

TOWN OF SUPERIOR, ARIZONA

**Annual Financial Statements
and Independent Auditors' Report
June 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Superior, Arizona

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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Town of Superior, Arizona's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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. Such information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by the missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2015, 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* and should be considered in assessing the results of our audit.

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

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

HintonBurdick, PLLC
Flagstaff, Arizona
September 8, 2015

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 86,236	\$ -	\$ 86,236
Cash with fiscal agent	222,073	-	222,073
Accounts receivable - net	112,341	45,315	157,656
Taxes receivable	49,419	34,943	84,362
Due from other governments	103,242	9,270	112,512
Prepaid expense	-	7,312	7,312
Interactivity balances	(168,213)	168,213	-
Capital assets, not being depreciated	152,776	-	152,776
Capital assets, being depreciated, net	4,473,230	500,942	4,974,172
Total assets	5,031,104	765,995	5,797,099
LIABILITIES			
Accounts payable	87,028	97,117	184,145
Accrued expenses	166,508	16,630	183,138
Accrued interest	22,464	-	22,464
Due to employees	66,502	-	66,502
Noncurrent liabilities			
Due within one year	185,939	136	186,075
Due in more than one year	1,050,984	45	1,051,029
Total liabilities	1,579,425	113,928	1,693,353
NET POSITION			
Net investment in capital assets	3,611,389	500,942	4,112,331
Restricted for:			
Debt service	222,073	-	222,073
Highways and streets	2,907,449	-	2,907,449
Unrestricted (deficit)	(3,289,232)	151,125	(3,138,107)
Total net position	\$ 3,451,679	\$ 652,067	\$ 4,103,746

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Activities
Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 749,827	\$ 60,548	\$ 55,884	\$ 71,016	\$ (562,379)	\$ -	\$ (562,379)
Public safety	1,141,163	281,796	2,228	172,547	(684,592)	-	(684,592)
Highways and streets	386,206	1,250	261,957	-	(122,999)	-	(122,999)
Welfare	155,390	-	84,381	-	(71,009)	-	(71,009)
Culture and recreation	223,825	22,557	-	22,711	(178,557)	-	(178,557)
Interest	68,242	-	-	-	(68,242)	-	(68,242)
Total governmental activities	<u>2,724,653</u>	<u>366,151</u>	<u>404,450</u>	<u>266,274</u>	<u>(1,687,778)</u>	<u>-</u>	<u>(1,687,778)</u>
Business-type activities							
Utilities	684,104	652,707	-	9,270	-	(22,127)	(22,127)
Ambulance	420,033	241,856	-	-	-	(178,177)	(178,177)
Total business-type activities	<u>1,104,137</u>	<u>894,563</u>	<u>-</u>	<u>9,270</u>	<u>-</u>	<u>(200,304)</u>	<u>(200,304)</u>
Total primary government	<u>\$ 3,828,790</u>	<u>\$ 1,260,714</u>	<u>\$ 404,450</u>	<u>\$ 275,544</u>	<u>(1,687,778)</u>	<u>(200,304)</u>	<u>(1,888,082)</u>
General revenue:							
Taxes:							
Property taxes, levied for general purposes							
					243,707	311,183	554,890
					282,711	-	282,711
					110,334	-	110,334
					221,684	-	221,684
					124,857	-	124,857
					239,445	-	239,445
					5,070	-	5,070
					105,020	-	105,020
					<u>1,332,828</u>	<u>311,183</u>	<u>1,644,011</u>
					(354,950)	110,879	(244,071)
					<u>3,806,629</u>	<u>541,188</u>	<u>4,347,817</u>
					<u>\$ 3,451,679</u>	<u>\$ 652,067</u>	<u>\$ 4,103,746</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	HURF/LTAF Fund	Grants Fund	SMPC Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ 86,236	\$ -	\$ -	\$ 86,236
Cash with fiscal agent	-	-	-	222,073	222,073
Taxes receivable	49,419	-	-	-	49,419
Due from other governments	79,067	24,175	-	-	103,242
Other receivables	112,341	-	-	-	112,341
Due from other funds	-	2,808,006	-	-	2,808,006
Total assets	240,827	2,918,417	-	222,073	3,381,317
LIABILITIES					
Accounts payable	72,949	10,451	3,628	-	87,028
Accrued expenses	165,991	517	-	-	166,508
Due to employees	66,502	-	-	-	66,502
Due to other funds	2,967,576	-	8,643	-	2,976,219
Total liabilities	3,273,018	10,968	12,271	-	3,296,257
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	22,415	-	-	-	22,415
FUND BALANCES					
Nonspendable	-	2,808,006	-	-	2,808,006
Restricted for:					
Highways and streets	-	99,443	-	-	99,443
Debt service	-	-	-	222,073	222,073
Unassigned	(3,054,606)	-	(12,271)	-	(3,066,877)
Total fund balances	(3,054,606)	2,907,449	(12,271)	222,073	62,645
Total liabilities, deferred inflows of resources, and fund balances	\$ 240,827	\$ 2,918,417	\$ -	\$ 222,073	\$ 3,381,317

