

**METRO DOMESTIC WATER  
IMPROVEMENT DISTRICT**



**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Independent Auditors' 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.....                        | 45          |
| Schedule of Contributions.....   | 46          |
| <b>Other Communications from Independent Auditors:</b>                                       |             |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters..... | 49          |

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## INDEPENDENT AUDITORS' 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, 2017 and 2016, 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 evaluation 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, 2017 and 2016, 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 15, 2017 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 15, 2017

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**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

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 years ended June 30, 2017 and June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with the preceding Independent Auditors' 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 now has over 21,000 customer accounts, 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) statements of net position, 2) statements of revenue, expenses, and changes in net position, 3) statements 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 the MDWID's assets and liabilities, 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 accounting policies, which are the specific accounting principles and the methods of applying those principles, used by MDWID in preparing its financial statements. Generally accepted accounting principles requires disclosure of all accounting policies that materially affect the determination of financial position, results of operations, and cash flows.

**The District**

The boundaries of the District consists of approximately 360 miles of water mains. The Metro Hub service area was purchased in 1999, and in December 2009, the District acquired the Metro Southwest Thim Water Systems, located southwest of Tucson. This system is part of the Metro Water Southwest service area consisting of Diablo Village, E&T, and Lazy B. The Southwest service areas have not been annexed into the District's legal boundaries. In addition, the District has annexed Metro West that has not been provided water services yet.

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

The District obtains water from 36 wells with 26 in Metro Main, 5 in Metro Hub, and 5 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 2017 and 2016:

|  | <u>June 30, 2017</u>         | <u>June 30, 2016</u>         |
|--|------------------------------|------------------------------|
| Current assets   | \$ 17,892,586                | \$ 13,931,168                |
| Restricted cash and investments                              | 7,861,407                    | 8,296,618                    |
| Capital assets, net of accumulated depreciation              | 82,547,629                   | 84,513,826                   |
| Regulatory assets  | 2,768,864                    | 2,189,372                    |
| Water recharge credits                                       | <u>6,518,167</u>             | <u>5,475,048</u>             |
| <b>Total assets</b>  | <b><u>\$ 117,588,653</u></b> | <b><u>\$ 114,406,032</u></b> |
| <br>   |                              |                              |
| Deferred outflows related to pensions                        | \$ 1,113,096                 | \$ 462,628                   |
| Deferred outflows, loss on refund of debt                    | <u>774,735</u>               | <u>872,450</u>               |
| <b>Total deferred outflows</b>                               | 1,887,831                    | 1,335,078                    |
| <b>Total assets and Deferred Outflows</b>                    | <b><u>\$ 119,476,484</u></b> | <b><u>\$ 115,741,110</u></b> |
| <br>   |                              |                              |
| Current liabilities  | \$ 8,420,987                 | \$ 8,459,440                 |
| Long-term debt , pension liability and compensated absences  | <u>39,491,566</u>            | <u>44,409,856</u>            |
| <b>Total liabilities</b>                                     | <b><u>\$ 47,912,553</u></b>  | <b><u>\$ 52,869,296</u></b>  |
| <br>   |                              |                              |
| Deferred inflows related to pensions                         | <u>738,394</u>               | <u>613,852</u>               |
| <b>Total deferred inflows</b>                                | 738,394                      | 613,852                      |
| <br>   |                              |                              |
| <b>Total liabilities and deferred inflows</b>                | <b><u>\$ 48,650,947</u></b>  | <b><u>\$ 53,483,148</u></b>  |
| <br>   |                              |                              |
| Invested in capital assets, net of related debt              | \$ 46,200,747                | \$ 42,357,028                |
| Restricted for:  |                              |                              |
| Debt service   | \$ 7,061,407                 | \$ 7,496,618                 |
| Repair and replacement                                       | 800,000                      | 800,000                      |
| Unrestricted   | <u>16,763,383</u>            | <u>11,604,316</u>            |
| <b>Total net position</b>                                    | <b><u>\$ 70,825,537</u></b>  | <b><u>\$ 62,257,962</u></b>  |
| <br>   |                              |                              |
| <b>Total Liabilities, deferred inflows, and net position</b> | <b><u>\$ 119,476,484</u></b> | <b><u>\$ 115,741,110</u></b> |



**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

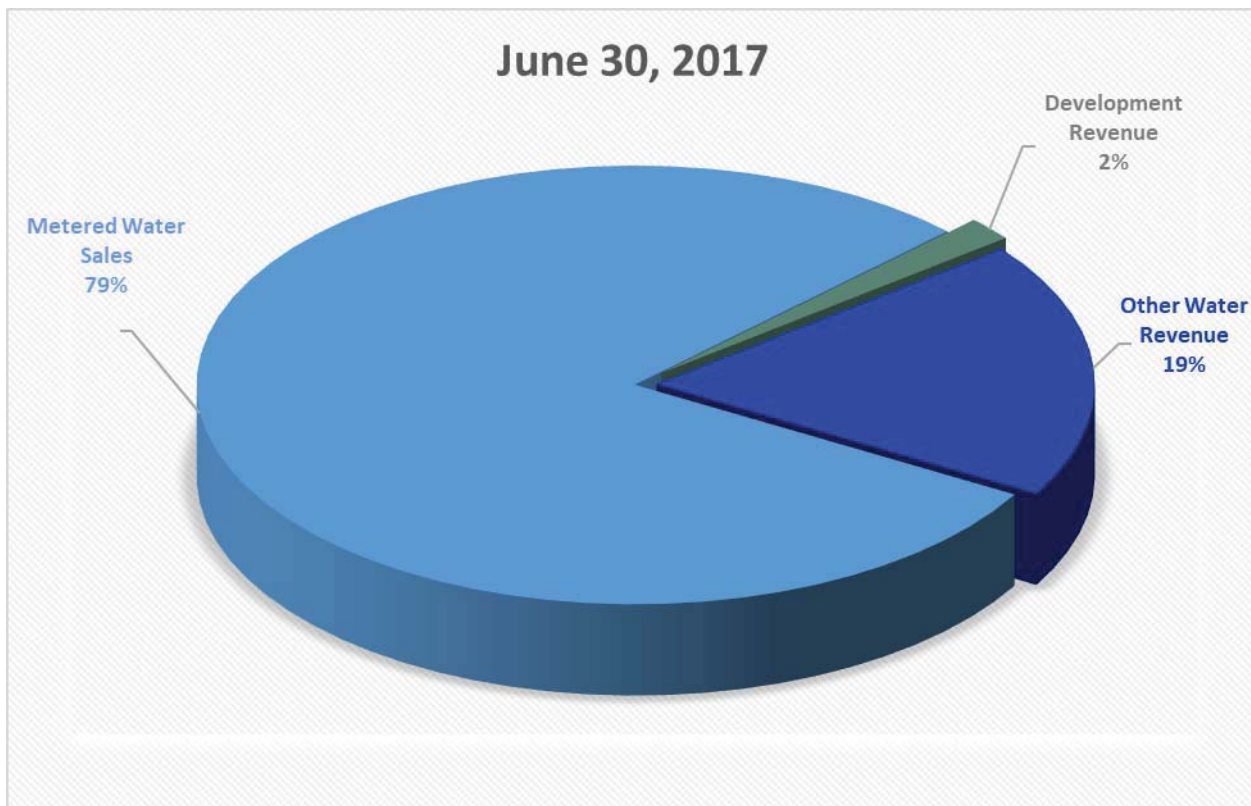
**Summary of Net Position (Continued)**

MDWID's total net position shows an increase of \$8.57 million over Fiscal Year 2016. Current assets increased \$3.96 million over the previous year with increases in cash and cash equivalents of \$3.68 million. Non-current assets decreased by \$.78 million with a \$1.97 million reduction in capital assets net of accumulated depreciation. Capital assets not being depreciated increase \$.58 million, restricted cash and cash equivalents decreased \$.49 million, and recharged water credits increased \$1.04 million. The Deferred outflow related to pensions as part of the GASB 68 reporting requirements have increased by \$.55 million in Fiscal Year 2017. This consists of the Arizona State Retirement System (ASRS) withheld in Fiscal Year 2017 that will be reported as expenses in Fiscal year 2018 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.

