

**METRO DOMESTIC WATER  
IMPROVEMENT DISTRICT**



**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4
<b>Financial Statements:</b>	
Statement of Net Position.....	15
Statement of Revenues, Expenses and Changes in Net Position.....	17
Statement of Cash Flows.....	18
Notes to the Basic Financial Statements.....	20
<b>Required Supplementary Information:</b>	
Schedule of the Proportionate Share of the Net Pension Liability.....	47
Schedule of Contributions.....	48
Schedule of the Proportionate Share of the Net OPEB Liability (Health).....	49
Schedule of Contributions (Health).....	50
Schedule of the Proportionate Share of the Net OPEB Liability (LTD).....	51
Schedule of Contributions (LTD).....	52
<b>Other Communications from Independent Auditors:</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters.....	55

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**HINTONBURDICK**  
CPAs & ADVISORS

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Metropolitan Domestic Water Improvement District  
Tucson, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Metropolitan Domestic Water Improvement District, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 business-type activities of Metropolitan Domestic Water Improvement District as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions, as listed in the table of contents, 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 the 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 September 21, 2018 on our consideration of the District'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 the 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 District's internal control over financial reporting and compliance.



HintonBurdick, PLLC  
Flagstaff, Arizona  
September 21, 2018

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**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

Management of the Metropolitan Domestic Water Improvement District (MDWID or the District) offers readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2018 and June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with the preceding Independent Auditor's Report and the accompanying basic financial statements and notes to the financial statements.

**District Framework**

MDWID was formed on July 7, 1992 when its residents successfully petitioned the Pima County Board of Supervisors to form a domestic water improvement district in order to have an independent and direct voice in water issues rather than being a part of the City of Tucson Water without a voice. The District has over 21,400 customer accounts including private fire riser connections, with service areas located on the northwest, northeast, and southwest portions of Tucson. A five member elected Board of Directors, from within its boundaries governs the District.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to MDWID's basic financial statements, comprised of five components: 1) statement of net position, 2) statement of revenue, expenses, and changes in net position, 3) statement of cash flows, 4) summary of significant accounting policies, and 5) notes to the financial statements.

The **Statement of Net Position** presents information on all of MDWID's assets, deferred outflows, liabilities, and deferred inflows with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of MDWID is improving or deteriorating.

The **Statement of Revenue, Expenses, and Changes in Net Position** presents information showing how MDWID's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in these statements for some items that only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The **Statement of Cash Flows** measures the MDWID's ability to fund operations and capital spending with funds generated from operations. This measure excludes noncash gains and losses.

The **Notes to the Financial Statements** provide additional information that is essential to understanding the data provided in the basic financial statements.

**Note 1** contains the **Summary of Significant Accounting Policies**. This summary describes specific accounting policies and the methods of applying those principles used by MDWID in preparing the financial statements. Generally accepted accounting principles requires disclosure of all accounting policies that materially affect the determination of the financial position, results of operations, and cash flows. Additional Notes describe Deposits and Investments, Restricted Assets, Capital Assets and Depreciation, Long-Term Debt, Retirement and Pension Plans, Contributed Capital, Regulatory Assets, Assignment of Right-of Ways, Risk Management, and Contingencies.

**The District**

The boundaries of the District include approximately 360 miles of water mains. The Metro Hub service area was purchased in June 1999, and in December 2009, the District acquired the Metro Southwest Thim Water Systems, located southwest of Tucson. The Thim Water System now the Metro Southwest service

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

area consisting of Diablo Village, E&T, and Lazy B. The Southwest service areas have not been annexed into the District's legal boundaries. The District has annexed Metro West where no development has yet to occur.

The District obtains water from 35 active wells with 25 wells in Metro Main, 5 wells in Metro Hub, and 5 wells in Metro Southwest. In addition, water is wheeled to the Lazy B service area in Metro Southwest. The total water storage capacity is 14.3 million gallons in the Metro Main service area, 436,000 gallons in the Metro HUB service area, and 565,000 gallons in the Metro Southwest service areas.

**Summary of Net Position**

The table below is a summary of the Statements of Net Position for Fiscal Years 2018 and 2017:

	<u>June 30, 2018</u>	<u>(Restated) June 30, 2017</u>
Current assets	\$ 20,862,100	\$ 17,892,586
Restricted cash and investments	7,854,315	7,861,407
Capital assets, net of accumulated depreciation	83,456,796	82,547,629
Regulatory assets	2,315,348	2,768,864
Water recharge credits	8,185,405	6,518,167
Net OPEB assets	<u>6,153</u>	<u>0</u>
<b>Total assets</b>	<b>\$ 122,680,117</b>	<b>\$ 117,588,653</b>
Deferred outflows related to pensions	\$ 705,522	\$ 1,113,096
Deferred outflows, loss on refund of debt	662,062	774,735
Deferred outflows, related to OPEB	<u>19,858</u>	<u>22,286</u>
<b>Total deferred outflows</b>	<b>1,387,442</b>	<b>1,910,117</b>
<b>Total assets and Deferred Outflows</b>	<b>\$ 124,067,559</b>	<b>\$ 119,498,770</b>
Current liabilities	\$ 7,789,605	\$ 8,420,987
Long-term debt , pension liability and compensated absences	<u>33,692,635</u>	<u>39,512,919</u>
<b>Total liabilities</b>	<b>\$ 41,482,240</b>	<b>\$ 47,933,906</b>
Deferred inflows related to pensions	\$ 397,532	\$ 738,394
Deferred Inflow of OPEB	<u>22,103</u>	<u>0</u>
<b>Total deferred inflows</b>	<b>\$ 419,635</b>	<b>\$ 738,394</b>
<b>Total liabilities and deferred inflows</b>	<b>\$ 41,901,875</b>	<b>\$ 48,672,300</b>
Invested in capital assets, net of related debt	\$ 52,625,752	\$ 46,200,747
Restricted for:		
Debt service	\$ 7,054,315	\$ 7,061,407
Repair and replacement	800,000	800,000
Unrestricted	<u>21,685,599</u>	<u>16,764,316</u>
<b>Total net position</b>	<b>\$ 82,165,684</b>	<b>\$ 70,826,470</b>
<b>Total Liabilities, deferred inflows, and net position</b>	<b>\$ 124,067,559</b>	<b>\$ 119,498,770</b>



**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

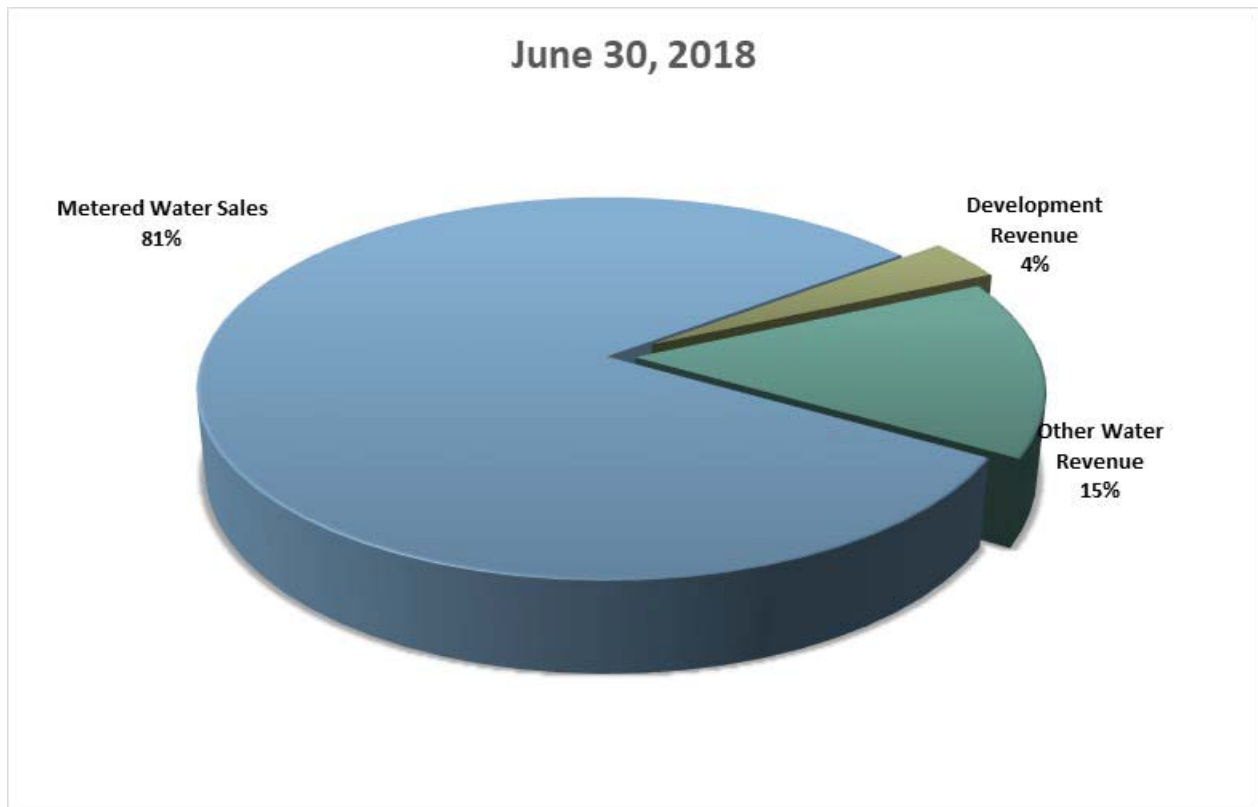
**Summary of Net Position (Continued)**

MDWID's total net position shows an increase of \$11.3 million over Fiscal Year 2017. Current assets increased \$2.97 million over the previous year with increases in cash and cash equivalents of \$2.75 million. Non-current assets increased by \$2.12 million with a \$.91 million increase in capital assets net of accumulated depreciation. Capital assets not being depreciated decreased by \$.45 million, restricted cash and cash equivalents decreased \$.054 million, and recharged water credits increased \$1.67 million. The Deferred outflow related to pensions and OPEB as part of the GASB 68 and GASB 75 reporting requirements have decreased by \$.52 million in Fiscal Year 2018. This consists of the Arizona State Retirement System (ASRS), ASRS Long-term Disability (LTD), and Health Savings Benefits (HSB) withheld in Fiscal Year 2018 that will be reported as expenses in Fiscal year 2019 since there is a one year delay in the measurement year. This also includes the difference between the expected and actual returns on ASRS investments. Additional information can be found in Note 6 of this financial report.