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, 2012

Fund balances-total governmental funds	\$ 62,645
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	4,626,006
Some receivables are not available to pay for current-period expenditures and therefore, are unavailable in the funds.	22,415
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(1,259,387)</u>
Net position of governmental activities	<u><u>\$ 3,451,679</u></u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	General Fund	HURF/LT AF Fund	Grants Fund	SMPC Fund	Total Governmental Funds
Revenue					
Intergovernmental	\$ 670,367	\$ 261,957	\$ 300,511	\$ -	\$ 1,232,835
Taxes	632,080	-	-	-	632,080
Charges for services	261,574	-	-	-	261,574
Fines and forfeitures	128,769	-	-	-	128,769
Other revenue	63,561	-	-	-	63,561
Licenses and permits	21,415	-	-	-	21,415
Rental income	9,277	-	-	-	9,277
Investment income	5,051	-	-	19	5,070
Total revenue	<u>1,792,094</u>	<u>261,957</u>	<u>300,511</u>	<u>19</u>	<u>2,354,581</u>
Expenditures					
Current					
General government	526,854	-	-	-	526,854
Public safety	953,573	-	58,873	-	1,012,446
Public works	150,675	110,376	-	-	261,051
Welfare	147,439	-	-	-	147,439
Culture and recreation	142,975	-	-	-	142,975
Debt service					
Principal	74,061	-	-	85,000	159,061
Interest	16,951	-	-	53,720	70,671
Capital outlay	-	114,150	221,885	-	336,035
Total expenditures	<u>2,012,528</u>	<u>224,526</u>	<u>280,758</u>	<u>138,720</u>	<u>2,656,532</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(220,434)</u>	<u>37,431</u>	<u>19,753</u>	<u>(138,701)</u>	<u>(301,951)</u>
Other financing sources (uses)					
Sale of capital assets	41,460	-	-	-	41,460
Transfers	(168,592)	-	27,592	141,000	-
Total other financing sources (uses)	<u>(127,132)</u>	<u>-</u>	<u>27,592</u>	<u>141,000</u>	<u>41,460</u>
Net change in fund balances	<u>(347,566)</u>	<u>37,431</u>	<u>47,345</u>	<u>2,299</u>	<u>(260,491)</u>
Fund balances, beginning of year	<u>(2,707,040)</u>	<u>2,870,018</u>	<u>(59,616)</u>	<u>219,774</u>	<u>323,136</u>
Fund balances, end of year	<u>\$ (3,054,606)</u>	<u>\$ 2,907,449</u>	<u>\$ (12,271)</u>	<u>\$ 222,073</u>	<u>\$ 62,645</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, 2012

Net change in fund balances-total governmental funds		\$ (260,491)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Current year capital acquisitions	336,035	
Current year depreciation	<u>(412,719)</u>	
		(76,684)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		
Grant revenue recognized in the prior period	(31,010)	
Property taxes	<u>4,672</u>	
		(26,338)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Debt principal repaid		159,061
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		
Decrease in interest payable	2,429	
Increase in compensated absences payable	(22,927)	
Increase in contingent liability	<u>(130,000)</u>	
		<u>(150,498)</u>
Change in net position of governmental activities		<u>\$ (354,950)</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2012

