as of June 30, 2016, was .004420 percent, which was an increase of .000180 from its proportion measured as of June 30, 2015.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the Town recognized pension expense for ASRS of \$69,809. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,335	\$ 49,079
Changes of assumptions or other inputs	-	37,746
Net difference between projected and actual earnings on pension plan investments	77,312	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	42,888	-
Town contributions subsequent to the measurement date	49,427	-
Total	\$ 173,962	\$ 86,825

The \$49,427 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	
2018	\$ (5,075)
2019	(12,229)
2020	33,336
2021	21,678
2022	-
Thereafter	-

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – 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, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.84%
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 8.75 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, 2017

NOTE 10 – 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	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Town's proportionate share of the net pension liability	\$ 909,680	\$ 713,432	\$ 556,084

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 and fire 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, 2017

NOTE 10 – 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% to 100% of retired member's pension benefit	
Active Members	80% to 100% of 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, 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, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2017, 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	4	2
Active employees	8	3
Total	<u>15</u>	<u>6</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, 2017, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<u>PSPRS Police</u>	<u>PSPRS Fire</u>
Active Members - Pension	7.65%	7.65%
Town Pension	21.03%	11.55%
Health insurance premium benefit	0.00%	0.39%

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – 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, 2017, were:

	PSPRS Police		PSPRS Fire	
Contributions Made	\$ 78,973		\$ 24,966	
Health Insurance Premium Benefit				
Annual OPEB cost	-		843	
Contributions made	-		843	

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, 2017, the Town reported the following net pension liability (asset):

	Net Pension Liability (Asset)
PSPRS Police	\$ 666,477
PSPRS Fire	(53,823)

The net pension liability (asset) was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments changed the basis for 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.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS plans.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Town’s net pension liabilities as a result of these changes is not known.

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

PSPRS

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Discount rate	7.50%
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, 2016, 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 7.50 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 arithmetic 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, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the discount rate 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, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
PSPRS Police			
Balances at June 30, 2015	\$ 1,512,852	\$ 1,069,244	\$ 443,608
Changes for the year			
Service Cost	77,368	-	77,368
Interest on the total pension liability	118,424	-	118,424
Changes of benefit terms	19,855	-	19,855
Differences between expected and actual experience in the measurement of the pension liability	(30,574)	-	(30,574)
Changes of assumptions or other inputs	59,107	-	59,107
Contributions-employer	-	68,133	(68,133)
Contributions-employee	-	42,490	(42,490)
Net investment income	-	5,919	(5,919)
Benefit payments, including refunds of employee	(85,900)	(85,900)	-
Administrative expense	-	(1,252)	1,252
Other changes	-	(93,979)	93,979
Net changes	158,280	(64,589)	222,869
Balances at June 30, 2016	\$ 1,671,132	\$ 1,004,655	\$ 666,477
PSPRS Fire			
Balances at June 30, 2015	\$ 507,659	\$ 541,838	\$ (34,179)
Changes for the year			
Service Cost	22,708	-	22,708
Interest on the total pension liability	40,052	-	40,052
Changes of benefit terms	24,226	-	24,226
Differences between expected and actual experience in the measurement of the pension liability	(76,116)	-	(76,116)
Changes of assumptions or other inputs	15,980	-	15,980
Contributions-employer	-	23,064	(23,064)
Contributions-employee	-	24,054	(24,054)
Net investment income	-	3,212	(3,212)
Benefit payments, including refunds of employee	(17,597)	(17,597)	-
Administrative expense	-	(862)	862
Other changes	-	(2,974)	2,974
Net changes	9,253	28,897	(19,644)
Balances at June 30, 2016	\$ 516,912	\$ 570,735	\$ (53,823)

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – 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 7.50 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 (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>
PSPRS Police					
Rate	6.50%		7.50%		8.50%
Net pension liability	\$ 873,953	\$	666,477	\$	495,039
PSPRS Fire					
Rate	6.50%		7.50%		8.50%
Net pension liability (asset)	\$ 4,454	\$	(53,823)	\$	(102,125)

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, 2017, the Town recognized the following pension expense:

	<u>Pension Expense</u>
	<u>(Income)</u>
PSPRS Police	\$ 246,443
PSPRS Fire	28,185