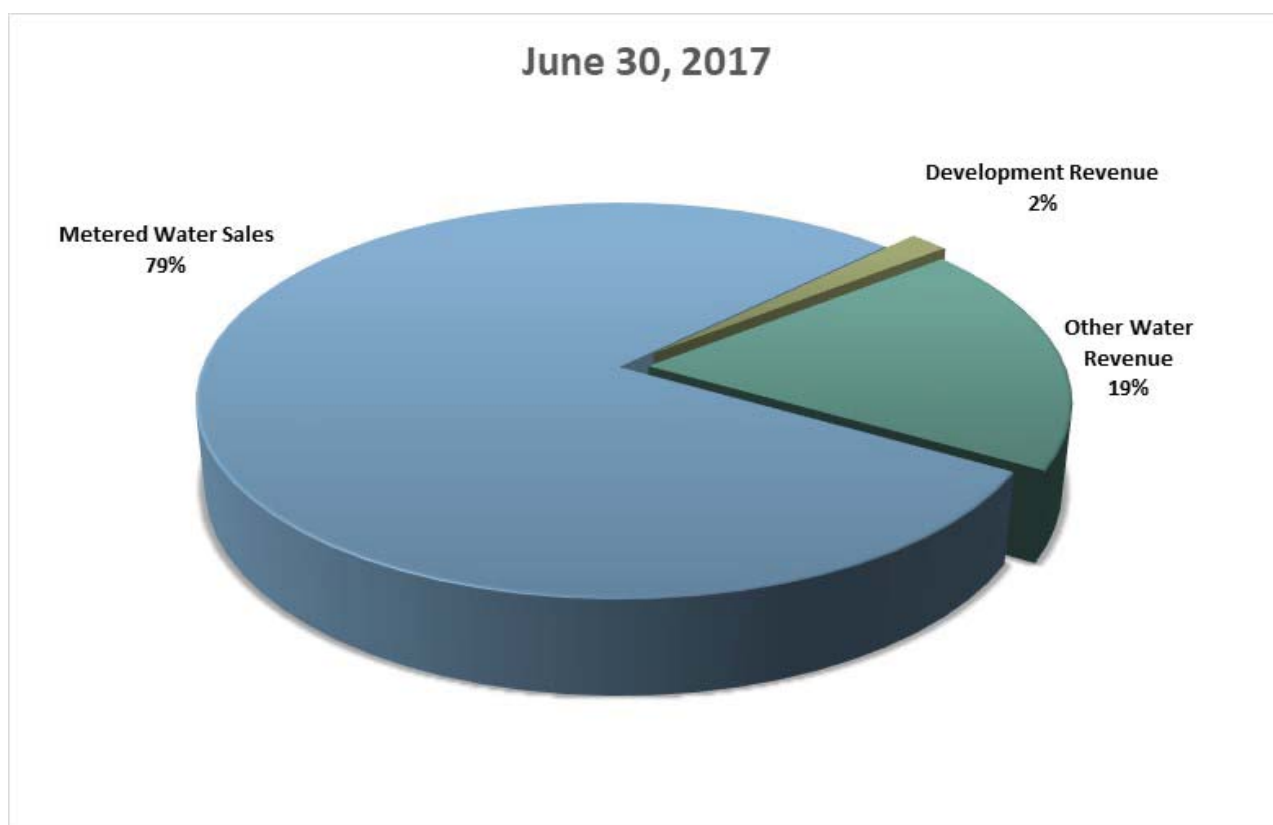
In Fiscal Year 2018, current liabilities decreased by \$.63 million when compared to Fiscal Year 2017. Noncurrent liabilities decreased by \$5.82 million with long term-debt decreasing by \$5.50 million from the principal payments applied to outstanding debt. The net pension liability in accordance with GASB 68 decreased by \$.30 million. This amount consists of the difference between the projected and actual investment earnings along with the change in proportion and differences between the District's contributions and the proportionate share of the ASRS pooled contributions.

**Summary of Revenue, Expenses and Changes in Net Position**

**Operating Revenue**



**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

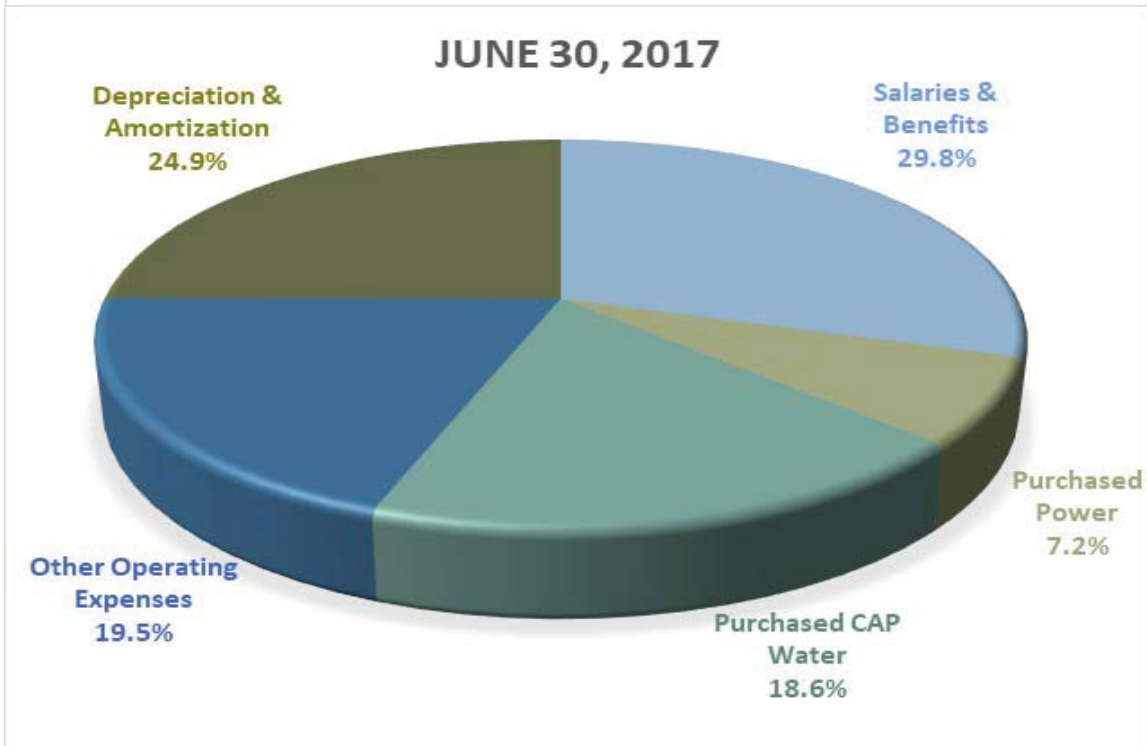
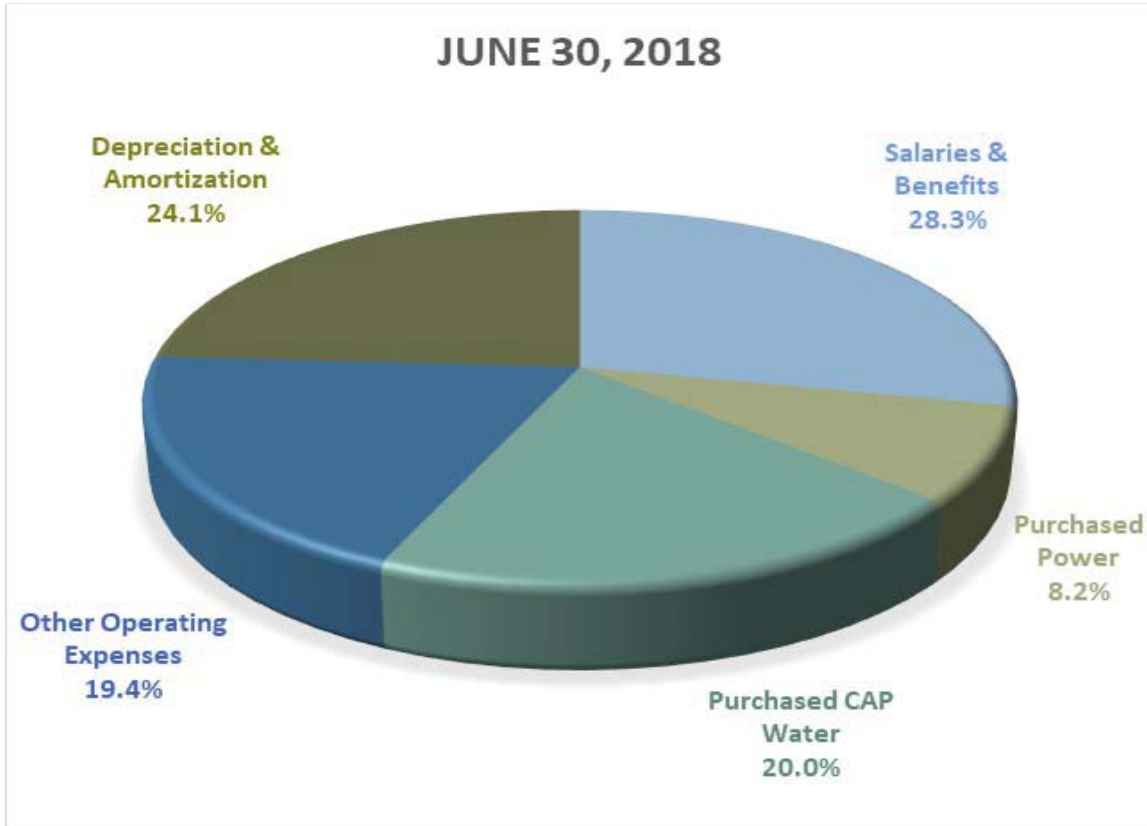


The operating revenue for Fiscal Year 2018 totaled \$22.3 million compared to \$21.9 million in Fiscal Year 2017 for an increase of \$0.41 million dollars with no rate or fee changes in Fiscal Year 2018. At \$18.14 million, Metered Water Sales accounted for 81% of the total operating revenue in Fiscal Year 2018. The Water sales increased \$789,865 over the prior fiscal year; the result of establishing revenue stability in the prior fiscal year along with increased water use related to environmental conditions. Other Water Revenue decreased by \$790,963 when compared to Fiscal Year 2017 which included \$924,000 of one time revenue from the Central Arizona Project following the closure of the water reliability fund they held for the Tucson region. The Water Resource Utilization Fee was set at fifty cents per thousand gallons of water effective July 1, 2016. On July 1, 2016, the District completed a two year rate plan implementation to substantially increase the percentage of fixed costs covered with fixed revenue, thereby mitigating prior concerns about the effects of declining water usage and revenue, providing the District with additional revenue stability and less volatility related to variations in water consumption. Other revenue sources include private fire risers, inspection fees, and engineering plan review fees, sale of CAP water credits from Metro Main to Metro Southwest, accrued interest income, and collection of bad debt. Rates for all other services have been reviewed and updated as needed to cover the cost of services provided.