	Business-type Activities--Enterprise Funds		
	Utilities	Ambulance	Total
	Fund	Fund	
ASSETS			
Current assets			
Accounts receivable - net	\$ 19,050	\$ 26,265	\$ 45,315
Taxes receivable	34,943	-	34,943
Intergovernmental receivable	9,270	-	9,270
Prepaid expense	-	7,312	7,312
Due from other funds	972,944	-	972,944
Total current assets	1,036,207	33,577	1,069,784
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable:			
Utilities systems, net	163,836	-	163,836
Buildings, net	-	251,701	251,701
Equipment, net	13,632	71,773	85,405
Total noncurrent assets	177,468	323,474	500,942
Total assets	1,213,675	357,051	1,570,726
LIABILITIES			
Current liabilities			
Accounts payable	90,100	7,017	97,117
Accrued expenses	4,070	12,560	16,630
Due to other funds	-	804,731	804,731
Compensated absences, current portion	136	-	136
Total current liabilities	94,306	824,308	918,614
Noncurrent liabilities			
Compensated absences, net of current portion	45	-	45
Total liabilities	94,351	824,308	918,659
NET POSITION			
Net investment in capital assets	177,468	323,474	500,942
Unrestricted (deficit)	941,856	(790,731)	151,125
Total net position	\$ 1,119,324	\$ (467,257)	\$ 652,067

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, 2012

	Business-type Activities--Enterprise Funds		
	Utilities	Ambulance	Total
	Fund	Fund	
Operating revenue			
Charges for services			
Sewer (net of bad debts of \$25395)	\$ 330,513	\$ -	\$ 330,513
Sanitation (net of bad debts of \$26718)	322,194	-	322,194
Ambulance (net of bad debts of \$296442)	-	241,856	241,856
Total operating revenue	<u>652,707</u>	<u>241,856</u>	<u>894,563</u>
Operating expenses			
Personnel	92,307	335,142	427,449
Landfill fees	262,663	-	262,663
Depreciation	120,843	12,126	132,969
Professional services	88,953	19,758	108,711
Utilities	66,803	4,763	71,566
Materials and supplies	14,756	16,982	31,738
Repairs and maintenance	13,616	15,787	29,403
Insurance	13,241	12,962	26,203
Other	10,922	2,513	13,435
Total operating expenses	<u>684,104</u>	<u>420,033</u>	<u>1,104,137</u>
Operating income (loss)	(31,397)	(178,177)	(209,574)
Nonoperating revenue (expenses)			
Property taxes	311,183	-	311,183
Income (loss) before capital contributions	279,786	(178,177)	101,609
Capital grant contributions	9,270	-	9,270
Increase (decrease) in net position	289,056	(178,177)	110,879
Total net position, beginning of year	830,268	(289,080)	541,188
Total net position, end of year	<u>\$ 1,119,324</u>	<u>\$ (467,257)</u>	<u>\$ 652,067</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities --Enterprise Funds		
	Utilities	Ambulance	Total
	Fund	Fund	
Cash flows from operating activities			
Receipts from customers	\$ 639,629	\$ 268,547	\$ 908,176
Payments to suppliers and providers of goods and services	(442,958)	(232,203)	(675,161)
Payments to employees	(70,142)	(270,891)	(341,033)
Net cash provided (used) by operating activities	<u>126,529</u>	<u>(234,547)</u>	<u>(108,018)</u>
Cash flows from noncapital financing activities			
Property taxes received	303,431	-	303,431
Interfund loans	(429,960)	234,547	(195,413)
Net cash provided (used) by noncapital financing activities	<u>(126,529)</u>	<u>234,547</u>	<u>108,018</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, 2012