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Deferred Outflows/Inflows of Resources – At June 30, 2017, 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	\$ 156,712	\$ 87,316
Changes of assumptions or other inputs	83,888	-
Net difference between projected and actual earnings on pension plan investments	84,254	18,661
Town contributions subsequent to the measurement date	<u>78,973</u>	<u>-</u>
Total	<u>\$ 403,827</u>	<u>\$ 105,977</u>

PSPRS Fire

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,592	\$ 68,904
Changes of assumptions or other inputs	20,498	-
Net difference between projected and actual earnings on pension plan investments	35,616	-
Town contributions subsequent to the measurement date	<u>24,966</u>	<u>-</u>
Total	<u>\$ 105,672</u>	<u>\$ 68,904</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – 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, 2018. 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>
2018	\$ 59,223	\$ 4,959
2019	80,261	4,960
2020	59,723	9,687
2021	19,670	5,418
2022	-	(2,648)
Thereafter	-	(10,574)

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, 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, 2017

NOTE 10 – 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 2017 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
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	4.0%-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			
2017	\$ -	100%	\$ -
2016	-	100%	-
2015	3,772	100%	-
PSPRS Fire			
2017	\$ 943	100%	\$ -
2016	896	100%	-
2015	3,163	100%	-

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – 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, 2016, 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	-16.09%	-7.59%

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

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	20 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	7.50%
Projected salary increases	4%-8%
Wage growth	4%

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 853,097	\$ 853,097	\$ 869,721	\$ 16,624
Taxes	1,426,485	1,426,485	1,208,957	(217,528)
Other revenue	15,000	15,000	61,289	46,289
Charges for services	88,677	88,677	34,594	(54,083)
Fines and forfeitures	10,000	10,000	25,636	15,636
Rental income	30,000	30,000	21,605	(8,395)
Licenses and permits	10,000	10,000	10,802	802
Investment income	-	-	609	609
Total revenue	<u>2,433,259</u>	<u>2,433,259</u>	<u>2,233,213</u>	<u>(200,046)</u>
Expenditures				
Current				
General government	589,328	589,328	589,908	(580)
Public safety	879,452	879,452	844,513	34,939
Public works	68,769	68,769	214,126	(145,357)
Welfare	110,488	110,488	127,080	(16,592)
Culture and recreation	122,158	122,158	106,140	16,018
Debt service				
Principal	4,201	4,201	4,201	-
Interest	4,170	4,170	4,170	-
Capital outlay	54,685	54,685	54,685	-
Total expenditures	<u>1,833,251</u>	<u>1,833,251</u>	<u>1,944,823</u>	<u>(111,572)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>600,008</u>	<u>600,008</u>	<u>288,390</u>	<u>(311,618)</u>
Other financing sources (uses)				
Transfers	(600,008)	(600,008)	(242,850)	357,158
Installment purchase agreement	-	-	45,811	45,811
Total other financing sources (uses)	<u>(600,008)</u>	<u>(600,008)</u>	<u>(197,039)</u>	<u>402,969</u>
Net change in fund balance	-	-	91,351	91,351
Fund balances, beginning of year	<u>(1,284,366)</u>	<u>(1,284,366)</u>	<u>(1,284,366)</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ (1,284,366)</u></u>	<u><u>\$ (1,284,366)</u></u>	<u><u>\$ (1,193,015)</u></u>	<u><u>\$ 91,351</u></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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 453,758	\$ 453,758	\$ 221,844	\$ (231,914)
Expenditures				
Current				
Public works	923,274	923,274	288,605	634,669
Debt service				
Principal	-	-	2,919	(2,919)
Interest	-	-	1,602	(1,602)
Capital outlay	-	-	154,080	(154,080)
Total expenditures	<u>923,274</u>	<u>923,274</u>	<u>447,206</u>	<u>476,068</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(469,516)</u>	<u>(469,516)</u>	<u>(225,362)</u>	<u>244,154</u>
Other financing sources (uses)				
Transfers	469,516	469,516	-	(469,516)
Installment purchase agreement	-	-	9,908	9,908
Total other financing sources (uses)	<u>469,516</u>	<u>469,516</u>	<u>9,908</u>	<u>(459,608)</u>
Net change in fund balance	-	-	(215,454)	(215,454)
Fund balances, beginning of year	<u>3,202,371</u>	<u>3,202,371</u>	<u>3,202,371</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 3,202,371</u></u>	<u><u>\$ 3,202,371</u></u>	<u><u>\$ 2,986,917</u></u>	<u><u>\$ (215,454)</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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 3,025,000	\$ 3,025,000	\$ 527,553	\$ (2,497,447)
Expenditures				
Current				
General government	2,344,021	2,344,021	92,757	2,251,264
Public safety	525,000	525,000	138,863	386,137
Culture and recreation	13,374	13,374	13,374	-
Capital outlay	142,605	142,605	142,605	-
Total expenditures	<u>3,025,000</u>	<u>3,025,000</u>	<u>387,599</u>	<u>2,637,401</u>
Net change in fund balance	-	-	139,954	139,954
Fund balances, beginning of year	<u>147,196</u>	<u>147,196</u>	<u>147,196</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 147,196</u></u>	<u><u>\$ 147,196</u></u>	<u><u>\$ 287,150</u></u>	<u><u>\$ 139,954</u></u>