Requests for new meter installation within the District increased with a total of 261 applications received in Fiscal Year 2018, compared to 123 meter applications in the prior fiscal year. Eighty-nine new meter applications were received for Metro Southwest. The Metro Southwest system was purchased in 2009, with one new meter application in Fiscal Year 2012, 56 new meter applications in Fiscal Year 2013, 120 new meter applications in Fiscal Year 2014, 38 new meter applications in Fiscal Year 2015, 68 new meter applications in Fiscal Year 2016, and 101 new meter applications in Fiscal year 2017. Development revenue for Fiscal Year 2018 totaled \$784,136, which is an increase of \$398,956 when compared to the previous fiscal year.

Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017

Operating Expenses



**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

**Summary of Revenue, Expenses and Changes in Net Position**

Operating expenses totaled \$13.93 million in Fiscal Year 2018 compared to \$13.39 million in Fiscal Year 2017 for an increase of 4%.

Salaries and benefits increased by 1.41% with the cost of living, merit increases, and increased workers compensation cost partially offset by vacancies throughout the fiscal year. Salaries and employee benefits continue to be the District's largest expenses, making up 28.3% of the total operating expenses in Fiscal Year 2018 compared to 29.8% in Fiscal Year 2017. Funded positions as of June 30, 2018 includes 48 full-time positions and three part-time positions.

Purchases of CAP water increased \$288,628, and other operating expenses increased by \$105,058.

Depreciation and amortization expenses totaled \$3.35 million compared to \$3.34 million for Fiscal Year 2017. Purchased power costs were higher in Fiscal Year 2018 at \$1,142,546 compared to \$961,015 in the prior fiscal year. The District continues to take advantage of more interruptible rate options, with solar providing all but \$465 of the electricity used at the administrative buildings. Contracted Service decreased by \$38,151 in Fiscal Year 2018. Insurance and taxes were \$3,208 higher at \$143,760 compared to \$140,552 in Fiscal Year 2017. Material supplies expenses were \$28,293 higher in Fiscal Year 2018 with a total of \$602,329 compared to \$574,036 in Fiscal Year 2017. Other operating expenses were higher at \$1,050,323 compared to \$945,265 in Fiscal Year 2017.

**Non-Operating Revenue/Expenses**

Non-operating revenue exceeded non-operating expense by \$501,576 in Fiscal Year 2018, an improvement when compared to a loss of \$260,022 for Fiscal year 2017. Water recharge credits continue to increase in value from CAP rate changes totaling \$276,950 or 17%, along with the increased storage quantity valuation totaling \$1,390,288 or 83%, for a total current value assessment increasing by \$1.67 million in Fiscal Year 2018. Water credits are based on the fair market value and the number of acre feet resulting in a book value of \$8.19 million in Fiscal Year 2018, compared to \$6.52 million in the prior fiscal year. Interest income for Fiscal Year 2018 generated \$44,701 compared to \$30,920 in Fiscal year 2017. Interest expenses were lower at \$1.18 million in Fiscal Year 2018 compared to \$1.33 million in the prior fiscal year.

The income before capital contributions for Fiscal Year 2018 is \$8.85 million, an increase of \$.63 million when compared to Fiscal Year 2017, which was \$8.22 million. Capital assets contributed by developers totaled \$2.49, compared to \$0.345 in Fiscal Year 2017

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

The following table shows a comparison of the revenue and expenses and change in net position for Fiscal Years ended June 30, 2018, June 30, 2017:

	<b><u>June 30, 2018</u></b>	<b><u>(Restated) June 30, 2017</u></b>
Metered water sales	\$ 18,142,697	\$ 17,352,832
Development revenue	784,136	385,180
Other water revenue	<u>3,354,446</u>	<u>4,138,087</u>
Total operating revenue	<u>\$ 22,281,279</u>	<u>\$ 21,876,099</u>
Salaries and employee benefits	\$ 3,945,451	\$ 3,991,607
Purchased power	1,142,546	961,015
Purchased CAP water	2,783,541	2,494,913
Other operating expenses	2,705,627	2,607,219
Depreciation and amortization	<u>3,354,753</u>	<u>3,338,649</u>
Total operating expenses	<u>\$ 13,931,918</u>	<u>\$ 13,393,403</u>
Operating income	<u>\$ 8,349,361</u>	<u>\$ 8,482,696</u>
Interest income (loss)	\$ 44,701	\$ 30,920
Gain (loss) on disposal of assets	7,109	48,000
Amortization of bond premiums	(38,479)	(50,015)
Gain related to water recharge activity	1,667,238	1,043,120
Interest expense	<u>(1,178,993)</u>	<u>(1,332,047)</u>
Total non-operating revenue (expenses)	<u>\$ 501,576</u>	<u>\$ (260,022)</u>
Income before capital contributions	\$ 8,850,937	\$ 8,222,674
Capital contributions	<u>2,488,277</u>	<u>344,901</u>
Increase in net position	\$ 11,339,214	\$ 8,567,575
Total Net position, beginning of year	<u>70,826,470</u>	<u>62,257,962</u>
Prior Period Adjustment	<u>-</u>	<u>933</u>
<b>Net position, end of year</b>	<u><b>\$ 82,165,684</b></u>	<u><b>\$ 70,826,470</b></u>

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

**District's Capital Improvement Program**

The Capital Improvement Program (CIP) began in March 1997 when MDWID residents overwhelmingly voted to approve a \$23 million debt authorization to fund a five-year CIP. This authorized the District to issue \$13 million of Water Revenue Bonds in 1999 with the remaining \$10 million of bonds being issued as part of the Series 2002 Bonds.

Another \$28 million in debt was authorized by District voters on March 2005 for the ongoing CIP. From this authorization the District was granted a \$15.38 million loan with the Water Infrastructure Finance Authority of Arizona (WIFA) in October 2005 for the design and construction of six major capital projects, including the 5 million gallon underground reservoir. All funding associated with the 2005 loan were spent by October 2008.

On November 9, 2007, WIFA approved the second phase of the \$28 million CIP with a loan in the amount of \$12.63 million. This loan was originally scheduled to fund two transmission mains, five mainline projects, and the drilling of a new well; however, it was revised to include a transmission main for the La Canada Drive 'A' Zone, projects in the Riverside area that consists of a transmission main and well site improvements to service new development in the area along the Rillito River. In addition, it included a fixed network metering system to better serve the 1,600 customers in the Hub service area, improved arsenic vessels for two Hub well sites, and a Variable Frequency Drive unit was installed at the District's Magee/La Cholla well site. These projects were completed with a final loan amount of \$11.76 million.

Although not part of the District's original CIP, in December 2009 the District was approved financing from WIFA in the amount of \$3.95 million which was later increased to \$4.25 million for the acquisition of three water systems on the southwest side of Tucson. The loan to purchase this service area known as Metro Southwest also included funding to construct an arsenic treatment facility, install a new well, replace a storage tank that provides water to 29 customers in a remote area, and implemented a fixed network metering system that serves all customers of Metro Southwest.

WIFA also approved a \$400,000, 20 year loan in January 2013 to help fund the remaining improvements needed at the Riverside well site. During Fiscal Year 2014 additional principal payments totaling \$91,731 were applied to the loan principal, in Fiscal Year 2015, an additional \$71,296 was applied to the loan principal, and Fiscal Year 2016 an additional \$60,000 was applied to principal, substantially reducing the total interest payments over the life of this loan along with reducing the duration of the 20 year loan. The original loan extended through July 2032 and by making the additional principal payments, this loan was satisfied on July 1, 2016 saving the District \$110,084 in avoided interest payments.

For the past five fiscal years, the District has been cash funding all planned capital improvements without incurring any new debt. The Capital Improvement Projects included budgeted funding for \$.83 million in Fiscal Year 2015, \$3.25 million in Fiscal Year 2016, \$3.25 million in Fiscal Year 2017, \$2.91 million in Fiscal Year 2018 and \$4.09 million planned for Fiscal Year 2019. On June 28, 2018, the District processed a defeasance on the non-callable 2002 Subordinate Obligation Revenue Refunding Bond. The defeasance allows the District to legally remove this debt from our financial statements.

**Long-Term Debt Obligations**

As of June 30, 2018 the District had \$33.10 million of long-term bond debt and notes payable, with \$39.03 million at the end of the prior fiscal year for a long-term debt decrease of \$5.93 million. In January 2013 the District restructured the long term debt with a refunding of the 2002 Senior Water Revenue Bonds and the 2002 Subordinate Refunding Bonds. This refinancing provided an immediate

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

cash flow to the District by restructuring the debt service requirements and deferring principal payments on these loans.

**Factors for the Fiscal Year 2019 Budget**

The Fiscal Year 2019 Budget was prepared by utilizing a priority driven budget process for the fifth consecutive year. This process has created an environment that stimulates ownership, responsibility, transparency, and the ability to accomplish the goals and objectives that are aligned with the District mission. Employees are engaged in finding ways to work smarter, safer, and more efficient.