	Business-type Activities--Enterprise Funds		
	Utilities Fund	Ambulance Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (31,397)	\$ (178,177)	\$ (209,574)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	120,843	12,126	132,969
Bad debts	52,113	296,442	348,555
(Increase) decrease in:			
Accounts receivable	(65,191)	(269,751)	(334,942)
Prepaid expenses	-	(7,312)	(7,312)
Increase (decrease) in:			
Accounts payable	50,350	(82,839)	(32,489)
Accrued expenses	1,252	1,493	2,745
Compensated absences payable	(1,441)	(6,529)	(7,970)
Net cash provided (used) by operating activities	<u>\$ 126,529</u>	<u>\$ (234,547)</u>	<u>\$ (108,018)</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2012

	<u>Investment Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 79,593
	<u> </u>
NET POSITION	
Held in trust for investment trust participants	\$ 79,593
	<u> </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, 2012

	<u>Investment Trust Fund</u>
Additions	
Interest and dividend income	<u>\$ 1,755</u>
Deductions	
Net unrealized loss on investments	4,922
Investment fees	<u>967</u>
Total deductions	<u>5,889</u>
Change in net position	(4,134)
Net position, beginning of year	<u>83,727</u>
Net position, end of year	<u>\$ 79,593</u>

The accompanying notes are integral to these financial statements.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

The Town reports the following major enterprise funds:

The ***Utilities*** and ***Ambulance Funds*** account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Town reports the following fiduciary fund types:

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

C. Basis of Accounting

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

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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Cash and Investments

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

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

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the Town. The amount recorded as uncollectible at June 30, 2012 in the Utilities and Ambulance Funds, respectively, were \$180,000 and \$25,000.

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.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2012, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Utilities Fund</u>	<u>Total</u>
2011 - 2012	\$ 25,883	\$ 32,360	\$ 58,243
Prior	2,066	2,583	4,649
Net total	<u>\$ 27,949</u>	<u>\$ 34,943</u>	<u>\$ 62,892</u>

G. Capital Assets

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

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

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

H. Investment Income

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

I. Compensated Absences

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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

J. Fund Balance Reporting

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

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

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

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

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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Impact of Recently Issued Accounting Principles

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2012, with earlier application encouraged. The Town decided to implement this Standard for the year ending June 30, 2011.

In March 2013, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2013, with earlier application encouraged. The Town has decided to implement this Standard for the year ending June 30, 2011.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

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

Deposits—At June 30, 2012, the carrying amount of the Town's total nonpooled cash in bank was \$85,826, and the bank balance was \$114,457. The entire bank balance was covered by federal depository insurance.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Investments—The Town reported investments in the State Treasurer’s Investment Pool 5 with a reported amount of \$735. The Standard and Poor’s credit quality rating of the pool is AAA. The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the General Fund at June 30, 2012 consisted of \$18,826 in state-shared revenue from sales taxes, \$9,576 in state-shared revenue from auto lieu taxes, \$26,953 in local sales taxes collected by the State of Arizona, and \$23,712 in federal and state grants.