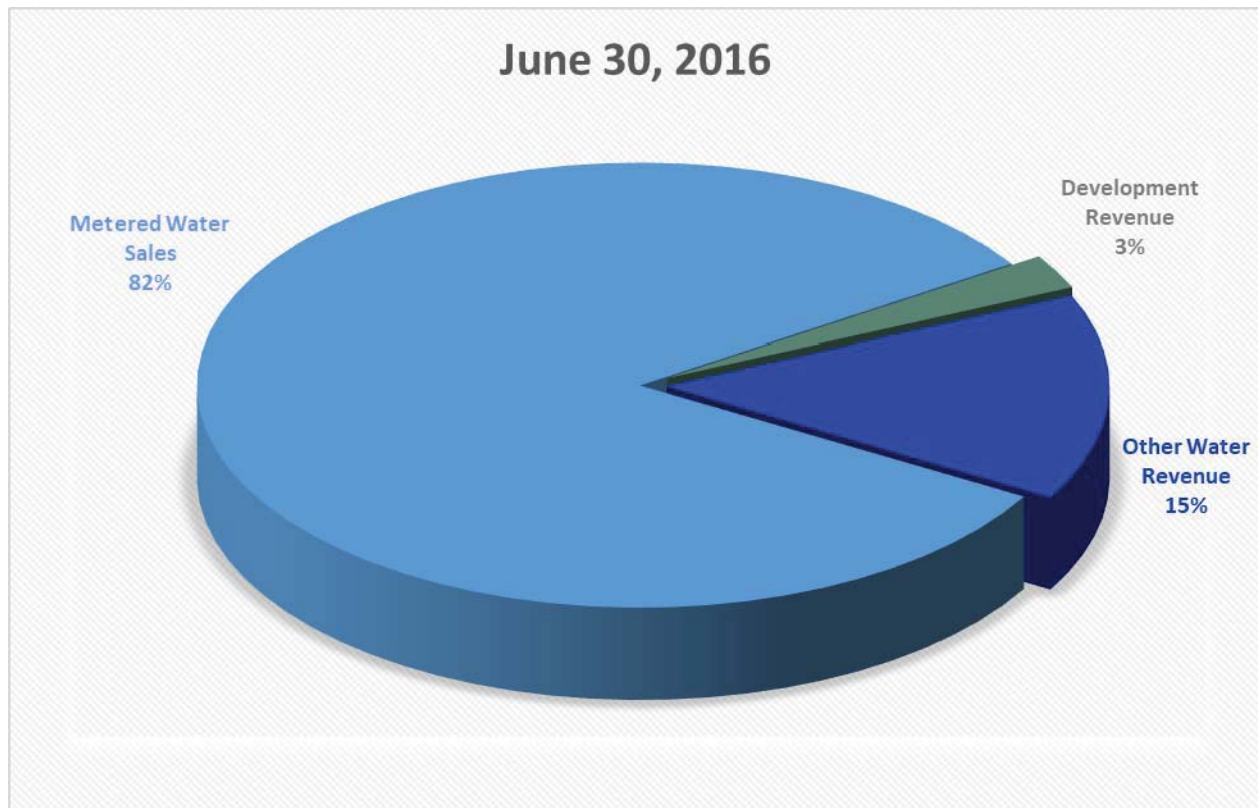
In Fiscal Year 2017, current liabilities decreased by \$38,453 when compared to Fiscal Year 2016. Noncurrent liabilities decreased by \$4.92 million with long term-debt decreasing by \$5.25 million from the principal payments applied to outstanding debt. The net pension liability in accordance with GASB 68 increased by \$.40 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, 2017 and June 30, 2016**

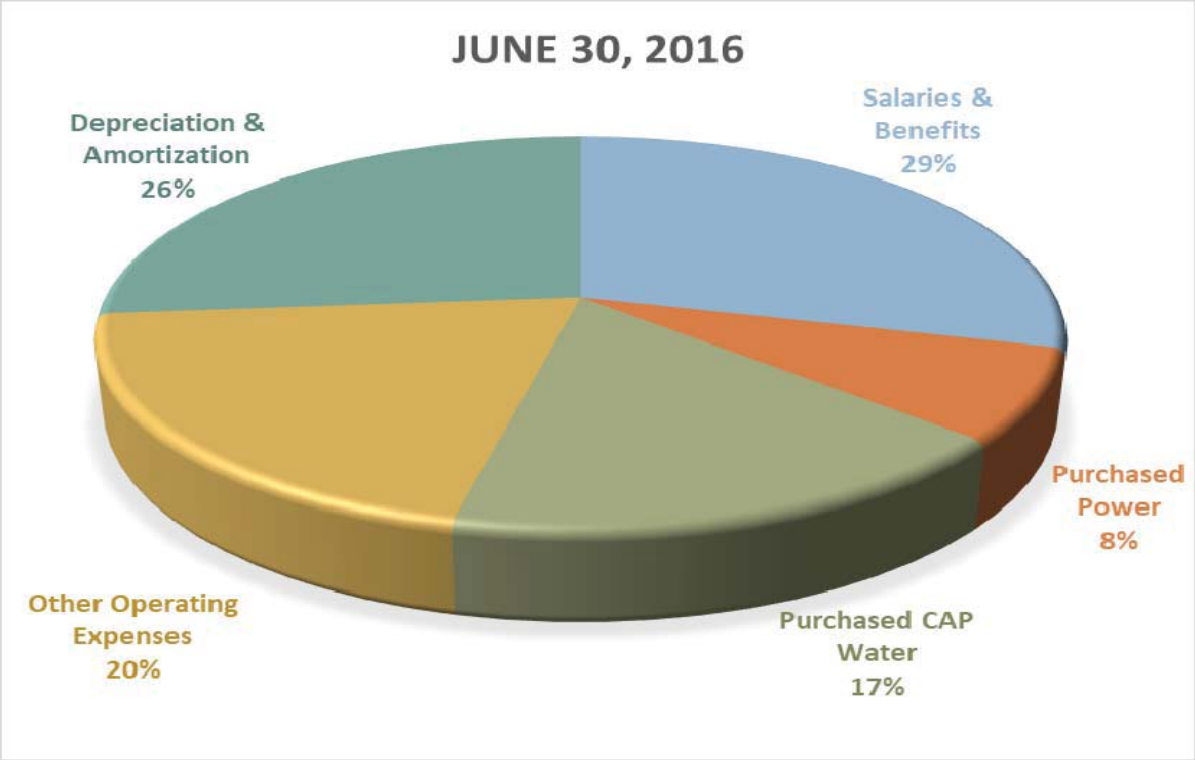
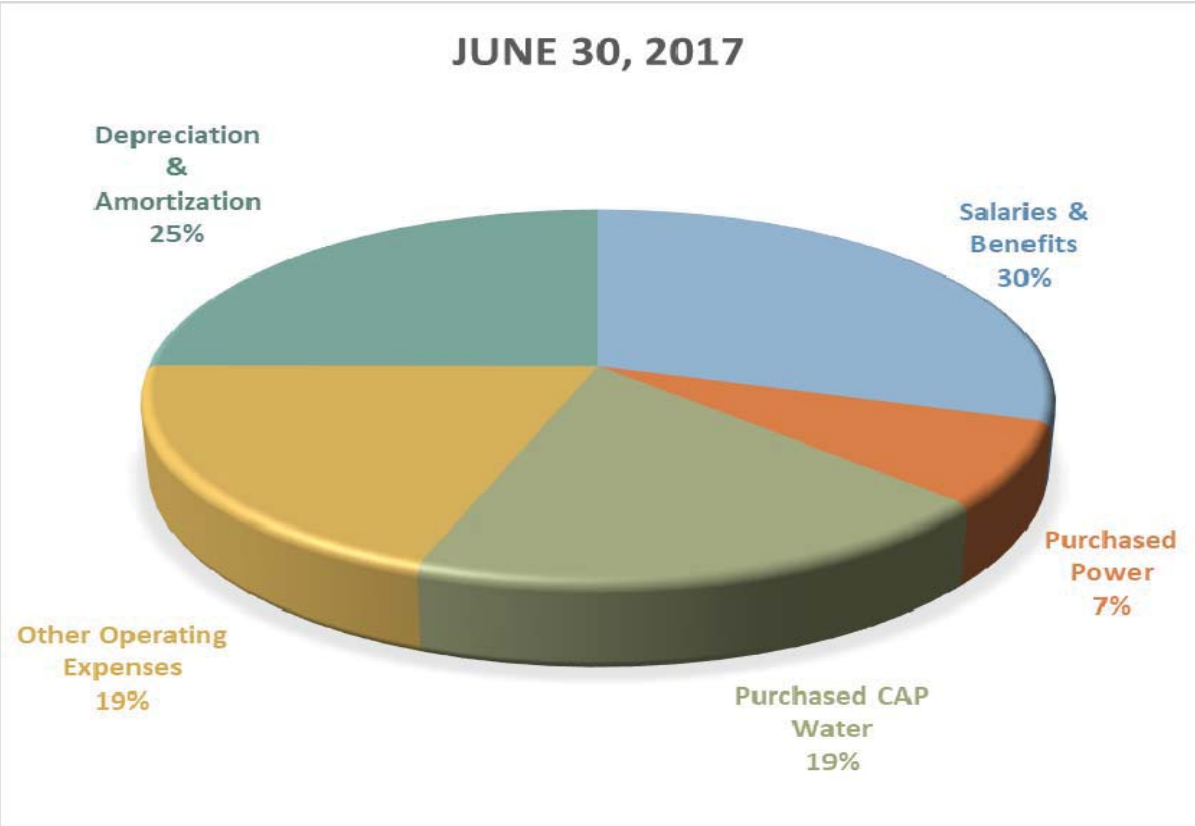