The following steps were incorporated into the preparation of the MDWID adopted budget for Fiscal Year 2019:

- On March 14, 2018, the requested budget was reviewed and discussed with the Financial Oversight Committee. The Financial Oversight Committee made a recommendation to proceed with the requested budget and rate changes as presented.
- On March 26, 2018 the requested budget and proposed rate changes were presented to the Board of Directors at a study session. The Board of Directors asked questions about the revenue, expenses, planned capital equipment purchases, and the planned capital improvement program.
- Revenue stability was achieved in Fiscal Year 2017 with fixed revenue covering 90% of the fixed cost and this stability continues with the Fiscal Year 2019 adopted budget. Metered water revenue was budgeted at \$17.4 million, which is the amount of the metered water revenue from the prior fiscal year plus the additional revenue expected from the rate structure changes. Metered water revenue budgeted in Fiscal Year 2018 was \$16.5 million. On July 1, 2016, the Water Resource Utilization Fees increased to \$.50 per 1,000 gallons and in Fiscal Year 2019 this fee increased from \$.50 per 1,000 gallons to \$.60 per 1,000 gallons.
- The budget was formulated based upon projected revenue and the available fund balance. The projected beginning operating fund balance for Fiscal Year 2019 was budgeted at \$10.9 million, which is a \$3.8 million increase over the Fiscal Year 2018 beginning balance. The fund balance includes \$4.86 million dollars of Water Resource Utilization Fees that have been collected and will be cash funding the land and design associated with the Northwest Recharge Recovery and Delivery System capital project and other water resource initiatives.
- The operating revenue for Fiscal Year 2019 is projected to be \$21.5 million, up \$1.5 million from the Fiscal Year 2018 adopted budget, and conservatively \$758,245 lower than the actual revenue for Fiscal Year 2018 due to the abnormally high water usage in Fiscal Year 2018.
- Budgeted Salaries and Benefits for staff increased 5.8% including a proposed increase in health care and dental insurance, increased workers compensation, a requested 2.5% COLA, and up to a 1.5% merit increase for eligible staff. This includes a credit in the amount of \$185,440 for staff time charged to capital projects.
- Consultants and Contracted Services are budgeted with a decrease of \$8,336. With reductions in public relations, water quality treatment, well abandonment, water treatment media replacements, and a slight adjustment to meter replacements along with an \$80,000 increase for hydrogeological studies in two service areas.

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2018 and June 30, 2017**

- Budgeted General Operating expenses have increased by \$68,237 in Fiscal Year 2019, including an increase of \$30,940 for fees associated with processing credit card payments, election costs are anticipated to be \$25,000, and water purchases are higher by \$16,780.
- The Supplies budget increased by \$124,369 with the inclusion of \$26,000 for building renovations, \$38,028 for meter installations, \$28,891 for computer software and equipment, an increase of \$10,600 for small tools and equipment, and \$17,100 for right-of-way permits.
- Power purchases are budgeted at the same level as the prior fiscal year. The budget for CAP Water and regulatory fees decreased by \$5,069 when compared to the prior fiscal year.
- Debt service principal and interest payments for Fiscal Year 2019 will be \$6.42 million based on the amortization schedules. This is \$31,819 higher than Fiscal Year 2018. The Debt Service Reserve requirements have been satisfied with no additional funds budgeted in Fiscal Year 2019. The Debt Service Reserve Funding account has a balance of \$4.61 million as of June 30, 2018 with a required balance is \$4.55 million.
- Funding for capital projects is derived from budgeted development fees for new service connections which are planned to include \$475,371 in Fiscal Year 2019, from the operating fund balance, and Water Resource Utilization Fees. The RTA La Cholla Boulevard, Overton to Lambert Road waterline relocation project planned to be completed in Fiscal Year 2018 will be carried forward into Fiscal Year 2019 at a project cost of \$1,616,440 in Fiscal Year 2019. Capital projects planned to be funded with operating revenue equal an additional \$2,717,969 along with \$900,000 for the Northwest Recharge Recovery and Delivery Project. The total CIP funded with cash in Fiscal Year 2019 is \$4,093,340.
- Depreciation expense and amortization of assets are budgeted at \$3.44 million and these planned non-cash expenses have been included in the adopted budget. The total revenue and projected beginning fund balance is \$33 million with budget disbursements of \$27.51 million.
- A contingency for sick and vacation payouts was budgeted at \$89,212 to cover anticipated retirees. The contingency fund for emergencies has remained at \$500,000 as budgeted in prior fiscal years.

**Contacting the Metro Water District Office**

This management report is designed to provide District customers, consultants, and financial advisors with a general overview of the District's finances along with demonstrating the District's accountability, fiscal stewardship of revenue received, and planned expenses. If there are any questions about this report or additional information is needed, please contact the Chief Financial Officer at Metro Water District, 6265 N. La Canada Drive, Tucson, Arizona 85704 or call (520) 575-8100.

*This information is an integral part of the accompanying Financial Statements*



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**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Net Position**  
**June 30, 2018 and 2017**

	2018	(Restated) 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,325,626	\$ 13,580,193
Accounts receivable, net of allowance	2,245,841	1,991,590
Unbilled water revenue	646,711	736,735
Other receivables	167,230	184,687
Notes receivable - current	563,158	585,527
Prepaid expenses and deposits	637,607	542,919
Inventory	253,307	253,747
Other current assets	22,620	17,188
Total current assets	<u>20,862,100</u>	<u>17,892,586</u>
Noncurrent assets:		
Restricted cash and cash equivalents	2,444,431	2,390,184
Restricted investments	5,409,884	5,471,223
Capital assets not being depreciated	2,315,348	2,768,864
Capital assets, net of accumulated depreciation	83,456,796	82,547,629
Water recharge credits	8,185,405	6,518,167
Net OPEB asset	6,153	-
Total noncurrent assets	<u>101,818,017</u>	<u>99,696,067</u>
Total assets	<u>122,680,117</u>	<u>117,588,653</u>
<b>Deferred outflows of resources</b>		
Deferred outflows related to pensions	705,522	1,113,096
Loss on refunding of debt	662,062	774,735
Deferred outflows related to OPEB	19,858	22,286
Total deferred outflows	<u>1,387,442</u>	<u>1,910,117</u>
Total assets and deferred outflows	<u>\$ 124,067,559</u>	<u>\$ 119,498,770</u>

The accompanying notes are an integral part of the financial statements.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Net Position, Continued**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>(Restated)</u> <u>2017</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 289,575	\$ 438,196
Salaries and wages payable	25,080	29,053
Accrued liabilities	958,336	976,889
Deposits payable	492,220	476,030
Other liabilities	629,013	565,288
Current portion of notes payable	2,024,288	1,975,076
Current portion of compensated absences	285,000	285,000
Payable from restricted assets:		
Accrued interest on long term debt	331,093	405,455
Current maturity of bonds payable	2,755,000	3,270,000
Total current liabilities	<u>7,789,605</u>	<u>8,420,987</u>
Noncurrent liabilities:		
Compensated absences	240,855	234,643
Net pension liability	5,084,676	5,386,253
Net OPEB liability	-	21,353
Notes payable, less current portion	15,071,276	17,095,563
Bonds payable, less current maturities	13,295,828	16,775,107
Total noncurrent liabilities	<u>33,692,635</u>	<u>39,512,919</u>
Total liabilities	<u>41,482,240</u>	<u>47,933,906</u>
<b>Deferred inflows of resources</b>		
Deferred inflows related to pensions	397,532	738,394
Deferred inflows related to OPEB	22,103	-
Total deferred inflows	<u>419,635</u>	<u>738,394</u>
Total liabilities and deferred inflows	<u>41,901,875</u>	<u>48,672,300</u>
<b>Net Position</b>		
Net investment in capital assets	52,625,752	46,200,747
Restricted for:		
Debt Service	7,054,315	7,061,407
Repair and replacement	800,000	800,000
Unrestricted	<u>21,685,617</u>	<u>16,764,316</u>
Total net position	<u>82,165,684</u>	<u>70,826,470</u>
Total liabilities, deferred inflows, and net position	<u>\$ 124,067,559</u>	<u>\$ 119,498,770</u>

The accompanying notes are an integral part of the financial statements.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2018 and 2017**

	2018	(Restated) 2017
<b>Operating revenues</b>		
Metered water sales	\$ 18,142,697	\$ 17,352,832
Service charges and penalties	240,404	233,082
Development revenues	784,136	385,180
Other water revenues	3,114,042	3,905,005
Total operating revenues	<u>22,281,279</u>	<u>21,876,099</u>
<b>Operating expenses</b>		
Salaries and employee benefits	3,945,451	3,991,607
Materials and supplies	602,329	574,036
Purchased power	1,142,546	961,015
Purchased CAP water	2,783,541	2,494,913
Contract services	909,215	947,366
Insurance and taxes	143,760	140,552
Other operating expenses	1,050,323	945,265
Depreciation and amortization	3,354,753	3,338,649
Total operating expenses	<u>13,931,918</u>	<u>13,393,403</u>
Operating income / (loss)	<u>8,349,361</u>	<u>8,482,696</u>
<b>Non-operating income (expenses)</b>		
Interest income	44,701	30,920
Amortization of bond premiums	(38,479)	(50,015)
Gain on water recharge credits	1,667,238	1,043,120
Gain (loss) on disposal of assets	7,109	48,000
Interest expense	(1,178,993)	(1,332,047)
Total non-operating revenue (expenses)	<u>501,576</u>	<u>(260,022)</u>
Income before capital contributions	8,850,937	8,222,674
Capital Contributions	2,488,277	344,901
Increase in net position	<u>11,339,214</u>	<u>8,567,575</u>
Total net position - beginning of year	70,826,470	62,257,962
Prior period adjustment	-	933
Total net position - end of year	<u>\$ 82,165,684</u>	<u>\$ 70,826,470</u>

The accompanying notes are an integral part of the financial statements.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 22,134,509	\$ 21,649,935
Cash paid to suppliers for goods and services	(6,813,224)	(6,178,607)
Cash paid to employees	(3,943,212)	(4,018,478)
	11,378,073	11,452,850
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on long-term debt	(5,936,611)	(5,197,681)
Interest paid	(1,253,355)	(1,401,910)
Purchase of capital assets	(1,331,950)	(1,634,972)
Proceeds from the sale of capital assets	7,109	48,000
	(8,514,807)	(8,186,563)
<b>Cash flows from investing activities:</b>		
Interest on investments	44,701	30,920
Transfer to (from) cash from (to) investments	(108,287)	(106,416)
	(63,586)	(75,496)
Net change in cash and cash equivalents, including restricted cash	2,799,680	3,190,791
Cash and cash equivalents, beginning of year including restricted cash	15,970,377	12,779,586
<b>Cash and cash equivalents, end of year including restricted cash</b>	<b>\$ 18,770,057</b>	<b>\$ 15,970,377</b>

The accompanying notes are an integral part of the financial statements.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Cash Flows - Continued**  
**For the Years Ended June 30, 2018 and 2017**

	2018	2017
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>		
Operating income / (loss)	\$ 8,349,361	\$ 8,482,696
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:		
Depreciation	3,354,753	3,338,649
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(236,794)	(128,708)
(Increase)/decrease in unbilled water revenue	90,024	(97,456)
(Increase)/decrease in inventories	440	1,979
(Increase)/decrease in prepaid expenses	(94,688)	(78,918)
Increase/(decrease) in accounts payable	(148,624)	(132,213)
Increase/(decrease) in accrued liabilities	45,172	94,962
Increase/(decrease) in deposits payable	16,190	1,730
Increase/(decrease) in accrued compensation	2,239	(29,871)
Net cash flows from operating activities	\$ 11,378,073	\$ 11,452,850

**SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES**

Amortization of premiums	\$ 32,743	\$ 32,743
Amortization of losses on advance refunding	(97,716)	(97,715)
Acquisition of capital assets from capital contributions	2,488,277	344,901
Value assigned to recharge credits	1,667,238	1,043,120

The accompanying notes are an integral part of the financial statements.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 1. Summary of Significant Accounting Policies**

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**Nature of Organization**

The Metropolitan Domestic Water Improvement District (District) of Pima County, Arizona was formed on July 7, 1992 by the Pima County Board of Supervisors (PCBOS) pursuant to the provisions of Title 48, Chapter 6, Articles 1 through 4, Arizona Revised Statutes, as amended. The District was formed for the purpose of purchasing from the City of Tucson, Arizona a water system and operating such a system.

