METRO DOMESTIC WATER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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HINTON BURDICK
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Metropolitan Domestic Water improvement District
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Metropolitan Domestic Water Improvement District, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Metropolitan Domestic Water Improvement District as of June 30, 2019 and 2018, 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.

HintonBurdick.com › 888-566-1277

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 and other postemployment benefit 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 4, 2019 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

HintonBurdick, PLLC
Gilbert, Arizona
September 4, 2019

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Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2019 and June 30, 2018

Management of the Metropolitan Domestic Water Improvement District (MDWID or the District) offers readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2019 and June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with the preceding Independent Auditor's Report and the accompanying basic financial statements and notes to the financial statements.

District Framework

MDWID was formed on July 7, 1992 when its residents successfully petitioned the Pima County Board of Supervisors to form a domestic water improvement district in order to have an independent and direct voice in water issues rather than being a part of the City of Tucson Water without a voice. The District has 21,855 customer connections including private fire riser connections, with service areas located on the northwest, northeast, and southwest portions of Tucson. A five member elected Board of Directors, from within its boundaries governs the District.

Overview of the Financial Statements

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

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

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

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

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

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

The District

The boundaries of the District include approximately 400 miles of water mains. The Metro Hub service area was purchased in June 1999. In December 2009, the District acquired the Metro Southwest Thim Water System, located southwest of Tucson. The Thim Water System is now the District's Metro

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. The District has annexed Metro West located approximately 15 miles northwest of the Metro Main service area, but this service area is presently undeveloped with no water customers.

The District obtains water from 34 active wells with 24 wells in Metro Main, 5 wells in Metro Hub, and 5 wells in Metro Southwest. In addition, water is wheeled to the Lazy B service area in Metro Southwest. The total water storage capacity is 13.6 million gallons in the Metro Main service area, 1.05 million gallons in the Metro HUB service area, and 743,000 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 2019 and 2018:

	June 30, 2019	June 30, 2018
Current assets	$ 22,913,501	$ 20,862,100
Restricted cash and investments	4,300,289	7,854,315
Capital assets, net of accumulated depreciation	83,709,597	83,456,796
Capital assets not being depreciated	3,912,671	2,315,348
Water recharge credits	9,224,306	8,185,405
Net OPEB assets	0	6,153
Total assets	$ 124,060,364	$ 122,680,117
Deferred outflows related to pensions	$ 707,403	$ 705,522
Deferred outflows, loss on refund of debt	579,304	662,062
Deferred outflows, related to OPEB	48,727	19,858
Total deferred outflows	1,335,434	1,387,442
Total assets and deferred outflows	$ 125,395,798	$ 124,067,559
Current liabilities	$ 6,298,359	$ 7,789,605
Long-term debt, compensated absences, pension and OPEB liabilities	25,858,844	33,692,635
Total liabilities	$ 32,157,203	$ 47,933,906
Deferred inflows related to pensions	$ 593,771	$ 397,532
Deferred Inflow of OPEB	37,401	22,103
Total deferred inflows	$ 631,172	$ 419,635
Total liabilities and deferred inflows	$ 32,788,375	$ 41,901,875
Invested in capital assets, net of related debt	$ 63,759,326	$ 52,625,752
Restricted for:		
Debt service	$ 3,500,289	$ 7,054,315
Repair and replacement	800,000	800,000
Unrestricted	24,547,808	21,685,617
Total net position	**$ 92,607,423**	**$ 82,165,684**
Total liabilities, deferred inflows, and net position	**$ 125,395,798**	**$ 124,067,559**

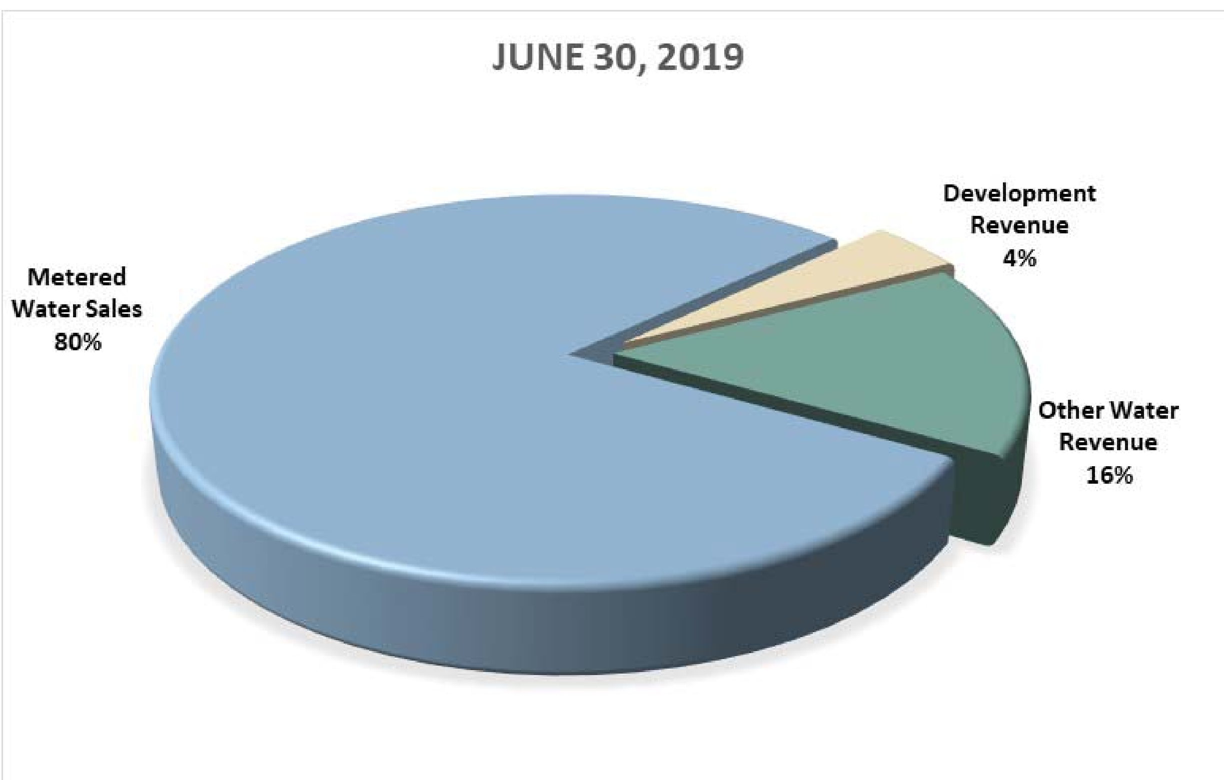
Summary of Net Position (Continued)