See accompanying notes to budgetary comparison schedule.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2017

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.

NOTE 3 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2017, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Magistrate, Administration, Fire, Public Works, Senior Center-Congregate Meals, Senior Center-Home Delivery, and Senior Center-Transportation departments.

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, 2017

Arizona State Retirement System

	Reporting Fiscal Year			2014 through 2008
	(Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	
Town's proportion of the net pension liability	0.004420%	0.004240%	0.003916%	Information not available
Town's proportionate share of the net pension liability	\$ 713,432	\$ 660,744	\$ 579,469	
Town's covered-employee payroll	\$ 458,506	\$ 414,276	\$ 390,707	
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	155.60%	159.49%	148.31%	
Plan fiduciary net position as a percentage of the total pension liability	64.27%	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, 2017

PSPRS Police

	Reporting Fiscal Year (Measurement Date)			2014 through 2007
	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability				Information not available
Service cost	\$ 77,368	\$ 68,017	\$ 41,275	
Interest on the total pension liability	118,424	90,186	89,927	
Changes of benefit terms	19,855	-	27,961	
Differences between expected and actual experience in the measurement of the pension liability	(30,574)	282,746	(234,565)	
Changes of assumptions or other inputs	59,107	-	138,052	
Benefit payments, including refunds of employee contributions	<u>(85,900)</u>	<u>(85,900)</u>	<u>(59,563)</u>	
Net change in total pension liability	158,280	355,049	3,087	
Total pension liability - beginning	<u>1,512,852</u>	<u>1,157,803</u>	<u>1,154,716</u>	
Total pension liability - ending (a)	<u><u>\$ 1,671,132</u></u>	<u><u>\$ 1,512,852</u></u>	<u><u>\$ 1,157,803</u></u>	
Plan fiduciary net position				
Contributions - employer	\$ 68,133	\$ 67,338	\$ 45,890	
Contributions - employee	42,490	40,615	25,911	
Net investment income	5,919	36,594	113,188	
Benefit payments, including refunds of employee contributions	(85,900)	(85,900)	(59,563)	
Administrative expense	(1,252)	(1,263)	-	
Other changes	<u>(93,979)</u>	<u>90,697</u>	<u>(91,421)</u>	
Net change in plan fiduciary net position	(64,589)	148,081	34,005	
Plan fiduciary net position - beginning	<u>1,069,244</u>	<u>921,163</u>	<u>887,158</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 1,004,655</u></u>	<u><u>\$ 1,069,244</u></u>	<u><u>\$ 921,163</u></u>	
Town's net pension liability (asset) - ending (a) - (b)	<u><u>\$ 666,477</u></u>	<u><u>\$ 443,608</u></u>	<u><u>\$ 236,640</u></u>	
Plan fiduciary net position as a percentage of the total pension liability	60.12%	70.68%	79.56%	
Covered-employee payroll	\$ 370,891	\$ 373,585	\$ 323,968	
Town's net pension liability (asset) as a percentage of covered-employee payroll	179.70%	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, 2017