Total operating revenue for Fiscal Year 2017 totaled \$21.9 million compared to \$19.4 million in Fiscal Year 2016 for a 12.74% increase. At \$17.35 million, Metered Water Sales accounted for 79% of the total operating revenue in Fiscal Year 2017. The Water sales increased \$1,341,631 over the prior fiscal year by establishing a more stable revenue source to mitigate declining water usage. Other Water Revenue increased by 4% when comparing overall revenue in Fiscal Year 2017. Water Resource Utilization Fee set at fifty cents per thousand gallons of water effective July 1, 2016, the inclusion of revenue from additional sources of water storage, and a one-time release of \$924,000 from Central Arizona Project with the closure of the water reliability fund they held for the Tucson region. 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 there by 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 water CAP credits from Metro Main to Metro Southwest, accrued interest income, and collection of bad debt. Rates for all of these other services have been reviewed and updated as needed to cover the cost of services provided.

Requests for new meter installation within the District have decreased with a total of 123 applications received in Fiscal Year 2017, compared to 148 meter applications in the prior fiscal year. One hundred and one 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 and 68 new meter applications in Fiscal Year 2016. Development revenue for Fiscal Year 2017 totaled \$385,180, which is a decrease of \$103,369 when compared to the previous fiscal year.

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

**Operating Expenses**



**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

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

Operating expenses totaled \$13.39 million in Fiscal Year 2017 compared to \$12.50 million in Fiscal Year 2016 for an increase of 7.1%.

Salaries and benefits increased by 1% with some staff retirement payouts, and less staff time charged to capital projects. Salaries and employee benefits continue to be the District's largest expenditures, making up 30% of the total operating costs. Funded positions increased to 49 full-time positions and one part-time position.

Purchases of CAP water increased \$376,031, and other operating expenditures increased by \$74,306.

Depreciation and amortization expenditures totaled \$3.34 million compared to \$3.30 million for Fiscal Year 2016. Purchased power costs were slightly higher in Fiscal Year 2017 at \$961,015 compared to \$941,723 in the prior fiscal year. The District continues to take advantage of more interruptible rate options, and solar provided 90% of the electric used at the administrative buildings. Contracted Service decreased by \$38,925 in Fiscal Year 2017. Insurance and taxes were \$5,465 lower at \$140,552 compared to \$146,017 in Fiscal Year 2016. Material supplies expenditures were \$74,972 higher in Fiscal Year 2017 with a total of \$574,036 compared to \$499,064 in Fiscal Year 2016. Other operating expenditures were higher at \$948,263 compared to \$873,957 in Fiscal Year 2016.

**Non-Operating Revenue/Expenses**

Non-operating expenditures exceeded non-operating income by \$260,022 in Fiscal Year 2017, an improvement when compared to a \$448,478 for Fiscal year 2016. Water recharge credits continue to increase in value from both rate changes by \$303,719 or 29%, and increased storage quantity valuation by \$739,400 or 71%, for a total current value assessment increasing of \$1.04 million in Fiscal Year 2017. Water credits are based on the fair market value and the number of acre feet resulting in a book value of \$6.52 million in Fiscal Year 2017, compared to \$5.48 million in the prior fiscal year. Interest income for Fiscal Year 2017 generated \$30,920 compared to \$330,421 in Fiscal year 2016. Interest expenditures were lower at \$1.33 million in Fiscal Year 2017 compared to \$1.67 million in the prior fiscal year.

The income before capital contributions for Fiscal Year 2017 is \$8.22 million, an increase of \$1.77 million when compared to Fiscal Year 2016, which was \$6.46 million. Capital assets contributed by developers totaled \$344,901, compared to \$423,177 in Fiscal Year 2016. During Fiscal Year 2017, District staff conducted an audit of the contributed capital and determined that several development projects completed and contributed to the District in the 1990s and 2000s needed to be added to the district's infrastructure capital asset list. This resulted in a restatement of the prior year financial statements with an increase in the contributed capital totaling \$951,298 less depreciation for a Fiscal Year 2016 adjustment of \$797,506.

The total net position as of June 30, 2017 is \$70.83 million compared to \$62.26 million in Fiscal Year 2016 for an increase in net position of \$8.57 million.