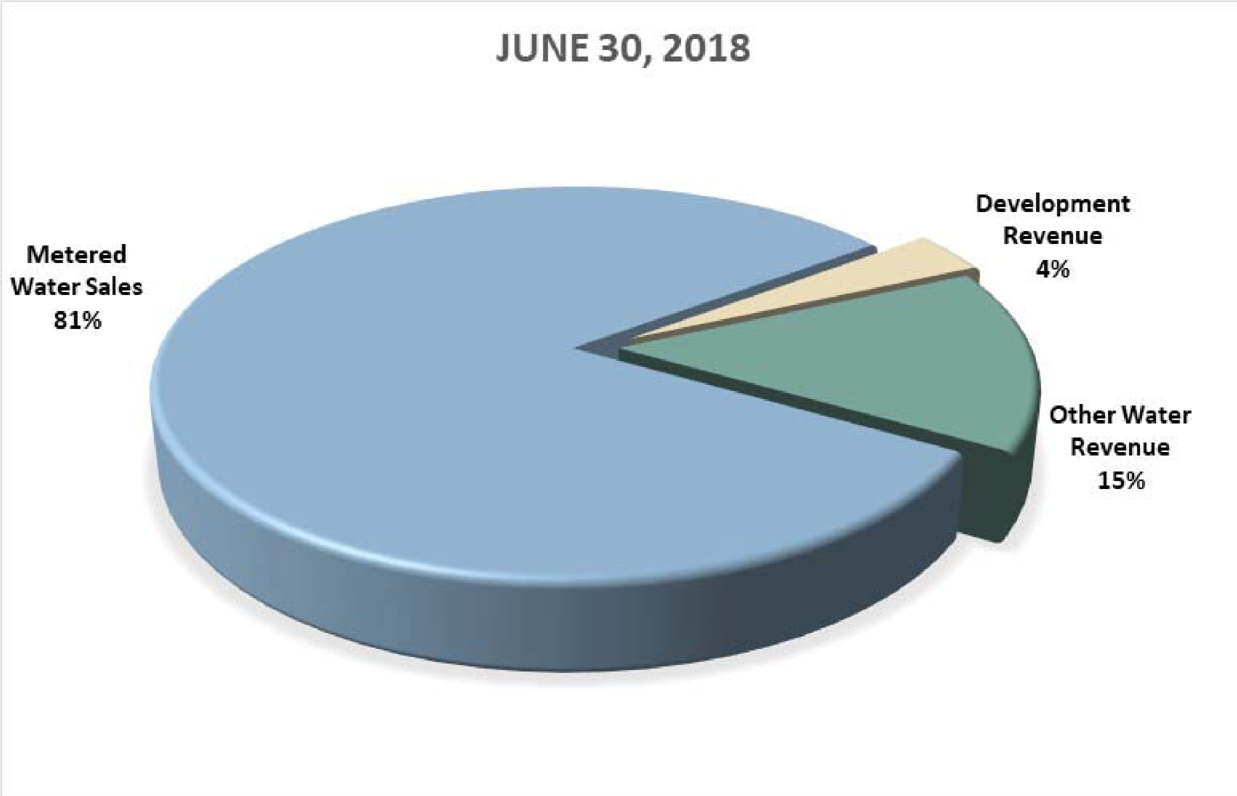
MDWID's total net position shows an increase of $10.4 million over Fiscal Year 2018. Current assets increased $2.05 million over the previous year with increases in cash, cash equivalents and investments of $1.79 million. Non-current assets decrease by $0.67 million with reductions in debt service requirements. Capital assets net of accumulated depreciation increased by $2.75 million and capital assets not being depreciated increased by $1.60 million. Restricted cash, cash equivalents, and investments decreased $3.55 million, and recharged water credits increased $1.04 million. The Deferred outflows related to pensions and OPEB as part of the GASB 68 and GASB 75 reporting requirements have increased by $30,750 in Fiscal Year 2019. This consists of the Arizona State Retirement System (ASRS), ASRS Long-term Disability (LTD), and Health Benefits Supplement (HBS) withheld in Fiscal Year 2019 that will be reported as expenses in Fiscal year 2020 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 2019, current liabilities decreased by $1.49 million when compared to Fiscal Year 2018. Noncurrent liabilities decreased by $7.83 million with long term-debt decreasing by $7.28 million. The net pension liability in accordance with GASB 68 increased by $0.20 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. The OPEB liability for Long-term Disability and Health Benefit Supplemental increased by $5,220.