Amounts due from other governments in the HURF/LTAF Fund at June 30, 2012 consisted of \$7,971 in county-shared revenue from county road taxes and \$16,204 in state-shared revenue from highway user revenue fund (HURF) taxes.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 152,776	\$ -	\$ -	\$ 152,776
Capital assets being depreciated:				
Buildings	3,043,462	75,161	-	3,118,623
Equipment	2,037,605	146,724	-	2,184,329
Infrastructure	3,842,854	114,150	-	3,957,004
Total	<u>8,923,921</u>	<u>336,035</u>	<u>-</u>	<u>9,259,956</u>
Less accumulated depreciation for:				
Buildings	702,013	127,187	-	829,200
Equipment	1,326,674	175,855	-	1,502,529
Infrastructure	2,345,320	109,677	-	2,454,997
Total	<u>4,374,007</u>	<u>412,719</u>	<u>-</u>	<u>4,786,726</u>
Total capital assets being depreciated, net	<u>4,549,914</u>	<u>(76,684)</u>	<u>-</u>	<u>4,473,230</u>
Governmental activities capital assets, net	<u>\$ 4,702,690</u>	<u>\$ (76,684)</u>	<u>\$ -</u>	<u>\$ 4,626,006</u>
	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Business-type activities:				
Capital assets being depreciated:				
Buildings	272,109	-	-	272,109
Utility systems	3,988,939	9,269	-	3,998,208
Equipment	232,844	-	-	232,844
Total	<u>4,493,892</u>	<u>9,269</u>	<u>-</u>	<u>4,503,161</u>
Less accumulated depreciation for:				
Buildings	13,606	6,803	-	20,409
Utility systems	3,716,890	117,482	-	3,834,372
Equipment	138,754	8,684	-	147,438
Total	<u>3,869,250</u>	<u>132,969</u>	<u>-</u>	<u>4,002,219</u>
Total capital assets being depreciated, net	<u>624,642</u>	<u>(123,700)</u>	<u>-</u>	<u>500,942</u>
Business-type activities capital assets, net	<u>\$ 624,642</u>	<u>\$ (123,700)</u>	<u>\$ -</u>	<u>\$ 500,942</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
Highways and streets	\$ 120,953
Public safety	118,629
General government	87,291
Culture and recreation	79,422
Welfare	<u>6,424</u>
Total governmental activities depreciation expense	<u><u>\$ 412,719</u></u>
Business-type activities:	
Utilities	\$ 120,843
Ambulance	<u>12,126</u>
Total business-type activities depreciation expense	<u><u>\$ 132,969</u></u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG -TERM LIABILITIES

The following schedule details the Town’s long-term liability and obligation activity for the year ended June 30, 2012.

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Governmental activities:					
Revenue bonds payable	\$ 815,000	\$ -	\$ 85,000	\$ 730,000	\$ 90,000
Notes payable	289,273	-	50,475	238,798	1,271
Capital leases payable	69,405	-	23,586	45,819	25,438
Contingent liability (see Note 9)	-	130,000	-	130,000	-
Compensated absences	69,379	22,927	-	92,306	69,230
	<u>\$ 1,243,057</u>	<u>\$ 152,927</u>	<u>\$ 159,061</u>	<u>\$ 1,236,923</u>	<u>\$ 185,939</u>
Business-type activities:					
Compensated absences	<u>\$ 8,151</u>	<u>\$ -</u>	<u>\$ 7,970</u>	<u>\$ 181</u>	<u>\$ 136</u>

Bonds—The Town’s bonded debt consists of various issues of revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Revenue bonds are repaid from charges excise taxes. Bonds outstanding at June 30, 2012, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds payable	<u>\$ 1,200,000</u>	2005-2018	6.40-10.00%	<u>\$ 730,000</u>

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG-TERM LIABILITIES – Continued

Notes payable—consisted of the following:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
GADA note payable	\$ 500,000	2016	3.00-5.00%	\$ 170,000
Building note payable	<u>69,273</u>	2042	4.00%	<u>68,798</u>
Total	<u>\$ 569,273</u>			<u>\$ 238,798</u>

The following schedule details debt service requirements to maturity for the Town's bonds and notes payable at June 30, 2012.

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>
2013	\$ 1,271	\$ 12,641	\$ 90,000	\$ 42,240
2014	56,323	10,705	95,000	35,970
2015	56,377	7,981	100,000	29,370
2016	61,433	5,177	105,000	22,440
2017	1,491	2,761	115,000	14,850
2018-22	8,419	11,581	225,000	-
2023-27	10,279	9,721	-	-
2028-32	12,551	7,449	-	-
2033-37	15,325	4,675	-	-
2038-42	<u>15,329</u>	<u>1,338</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 238,798</u>	<u>\$ 74,029</u>	<u>\$ 730,000</u>	<u>\$ 144,870</u>

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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 5 – LONG -TERM LIABILITIES – Continued

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

	Governmental Activities
Accounting software	\$ 111,551
Less: accumulated depreciation	(33,465)
Carrying value	\$ 78,086