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

The following table shows a comparison of the revenue and expenses and change in net assets for Fiscal Years ended June 30, 2017, June 30, 2016:

|   | <u>June 30, 2017</u>        | <u>June 30, 2016</u>        |
|---|-----------------------------|-----------------------------|
| Metered water sales                     | \$ 17,352,832               | \$ 16,011,201               |
| Development revenue                     | 385,180                     | 488,549                     |
| Other water revenue                     | <u>4,138,087</u>            | <u>2,904,324</u>            |
| Total operating revenue                 | <u>\$ 21,876,099</u>        | <u>\$ 19,404,074</u>        |
| Salaries and employee benefits          | \$ 3,988,607                | \$ 3,629,205                |
| Purchased power                         | 961,015                     | 941,723                     |
| Purchased CAP water                     | 2,494,913                   | 2,118,882                   |
| Other operating expenses                | 2,610,219                   | 2,505,329                   |
| Depreciation and amortization           | <u>3,338,649</u>            | <u>3,304,605</u>            |
| Total operating expenses                | <u>\$ 13,393,403</u>        | <u>\$ 12,499,744</u>        |
| Operating income                        | <u>\$ 8,482,698</u>         | <u>\$ 6,904,330</u>         |
| Interest income (loss)                  | \$ 30,920                   | \$ 330,421                  |
| Gain (loss) on disposal of assets       | 48,000                      | 50,396                      |
| Amortization of bond premiums           | (50,015)                    | (50,014)                    |
| Gain related to water recharge activity | 1,043,120                   | 893,581                     |
| Interest expense                        | (1,332,047)                 | (1,672,862)                 |
| Total non-operating revenue (expenses)  | <u>\$ (260,022)</u>         | <u>\$ (448,478)</u>         |
| Income before capital contributions     | \$ 8,222,674                | \$ 6,455,852                |
| Capital contributions                   | <u>344,901</u>              | <u>423,177</u>              |
| Increase in net position                | \$ 8,567,575                | \$ 6,896,326                |
| Total Net position, beginning of year   | <u>62,257,962</u>           | <u>54,581,427</u>           |
| Prior Period Adjustment                 | <u>-</u>                    | <u>797,506</u>              |
| <b>Net position, end of year</b>        | <u><b>\$ 70,825,537</b></u> | <u><b>\$ 62,257,962</b></u> |

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

**District's Capital Improvement Program**

The start of 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 in 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 state-of-the-art James Tripp Reservoir underground facility. 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 serve 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 to be installed at the District's Magee/La Cholla well site. These projects have been 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 implement 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, in Fiscal Year 2015, an additional \$71,296 was applied to principal, and Fiscal Year 2016 an additional \$60,000 was applied to principal, substantially reduced 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 additional principal payments, this loan was satisfied on July 1, 2016 saving the District \$110,084 in avoided interest payments.

For the past four 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, with \$2.91 million planned for Fiscal Year 2018.

**Long-Term Debt Obligations**

As of June 30, 2017 the District had \$39.03 million in long-term bonds and notes payable, with \$44.23 million as of June 30, 2016 for a \$4.5 million decrease. 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 cash flow reduction to the District by restructuring the debt service requirements and deferring principal payments on these loans.

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

**Factors for the Fiscal Year 2018 Budget**

The Fiscal Year 2018 Budget was prepared by utilizing a priority driven budget process for the fourth consecutive year. This process continues to improve with results from the cultural changes that have stimulated ownership, responsibility, and have created a collaborative process. Employees are engaged in finding ways to work smarter, safer, and more efficient. Cost saving and increases in revenue roll into the fund balance and are available to be included in the prioritization process each fiscal year.

The following steps were incorporated into the preparation of the MDWID adopted budget for Fiscal Year 2017:

- On March 21, 2017, the requested budget was reviewed and discussed with the Financial Oversight Committee.
- On March 27, 2017 the requested budget was presented to the Board of Directors in a study session along with a recommendation from the Financial Oversight Committee to proceed with the requested budget as presented. The Board of Directors asked questions and discussed the changing line items and capital requests.
- Revenue stability was achieved with the implemented rate change last fiscal year providing fixed revenue covering 90% of the fixed cost. Metered Water Sales were budgeted at \$16.5 million, which is \$100,000 higher than the prior fiscal year budget. On July 1, 2016, the Water Resource Utilization Fees increased to \$.50 per 1,000 gallons and no change is requested for Fiscal Year 2018.
- The budget was formulated based upon the projected revenue and fund balance. The projected beginning operating fund balance for Fiscal Year 2018 was budgeted at \$7.1 million, which is \$0.1 million lower than the Fiscal Year 2017 beginning balance
- The planned operating revenue is projected to be \$19.99 million, down \$39,614 from Fiscal Year 2017.
- Salaries and Benefits for Metro Water staff decreased \$3,626 including a proposed increase in health care, dental, workers compensation, a requested 2.5% COLA and up to a 1.5% merit increase for eligible staff. With the inclusion of a \$193,000 credit for time charged to capital projects these cost increases have been negated.
- Consultants and Contracted Services increased by \$10,202. Changes include a \$15,000 increases in well maintenance, a \$90,905 increase in water quality testing, and an increase of \$46,025 in miscellaneous consulting services. With the meter premium agreement completed on June 30, 2017 this expense is \$82,749 lower, legal expenses are planned to be \$30,000 lower with the completion of the North West Recharge, Recovery, and Delivery System agreement, larger meter testing has been costing about \$5,000 less than previously budgeted, and water treatment media replacement is \$23,350 lower in Fiscal Year 2018.
- General Operating expenses are planned to be \$50,138 higher in Fiscal Year 2018, including an increase of \$45,235 for fees associated with processing credit card payments, Election costs are anticipated to be \$24,000 less since an election is not planned in Fiscal Year 2018, and a \$32,258 increase in vehicle leasing with the full fleet now in the lease rotation.
- The cost of CAP Water Purchases is planned to increase \$317,850 with a \$37,150 increase in regulatory fees and a \$19,657 increase in the water credits sold by Metro Main to Metro Southwest.

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2017 and June 30, 2016**

- Debt service principal and interest payments for Fiscal Year 2018 will be \$6.39 million based on the amortization schedules of bonds and loans. This is \$124,983 lower than Fiscal Year 2017 with the early payoff of the Riverside Well loan. The Debt Service Reserve requirements have been satisfied with no additional funds budgeted in Fiscal Year 2018. The Debt Service Reserve Funding account has a balance of \$4.67 million as of June 30, 2017 with a required balance is \$4.64 million. Additional investment earnings of \$344,792 were moved out of this account and applied to the debt service payments in Fiscal year 2016, reducing the cash needed for debt service payments.
- Funding for capital projects is derived from budgeted development fees for new service connections which are planned to include \$401,282 in Fiscal Year 2018. The Oracle Jaynes Station Well budgeted in Fiscal Year 2017 is not planned to be completed with \$372,000 carried forward into Fiscal Year 2018. In addition, \$235,000 from the Northwest Recharge Recovery & Delivery System project will carry into Fiscal Year 2018. Capital projects planned to be funded with operating revenue equal an additional \$1.50 million. There are two additional projects planned to be completed in Fiscal Year 2018, and they are both Regional Transportation Authority waterline relocation projects with one at La Cholla Boulevard, Overton to Lambert, and one at Valencia Road, Wade Road to Ajo Highway.
- Depreciation expense and amortization of assets are budgeted at \$3.39 million and these non-cash budgeted expenses have been included in the adopted budget. The total revenue and projected beginning fund balance is \$27.05 million with budget disbursements of \$25.10 million.
- A contingency for sick and vacation payouts has been budgeted at \$80,821 to cover anticipated retirees. The contingency fund for emergencies has remained at \$500,000 as budgeted in prior years.