Summary of Revenue, Expenses and Changes in Net Position

Operating Revenue



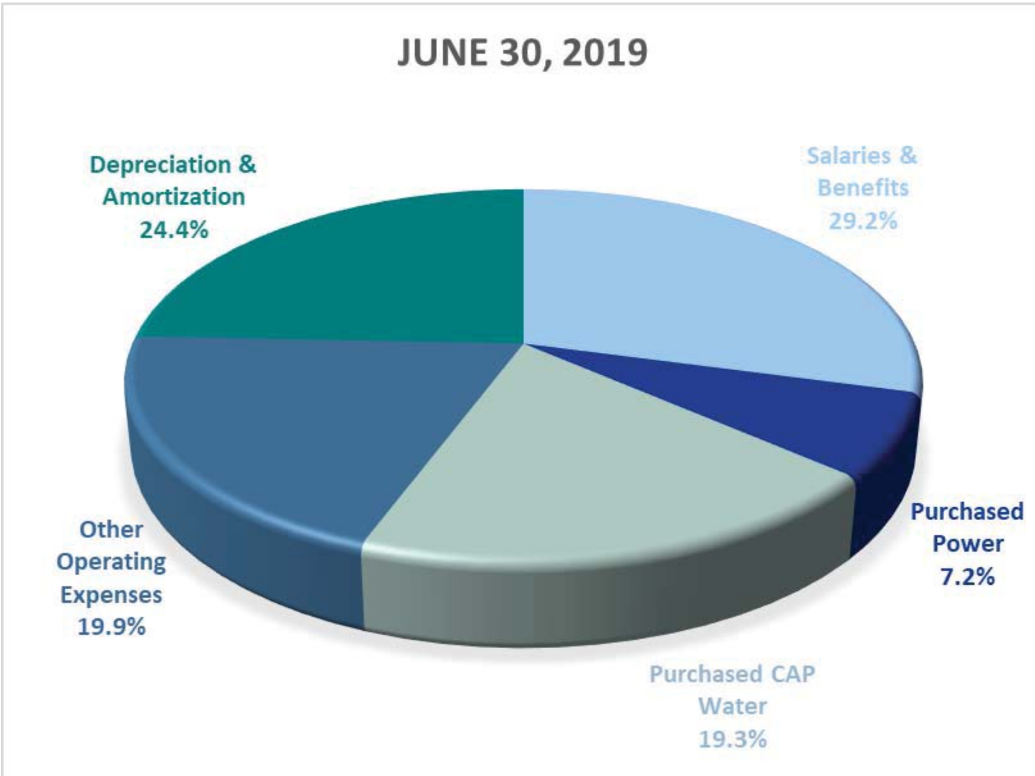


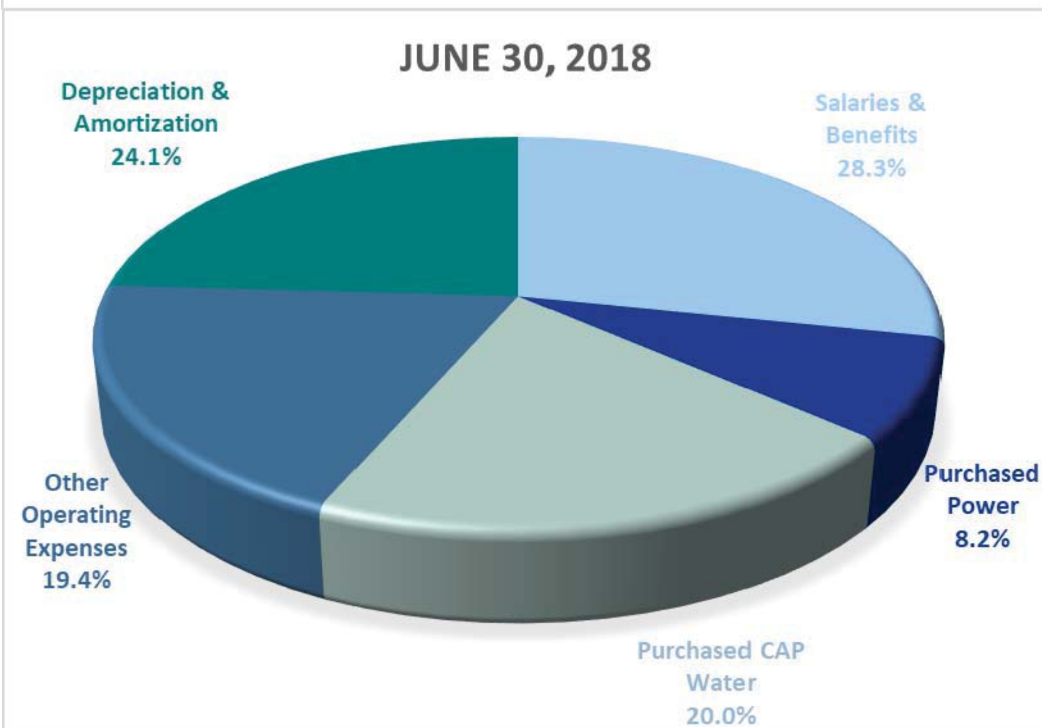
The operating revenue for Fiscal Year 2019 totaled $21.9 million compared to $22.3 million in Fiscal Year 2018 for a decrease of $0.4 million dollars. Metered Water Sales decreased by $0.73 million when compared to Fiscal Year 2018. Development revenue was higher in Fiscal Year 2019 by $0.17 million, and Other Water Revenue increased by $0.17 million when compared to Fiscal Year 2018. The Water Resource Utilization Fee was set at sixty cents per thousand gallons of water effective July 1, 2018. On July 1, 2018, the District adjusted the consumption ranges of the block structure and continued to maintain near a ninety percentage of fixed costs covered with fixed revenue, thereby mitigating prior concerns about the fluctuations in 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, engineering plan review fees, sale of CAP water credits from Metro Main to Metro Southwest, accrued interest income, and collection of bad debt. Rates for other services are reviewed and updated as needed to cover the cost of providing each service.

Requests for new meter installation within the District increased with a total of 370 applications received in Fiscal Year 2019, compared to 261 meter applications in the prior fiscal year. One hundred and six 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 applications in Fiscal Year 2013, 120 applications in Fiscal Year 2014, 38 applications in Fiscal Year 2015, 68 applications in Fiscal Year 2016, 101 applications in Fiscal Year 2017, and 123 applications in Fiscal year 2018. Development revenue for Fiscal Year 2019 totaled $957,906, which is an increase of $173,770 when compared to the previous fiscal year.

Operating Expenses





Summary of Revenue, Expenses and Changes in Net Position

Operating expenses totaled $14.0 million in Fiscal Year 2019 compared to $13.93 million in Fiscal Year 2018 for an increase of $72,181 or 0.5%.

Salaries and benefits increased by $140,944 or 3.57% with the cost of living, merit increases, and increased workers compensation cost partially offset by vacancies throughout the fiscal year. Salaries and employee benefits continue to be the District's largest expenses, making up 29.2% of the total operating expenses in Fiscal Year 2019 compared to 28.3% in Fiscal Year 2018. Funded positions as of June 30, 2019 included 50 full-time positions and three part-time positions.

Purchases of CAP water decreased by $83,953 and other operating expenses increased by $86,373.

Depreciation and amortization expenses totaled $3.41 million compared to $3.35 million for Fiscal Year 2018. Purchased power costs were lower in Fiscal Year 2019 by 11% or $129,382 with less water delivered to customers when compared to Fiscal Year 2018. The District continues to take advantage of interruptible rate options, with solar providing all but $1,105 of the electricity used at the administrative buildings. Contracted Service decreased by $3,441 in Fiscal Year 2019. Insurance and taxes were $1,771 higher at $145,531 compared to $143,760 in Fiscal Year 2018. Material supplies expenses were $76,844 higher in Fiscal Year 2019 with a total of $679,173 compared to $602,329 in Fiscal Year 2018. Other operating expenses were $11,199 higher at $1,061,522 compared to $1,050,323 in Fiscal Year 2018.