PSPRS Fire

	Reporting Fiscal Year (Measurement Date)			2014 through 2007
	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability				Information not available
Service cost	\$ 22,708	\$ 38,649	\$ 38,842	
Interest on the total pension liability	40,052	33,972	29,163	
Changes of benefit terms	24,226	-	(942)	
Differences between expected and actual experience in the measurement of the pension liability	(76,116)	30,392	(873)	
Changes of assumptions or other inputs	15,980	-	8,369	
Benefit payments, including refunds of employee contributions	(17,597)	(17,597)	(8,799)	
Net change in total pension liability	9,253	85,416	65,760	
Total pension liability - beginning	507,659	422,243	356,483	
Total pension liability - ending (a)	<u>\$ 516,912</u>	<u>\$ 507,659</u>	<u>\$ 422,243</u>	
Plan fiduciary net position				
Contributions - employer	\$ 23,064	\$ 23,591	\$ 24,120	
Contributions - employee	24,054	24,522	21,221	
Net investment income	3,212	18,586	57,337	
Benefit payments, including refunds of employee contributions	(17,597)	(17,597)	(8,799)	
Administrative expense	(862)	(833)	-	
Other changes	(2,974)	(416)	(21,932)	
Net change in plan fiduciary net position	28,897	47,853	71,947	
Plan fiduciary net position - beginning	541,838	493,985	422,038	
Plan fiduciary net position - ending (b)	<u>\$ 570,735</u>	<u>\$ 541,838</u>	<u>\$ 493,985</u>	
Town's net pension liability (asset) - ending (a) - (b)	<u>\$ (53,823)</u>	<u>\$ (34,179)</u>	<u>\$ (71,742)</u>	
Plan fiduciary net position as a percentage of the total pension liability	110.41%	106.73%	116.99%	
Covered-employee payroll	\$ 122,547	\$ 223,513	\$ 207,206	
Town's net pension liability (asset) as a percentage of covered-employee payroll	-43.92%	-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, 2017

Arizona State Retirement System

	Reporting Fiscal Year				2013 through 2008
	2017	2016	2015	2014	
Statutorily required contribution	\$ 49,427	\$ 44,949	\$ 42,548	\$ 37,773	Information not available
Town's contributions in relation to the statutorily required contribution	<u>(49,427)</u>	<u>(44,949)</u>	<u>(42,548)</u>	<u>(37,773)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 458,506	\$ 414,276	\$ 390,707	\$ 353,019	
Town's contributions as a percentage of covered- employee payroll	10.78%	10.85%	10.89%	10.70%	

PSPRS - Police

	Reporting Fiscal Year				2013 through 2007
	2017	2016	2015	2014	
Actuarially determined contribution	\$ 78,973	\$ 68,133	\$ 67,338	\$ 45,890	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(78,973)</u>	<u>(68,133)</u>	<u>(67,338)</u>	<u>(45,890)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 375,525	\$ 370,891	\$ 373,585	\$ 323,968	
Town's contributions as a percentage of covered- employee payroll	21.03%	18.37%	18.02%	14.16%	

See accompanying notes to pension plan schedules.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Town Pension Contributions
June 30, 2017

PSPRS - Fire

	Reporting Fiscal Year				2013 through 2007
	2017	2016	2015	2014	
Actuarially determined contribution	\$ 24,966	\$ 23,064	\$ 23,591	\$ 24,120	Information not available
Town's contributions in relation to the actuarially determined contribution	<u>(24,966)</u>	<u>(23,064)</u>	<u>(23,591)</u>	<u>(24,120)</u>	
Town's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Town's covered-employee payroll	\$ 216,153	\$ 122,547	\$ 223,513	\$ 207,207	
Town's contributions as a percentage of covered- employee payroll	11.55%	18.82%	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, 2017

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 2015 actuarial valuation	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	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, 2017

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, 2017

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, 2017, 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 January 8, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Arizona, PLLC
Flagstaff, Arizona
January 8, 2018

TOWN OF SUPERIOR, ARIZONA
Schedule of Findings and Responses
June 30, 2017

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, 2017, and have issued our report thereon dated January 8, 2018. 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 \$2,253,676 in fiscal year 2016 to \$2,210,374 in fiscal year 2017. 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, 2017.

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 Arizona, PLLC
Flagstaff, Arizona
January 8, 2018