**Contacting the Metro Water District Office**

This management report is designed to provide our customers, consultants, and financial advisors with a general overview of the District's finances along with demonstrating the District's accountability, fiscal stewardship of the 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, 2017 and 2016**

|   | 2017                  | (Restated)<br>2016    |
|---|-----------------------|-----------------------|
| <b>Assets</b>                                   |                       |                       |
| Current assets:                                 |                       |                       |
| Cash and cash equivalents                       | \$ 13,580,193         | \$ 9,902,037          |
| Accounts receivable, net of allowance           | 1,991,590             | 1,932,889             |
| Unbilled water revenue                          | 736,735               | 639,279               |
| Other receivables                               | 184,687               | 114,680               |
| Notes receivable - current                      | 585,527               | 607,061               |
| Prepaid expenses and deposits                   | 542,919               | 464,001               |
| Inventory                                       | 253,747               | 255,726               |
| Other current assets                            | 17,188                | 15,495                |
| Total current assets                            | <u>17,892,586</u>     | <u>13,931,168</u>     |
| Noncurrent assets:                              |                       |                       |
| Restricted cash and cash equivalents            | 2,390,184             | 2,877,549             |
| Restricted investments                          | 5,471,223             | 5,419,069             |
| Capital assets not being depreciated            | 2,768,864             | 2,189,372             |
| Capital assets, net of accumulated depreciation | 82,547,629            | 84,513,826            |
| Water recharge credits                          | 6,518,167             | 5,475,048             |
| Total noncurrent assets                         | <u>99,696,067</u>     | <u>100,474,864</u>    |
| Total assets                                    | <u>117,588,653</u>    | <u>114,406,032</u>    |
| <b>Deferred outflows of resources</b>           |                       |                       |
| Deferred outflows related to pensions           | 1,113,096             | 462,628               |
| Loss on refunding of debt                       | 774,735               | 872,450               |
| Total deferred outflows                         | <u>1,887,831</u>      | <u>1,335,078</u>      |
| Total assets and deferred outflows              | <u>\$ 119,476,484</u> | <u>\$ 115,741,110</u> |

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

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Net Position, Continued**  
**June 30, 2017 and 2016**

|  | <u>2017</u>           | <u>(Restated)</u><br><u>2016</u> |
|--|-----------------------|----------------------------------|
| <b>Liabilities</b>                                       |                       |                                  |
| Current liabilities:                                     |                       |                                  |
| Accounts payable   | \$ 438,196            | \$ 570,407                       |
| Salaries and wages payable                               | 29,053                | 11,776                           |
| Accrued liabilities                                      | 976,889               | 874,711                          |
| Deposits payable   | 476,030               | 474,300                          |
| Other liabilities  | 565,288               | 572,504                          |
| Current portion of notes payable                         | 1,975,076             | 2,032,680                        |
| Current portion of compensated absences                  | 285,000               | 250,000                          |
| Payable from restricted assets:                          |                       |                                  |
| Accrued interest on long term debt                       | 405,455               | 475,318                          |
| Current maturity of bonds payable                        | 3,270,000             | 3,197,744                        |
| Total current liabilities                                | <u>8,420,987</u>      | <u>8,459,440</u>                 |
| Noncurrent liabilities:                                  |                       |                                  |
| Compensated absences                                     | 234,643               | 316,791                          |
| Net pension liability                                    | 5,386,253             | 4,977,319                        |
| Notes payable, less current portion                      | 17,095,563            | 19,070,640                       |
| Bonds payable, less current maturities                   | 16,775,107            | 20,045,106                       |
| Total noncurrent liabilities                             | <u>39,491,566</u>     | <u>44,409,856</u>                |
| Total liabilities  | <u>47,912,553</u>     | <u>52,869,296</u>                |
| <b>Deferred inflows of resources</b>                     |                       |                                  |
| Deferred inflows related to pensions                     | 738,394               | 613,852                          |
| Total deferred inflows                                   | <u>738,394</u>        | <u>613,852</u>                   |
| Total liabilities and deferred inflows                   | <u>48,650,947</u>     | <u>53,483,148</u>                |
| <b>Net Position</b>                                      |                       |                                  |
| Net investment in capital assets                         | 46,200,747            | 42,357,028                       |
| Restricted for:  |                       |                                  |
| Debt Service   | 7,061,407             | 7,496,618                        |
| Repair and replacement                                   | 800,000               | 800,000                          |
| Unrestricted   | 16,763,383            | 11,604,316                       |
| Total net position                                       | <u>70,825,537</u>     | <u>62,257,962</u>                |
| Total liabilities, deferred inflows,<br>and net position | <u>\$ 119,476,484</u> | <u>\$ 115,741,110</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, 2017 and 2016**

|  | 2017                 | (Restated)<br>2016   |
|--|----------------------|----------------------|
| <b>Operating revenues</b>              |                      |                      |
| Metered water sales                    | \$ 17,352,832        | \$ 16,011,201        |
| Service charges and penalties          | 233,082              | 237,743              |
| Development revenues                   | 385,180              | 488,549              |
| Other water revenues                   | 3,905,005            | 2,666,581            |
| Total operating revenues               | <u>21,876,099</u>    | <u>19,404,074</u>    |
| <b>Operating expenses</b>              |                      |                      |
| Salaries and employee benefits         | 3,988,607            | 3,629,205            |
| Materials and supplies                 | 574,036              | 499,064              |
| Purchased power                        | 961,015              | 941,723              |
| Purchased CAP water                    | 2,494,913            | 2,118,882            |
| Contract services                      | 947,366              | 986,291              |
| Insurance and taxes                    | 140,552              | 146,017              |
| Other operating expenses               | 948,265              | 873,955              |
| Depreciation and amortization          | 3,338,649            | 3,304,607            |
| Total operating expenses               | <u>13,393,403</u>    | <u>12,499,744</u>    |
| Operating income / (loss)              | <u>8,482,696</u>     | <u>6,904,330</u>     |
| <b>Non-operating income (expenses)</b> |                      |                      |
| Interest income                        | 30,920               | 330,421              |
| Amortization of bond premiums          | (50,015)             | (50,014)             |
| Gain on water recharge credits         | 1,043,120            | 893,581              |
| Gain (loss) on disposal of assets      | 48,000               | 50,396               |
| Interest expense                       | (1,332,047)          | (1,672,862)          |
| Total non-operating revenue (expenses) | <u>(260,022)</u>     | <u>(448,478)</u>     |
| Income before capital contributions    | 8,222,674            | 6,455,852            |
| Capital Contributions                  | 344,901              | 423,177              |
| Increase in net position               | <u>8,567,575</u>     | <u>6,879,029</u>     |
| Total net position - beginning of year | 62,257,962           | 54,581,427           |
| Prior period adjustment                | -                    | 797,506              |
| Total net position - end of year       | <u>\$ 70,825,537</u> | <u>\$ 62,257,962</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, 2017 and 2016**

|   | 2017                        | (Restated)<br>2016          |
|---|-----------------------------|-----------------------------|
| <b>Cash flows from operating activities:</b>                                |                             |                             |
| Cash received from customers  | \$ 21,649,935               | \$ 19,297,027               |
| Cash paid to suppliers for goods and services                               | (6,178,607)                 | (5,779,088)                 |
| Cash paid to employees  | (4,018,478)                 | (3,746,886)                 |
| Cash flows from operating activities  | <u>11,452,850</u>           | <u>9,771,053</u>            |
| <b>Cash flows from capital and related financing activities:</b>            |                             |                             |
| Principal paid on long-term debt  | (5,197,681)                 | (4,977,565)                 |
| Interest paid   | (1,401,910)                 | (1,737,707)                 |
| Purchase of capital assets  | (1,634,972)                 | (1,589,687)                 |
| Proceeds from the sale of capital assets                                    | 48,000                      | 12,500                      |
| Cash flows from capital and related financing activities                    | <u>(8,186,563)</u>          | <u>(8,292,459)</u>          |
| <b>Cash flows from investing activities:</b>                                |                             |                             |
| Interest on investments   | 30,920                      | 330,421                     |
| Transfer to (from) cash from (to) investments                               | (106,416)                   | 61,466                      |
| Cash flows from investing activities  | <u>(75,496)</u>             | <u>391,887</u>              |
| Net change in cash and cash equivalents, including restricted cash          | 3,190,791                   | 1,870,390                   |
| Cash and cash equivalents, beginning of year<br>including restricted cash   | <u>12,779,586</u>           | <u>10,909,196</u>           |
| <b>Cash and cash equivalents, end of year<br/>including restricted cash</b> | <u><u>\$ 15,970,377</u></u> | <u><u>\$ 12,779,586</u></u> |