Non-Operating Revenue/Expenses

Non-operating revenue exceeded non-operating expense by $765,273 in Fiscal Year 2019, compared to $501,576 in Fiscal Year 2018. Water recharge credits continue to increase in value from increased storage quantity in the amount of $1,248,120. CAP rates were lower in Fiscal Year 2019 creating a decline in stored water credits related to price changes totaling $209,220 for a net increase in the current value assessment of $1.0 million in Fiscal Year 2019. Water credits are based on the fair market value and the number of acre feet resulting in a book value of $9.2 million in Fiscal Year 2019, compared to $8.2 million in the prior fiscal year. Interest income for Fiscal Year 2019 generated $631,477 compared to $44,701 in Fiscal year 2018. Interest expenses were lower at $0.90 million in Fiscal Year 2019 compared to $1.18 million in the prior fiscal year.

The income before capital contributions for Fiscal Year 2019 is $8.66 million, compared to $8.85 million in Fiscal Year 2018. Capital assets contributed by developers totaled $1.78 million, compared to $2.49 million in Fiscal Year 2018

Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2019 and June 30, 2018

The following table shows a comparison of the revenue and expenses and change in net position for Fiscal Years ended June 30, 2019, June 30, 2018:

	June 30, 2019	June 30, 2018
Metered water sales	$ 17,414,944	$ 18,142,697
Development revenue	957,906	784,136
Other water revenue	4,138,087	3,354,446
Total operating revenue	$ 21,897,528	$ 22,281,279
Salaries and employee benefits	$ 4,086,395	$ 3,945,451
Purchased power	1,013,164	1,142,546
Purchased CAP water	2,699,588	2,783,541
Other operating expenses	2,792,000	2,705,627
Depreciation and amortization	3,412,952	3,354,753
Total operating expenses	$ 14,004,099	$ 13,931,918
Operating income (loss)	$ 7,893,429	$ 8,349,361
Interest income (loss)	$ 631,477	$ 44,701
Gain (loss) on disposal of assets	36,000	7,109
Amortization of bond premiums	(43,527)	(38,479)
Gain related to water recharge activity	1,038,900	1,667,238
Interest expense	(897,577)	(1,178,993)
Total non-operating revenue (expenses)	$ 765,273	$ 501,576
Income before capital contributions	$ 8,658,702	$ 8,850,937
Capital contributions	1,783,037	2,488,277
Increase in net position	$ 10,441,739	$ 11,339,214
Total net position, beginning of year	82,165,684	70,826,470
Net position, end of year	$ 92,607,423	$ 82,165,684

District's Capital Improvement Program

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

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

On November 9, 2007, WIFA approved the second phase of the $28 million CIP with a loan in the amount of $12.63 million. This loan was originally scheduled to fund two transmission mains, five mainline projects, and the drilling of a new well; however, 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, the loan funded a fixed network metering system to enhance service to the 1,600 customers in the Hub service area, improved arsenic vessels for two Hub well sites, and a Variable Frequency Drive unit at the District's Magee/La Cholla well site. These projects were completed with a final loan amount of $11.76 million.

Although not part of the District's original CIP, in December 2009 the District was approved financing from WIFA in the amount of $3.95 million which was later increased to $4.25 million for the acquisition of three water systems on the southwest side of Tucson. The loan to purchase this service area known as Metro Southwest also included funding to construct an arsenic treatment facility, install a new well, replace a storage tank that provides water to 29 customers in a remote area, and 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 to the loan principal, in Fiscal Year 2015, an additional $71,296 was applied to the loan principal, and Fiscal Year 2016 an additional $60,000 was applied to principal, substantially reducing the total interest payments over the life of this loan along with reducing the duration of the 20 year loan. The original loan extended through July 2032 and by making the additional principal payments, this loan was satisfied on July 1, 2016 saving the District $110,084 in avoided interest payments.

The District has been cash funding all planned capital improvements without incurring any new debt since 2013. The Capital Improvement Program included budgeted funding for $0.83 million in Fiscal Year 2015, $3.25 million in Fiscal Year 2016, $3.25 million in Fiscal Year 2017, $2.91 million in Fiscal Year 2018, $4.09 million in Fiscal Year 2019, and $3.66 million planned for Fiscal Year 2020. On June 28, 2018, the District processed a defeasance on the non-callable 2002 Subordinate Obligation Revenue Refunding Bond. The defeasance allows the District to legally remove this debt from financial statements. On June 1, 2019, the final payment was made on the note payable for the Hub Water Purchase. On January 1, 2019, the final payment was made on the 2009, Senior Water Revenue Bonds. On January 3, 2019, a defeasance of the 2011 Senior Water Revenue obligations was completed

Long-Term Debt Obligations

As of June 30, 2019 the District had $23.86 million of long-term bond debt and notes payable, with $33.10 million at the end of the prior fiscal year for a long-term debt decrease of $5.63 million. In January 2013 the District restructured the long term debt with a refunding of the 2002 Senior Water Revenue Bonds and the 2002 Subordinate Refunding Bonds. This refinancing provided an immediate cash flow to the District by restructuring the debt service requirements and deferring principal payments on these loans. On July 1, 2019, the 2013 Senior Water Revenue Bonds were paid in full, three and one half years early avoiding more than $150,000 of interest payments.

Factors for the Fiscal Year 2020 Budget

The Fiscal Year 2020 Budget was prepared by utilizing a priority driven budget process for the sixth consecutive year. This process has created an environment that stimulates ownership, responsibility, transparency, and the ability to accomplish the goals and objectives that are aligned with the District mission. Employees are engaged in finding ways to work smarter, safer, and more efficient along with identifying new revenue sources.

The following steps were incorporated into the preparation of the MDWID adopted budget for Fiscal Year 2020:

- On March 27, 2019, the requested budget was reviewed and discussed with the Financial Oversight Committee. The Financial Oversight Committee made a recommendation to proceed with the requested budget and rate changes as presented.

- On April 2, 2019 the requested budget and proposed rate changes were presented to the Board of Directors at a study session. The Board of Directors asked questions about the revenue, expenses, planned capital equipment purchases, and the planned capital improvement program.

- Revenue stability was achieved in Fiscal Year 2017 with fixed revenue covering 90% of the fixed cost and this stability continues with the Fiscal Year 2020 adopted budget. Metered water revenue was budgeted at $17.8 million, which is the amount of the metered water revenue from Fiscal Year 2017 plus the additional revenue expected from the rate change. Metered water revenue budgeted in Fiscal Year 2019 was $17.4 million. On July 1, 2016, the Water Resource Utilization Fees increased to $0.50 per 1,000 gallons and in Fiscal Year 2019 this fee increased from $0.50 per 1,000 gallons to $0.60 per 1,000 gallons and remains unchanged.