The accounting policies of the Metropolitan Domestic Water Improvement District conform to generally accepted accounting principles as applicable to governmental proprietary fund accounting. The *Governmental Accounting Standards Board (GASB)* is the accepted standards-setting body for established governmental accounting and financial reporting principles.

**Reporting Entity**

The District is a governmental domestic water improvement district; as such the accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The District's only fund is an enterprise fund.

**Basis of presentation – fund financial statements**

The fund financial statements provide information about the government's funds. The District has only one fund which is the water fund. The water fund is a proprietary fund and all of the financial activities of the District are reported within this fund.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The statements included herein report activity pertaining to the proprietary fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Encumbrance Accounting**

Encumbrance accounting methods were not used in the preparation of the District's basic financial statements. Uncommitted appropriations lapse at year end and commitments are re-appropriated in the next year's budget.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Budget Policy and Procedures**

The District adopts an annual budget. The budget is prepared on the accrual basis of accounting. The District is not legally required to adopt or submit the budget to any state or other oversight agency before it has been adopted by the Board. The District posts its adopted budget to their website in order to make it easily accessible to the public. Budgetary information has not been amended during the year. Budget appropriations lapse at year-end.

**Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less. For the purpose of the statement of cash flows, the District considers investments in the State Treasurer's Investment Pool to be cash equivalents.

**Cash and Investments**

Cash balances are invested as permitted by law which allows the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreement, and the State Treasurer's Investment Pool.

Investments are reported at fair value as required by GASB Statement No. 31. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of pool shares.

**Accounts Receivable**

Receivables consist of amounts due from customers of the District for water and sewer usage. An allowance for uncollectible accounts receivable is not provided because management determined the amounts to be immaterial.



**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Inventories**

Inventories are stated at the lower of cost or market. Inventory consists mainly of water meters, water pump parts, pipe, and other repair parts. Cost is determined on a last in first out (LIFO) cost.

**Capital Assets**

Additions to property, plant, and equipment are recorded at cost or, if contributed, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of property, plant and equipment is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

**Depreciation**

Depreciation has been calculated on each class of depreciable property using the straight line method. Estimated useful lives are as follows:

Reservoirs, transmission and distribution mains, hydrants, and valves	50-55 years
Structures, buildings, and improvements	40 years
Wells, pumping equipment, water treatment equipments, and meters	25-30 years
Other plant equipment	12-25 years
Office furniture, equipment, and vehicles	5-15 years
Water rights (regulatory assets)	30 years

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category; deferred loss on refunding of debt, pension and other postemployment benefits (OPEB) related items.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has items that qualify for reporting in this category. These items are for pension and other postemployment benefits (OPEB) related items.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Postemployment Benefits**

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Compensated Absences**

The District's personnel policy provides full-time employees with annual leave and sick leave in varying amounts, and at termination, an employee is paid for accumulated (vested) annual leave and long-term employees are also paid for sick leave as noted below. Accordingly, compensation for annual leave is charged to expense as utilized by the employee, and accumulated unpaid annual leave and qualifying sick leave, which is payable upon an employee's termination if conditions are met, is recorded as a current liability. At June 30, 2018 the liability total balance is \$525,855 and is included in accrued liabilities in the accompanying financial statements.

Effective May 2012, the District's accrued sick leave was restated for employees who leave the District and enter the Arizona State Retirement System as follows:

<u><b>Total accrued sick hours</b></u>	<u><b>Percent of vested hours</b></u>
0-240	0% of all hours up to 240
241-480	20% of all hours up to 480
481-720	30% of all hours up to 720
721-960	40% of all hours up to 960
961-1920	50% of all hours up to 1920

Employees with 10 years or more of service but less than 15 years as of May 29, 2012 will be paid 50% of the sick leave hours accrued on that date at time of the employee's voluntary or "non-cause" separation from employment. Employees with 15 years or more of service as of May 29, 2012 will be paid 75% of the sick leave hours accrued on that date at the time of the employee's voluntary or "non-cause" separation from employment. Employees with 10 years or more of service as of May 29, 2012 will follow the current sick leave policy for sick leave accrued after May 29, 2012.

If an employee with 10 years or more of service as of May 29, 2012 uses sick leave after that date, the sick leave will first be subtracted from sick leave accrued after May 29, 2012 until all such sick leave is used. Any additional sick leave the employee uses will be subtracted from the employee's sick leave accrued prior to May 29, 2012.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Unamortized Debt Discounts or Premiums**

Debt discounts or premiums are amortized using the interest method over the periods of the applicable issues.

**Unamortized Gains and Losses on Advance Refunding of Long-Term Debt**

Recognition of gains and losses realized on advance refunding of long-term debt is deferred and amortized over the life of the related refunding issues using the interest method.

**Income Taxes**

The District is a governmental agency organized under the laws of the State of Arizona and is not subject to federal or state income taxes.

**Proprietary Funds Operating and Non-operating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the district are charges to customers for sales and services. The district also recognize as operating revenue obligation fees charged uniformly to all customers and the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Other Non-current Assets**

Other non-current assets include 37,257.38 acre feet of recharge credits with estimated values ranging from \$178.50 to \$223.12 per acre foot for a total of approximately \$8,185,405 and \$6,518,167 as of June 30, 2018 and 2017, respectively. The District is required to replenish all pumped groundwater within the Tucson basin. The District accomplishes this requirement by recovering Central Arizona Project (CAP) water and effluent credits recharged outside of its service area. These credits arise as the District does not fully use (receive) its full 13,460 acre-foot CAP allocation. Credits can be sold/swapped with any interested parties, both public and private within and beyond the District's service area.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Net Position**

Net position is the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets are capital assets, net of accumulated depreciation and outstanding bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position is present when there are legal limitations imposed on their use imposed by District legislation or external parties such as other governments, creditors or grantors. The board is the highest authoritative level and is capable of assigning funds through a unanimous vote.

**Net Position Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the district’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**New pronouncements**

For the year ended June 30, 2018, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB. Implementation of these new Statements resulted in a restatement of beginning net position in the District’s government-wide and proprietary fund financial statements (see Note 7).

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**Note 2. Deposits and Investments**

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As of June 30, 2018 and 2017 the Districts cash and investments consisted of the following:

	2018	2017
Total cash in Bank	\$ 9,367,639	\$ 6,400,428
Total cash in State Treasurer Investment Pool	1,787,233	1,709,535
Total cash on deposit with the Pima County Treasurer	7,683,157	6,617,455
Total Investments	5,341,912	6,714,182
	<u>\$ 24,179,941</u>	<u>\$ 21,441,600</u>

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 2. Deposits and Investments, Continued**

A reconciliation of cash and investments as shown on the statement of net position follows:

	2018	2017
Cash and cash equivalents	\$ 16,325,626	\$ 13,580,193
Restricted cash and cash equivalents	2,444,431	2,390,184
Restricted investments	5,409,884	5,471,223
	\$ 24,179,941	\$ 21,441,600

**Deposits**

*Custodial Credit Risk*

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, the District's bank balance was \$17,464,279 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized. At June 30, 2017, the District's bank balance was \$14,391,638 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with provisions of State law which requires that investment portfolio maturities do not exceed five years from the time of purchase.

*Credit risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is comply with State law which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

**Fair value measurement**

As noted above the District holds investments that are measured at fair value on a reoccurring basis. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 2. Deposits and Investments, Continued**

**Investment Fund**

The Arizona State Treasurer's Office operates a State Treasurer's Investment Pool. The State Treasurer's Investment Pool is not registered with the SEC as an investment company. Participants share proportionally in any realized gain or losses on investments. The Pool is valued using significant other observable inputs (Level 2 inputs)

Other investments are valued using quoted prices in active markets (Level 1 inputs). As of June 30, 2018 and 2017 the District had the following investments:

June 30, 2018				
Investment Type	Credit Quality Rating	Maturity Date	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAA	**	\$ 1,787,233	33%
Federal Agency				
FHLM	Aaa/A+	10/2/2019	122,116	2%
FNMA	Aaa/A+	10/7/2021	185,959	3%
FHLM	Aaa/A+	1/13/2022	423,367	8%
FFCB	Aaa/A+	12/13/2022	747,045	14%
PEFC	Aaa/A+	7/15/2024	457,632	9%
FHLB	Aaa/A+	9/12/2025	407,967	8%
FHLB	Aaa/A+	11/29/2021	296,963	6%
FFCB	Aaa/A+	6/16/2025	913,629	17%
<b>Total</b>			<b>\$ 5,341,912</b>	<b>100%</b>

\*\* - Pool 5 has a weighted average maturity of .09 years days

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 2. Deposits and Investments, Continued**