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, 2017 and 2016**

|   | 2017                 | (Restated)<br>2016  |
|---|----------------------|---------------------|
| <b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b> |                      |                     |
| Operating income / (loss)   | \$ 8,482,696         | \$ 6,904,330        |
| Adjustments to reconcile operating income / (loss) to cash flows from operating activities:   |                      |                     |
| Depreciation  | 3,338,649            | 3,304,605           |
| Changes in operating assets and liabilities:  |                      |                     |
| (Increase)/decrease in receivables  | (128,708)            | (63,593)            |
| (Increase)/decrease in unbilled water revenue   | (97,456)             | (43,454)            |
| (Increase)/decrease in inventories  | 1,979                | 1,078               |
| (Increase)/decrease in prepaid expenses   | (78,918)             | (41,651)            |
| Increase/(decrease) in accounts payable   | (132,213)            | (76,403)            |
| Increase/(decrease) in accrued liabilities  | 94,962               | (115,828)           |
| Increase/(decrease) in deposits payable   | 1,730                | 19,650              |
| Increase/(decrease) in accrued compensation   | (29,871)             | (117,681)           |
| Net cash flows from operating activities  | <u>\$ 11,452,850</u> | <u>\$ 9,771,053</u> |

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

|  |           |           |
|--|-----------|-----------|
| Amortization of premiums                                 | \$ 32,743 | \$ 32,744 |
| Amortization of losses on advance refunding              | (97,715)  | (112,673) |
| Acquisition of capital assets from capital contributions | 344,901   | 423,177   |
| Value assigned to recharge credits                       | 1,043,120 | 893,581   |

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

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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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, 2017**

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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, 2017**

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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 two items that qualify for reporting in this category; deferred loss on refunding of debt and pension 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 one item that qualifies for reporting in this category. This item is for pension related items.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

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**Pensions**

For purposes of measuring the pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan's fiduciary net position of the Arizona State Retirement System (ASRS) and addition to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS. 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, 2017 the liability total balance is \$519,643 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:

| <b><u>Total accrued sick hours</u></b> | <b><u>Percent of vested hours</u></b> |
|--|---------------------------------------|
| 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, 2017**

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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 30,990.88 acre feet of recharge credits with estimated values ranging from \$182 to \$211.88 per acre foot for a total of approximately \$6,518,167 and \$5,475,048 as of June 30, 2017 and 2016, 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, 2017**

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

**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.

**Note 2. Deposits and Investments**

As of June 30, 2017 and 2016 the Districts cash and investments consisted of the following:

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Total cash in Bank                                   | \$ 6,400,428         | \$ 2,756,657         |
| Total cash in State Treasurer Investment Pool        | 1,709,535            | 2,239,363            |
| Total cash on deposit with the Pima County Treasurer | 6,617,455            | 5,046,248            |
| Total Investments                                    | <u>6,714,182</u>     | <u>8,156,387</u>     |
|  | <u>\$ 21,441,600</u> | <u>\$ 18,198,655</u> |

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

|                                      | <u>2017</u>          | <u>2016</u>          |
|--------------------------------------|----------------------|----------------------|
| Cash and cash equivalents            | \$ 13,580,193        | \$ 9,902,037         |
| Restricted cash and cash equivalents | 2,390,184            | 2,877,549            |
| Restricted investments               | <u>5,471,223</u>     | <u>5,419,069</u>     |
|                                      | <u>\$ 21,441,600</u> | <u>\$ 18,198,655</u> |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

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**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, 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. At June 30, 2016, the District's bank balance was \$10,696,128 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.

**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, 2017 and 2016 the District had the following investments:

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

| June 30, 2017                           |                |               |                     |                  |
|---|----------------|---------------|---------------------|------------------|
| Investment Type                         | Credit Quality |               | Fair Value          | Percent of Total |
|   | Rating         | Maturity Date |                     |                  |
| State Treasurer's<br>Investment Pool #5 | AAA            | **            | \$ 1,709,535        | 25%              |
| Commerical Paper<br>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

| June 30, 2016                           |                |               |                     |                  |
|---|----------------|---------------|---------------------|------------------|
| Investment Type                         | Credit Quality |               | Fair Value          | Percent of Total |
|   | Rating         | Maturity Date |                     |                  |
| State Treasurer's<br>Investment Pool #5 | AAA            | **            | \$ 2,239,363        | 27%              |
| Commercial Paper<br>Ally Bank Bond      | N/A            | 12/4/2017     | 169,097             | 2%               |
| Federal Agency                          |                |               |                     |                  |
| FFCB                                    | Aaa/A+         | 12/4/2018     | 455,000             | 6%               |
| FHLM                                    | Aaa/A+         | 10/2/2019     | 107,259             | 1%               |
| FNMA                                    | Aaa/A+         | 11/26/2019    | 456,490             | 6%               |
| FNMA                                    | Aaa/A+         | 12/24/2020    | 454,100             | 6%               |
| FHLM                                    | Aaa/A+         | 1/13/2022     | 454,375             | 6%               |
| FNMA                                    | Aaa/A+         | 8/23/2022     | 395,055             | 5%               |
| FFCB                                    | Aaa/A+         | 12/13/2022    | 804,435             | 10%              |
| FNMA                                    | Aaa/A+         | 12/20/2022    | 500,265             | 6%               |
| FNMA                                    | Aaa/A+         | 10/30/2023    | 1,000,220           | 12%              |
| FNMA                                    | Aaa/A+         | 12/24/2020    | 804,678             | 10%              |
| FNMA                                    | Aaa/A+         | 10/2/2019     | 18,218              | 0%               |
| FNMA                                    | Aaa/A+         | 8/28/2017     | 297,832             | 4%               |
| <b>Total</b>                            |                |               | <b>\$ 8,156,387</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, 2017**

**Note 3. Restricted Assets**

Restricted assets consist of the following at June 30, 2017 and 2016:

|                            | June 30, 2017       |                     |                                    |                     |
|----------------------------|---------------------|---------------------|------------------------------------|---------------------|
|                            | Bond Funds          | Reserve Funds       | Repair and<br>Replacement<br>Funds | Total               |
| 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             |
| <b>Total</b>               | <b>\$ 2,390,184</b> | <b>\$ 4,671,223</b> | <b>\$ 800,000</b>                  | <b>\$ 7,861,407</b> |

|                            | June 30, 2016       |                     |                                    |                     |
|----------------------------|---------------------|---------------------|------------------------------------|---------------------|
|                            | Bond Funds          | Reserve Funds       | Repair and<br>Replacement<br>Funds | Total               |
| Cash and cash equivalents  | \$ 2,438,922        | \$ 430,497          | \$ 8,130                           | \$ 2,877,549        |
| U.S. Government securities | -                   | 4,627,200           | 169,097                            | 4,796,297           |
| Other securities           | -                   | -                   | 622,773                            | 622,773             |
| <b>Total</b>               | <b>\$ 2,438,922</b> | <b>\$ 5,057,697</b> | <b>\$ 800,000</b>                  | <b>\$ 8,296,619</b> |