- The budget was formulated based upon projected revenue sources and the available fund balance. The projected beginning operating fund balance for Fiscal Year 2020 was budgeted at $12 million, which is a $1.2 million increase over the Fiscal Year 2018 Adopted Budget beginning balance. The fund balance includes $5.82 million dollars of Water Resource Utilization Fees that have been collected and will be cash funding the land and design associated with the Northwest Recharge Recovery and Delivery System capital project and other water resource initiatives.

- The operating revenue for Fiscal Year 2020 is projected to be $22.9 million, up $1.4 million from the Fiscal Year 2019 adopted budget.

- Salaries and Benefits are budgeted are $433,438 higher than the prior fiscal year with the Administration team adding one part-time Customer Service Representative position and the Utilities Team adding one full-time laborer position. The Engineering team is budgeting to reclassify positions; one additional engineering position, and the eliminating the intern position. There is a reduction of reimbursements for Engineering staff time working on capital projects, which increases the cost of operational wages and benefits by $110,440. The budget includes a 2.5% cost of living increase effective the first pay period in July 2019 and the potential for up to a 1.5% merit increase in January 2020 for eligible employees. In addition, the budget includes a potential 10% increase in the cost of health insurance and a 5% increase in the cost of dental insurance along with a 20% increase for Workers Compensation.

- Consultants and Contracted services are $4,818 higher than the prior fiscal year with both increases and decreases in different areas. Additions include water quality testing, water treatment media replacements, meter replacements, and internal storage tank coating. Decreases include a reduction of one student worker, lower legal services, and the removal of the one-time expenses associated with the hydrogeological studies.

- General Operating expenses are $17,101 lower than Fiscal Year 2019. There is no Board election planned reducing cost by $25,000, and bank charges for credit card payment processing are higher by $5,846. Other increases are planned such as water purchases and well security with various decreases in other accounts offsetting these increases. Purchased power cost have been reduced by $46,000 to align with actual expenses that have occurred over the past five years.

- Supplies are budgeted with a $13,175 increase. New meter installations are planned to be $26,308 higher, computer software, maintenance, and equipment costs are budgeted $6,880 higher with building and ground costs planned to be $18,060 lower, permits $7,100 lower, the cost of forms is $3,500 lower, and materials and supplies are $4,000 lower.

- The cost of CAP Water and regulatory fees has increased by $128,181 when compared to the prior fiscal year.

- Debt service is only $561 higher than the prior fiscal year with a full principal payment of $2,940,000 on the 2013 Senior Water Revenue Bonds. These bonds were paid off three and one half years early saving District $152,273.33 in interest payments that did not occur.

- Funding for capital projects is derived from budgeted development fees for new service connections of $0.68 million plus additional funding from operating revenue and fund balance totaling $1.41 plus $1.45 million from Water Resource Utilization Fees for NWRRDS for a total CIP of $3.49 million of cash funding for the capital projects. Planning and land acquisition for the second Herb Johnson Reservoir is planned with $0.29 million. The Regional Transportation Authority (RTA) La Cholla Boulevard, Overton to Lambert waterline relocation project will not be completed by the end of Fiscal Year 2019 with $0.19 million moving into Fiscal Year 2020. Another RTA project at Valencia Road was completed in Fiscal Year 2018 and the County will be completing the final adjustment in Fiscal Year 2020. Planning and design for the Arizona Department of Transportation Oracle Road Pavement/Drainage upgrades are planned to cost $10,000. Additional storage and new funding sources will pay for the AVRP Recharge Improvements, which are planned to cost $0.41 million. The Old Nogales Highway Mainline Replacement is planned at a cost of $0.22 million.

The E&T 22 Well Replacement work will start in Fiscal Year 2020 and be completed in the following fiscal year at a total cost of $1.06 million with $0.42 million in Fiscal Year 2020. Planning and design work for the Diablo Village Service Line Replacement, and the Pantano Road Transmission Main has been included in the budget. Installation of an Air Vacuum Release Valve at Camino del Fierro is planned. Four of the 13 Large Meter Vault Replacements are budgeted with work completed by staff. Telemetry will be added to E&T 22, E&T 23, and Lazy B. Planning, design, and land acquisition costs are estimated at $155,000 for the Central "A" Zone Reservoir & "B" Zone Booster Station

- Depreciation expense and amortization of assets totaling $3.48 million are included as non-cash budgeted expenses that will need to occur, requiring only budget authority. The total revenue, projected beginning fund balance, and NWRRDS partner funding is $36.46 million with budget disbursements of $28.52 million. The total operating revenue, fund balance, and NWRRDS partner funding are higher by $3.46 million or 10.49%, and the total budgeted disbursements are higher by 3.68% when compared to the prior fiscal year.

- A contingency for sick and vacation payouts was budgeted at $89,986 to cover anticipated retirees. The contingency fund for emergencies has remained at $0.5 million as budgeted in prior fiscal years.

Contacting the Metro Water District Office

This management report is designed to provide District customers, consultants, and financial advisors with a general overview of the District's finances along with demonstrating the District's accountability, fiscal stewardship of revenue received, and planned spending. 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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 8,054,401	$ 16,325,626
Investments	10,059,118	-
Accounts receivable, net of allowance	2,203,773	2,245,841
Unbilled water revenue	650,033	646,711
Other receivables	254,586	167,230
Notes receivable - current	541,891	563,158
Prepaid expenses and deposits	875,124	637,607
Inventory	240,560	253,307
Other current assets	34,015	22,620
Total current assets	22,913,501	20,862,100
Noncurrent assets:		
Restricted cash and cash equivalents	1,248,370	2,444,431
Restricted investments	3,051,919	5,409,884
Capital assets not being depreciated	3,912,671	2,315,348
Capital assets, net of accumulated depreciation	83,709,597	83,456,796
Water recharge credits	9,224,306	8,185,405
Net OPEB asset	-	6,153
Total noncurrent assets	101,146,863	101,818,017
Total assets	124,060,364	122,680,117
Deferred outflows of resources		
Deferred outflows related to pensions	707,403	705,522
Loss on refunding of debt	579,304	662,062
Deferred outflows related to OPEB	48,727	19,858
Total deferred outflows	1,335,434	1,387,442
Total assets and deferred outflows	$ 125,395,798	$ 124,067,559

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position, Continued
June 30, 2019 and 2018