The following schedule details debt service requirements to maturity for the Town’s capital lease payable at June 30, 2012:

Year Ending June 30	Governmental Activities
2013	\$ 28,041
2014	21,031
Total minimum lease payments	49,072
Less amount representing interest	(3,253)
Present value of net minimum lease payments	\$ 45,819

NOTE 6 – RISK MANAGEMENT

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

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 7 – RETIREMENT PLANS

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

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

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

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

Cost-sharing plans – For the year ended June 30, 2012, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2012, 2011, and 2010, were \$56,428, \$68,467, and \$69,963, respectively, which were equal to the required contributions for the year.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 7 – RETIREMENT PLANS – Continued

Agent plans – For the year ended June 30, 2012, active members of the PSPRS police system were required by statute to contribute 8.65 percent of the members’ annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 14.10 percent, of which 1.35 percent was the health insurance premium portion.

For the year ended June 30, 2012, active members of the PSPRS fire system were required by statute to contribute 8.65 percent of the members’ annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 10.94 percent, of which 1.17 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2012, were established by the June 30, 2010 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on 1) the plans as understood by the Town of Superior, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the Town and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2012 contribution requirements are as follows:

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent-of-pay closed
Remaining amortization period	26 years for underfunded actuarial liability,
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50%
Payroll growth	5.50%

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 7 – RETIREMENT PLANS – Continued

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Pension - Police	2012	\$ 40,699	100 %	\$ -
	2011	36,695	100	-
	2010	31,028	100	-
Health Insurance - Police	2012	\$ 4,425	0 %	\$ 4,425
	2011	4,804	0	4,804
	2010	2,793	0	2,793
Pension - Fire	2012	\$ 27,419	100 %	\$ -
	2011	28,989	100	-
	2010	29,280	100	-
Health Insurance - Fire	2012	\$ 3,554	0 %	\$ 3,554
	2011	3,064	0	3,064
	2010	2,414	0	2,414

Schedules of Funded Status – Following are the schedules of funded status of the plans as of the most recent valuation date, June 30, 2012, and the previous two fiscal years. The fiscal year 2012 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2011 actuarial methods and assumptions as described on page above.

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 7 – RETIREMENT PLANS – Continued

Pension - Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2012	\$ 965,505	\$ 1,185,510	\$ (220,005)	81.4 %	\$ 276,969	79.4 %
6/30/2011	950,136	1,109,216	(159,080)	85.7	266,814	59.6
6/30/2010	906,513	1,009,508	(102,995)	89.8	294,526	35.0

Health Insurance - Police

6/30/2012	\$ -	\$ 28,544	\$ (28,544)	0.0 %	\$ 276,969	10.3 %
6/30/2011	-	28,233	(28,233)	0.0	266,814	10.6
6/30/2010	-	22,580	(22,580)	0.0	294,526	7.7

Pension - Fire

6/30/2012	\$ 418,882	\$ 362,733	\$ 56,149	115.5 %	\$ 258,284	0.0 %
6/30/2011	341,900	330,813	11,087	103.4	249,511	0.0
6/30/2010	284,563	268,100	16,463	106.1	272,927	0.0

Health Insurance - Fire

6/30/2012	\$ -	\$ 21,289	\$ (21,289)	0.0 %	\$ 258,284	8.2 %
6/30/2011	-	21,818	(21,818)	0.0	249,511	8.7
6/30/2010	-	15,019	(15,019)	0.0	272,927	5.5

TOWN OF SUPERIOR, ARIZONA
Notes to Financial Statements
June 30, 2012

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables—Interfund balances at June 30, 2012, were as follows:

Payable from	Payable to		
	HURF/LTAF Fund	Utilities Fund	Total
General Fund	\$ 2,808,006	\$ 159,570	\$ 2,967,576
Grants Fund	-	8,643	8,643
Ambulance Fund	-	804,731	804,731
	<u>\$ 2,808,006</u>	<u>\$ 972,944</u>	<u>\$ 3,780,950</u>

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

Interfund transfers—The interfund transfer from the General Fund to the Grants Fund was to reimburse the Grants Fund for expenditures incurred that are not reimbursable under grant agreements. The interfund transfer from the General Fund to the SMPC Fund was to pay for debt services expenditures of the current period of the SMPC (see Note 1).