June 30, 2017				
Investment Type	Credit Quality Rating	Maturity Date	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAA	**	\$ 1,709,535	25%
Commerical Paper Ally Bank Bond	N/A	12/4/2017	168,066	3%
Federal Agency				
FHLM	Aaa/A+	10/2/2019	105,417	2%
FNMA	Aaa/A+	12/24/2020	451,176	7%
FHLM	Aaa/A+	1/13/2022	438,005	7%
FFCB	Aaa/A+	12/13/2022	770,258	11%
PEFC	Aaa/A+	7/15/2024	743,643	11%
PEFC	Aaa/A+	6/15/2025	367,653	5%
FHLB	Aaa/A+	9/12/2025	552,503	8%
FNMA	Aaa/A+	4/24/2026	450,307	7%
FNMA	Aaa/A+	9/24/2026	957,621	14%
<b>Total</b>			<b>\$ 6,714,182</b>	<b>100%</b>

\*\* - Pool 5 has a weighted average maturity of 40 days

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 3. Restricted Assets**

Restricted assets consist of the following at June 30, 2018 and 2017:

	June 30, 2018			Total
	Bond Funds	Reserve Funds	Repair and Replacement Funds	
Cash and cash equivalents	\$ 2,444,431	\$ 2,283,524	\$ 36,696	\$ 4,764,651
U.S. Government securities	-	2,326,360	763,304	3,089,664
Other securities	-	-	-	-
Total	\$ 2,444,431	\$ 4,609,884	\$ 800,000	\$ 7,854,315

	June 30, 2017			Total
	Bond Funds	Reserve Funds	Repair and Replacement Funds	
Cash and cash equivalents	\$ 2,390,184	\$ 104,642	\$ 17,548	\$ 2,512,374
U.S. Government securities	-	4,566,581	168,066	4,734,647
Other securities	-	-	614,387	614,387
Total	\$ 2,390,184	\$ 4,671,223	\$ 800,000	\$ 7,861,407

The 1999 refinance in 2002, 2009, 2011 and 2013 resolutions authorizing the water revenue and refunding bonds required the Chief Financial Officer to create the following special funds and accounts to be held in trust and expended as follows:

**Revenue Fund** – So long as any bonds are outstanding and unpaid either as to principal, accreted value or as to interest, the entire revenues shall be deposited as collected with a depository, and shall be held in the custody of the Chief Financial Officer of the District in the Revenue Fund. Under the Senior Bond Resolution and the Subordinate Bond Resolution, the Revenue Fund shall be disbursed as hereinafter authorized in the following order:

- a. Operation and Maintenance Fund – On or before the tenth of each month an amount that, together with any money already on deposit in said fund, will be sufficient to pay operating expenses for said month. Money in the Operation and Maintenance Fund shall be used only for the payment of operating expenses.



**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 3. Restricted Assets, Continued**

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- b. Senior Bond Fund – On or before the twenty-fifth day of each month, the following deposits will be made to the “Senior Bond Fund”:
- Commencing February 25, 2002 through June 25, 2002, one-fifth of the amount which, when added to accrued interest received from the 2002 Senior Bonds coming due on July 1, 2002, will be sufficient to pay interest coming due on the 2002 Senior Bonds, and one-sixth of the amount of interest coming due on July 1, 2003 on the 1999 Senior Bonds refinanced with 2009 Senior Bonds. Thereafter, to the Senior Bond Fund one-sixth of the interest payable on all of the Senior Bonds on the next interest payment date.
  - Commencing February 25, 2002 through December 25, 2002, one-eleventh of the amount which will be sufficient to pay principal on the 2002 Senior Bonds coming due January 1, 2003, and one-twelfth of the amount of which will be sufficient to pay principal on the 1999 refinanced in 2009 Senior Bonds coming due January 1, 2003. Thereafter, one-twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the senior bonds then outstanding.
  - Commencing February 25, 2011, one-sixth of the interest payable on the parity obligations then outstanding on the next interest payment date.
  - Commencing February 25, 2011, one-twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the parity obligations then outstanding.
  - Commencing July 1, 2014, one-sixth of the interest payable on the parity obligations then outstanding on the next interest payment date for the Subordinate Obligation Revenue Refunding Bonds, Series 2013.
  - Commencing July 1, 2019, one-twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the parity obligations then outstanding for the Subordinate Obligation Revenue Refunding Bonds, Series 2013.
  - Commencing July 1, 2014, one-sixth of the interest payable on the parity obligations then outstanding on the next interest payment date for the Water Refunding Bonds, Series 2013, and Senior Lien.
  - Commencing July 1, 2019, one twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the parity obligations then outstanding for the Water Refunding Bonds, Series 2013, and Senior Lien.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 3. Restricted Assets, Continued**

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- c. Senior Reserve Fund Guarantor Reimbursement Fund – Moneys in this fund shall be used only to reimburse senior reserve fund guarantors for senior bond policy costs resulting from drawdowns. There were no required balances in this fund as of June 30, 2018 and 2017.
- d. Senior Reserve Fund – On or before the tenth day of each month, to the senior bond reserve fund an amount equal to one-twelfth of the amount required to increase or restore the senior bond reserve fund value to the senior reserve requirement within a one year period, or such amount as is required hereunder to restore the senior bond reserve fund to the senior bond reserve requirement after a senior bond reserve drawdown.
- e. Repair and Replacement Fund – After all payments required in a.) through d.) above have been made in each month, there shall be transferred to this fund not less than \$8,500 per month until the fund reaches \$800,000.
- f. Subordinate Obligation Bond Fund – On or before the twenty-fifth day of each month, to the “Subordinate Obligation Bond Fund,” the following deposits will be made:
- Commencing February 25, 2002 through June 25, 2002, one-fifth of the amount which, when added to accrued interest received from the 2002 Subordinate Bonds coming due on July 1, 2002, will be sufficient to pay interest coming due on the 2002 Subordinate Bonds, and each month thereafter, one-sixth of the amount of interest coming due on all of the Subordinate Obligation Bonds on the next interest payment date.
  - Commencing July 25, 2003, one-twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the subordinate bonds then outstanding.
- g. Subordinate Reserve Fund Guarantor Reimbursement Fund – Moneys in this fund shall be used only to reimburse subordinate bond reserve fund guarantors for subordinate bond policy costs resulting from drawdowns. There were no required balances in this fund as of June 30, 2018 and 2017.
- h. Subordinate Reserve Fund – On or before the twenty-fifth day of each month, to the subordinate bond reserve fund an amount equal to one-twelfth of the amount required to increase or restore the subordinate bond reserve fund value to the subordinate reserve requirement within a one year period, or such amount as is required hereunder to restore the subordinate bond reserve fund to the subordinate bond reserve requirement after a subordinate bond reserve drawdown.
- i. Any remaining net proceeds available for subordinate bond debt service shall be first applied to pay the HUB Purchase Agreement and any other subordinate obligations having an inferior lien and claim on the net revenues.
- j. All money remaining in the revenue fund after all of the payments required in a) through i) above have been made, shall be regarded as surplus and may be used for any lawful purpose of the District.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 3. Restricted Assets, Continued**

- k. The money in the revenue fund shall be allotted and paid into the various funds in the order in which said funds are listed and if any money in the revenue fund is insufficient to place the required amount in any of the said funds, the deficiency shall be made up in the following month or months after payment into all funds enjoying a prior claim to the revenues has been met in full.

Additionally, the unspent proceeds of the 2011 Water Revenue obligations are maintained with the State Treasurer and are restricted to disbursements related to projects designated by the bond issue.

**Note 4. Capital Assets and Depreciation**

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. Depreciation expense for the years ended June 30, 2018 and 2017 was \$3,354,753 and \$3,338,649, respectively. Capital asset activity for the years ended June 30, 2018 and 2017 was as follows:

	June 30, 2017	Additions	Disposals	Adjustments	June 30, 2018
Capital assets not being depreciated:					
Land	\$ 1,392,378	\$ -	\$ -	\$ -	\$ 1,392,378
Construction in progress	1,376,486	1,243,838	(4,032)	(1,693,322)	922,970
Total capital assets not being depreciated	<u>2,768,864</u>	<u>1,243,838</u>	<u>(4,032)</u>	<u>(1,693,322)</u>	<u>2,315,348</u>
Capital assets being depreciated:					
Water systems	106,508,212	2,503,033	(42,192)	1,693,322	110,662,375
Buildings and improvements	4,772,646	-	(8,097)	-	4,764,549
Vehicles, machinery, and equipment	1,972,597	73,358	(256,938)	-	1,789,017
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	<u>124,506,113</u>	<u>2,576,391</u>	<u>(307,227)</u>	<u>1,693,322</u>	<u>128,468,599</u>
Less: accumulated depreciation for:					
Water systems	(31,508,619)	(2,557,586)	36,400	-	(34,029,805)
Buildings and improvements	(1,413,458)	(168,623)	8,098	-	(1,573,983)
Vehicles, machinery, and equipment	(1,728,629)	(85,431)	256,939	-	(1,557,121)
Regulatory assets	(7,307,778)	(543,116)	-	-	(7,850,894)
Total accumulated depreciation	<u>(41,958,484)</u>	<u>(3,354,756)</u>	<u>301,437</u>	<u>-</u>	<u>(45,011,803)</u>
Total capital assets being depreciated, net	<u>82,547,629</u>	<u>(778,365)</u>	<u>(5,790)</u>	<u>1,693,322</u>	<u>83,456,796</u>
Total capital assets, net of accumulated depreciation	<u>\$ 85,316,493</u>	<u>\$ 465,473</u>	<u>\$ (9,822)</u>	<u>\$ -</u>	<u>\$ 85,772,144</u>

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 4. Capital Assets and Depreciation, Continued**

	June 30, 2016	Additions	Disposals	Adjustments	June 30, 2017
Capital assets not being depreciated:					
Land	\$ 1,392,378	\$ -	\$ -	\$ -	\$ 1,392,378
Construction in progress	796,994	1,493,785	(27,931)	(886,362)	1,376,486
Total capital assets not being depreciated	<u>2,189,372</u>	<u>1,493,785</u>	<u>(27,931)</u>	<u>(886,362)</u>	<u>2,768,864</u>
Capital assets being depreciated:					
Water systems	105,458,105	442,796	(5,163)	612,474	106,508,212
Buildings and improvements	4,480,154	18,604	-	273,888	4,772,646
Vehicles, machinery, and equipment	2,109,316	24,690	(161,409)	-	1,972,597
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	<u>123,300,233</u>	<u>486,090</u>	<u>(166,572)</u>	<u>886,362</u>	<u>124,506,113</u>
Less: accumulated depreciation for:					
Water systems	(28,972,967)	(2,540,815)	5,163	-	(31,508,619)
Buildings and improvements	(1,249,949)	(163,509)	-	-	(1,413,458)
Vehicles, machinery, and equipment	(1,798,813)	(91,225)	161,409	-	(1,728,629)
Regulatory assets	(6,764,678)	(543,100)	-	-	(7,307,778)
Total accumulated depreciation	<u>(38,786,407)</u>	<u>(3,338,649)</u>	<u>166,572</u>	<u>-</u>	<u>(41,958,484)</u>
Total capital assets being depreciated, net	<u>84,513,826</u>	<u>(2,852,559)</u>	<u>-</u>	<u>886,362</u>	<u>82,547,629</u>
Total capital assets, net of accumulated depreciation	<u>\$ 86,703,198</u>	<u>\$ (1,358,774)</u>	<u>\$ (27,931)</u>	<u>\$ -</u>	<u>\$ 85,316,493</u>