	2019	2018
Liabilities		
Current liabilities:		
Accounts payable	$ 693,931	$ 289,575
Salaries and wages payable	25,961	25,080
Accrued liabilities	935,077	958,336
Deposits payable	502,300	492,220
Other liabilities	772,489	629,013
Current portion of notes payable	1,926,783	2,024,288
Current portion of compensated absences	370,000	285,000
Payable from restricted assets:		
Accrued interest on long term debt	221,818	331,093
Current maturity of bonds payable	850,000	2,755,000
Total current liabilities	6,298,359	7,789,605
Noncurrent liabilities:		
Compensated absences	123,287	240,855
Net pension liability	4,644,178	5,084,676
Net OPEB liability	5,220	-
Notes payable, less current portion	13,144,562	15,071,276
Bonds payable, less current maturities	7,941,597	13,295,828
Total noncurrent liabilities	25,858,844	33,692,635
Total liabilities	32,157,203	41,482,240
Deferred inflows of resources		
Deferred inflows related to pensions	593,771	397,532
Deferred inflows related to OPEB	37,401	22,103
Total deferred inflows	631,172	419,635
Total liabilities and deferred inflows	32,788,375	41,901,875
Net Position		
Net investment in capital assets	63,759,326	52,625,752
Restricted for:		
Debt Service	3,500,289	7,054,315
Repair and replacement	800,000	800,000
Unrestricted	24,547,808	21,685,617
Total net position	92,607,423	82,165,684
Total liabilities, deferred inflows, and net position	$ 125,395,798	$ 124,067,559

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, 2019 and 2018

	2019	2018
Operating revenues		
Metered water sales	$ 17,414,944	$ 18,142,697
Service charges and penalties	286,454	240,404
Development revenues	957,906	784,136
Other water revenues	3,238,224	3,114,042
Total operating revenues	21,897,528	22,281,279
Operating expenses		
Salaries and employee benefits	4,086,395	3,945,451
Materials and supplies	679,173	602,329
Purchased power	1,013,164	1,142,546
Purchased CAP water	2,699,588	2,783,541
Contract services	905,774	909,215
Insurance and taxes	145,531	143,760
Other operating expenses	1,061,522	1,050,323
Depreciation and amortization	3,412,952	3,354,753
Total operating expenses	14,004,099	13,931,918
Operating income / (loss)	7,893,429	8,349,361
Non-operating income (expenses)		
Interest income	631,477	44,701
Amortization of bond premiums	(43,527)	(38,479)
Gain on water recharge credits	1,038,900	1,667,238
Gain (loss) on disposal of assets	36,000	7,109
Interest expense	(897,577)	(1,178,993)
Total non-operating revenue (expenses)	765,273	501,576
Income before capital contributions	8,658,702	8,850,937
Capital Contributions	1,783,037	2,488,277
Increase in net position	10,441,739	11,339,214
Total net position - beginning of year	82,165,684	70,826,470
Total net position - end of year	$ 92,607,423	$ 82,165,684

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	$ 21,848,918	$ 22,134,509
Cash paid to suppliers for goods and services	(6,194,869)	(6,813,224)
Cash paid to employees	(4,118,082)	(3,943,212)
Cash flows from operating activities	11,535,967	11,378,073
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(9,244,219)	(5,936,611)
Interest paid	(1,006,852)	(1,253,355)
Purchase of capital assets	(3,518,650)	(1,331,950)
Proceeds from the sale of capital assets	36,000	7,109
Cash flows from capital and related financing activities	(13,733,721)	(8,514,807)
Cash flows from investing activities:		
Interest on investments	437,299	44,701
Transfer to (from) cash from (to) investments	(7,706,831)	(108,287)
Cash flows from investing activities	(7,269,532)	(63,586)
Net change in cash and cash equivalents, including restricted cash	(9,467,286)	2,799,680
Cash and cash equivalents, beginning of year including restricted cash	18,770,057	15,970,377
Cash and cash equivalents, end of year including restricted cash	$ 9,302,771	$ 18,770,057

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, 2019 and 2018

	2019	2018
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income / (loss)	$ 7,893,429	$ 8,349,361
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:		
Depreciation	3,412,952	3,354,753
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(45,288)	(236,794)
(Increase)/decrease in unbilled water revenue	(3,322)	90,024
(Increase)/decrease in inventories	12,747	440
(Increase)/decrease in prepaid expenses	(237,517)	(94,688)
Increase/(decrease) in accounts payable	404,356	(148,624)
Increase/(decrease) in accrued liabilities	120,217	45,172
Increase/(decrease) in deposits payable	10,080	16,190
Increase/(decrease) in accrued compensation	(31,687)	2,239
Net cash flows from operating activities	$ 11,535,967	$ 11,378,073

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES

	2019	2018
Amortization of premiums	$ 39,231	$ 32,743
Amortization of losses on advance refunding	(82,758)	(97,716)
Acquisition of capital assets from capital contributions	1,783,037	2,488,277
Value assigned to recharge credits	1,038,900	1,667,238

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

Note 1. Summary of Significant Accounting Policies

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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

Note 1. Summary of Significant Accounting Policies, Continued

Inventories

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

Capital Assets

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

Depreciation

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

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

Deferred Outflows/Inflows of Resources

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Postemployment Benefits

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

Compensated Absences

The District's personnel policy provides full-time employees with annual leave and sick leave in varying amounts, and at termination, an employee is paid for accumulated (vested) annual leave and long-term employees are also paid for sick leave as noted below. Accordingly, compensation for annual leave is charged to expense as utilized by the employee, and accumulated unpaid annual leave and qualifying sick leave, which is payable upon an employee's termination if conditions are met, is recorded as a current liability. At June 30, 2019 the liability total balance is $493,287 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:

Total accrued sick hours	Percent of vested hours
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.

Note 1. Summary of Significant Accounting Policies, Continued

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 43,121.79 acre feet of recharge credits with estimated values ranging from $176.46 to $217.66 per acre foot for a total of approximately $9,224,306 and $8,185,405 as of June 30, 2019 and 2018, 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.