NOTE 9 – CONTIGENT LIABILITY

In September 2013, the Town settled an ongoing lawsuit. The amount of the settlement was \$130,000. This amount has been recognized as an expense of the Governmental Activities and has been accrued as a liability as of June 30, 2012.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 672,334	\$ 672,334	\$ 670,367	\$ (1,967)
Taxes	1,101,004	1,101,004	632,080	(468,924)
Charges for services	58,000	58,000	261,574	203,574
Fines and forfeitures	10,000	10,000	128,769	118,769
Other revenue	716,400	716,400	63,561	(652,839)
Licenses and permits	40,200	40,200	21,415	(18,785)
Rental income	10,000	10,000	9,277	(723)
Investment income	-	-	5,051	5,051
Total revenue	<u>2,607,938</u>	<u>2,607,938</u>	<u>1,792,094</u>	<u>(815,844)</u>
Expenditures				
Current				
General government	591,099	591,099	526,854	64,245
Public safety	963,291	963,291	953,573	9,718
Public works	138,910	138,910	150,675	(11,765)
Welfare	158,335	158,335	147,439	10,896
Culture and recreation	157,872	157,872	142,975	14,897
Debt service				
Principal	78,000	78,000	74,061	3,939
Interest	-	-	16,951	(16,951)
Total expenditures	<u>2,087,507</u>	<u>2,087,507</u>	<u>2,012,528</u>	<u>74,979</u>
Excess (deficiency) of revenue over (under) expenditures	<u>520,431</u>	<u>520,431</u>	<u>(220,434)</u>	<u>(740,865)</u>
Other financing sources (uses)				
Sale of capital assets	-	-	41,460	41,460
Transfers	-	-	(168,592)	(168,592)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(127,132)</u>	<u>(127,132)</u>
Net change in fund balance	520,431	520,431	(347,566)	(867,997)
Fund balances, beginning of year	<u>(2,707,040)</u>	<u>(2,707,040)</u>	<u>(2,707,040)</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ (2,186,609)</u></u>	<u><u>\$ (2,186,609)</u></u>	<u><u>\$ (3,054,606)</u></u>	<u><u>\$ (867,997)</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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 363,576	\$ 363,576	\$ 261,957	\$ (101,619)
Expenditures				
Current				
Public works	280,573	280,573	110,376	170,197
Capital outlay	-	-	114,150	(114,150)
Total expenditures	<u>280,573</u>	<u>280,573</u>	<u>224,526</u>	<u>56,047</u>
Net change in fund balance	83,003	83,003	37,431	(45,572)
Fund balances, beginning of year	<u>2,870,018</u>	<u>2,870,018</u>	<u>2,870,018</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 2,953,021</u></u>	<u><u>\$ 2,953,021</u></u>	<u><u>\$ 2,907,449</u></u>	<u><u>\$ (45,572)</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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental	\$ 850,000	\$ 850,000	\$ 300,511	\$ (549,489)
Expenditures				
Current				
Public safety	-	-	58,873	(58,873)
Capital outlay	850,000	850,000	221,885	628,115
Total expenditures	<u>850,000</u>	<u>850,000</u>	<u>280,758</u>	<u>569,242</u>
Excess (deficiency) of revenue over (under) expenditures	-	-	19,753	19,753
Other financing sources (uses)				
Transfers	-	-	27,592	27,592
Net change in fund balance	-	-	47,345	47,345
Fund balances, beginning of year	<u>(59,616)</u>	<u>(59,616)</u>	<u>(59,616)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (59,616)</u>	<u>\$ (59,616)</u>	<u>\$ (12,271)</u>	<u>\$ 47,345</u>

See accompanying notes to budgetary comparison schedule.