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 5. Long-Term Debt**

The following is a summary of changes in long-term debt for the years ended June 30, 2018 and 2017:

	<u>Balance 6/30/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2018</u>	<u>Current Portion</u>
Bonds	\$ 19,957,000	\$ -	\$ (3,950,000)	\$ 16,007,000	\$ 2,755,000
Unamortized Premiums	88,107	-	(44,279)	43,828	44,279
Notes Payable	19,070,639	-	(1,975,075)	17,095,564	2,024,288
Compensated Absences	519,643	259,822	(253,610)	525,855	285,000
Net Pension Liability	5,386,253	674,741	(976,318)	5,084,676	-
	<u>\$ 45,021,642</u>	<u>\$ 934,563</u>	<u>\$ (7,199,281)</u>	<u>\$ 38,756,923</u>	<u>\$ 5,108,567</u>
	<u>Balance 6/30/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2017</u>	<u>Current Portion</u>
Bonds	\$ 23,122,000	\$ -	\$ (3,165,000)	\$ 19,957,000	\$ 3,270,000
Unamortized Premiums	120,850	-	(32,743)	88,107	32,743
Notes Payable	21,103,321	-	(2,032,680)	19,070,639	1,975,074
Compensated Absences	566,791	283,396	(330,544)	519,643	285,000
Net Pension Liability	4,977,319	674,741	(265,807)	5,386,253	-
	<u>\$ 49,890,281</u>	<u>\$ 958,137</u>	<u>\$ (5,826,774)</u>	<u>\$ 45,021,642</u>	<u>\$ 5,562,817</u>

**Bonds Payable**

The annual requirements for the next five years and 5 year increments thereafter to amortize bonds outstanding at June 30, 2018 are as follows:

Bonds Payable			
Year Ended June 30,	Principal	Interest	Total
2019	\$ 2,755,000	\$ 421,580	\$ 3,176,580
2020	2,300,000	346,231	2,646,231
2021	2,370,000	274,941	2,644,941
2022	2,460,000	213,656	2,673,656
2023	2,510,000	155,011	2,665,011
2024-2028	3,612,000	155,011	3,767,011
Total	<u>\$ 16,007,000</u>	<u>\$ 1,738,571</u>	<u>\$ 17,745,571</u>

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 5. Long-Term Debt, Continued**

Water revenue and refunding bonds payable at June 30 are comprised of the following issues:

	2018	2017
\$24,855,000 - Metropolitan Domestic Water District of Pima County, Water Revenue and Refunding Bonds, Series 2002, due in annual installments varying from \$225,000 to \$1,800,000 through July 1, 2023; interest rate is variable from 2.9% to 5.25% and is secured by water revenue.	\$ -	\$ 1,325,000
\$15,910,000 - Metropolitan Domestic Water District of Pima County, Water Revenue and Refunding Bonds, Series 2009, due in annual installments varying from \$247,182 to \$2,071,884 through January 1, 2019; interest rate is variable from 2.50% to 3.625% and is secured by water revenue.	2,035,000	3,970,000
\$6,630,000 - Metropolitan Domestic Water Improvement District of Pima County, Senior Lien Water Revenue Obligation Bonds Series 2011, due in annual installments varying from \$106,100 to \$795,400 through January 1, 2021; interest rate is variable from 2.5% to 4.0% and is secured by water revenue.	2,245,000	2,935,000
\$2,940,000 - Metropolitan Domestic Water Improvement District of Pima County, Senior Lien Water Revenue Refunding Bond Series 2013, due in annual installments varying from \$535,000 to \$1,000,000 through January 1, 2023; interest rate is 2.6% and is secured by water revenue. No principal payment required until January 1, 2020.	2,940,000	2,940,000
\$8,787,000 - Metropolitan Domestic Water Improvement District of Pima County, Senior Lien Water Revenue Refunding Bond Series 2013, due in annual installments varying from \$787,000 to \$1,975,000 through January 1, 2023; interest rate is 2.65% and is secured by water revenue. No principal payment is required until July 1, 2020.	8,787,000	8,787,000
Unamortized bond premiums	43,828	88,107
Total bonds payable	\$ 16,050,828	\$ 20,045,107

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 5. Long-Term Debt, Continued**

On March 11, 1997, District residents voted to approve authorization of a \$23 million bond program. The bonds funded the District's five-year Capital Improvement Program (CIP). The five-year CIP includes construction of 75,000 feet of transmission mains, design of a storage facility, drilling of at least three new wells and acceleration of the main line replacement program to upgrade neighborhood water lines, including the installation of fire hydrants. In 1999, the District issued \$13 million in Water Revenue Bonds. In 2002, the District issued the remaining \$10 million in Water Revenue Bonds as part of the Series 2002 bonds.

In a resolution adopted by the Board on January 14, 2002, MDWID approved the authorization of the 2002 senior bonds, which represented the final \$10 million installment discussed above. In the same resolution, MDWID approved the Subordinate Obligation Revenue Refunding Bonds, Series 2002, totaling \$14.855 million. The 2002 Subordinate Bonds will fund the prepayment of the District's obligations under a settlement with the City of Tucson and the District's obligations under a 1998 Lease-Purchase Agreement with Metropolitan Domestic Water Improvement District Municipal Property Corporation, relating to construction of administrative buildings, and reimbursement relating to a reservoir, and to purchase municipal bond insurance and pay issuance costs associated with the 2002 Subordinate Bonds.

During fiscal year 2009-10, the District issued Water Revenue and Refunding Bonds, Series 2009. These bonds were issued to refund the Water Revenue and Refunding Bonds of 1999 that were issued as variable rate bonds. The effect of this refunding is summarized as follows:

Closing date	12/29/2009
Net interest rate	3.67%
Refunding bonds issued	\$ 15,910,000
Premium	86,191
Issue costs	(238,650)
Net proceeds	<u>\$ 15,757,541</u>
Refund Amount	\$ 16,356,932
Decrease in debt service	\$ 567,019
Economic gain	\$ 41,163
Number of years affected	9

On June 28, 2018, the District placed \$699,322 in an irrevocable trust backed by AAA rated State and Local Government Securities to provide for all future debt service payments of the Water Revenue and Refunding Bonds, Series 2002. As a result of the \$680,000 bond defeasance of the Series 2002 Subordinate Obligation, the liability has legally been removed from the District statement of net position. The principal amount of defeased debt outstanding at June 30, 2018 is \$680,000.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 5. Long-Term Debt, Continued**

On December 16, 2010, the District issued \$6,630,000 Senior Lien Water Revenue Obligation Bonds, Series 2011, for the purpose of financing the relocation of improvements of various infrastructure projects. The bonds are secured by certain water revenues. Payouts of principal and interest are due annually at rates from 2.3% to 4.0% through January 2021.

The 2013 Subordinate Bond was issued and delivered pursuant to resolution passed and adopted by the Board Directors of the District on January 14, 2013. The Series 2013 Subordinate Bond matures on July 1, 2026, in the total aggregate principal amount of \$8.787 million. The series 2013 Subordinate Bond is being issued for the purpose of providing funds to be used to advance refund certain of the District's Subordinate Obligation Water Revenue Refunding Bonds, Series 2002 (the "Subordinate Bonds being Refunded") and to pay the costs of issuance of the Series 2013 Subordinate Bond.

On January 22, 2013, MDWID approved the authorization of the Senior Lien Water Refunding Bonds, Series 2013, in the amount of \$2.940 million. The net proceeds of the Senior Lien Bond will be used for the purpose of (a) refunding and redeeming the Series 2002 Bonds Being Refunded (as defined in the Bond Resolution) and (b) paying costs relating to the issuance of the Senior Lien Bond. The series 2013 Senior Lien Bond matures on January 1, 2023, in the total aggregate principal amount of \$2.940 million.

**Notes Payable**

The annual requirements for the next five years and 5 year increments thereafter to amortize notes payable outstanding at June 30, 2018 are as follows:

Notes Payable			
Year Ended June 30,	Principal	Interest	Total
2019	\$ 2,024,288	\$ 475,755	\$ 2,500,043
2020	1,926,715	415,331	2,342,046
2021	1,983,771	357,882	2,341,652
2022	2,042,517	298,730	2,341,247
2023	2,103,003	237,827	2,340,830
2024-2028	5,848,199	237,827	6,086,026
2029-2033	1,167,071	429,087	1,596,158
Total	\$ 17,095,564	\$ 2,452,438	\$ 19,548,002



**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 5. Long-Term Debt, Continued**

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Notes payable at June 30 are comprised of the following issues:

	2018	2017
Note payable to HUB Water Company, Inc., due in monthly installments of \$14,329 through June 2019, including interest at 6%, secured by the purchased assets of HUB Water Company, Inc.	\$ 152,987	\$ 310,583
Loan payable to Water Infrastructure Financing Authority (WIFA-1), due in semi-annual payments through January 1, 2027; interest rate varies with a maximum of 3.031% per annum and is secured by water revenues.	6,009,504	6,665,173
Loan payable to Water Infrastructure Financing Authority (WIFA-3), due in semi-annual payments through January 1, 2025; interest rate varies with a maximum of 2.877% per annum and is secured by water revenues.	7,877,010	8,878,305
Loan payable to Water Infrastructure Financing Authority (WIFA-4), due in semi-annual payments through January 1, 2033; interest rate varies with a maximum of 2.940% per annum and is secured by water revenues.	3,056,063	3,216,578
Total notes payable	\$ 17,095,564	\$ 19,070,639

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**Note 6. Retirement and Pension Plans**

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**Arizona State Retirement System (ASRS)**

**Plan description** – The District participates in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at [www.azasrs.gov](http://www.azasrs.gov).