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, 2019 and 2018 the Districts cash and investments consisted of the following:

	2019	2018
Total cash in bank	$ 3,445,731	$ 9,367,639
Total cash in State Treasurer Investment Pool	1,898,183	1,787,233
Total cash on deposit with the Pima County Treasurer	3,958,857	7,683,157
Total investments	13,111,037	5,341,912
	$ 22,413,808	$ 24,179,941

Note 2. Deposits and Investments, Continued

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

	2019	2018
Cash and cash equivalents	$ 8,054,401	$ 16,325,626
Investments	10,059,118	-
Restricted cash and cash equivalents	1,248,370	2,444,431
Restricted investments	3,051,919	5,409,884
	$ 22,413,808	$ 24,179,941

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, 2019, the District's bank balance was $18,639,836 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized. At June 30, 2018, the District's bank balance was $17,464,279 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized.

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.

Note 2. Deposits and Investments, Continued

Investment Fund

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

Certificates of deposit are measured at amortized cost.

Other investments are valued using quoted prices in active markets (Level 1 inputs). As of June 30, 2019 and 2018 the District had the following investments:

June 30, 2019

Investment Type	Credit Quality Rating	Maturity Date	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAA	**	$ 1,898,183	13%
Federal Agency				
FHLM	Aaa/AA+	10/2/2019	17,956	0%
FNMA	Aaa/AA+	10/7/2021	192,070	1%
FHLM	Aaa/AA+	1/13/2022	435,336	3%
FFCB	Aaa/AA+	12/13/2022	771,248	5%
PEFC	Aaa	7/15/2024	484,220	3%
FHLB	Aaa/AA+	9/12/2025	434,389	3%
FHLB	Aaa/AA+	11/29/2021	305,528	2%
FFCB	Aaa/AA+	6/16/2025	970,290	6%
Bonds-certificates of deposit*	N/A	***	9,500,000	63%
Total			$ 15,009,220	100%

* - FDIC insured
** - Pool 5 has a weighted average maturity of .10 years
*** - Certificates of Deposit have a weighted average maturity of 1.55 years

Note 2. Deposits and Investments, Continued

June 30, 2018

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

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

Note 3. Restricted Assets

Restricted assets consist of the following at June 30, 2019 and 2018:

	June 30, 2019			
	Bond Funds	Reserve Funds	Repair and Replacement Funds	Total
Cash and cash equivalents	$ 1,000,452	$ 182,574	$ 65,344	$ 1,248,370
U.S. Government securities	-	1,833,043	734,656	2,567,698
Other securities	-	484,220	-	484,220
Total	$ 1,000,452	$ 2,499,837	$ 800,000	$ 4,300,289

	June 30, 2018			
	Bond Funds	Reserve Funds	Repair and Replacement Funds	Total
Cash and cash equivalents	$ 2,444,431	$ 2,283,524	$ 36,696	$ 4,764,651
U.S. Government securities	-	1,868,728	763,304	2,632,032
Other securities	-	457,632	-	457,632
Total	$ 2,444,431	$ 4,609,884	$ 800,000	$ 7,854,315

The 1999 refinance in 2002, 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. <u>Operation and Maintenance Fund</u> – 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.

Note 3. Restricted Assets, Continued

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 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.

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, 2019 and 2018.

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, 2019 and 2018.

Note 3. Restricted Assets, Continued

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. 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

j. 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.

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, 2019 and 2018 was $3,412,952 and $3,354,753, respectively. Capital asset activity for the years ended June 30, 2019 and 2018 was as follows:

	June 30, 2018	Additions	Disposals	Adjustments	June 30, 2019
Capital assets not being depreciated:					
Land	$ 1,392,378	$ -	$ -	$ 54,321	$ 1,446,699
Construction in progress	922,970	3,261,582	-	(1,718,580)	2,465,972
Total capital assets not being depreciated	2,315,348	3,261,582	-	(1,664,259)	3,912,671
Capital assets being depreciated:					
Water systems	110,662,375	1,709,913	(60,675)	1,585,825	113,897,438
Buildings and improvements	4,764,549	3,628	-	78,434	4,846,611
Vehicles, machinery, and equipment	1,789,017	326,564	(166,590)	-	1,948,991
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	128,468,599	2,040,105	(227,265)	1,664,259	131,945,698
Less: accumulated depreciation for:					
Water systems	(34,029,805)	(2,608,831)	22,064	-	(36,616,572)
Buildings and improvements	(1,573,983)	(168,931)	-	-	(1,742,914)
Vehicles, machinery, and equipment	(1,557,121)	(92,087)	166,590	-	(1,482,618)
Regulatory assets	(7,850,894)	(543,103)		-	(8,393,997)
Total accumulated depreciation	(45,011,803)	(3,412,952)	188,654	-	(48,236,101)
Total capital assets being depreciated, net	83,456,796	(1,372,847)	(38,611)	1,664,259	83,709,597
Total capital assets, net of accumulated depreciation	$ 85,772,144	$ 1,888,735	$ (38,611)	$ -	$ 87,622,268

Note 4. Capital Assets and Depreciation, Continued

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

Note 5. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2019 and 2018:

	Balance 6/30/2018	Additions	Retirements	Balance 6/30/2019	Current Portion
Bonds from Direct Placements	$ 16,007,000	$ -	$ (7,220,000)	$ 8,787,000	$ 850,000
Unamortized Premiums	43,828	-	(39,231)	4,597	4,597
Notes Payable from Direct Borrowings	17,095,564	-	(2,024,219)	15,071,345	1,926,783
Compensated Absences	525,855	336,272	(368,840)	493,287	370,000
Net Pension Liability	5,084,676	726,822	(1,167,320)	4,644,178	-
	$ 38,756,923	$ 1,063,094	$(10,819,610)	$ 29,000,407	$ 3,151,380

	Balance 6/30/2017	Additions	Retirements	Balance 6/30/2018	Current Portion
Bonds from Direct Placements	$ 19,957,000	$ -	$ (3,950,000)	$ 16,007,000	$ 2,755,000
Unamortized Premiums	88,107	-	(44,279)	43,828	44,279
Notes Payable Direct Borrowings	19,070,639	-	(1,975,075)	17,095,564	2,024,288
Compensated Absences	519,643	259,822	(253,610)	525,855	285,000
Net Pension Liability	5,386,253	674,741	(976,318)	5,084,676	-
	$ 45,021,642	$ 934,563	$ (7,199,282)	$ 38,756,923	$ 5,108,567

Bonds Payable

The annual requirements for the next five years and 5 year increments thereafter to amortize bonds outstanding at June 30, 2019 are as follows:

Bonds Payable from Direct Placements

Year Ended June 30,	Principal	Interest	Total
2020	$ 850,000	$ 232,856	$ 1,082,856
2021	890,000	210,331	1,100,331
2022	1,460,000	186,746	1,646,746
2023	1,975,000	148,056	2,123,056
2024	1,515,000	95,718	1,610,718
2025-2029	2,097,000	76,426	2,173,426
Total	$ 8,787,000	$ 950,131	$ 9,737,131