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2012

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

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

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Town Council's approval. With the exception of the General Fund, each fund includes only one department.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

TOWN OF SUPERIOR, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2012

Pension - Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2012	\$ 965,505	\$ 1,185,510	\$ (220,005)	81.4 %	\$ 276,969	79.4 %
6/30/2011	950,136	1,109,216	(159,080)	85.7	266,814	59.6
6/30/2010	906,513	1,009,508	(102,995)	89.8	294,526	35.0

Health Insurance - Police

6/30/2012	\$ -	\$ 28,544	\$ (28,544)	0.0 %	\$ 276,969	10.3 %
6/30/2011	-	28,233	(28,233)	0.0	266,814	10.6
6/30/2010	-	22,580	(22,580)	0.0	294,526	7.7

Pension - Fire

6/30/2012	\$ 418,882	\$ 362,733	\$ 56,149	115.5 %	\$ 258,284	0.0 %
6/30/2011	341,900	330,813	11,087	103.4	249,511	0.0
6/30/2010	284,563	268,100	16,463	106.1	272,927	0.0

Health Insurance - Fire

6/30/2012	\$ -	\$ 21,289	\$ (21,289)	0.0 %	\$ 258,284	8.2 %
6/30/2011	-	21,818	(21,818)	0.0	249,511	8.7
6/30/2010	-	15,019	(15,019)	0.0	272,927	5.5



**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 City Council
The Town of Superior, Arizona

We have audited 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, 2012, which collectively comprise the Town of Superior, Arizona's basic financial statements and have issued our report thereon dated September 8, 2015. 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.

Internal Control Over Financial Reporting

Management of The Town of Superior, Arizona, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Superior, Arizona's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Superior, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

2011-001 - Lack of Documentation

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

2011-002 – Accounting Adjustments

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town'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 it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

HintonBurdick, PLLC
Flagstaff, Arizona
September 8, 2015

TOWN OF SUPERIOR, ARIZONA
Schedule of Findings and Responses
June 30, 2012

Financial Statement Findings

Audit findings and responses are as follows:

Item: 2011-001

Lack of Documentation

We noted a few instances where the Town lacked proper documentation to support transactions recorded in the accounting system or the Town's records were otherwise incomplete.

1. We noted a lack of documentation for \$106,605 received from Resolution Copper for Emergency Services.
2. We noted that several capital assets sold by the Town had not been included in the Town's capital asset records

We were able to confirm with Resolution Copper the \$106,605 which they remitted to the Town, however, the Town should retain documentation to support the transactions recorded in the accounting system.

The Town should consider performing a periodic inventory of capital assets to ensure that the Town's capital asset records are accurate and properly reflect the assets owned by the Town.

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

Recommendation

We recommend that the Town continue to make every effort to ensure that adequate documentation is retained to support the Town's revenues, expenditures, and significant decisions made by management. We further recommend the Town conduct a periodic inventory of capital assets and reconcile the assets noted during the inventory to the Town's capital asset records.

Response

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

TOWN OF SUPERIOR, ARIZONA
Schedule of Findings and Responses
June 30, 2012

Item: 2011-002

Accounting Adjustments

During our audit we made recommendation for various journal entries which were needed to properly state various account balances. The effect of these journal entries was material to the financial statements.

Recommendation

We recommend that the Town continue its efforts to implement monthly and year-end accounting procedures to eliminate or reduce the number of year-end audit adjustments. We further recommend that management review our proposed adjustments and ensure they understand the underlying accounting principles associated with each entry.

Response

Management agrees with this finding and has hired outside consultants to help with year-end closing and preparation of the trial balance for audit.



MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
K. MARK FROST, CPA

STEVEN D PALMER, CPA
MORRIS J PEACOCK, CPA
PHILLIP S. PEINE, CPA
MICHAEL K. SPILKER, CPA
KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA

**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, 2012, and have issued our report thereon dated September 8, 2015. 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 increased from \$2,646,691 in fiscal year 2011 to \$2,808,006 in fiscal year 2012. 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, 2012.

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

HintonBurdick, PLLC
Flagstaff, Arizona
September 8, 2015