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, 2017**

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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, 2017**

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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, 2017 and 2016.
- 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, 2017 and 2016.
- 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, 2017**

**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, 2017 and 2016 was \$3,338,649 and \$3,304,607, respectively. Capital asset activity for the years ended June 30, 2017 and 2016 was as follows:

|   | June 30,<br>2016     | Additions             | Disposals          | Adjustments      | June 30,<br>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, 2017**

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

|  | (Restated)<br>June 30,<br>2015 | (Restated)<br>Additions | (Restated)<br>Disposals | Adjustments     | (Restated)<br>June 30,<br>2016 |
|--|--------------------------------|-------------------------|-------------------------|-----------------|--------------------------------|
| Capital assets not being depreciated:                    |                                |                         |                         |                 |                                |
| Land   | \$ 1,011,004                   | \$ 355,374              | \$ (14,000)             | \$ 40,000       | \$ 1,392,378                   |
| Construction in progress                                 | 198,171                        | 736,679                 | (19,318)                | (118,538)       | 796,994                        |
| Total capital assets<br>not being depreciated            | <u>1,209,175</u>               | <u>1,092,053</u>        | <u>(33,318)</u>         | <u>(78,538)</u> | <u>2,189,372</u>               |
| Capital assets being depreciated:                        |                                |                         |                         |                 |                                |
| Water systems  | 104,820,839                    | 558,728                 | -                       | 78,538          | 105,458,105                    |
| Buildings and improvements                               | 4,277,925                      | 202,229                 | -                       | -               | 4,480,154                      |
| Vehicles, machinery, and equipment                       | 2,241,657                      | 179,172                 | (311,513)               | -               | 2,109,316                      |
| Regulatory assets  | 11,252,658                     | -                       | -                       | -               | 11,252,658                     |
| Total capital assets<br>being depreciated                | <u>122,593,079</u>             | <u>940,129</u>          | <u>(311,513)</u>        | <u>78,538</u>   | <u>123,300,233</u>             |
| Less: accumulated depreciation for:                      |                                |                         |                         |                 |                                |
| Water systems  | (26,441,850)                   | (2,531,117)             | -                       | -               | (28,972,967)                   |
| Buildings and improvements                               | (1,093,104)                    | (156,845)               | -                       | -               | (1,249,949)                    |
| Vehicles, machinery, and equipment                       | (2,036,781)                    | (73,545)                | 311,513                 | -               | (1,798,813)                    |
| Regulatory assets  | (6,221,578)                    | (543,100)               | -                       | -               | (6,764,678)                    |
| Total accumulated depreciation                           | <u>(35,793,313)</u>            | <u>(3,304,607)</u>      | <u>311,513</u>          | <u>-</u>        | <u>(38,786,407)</u>            |
| Total capital assets<br>being depreciated, net           | <u>86,799,766</u>              | <u>(2,364,478)</u>      | <u>-</u>                | <u>78,538</u>   | <u>84,513,826</u>              |
| Total capital assets,<br>net of accumulated depreciation | <u>\$ 88,008,941</u>           | <u>\$ (1,272,425)</u>   | <u>\$ (33,318)</u>      | <u>\$ -</u>     | <u>\$ 86,703,198</u>           |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

**Note 5. Long-Term Debt**

The following is a summary of changes in long-term debt for the years ended June 30, 2017 and 2016:

|                       | <b>Balance<br/>6/30/2016</b> | <b>Additions</b>  | <b>Retirements</b>    | <b>Balance<br/>6/30/2017</b> | <b>Current<br/>Portion</b> |
|-----------------------|------------------------------|-------------------|-----------------------|------------------------------|----------------------------|
| 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>        |
|                       | <b>Balance<br/>6/30/2015</b> | <b>Additions</b>  | <b>Retirements</b>    | <b>Balance<br/>6/30/2016</b> | <b>Current<br/>Portion</b> |
| Bonds                 | \$ 26,162,000                | \$ -              | \$ (3,040,000)        | \$ 23,122,000                | \$ 3,165,000               |
| Unamortized Premiums  | 153,594                      | -                 | (32,744)              | 120,850                      | 32,744                     |
| Notes Payable         | 23,040,977                   | -                 | (1,937,656)           | 21,103,321                   | 2,032,680                  |
| Compensated Absences  | 594,644                      | 297,322           | (325,174)             | 566,791                      | 250,000                    |
| Net Pension Liability | 4,884,827                    | 92,492            | -                     | 4,977,319                    | -                          |
|                       | <u>\$ 54,836,041</u>         | <u>\$ 389,814</u> | <u>\$ (5,335,574)</u> | <u>\$ 49,890,281</u>         | <u>\$ 5,480,424</u>        |

**Bonds Payable**

The annual requirements for the next five years and 5 year increments thereafter to amortize bonds outstanding at June 30, 2017 are as follows:

| <b>Bonds Payable</b>   |                      |                     |                      |
|------------------------|----------------------|---------------------|----------------------|
| Year Ended<br>June 30, | Principal            | Interest            | Total                |
| 2018                   | \$ 3,270,000         | \$ 590,089          | \$ 3,860,089         |
| 2019                   | 3,435,000            | 457,280             | 3,892,280            |
| 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            |
| 2023-2027              | 6,122,000            | 327,155             | 6,449,155            |
| Total                  | <u>\$ 19,957,000</u> | <u>\$ 2,209,350</u> | <u>\$ 22,166,350</u> |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

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

|   | 2017          | 2016          |
|---|---------------|---------------|
| \$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  | \$ 1,940,000  |
| \$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.   | 3,970,000     | 5,855,000     |
| \$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.                                 | 2,935,000     | 3,600,000     |
| \$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   | 88,107        | 120,850       |
| Total bonds payable   | \$ 20,045,107 | \$ 23,242,850 |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

**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              | <u>(238,650)</u>     |
| 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                    |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

**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, 2017 are as follows:

| Notes Payable          |               |              |               |
|------------------------|---------------|--------------|---------------|
| Year Ended<br>June 30, | Principal     | Interest     | Total         |
| 2018                   | \$ 1,975,074  | \$ 539,666   | \$ 2,514,739  |
| 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     |
| 2023-2027              | 7,736,738     | 629,449      | 8,366,187     |
| 2028-2032              | 1,137,257     | 121,434      | 1,258,691     |
| 2033                   | 244,280       | 3,591        | 247,871       |
| Total                  | \$ 19,070,639 | \$ 2,841,838 | \$ 21,912,477 |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

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

|   | 2017          | 2016          |
|---|---------------|---------------|
| 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.                          | \$ 310,583    | \$ 459,024    |
| 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. | 6,665,173     | 7,301,553     |
| 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. | 8,878,305     | 9,851,203     |
| 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. | 3,216,578     | 3,372,508     |
| Loan payable to Water Infrastructure Financing Authority (WIFA-5), due in semi-annual payments through July 1, 2032; interest rate varies with a maximum of 2.800% per annum and is secured by water revenues.    | -             | 119,033       |
| Total notes payable   | \$ 19,070,639 | \$ 21,103,321 |