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 6. Retirement and Pension Plans, Continued**

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

	<b>Initial Membership Date Before July 1, 2011</b>	<b>Initial Membership Date On or After July 1, 2011</b>
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\* With actuarially reduced benefits.

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.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 6. Retirement and Pension Plans, Continued**

**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, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and the statute required the District to contribute at the actuarially determined rate of 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll. The District's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018 were:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2018	\$ 360,760	\$ 14,563	\$ 5,296

**Liability** – At June 30, 2018, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

<b>Net pension/OPEB (asset) liability</b>	
Pension	\$ 5,084,676
Health insurance premium benefit	(18,031)
Long-term disability	11,878

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset or liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future permanent benefit increases.

The District's proportion of the net asset or net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The District's proportion measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

	Proportion June 30, 2016	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.033370%	0.032640%	-0.000730%
Health insurance premium benefit	0.033120%	0.033120%	0.000000%
Long-term disability	0.032769%	0.032770%	0.000001%

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 6. Retirement and Pension Plans, Continued**

The net asset and net liabilities measured as of June 30, 2018, 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 District's net asset and net liabilities as a result of these changes is not known.

**Expense** – For the year ended June 30, 2018, the District recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	\$ 132,690
Health insurance premium benefit	10,546
Long-term disability	6,337

**Deferred outflows/inflows of resources** – At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-term disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 152,467	\$ -	\$ -	\$ -	\$ -
Changes of assumptions or other inputs	220,839	152,041	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	36,504	-	-	20,302	-	1,777
Changes in proportion and differences between contributions and proportionate share of contributions	87,420	93,024	-	23	-	1
Contributions subsequent to the measurement date	360,760	-	14,563	-	5,296	-
<b>Total</b>	<b>\$ 705,523</b>	<b>\$ 397,532</b>	<b>\$ 14,563</b>	<b>\$ 20,325</b>	<b>\$ 5,296</b>	<b>\$ 1,778</b>

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 6. Retirement and Pension Plans, Continued**

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30	Pension	Health Insurance Premium Benefit	Long-term disability
2019	\$ (179,544)	\$ (5,080)	\$ (445)
2020	188,885	(5,080)	(444)
2021	54,853	(5,080)	(444)
2022	(116,963)	(5,080)	(445)
2023	-	(5)	-
Thereafter	-	-	-

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

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, 2012.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 6. Retirement and Pension Plans, Continued**

The long-term expected rate of return on ASRS plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Portfolio Real Rate of Return</b>
Equity	58%	6.73%
Fixed income	25%	3.70%
Multi-asset	5%	4.25%
Commodities	2%	3.41%
Real Estate	10%	3.84%
Totals	100%	

**Discount Rate** – The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

**Sensitivity of the District's proportionate share of the ASRS net pension/OPEB (asset) liability to changes in the discount rate** – The following table presents the District's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

**Note 6. Retirement and Pension Plans, Continued**

Proportionate share of the	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	\$ 6,526,270	\$ 5,084,676	\$ 3,880,101
Net insurance premium benefit liability (asset)	29,943	(18,031)	(58,500)
Net long-term disability liability	14,204	11,878	9,907

**Plan fiduciary net position** – Detailed information about the plans’ fiduciary net position is available in the separately issued ASRS financial report.

**Note 7. Contributed Capital**

Capital assets contributed by land developers, consisting of construction of certain portions of the distribution systems, totaled \$2,488,277 and \$344,901 during the years ended June 30, 2018 and 2017, respectively, and are included in contributed capital on the statements of revenues, expenses, and changes in net position.

**Note 8. Regulatory Assets**

Pursuant to a settlement with the City of Tucson, the District Board has ordered the capitalization of a regulatory asset. This asset was created as a result of a \$12.9 million settlement along with the related note payable due to the City of Tucson. In accordance with generally accepted accounting principles in the United States of America, the regulatory asset was created due to the decision that water revenues will be utilized to pay-off the settlement note payable. As part of the 2002 Series bond issue, the note payable to the City of Tucson was paid off in full and the regulatory asset was reduced by \$920,103, the amount of the discount granted by the City of Tucson for advance payment of the note. The regulatory asset is being amortized on a straight-line basis over 21 years, the remaining financing period of the 2002 Series bond issue.

In November of 2007, the District acquired water rights valued at \$3,050,000 through the issuance of a long-term note payable to the Central Arizona Water Conservation District (CAWCD). The District was allocated 4,602 acre-feet of additional CAP & M&I priority water rights from CAWCD. These rights are similar to those granted under the settlement agreement with the City of Tucson, and are being amortized on a straight-line basis over the remaining life of the other regulatory assets through 2023.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2018**

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**Note 9. Assignment of Right of Way**

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On December 2010, the State Land Commissioners consented to the Assignment of Right-of-Way of real property in Pima County from CAWCD to the District that expires on December 9, 2054. The assignment resulted in a non-cash acquisition of capital asset in exchange for recharge credits valued at approximately \$1.7 million. Rent shall be paid, prior to or on each 10-year anniversary of the issuance of the original easement No14-109764 for the subsequent 10 year period. The amount of each 10 year rental payment shall be determined per an appraisal of the easement by the State Land Commissioners.

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**Note 10. Risk Management**

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The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District has assessed these risks and has purchased insurance policies to mitigate potential losses from these threats.

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**Note 11. Contingencies**

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The District is involved in various other matters of litigation from year to year. In management's opinion, the District has adequate legal defenses regarding each of these actions and does not believe that they materially affect the District's operations or financial position.

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**Note 12. Restatement Adjustment**

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As mentioned in Note 1 to the financial statements, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*. This resulted in a restatement of beginning net position as follows:

Restatement adjustment - implementation of GASB 75:		
Net OPEB liability (measurement date as of June 30, 2016)	\$	(21,353)
Deferred outflows - contributions made during fiscal year 2017		<u>22,286</u>
Total Restatement Adjustment	\$	<u><u>933</u></u>



**REQUIRED SUPPLEMENTARY INFORMATION**

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**June 30, 2018**

<b>ASRS - Pension</b>	<b>Reporting Fiscal Year (Measurement Date)</b>			
	<b>2018 (2017)</b>	<b>2017 (2016)</b>	<b>2016 (2015)</b>	<b>2015 (2014)</b>
Proportion of the net pension liability (asset)	0.032640%	0.033370%	0.031950%	0.034111%
Proportionate share of the net pension liability (asset)	\$ 5,084,676	\$ 5,386,253	\$ 4,977,319	\$ 4,884,827
Covered payroll	\$ 3,191,509	\$ 3,026,837	\$ 3,021,540	\$ 2,691,250
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	159.32%	177.95%	164.73%	181.51%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%

Note: The District implemented GASB 68 in fiscal year 2015. Prior year information is not available.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of Contributions**  
**June 30, 2018**

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**ASRS - Pension**

	<b>Reporting Fiscal Year</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 360,760	\$ 343,199	\$ 326,808	\$ 251,641	\$ 318,422
Contributions in relation to the contractually required contribution	(360,760)	(343,199)	(326,808)	(251,641)	(318,422)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,299,293	\$ 3,191,509	\$ 3,026,837	\$ 3,021,540	\$ 2,691,250
Contributions as a percentage of covered payroll	10.93%	10.75%	10.80%	8.33%	11.83%

Note: The District implemented GASB 68 in fiscal year 2015. Prior year information is not available.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of the Proportionate Share of the Net OPEB Liability**  
**June 30, 2018**

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<b>ASRS - Health insurance premium benefit</b>	<b>Reporting Fiscal Year</b>	
	<b>(Measurement Date)</b>	
	<b>2018</b>	<b>2017</b>
	<b>(2017)</b>	<b>(2016)</b>
Proportion of the net OPEB (asset)	0.033120%	0.033120%
Proportionate share of the net OPEB (asset)	\$ (18,031)	\$ 9,577
Covered payroll	\$ 3,191,509	\$ 3,026,837
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.56%	0.32%
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%	98.02%

Note: The District implemented GASB 75 in fiscal year 2018. Prior year information is not available.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of Contributions**  
**June 30, 2018**

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**ASRS - Health insurance premium benefit**

	<b>Reporting Fiscal Year</b>	
	<b>2018</b>	<b>2017</b>
Contractually required contribution	\$ 14,563	\$ 17,829
Contributions in relation to the contractually required contribution	(14,563)	(17,829)
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 3,299,293	\$ 3,191,509
Contributions as a percentage of covered payroll	0.44%	0.56%

Note: The District implemented GASB 75 in fiscal year 2018. Prior year information is not available.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of the Proportionate Share of the Net OPEB Liability**  
**June 30, 2018**

<b>ASRS - Long-term disability</b>	<b>Reporting Fiscal Year</b>	
	<b>(Measurement Date)</b>	
	<b>2018</b>	<b>2017</b>
	<b>(2017)</b>	<b>(2016)</b>
Proportion of the net OPEB (asset)	0.032770%	0.032769%
Proportionate share of the net OPEB (asset)	\$ 11,878	\$ 11,776
Covered payroll	\$ 3,191,509	\$ 3,026,837
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.37%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%	85.17%

Note: The District implemented GASB 75 in fiscal year 2018. Prior year information is not available.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of Contributions**  
**June 30, 2018**

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**ASRS - Long-term disability**

	<b>Reporting Fiscal Year</b>	
	<b>2018</b>	<b>2017</b>
Contractually required contribution	\$ 5,296	\$ 4,457
Contributions in relation to the contractually required contribution	(5,296)	(4,457)
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 3,299,293	\$ 3,191,509
Contributions as a percentage of covered payroll	0.16%	0.14%

Note: The District implemented GASB 75 in fiscal year 2018. Prior year information is not available.

**Other Communications From Independent Auditors**



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**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***

Board of Directors  
Metropolitan Domestic Water Improvement District  
Tucson, 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 business-type activities of Metropolitan Domestic Water Improvement District as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 21, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District's financial statements are free from 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 that are required to be reported under *Government Auditing Standard*.

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

A handwritten signature in black ink that reads "Hinton Burdick, PLLC". The signature is written in a cursive, flowing style.

HintonBurdick, PLLC  
Flagstaff, Arizona  
September 21, 2018