**Note 6. Retirement and Pension Plans**

**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, 2017**

**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<br/>Before January 1, 1984</b>  | <b>Initial Membership Date<br/>Between January 1, 1984<br/>and July 1, 2011</b>          | <b>Initial Membership Date<br/>On or After July 1, 2011</b>                                  |
|--|--|--|--|
| Years of service and age required to receive benefit | Sum of years and age equals 80<br>10 years age 62<br>5 years age 50*<br>any years age 65                   | Sum of years and age equals 80<br>10 years age 62<br>5 years age 50*<br>any years age 65 | 30 years age 55<br>25 years age 60<br>10 years age 62<br>5 years age 50*<br>any years age 65 |
| Final average salary is based on                     | Highest 36 consecutive months of last 120 months<br>Or<br>Highest 60 consecutive months of last 120 months | 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%   | 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 survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

The District's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

| Year Ended<br>June 30, | Retirement<br>Fund | Health Benefit<br>Supplement Fund | Long-Term<br>Disability Fund |
|------------------------|--------------------|-----------------------------------|------------------------------|
| 2015                   | \$ 251,641         | \$ 13,633                         | \$ 2,773                     |
| 2016                   | 326,808            | 15,060                            | 3,614                        |
| 2017                   | 336,404            | 17,476                            | 4,369                        |

**Pension liability** – At June 30, 2017, the District reported a liability of \$5,386,253 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The District's proportion of the net pension 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, 2016. The District's proportion measured as of June 30, 2016, was 0.033370 percent, which was a increase of 0.001420 percent from its proportion measured as of June 30, 2015.

**Pension expense and deferred outflows/inflows of resources** – For the year ended June 30, 2017 the District recognized pension expense for ASRS of \$242,163. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred Inflows<br>of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience  | \$ 32,732                            | \$ 370,535                       |
| Net difference between projected and actual earnings on pension plan investments                    | 583,691                              | -                                |
| Changes in proportion and differences between contributions and proportional share of contributions | 160,270                              | 82,883                           |
| Contributions subsequent to the measurement date  | 336,404                              | -                                |
| Total   | \$ 1,113,097                         | \$ 738,394                       |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

The \$1,113,096 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

| Year Ended<br>June 30 | Deferred<br>Outflows<br>(Inflows) of<br>Resources |
|-----------------------|---|
| 2017                  | \$ (252,439)                                      |
| 2018                  | (125,327)   |
| 2019                  | 252,399   |
| 2020                  | 163,665   |
| Thereafter            | -   |

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

|                             |                   |
|-----------------------------|-------------------|
| Actuarial valuation date    | June 30, 2015     |
| Actuarial roll forward date | June 30, 2016     |
| Actuarial cost method       | Entry age normal  |
| Investment rate of return   | 8%                |
| Projected salary increases  | 3-6.75%           |
| Inflation                   | 3%                |
| Permanent benefit increase  | Included          |
| Mortality rates             | 1994 GAM Scale BB |

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2014.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

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

|                    | <b>Expected Return Arithmetic Basis</b> |                                     |   |
|--------------------|---|-------------------------------------|---|
| <b>Asset Class</b> | <b>Target Asset Allocation</b>          | <b>Real Return Arithmetic Basis</b> | <b>Long-Term Expected Portfolio Real Rate of Return</b> |
| Equity             | 63%                                     | 7.03%                               | 4.43%   |
| Fixed income       | 25%                                     | 3.20%                               | 0.80%   |
| Commodities        | 4%                                      | 4.50%                               | 0.18%   |
| Real Estate        | 8%                                      | 4.75%                               | 0.38%   |
| Totals             | 100%                                    |                                     | 5.79%   |
|                    | Inflation                               |                                     | 3.00%   |
|                    | Expected arithmetic nominal return      |                                     | 8.79%   |

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

|   | 1% Decrease<br>(7.00%) | Discount Rate<br>(8.00%) | 1% Increase<br>(9.00%) |
|---|------------------------|--------------------------|------------------------|
| Proportionate share of<br>Net pension (asset) / liability | \$ 6,867,882           | \$ 5,386,253             | \$ 4,198,311           |

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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

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**Pension plan fiduciary net position** – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

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**Note 7. Contributed Capital**

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Capital assets contributed by land developers, consisting of construction of certain portions of the distribution systems, totaled \$344,901 and \$423,177 during the years ended June 30, 2017 and 2016, respectively, and are included in contributed capital on the statements of revenues, expenses, and changes in net position.

During fiscal year 2017, District staff completed an examination of the contributed capital and determined that several development projects completed and contributed to the District in the 1990's and 2000's needed to be added to the District's infrastructure capital asset list. The district researched the projects and valuations as of the time of contribution and determining there were \$951,298 of capital assets with an accumulated depreciation of \$171,088 as of June 30, 2016 and accumulated depreciation of \$153,792 as of June 30, 2015. Balances for the periods preceding June 30, 2016 were adjusted with the net effect being an increase in the net position and the net capital assets of \$797,506 for the year ended June 30, 2015. The related beginning balances and depreciation expense for the fiscal year ending June 30, 2016 have been restated accordingly in these financial statements.

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**Note 8. Regulatory Assets**

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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, 2017**

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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. Prior Period Adjustments**

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During fiscal year 2017 the District performed an examination of its contributed capital and noted the need for a prior period adjustment. See note 7, Contributed Capital, for further details.

The District's fiscal year 2016 financial statements reported all depreciation additions and disposals as being applied only to the Water Systems category. In the fiscal year 2017 financial statements the District has restated its fiscal year 2016 capital asset footnote to show the proper segregation of depreciation additions and disposals between the various capital asset categories. The effect of this restatement changed the net value of each category of capital assets but it did not affect the net value of the capital assets in total or the net position of the District.

**REQUIRED SUPPLEMENTARY INFORMATION**

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**June 30, 2017**

|  | Reporting Fiscal Year<br>(Measurement Date) |                |                |
|--|---|----------------|----------------|
|  | 2017<br>(2016)                              | 2016<br>(2015) | 2015<br>(2014) |
| Proportion of the net pension liability (asset)  | 0.031950%                                   | 0.033013%      | 0.034111%      |
| Proportionate share of the net pension liability (asset)   | \$ 5,386,253                                | \$ 4,977,319   | \$ 4,884,827   |
| Covered employee payroll   | \$ 3,191,509                                | \$ 3,026,837   | \$ 3,021,540   |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 168.77%                                     | 164.44%        | 161.67%        |
| Plan fiduciary net position as a percentage of the total pension liability                               | 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, 2017**

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|  | Reporting Fiscal Year<br>(Measurement Date) |                |                |
|--|---|----------------|----------------|
|  | 2017<br>(2016)                              | 2016<br>(2015) | 2015<br>(2014) |
| Contractually required contribution                                  | \$ 326,808                                  | \$ 251,641     | \$ 318,422     |
| Contributions in relation to the contractually required contribution | (326,808)                                   | (251,641)      | (318,422)      |
| Contribution deficiency (excess)                                     | \$ -  | \$ -           | \$ -           |
| Covered employee payroll   | \$ 3,191,509                                | \$ 3,026,837   | \$ 3,021,540   |
| Contributions as a percentage of covered-employee payroll            | 10.24%                                      | 8.31%          | 10.54%         |

Note: The District implemented GASB 68 in fiscal year 2015. 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, 2017 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 15, 2017.

**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 cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC  
Flagstaff, Arizona  
September 15, 2017