Note 5. Long-Term Debt, Continued

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

	2019	2018
$15,910,000 - Metropolitan Domestic Water District of Pima County, Water Revenue and Refunding Bonds, Series 2009, due in annual installments varying from $247,182 to $2,071,884 through January 1, 2019; interest rate is variable from 2.50% to 3.625% and is secured by water revenue.	$ -	$ 2,035,000
$6,630,000 - Metropolitan Domestic Water Improvement District of Pima County, Senior Lien Water Revenue Obligation Bonds Series 2011, due in annual installments varying from $106,100 to $795,400 through January 1, 2021; interest rate is variable from 2.5% to 4.0% and is secured by water revenue.	-	2,245,000
$2,940,000 - 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
$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	4,597	43,828
Total bonds payable	$ 8,791,597	$ 16,050,828

For the Series 2013 Bonds Payable, no collateral is required. In the event of default, the bond holders through legal proceedings may enforce and compel performance duties including setting and collecting sufficient rates and revenues sufficient to provide for payments of the bonds.

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, the District approved the authorization of the 2002 senior bonds, which represented the final $10 million installment discussed above. In the same resolution, the District 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. On January 1, 2019, these bonds were paid in full. Debt service reserves required of this bond in the amount of $1,591,000 were released due to the payoff.

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. On January 3, 2019, the District placed $1,555,674 in an irrevocable trust to provide for all future debt service payments of the Series 2011 Bonds. As a result, the Series 2011 bonds are defeased and the liability has legally been removed from the District's statement of net position. The principal amount of defeased debt outstanding at June 30, 2019 is $1,525,000. Debt service reserves required of this bond in the amount of $663,000 were released due to the defeasance.

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.

Note 5. Long-Term Debt, Continued

On January 22, 2013, the District 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. In June 2019, these bonds were paid in full.

Notes Payable

The annual requirements for the next five years and 5 year increments thereafter to amortize notes payable outstanding at June 30, 2019 are as follows:

Notes Payable from Direct Borrowings			
Year Ended June 30,	Principal	Interest	Total
2020	$ 1,926,783	$ 415,331	$ 2,342,114
2021	1,983,771	357,882	2,341,652
2022	2,042,517	298,730	2,341,247
2023	2,103,003	237,827	2,340,830
2024	2,165,281	175,119	2,340,400
2025-2029	3,903,688	285,035	4,188,723
2030-2034	946,302	56,494	1,002,797
Total	$ 15,071,345	$ 1,826,417	$ 16,897,762

Note 5. Long-Term Debt, Continued

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

	2019	2018
Note payable to HUB Water Company, Inc., due in monthly installments of $14,329 through June 2019, including interest at 6%, secured by the purchased assets of HUB Water Company, Inc.	$ -	$ 152,987
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.	5,334,030	6,009,504
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.	6,846,486	7,877,010
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.	2,890,829	3,056,063
Total notes payable	$ 15,071,345	$ 17,095,564

For the WIFA loans, no collateral is required but reserve requirements are in place. In the event of deficiency, reserves shall be liquidated to pay principal and interest due. If funds are still insufficient, guarantor reserve funds will be utilized. In the event of default, legal proceedings may enforce and compel performance duties including setting and collecting sufficient rates and revenues sufficient to provide for payments of the bonds.

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.

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:

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

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from $100 per month to $260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

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

Note 6. Retirement and Pension Plans, Continued

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statue required active ASRS members to contribute at the actuarially determined rate of 11.8 percent (11.64 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and the statute required the District to contribute at the actuarially determined rate of 11.8 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll. The District's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2019 were:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2019	$ 373,158	$ 15,354	$ 5,340

Liability – At June 30, 2019, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	Net pension/OPEB (asset) liability
Pension	$ 4,644,178
Health insurance premium benefit	(12,221)
Long-term disability	17,441

The net asset and net liabilities were measured as of June 30, 2018. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total liabilities as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3–6.75 percent to 2.7–7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The District's proportion of the net asset or net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The District's proportion measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, were:

	Proportion June 30, 2017	Proportion June 30, 2018	Increase (decrease) from June 30, 2017
Pension	0.032640%	0.033330%	0.000690%
Health insurance premium benefit	0.033120%	0.033940%	0.000820%
Long-term disability	0.032770%	0.033380%	0.000610%

Note 6. Retirement and Pension Plans, Continued

Expense – For the year ended June 30, 2019, the District recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	$ 127,066
Health insurance premium benefit	12,164
Long-term disability	6,334

Deferred outflows/inflows of resources – At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-term disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 127,943	$ 25,603	$ -	$ 11,280	$ 446	$ -
Changes of assumptions or other inputs	122,893	411,770	23,569	-	3,778	-
Net difference between projected and actual earnings on pension plan investments	-	111,681	-	24,414	-	1,689
Changes in proportion and differences between contributions and proportionate share of contributions	83,409	44,717	29	18	212	-
Contributions subsequent to the measurement date	373,158	-	15,354	-	5,340	-
Total	$ 707,403	$ 593,771	$ 38,952	$ 35,712	$ 9,776	$ 1,689

Note 6. Retirement and Pension Plans, Continued

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30	Pension	Health Insurance Premium Benefit	Long-term disability
2020	$ 48,512	$ (4,731)	$ 81
2021	(88,540)	(4,730)	81
2022	(169,413)	(4,730)	81
2023	(50,085)	473	534
2024	-	1,604	617
Thereafter	-	-	1,353

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

Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

Note 6. Retirement and Pension Plans, Continued

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50%	5.50%
Fixed income	30%	3.83%
Real Estate	20%	5.85%
Totals	100%	

Discount Rate – At June 30, 2018, the discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the District's proportionate share of the ASRS net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the County's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

Note 6. Retirement and Pension Plans, Continued

Proportionate share of the	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Net pension liability	$ 6,620,383	$ 4,644,178	$ 2,993,091
Net insurance premium benefit liability (asset)	43,304	(12,221)	(59,518)
Net long-term disability liability	19,766	17,441	15,186

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

Note 7. Contributed Capital

Capital assets contributed by land developers, consisting of construction of certain portions of the distribution systems, totaled $1,783,037 and $2,488,277 during the years ended June 30, 2019 and 2018, respectively, and are included in contributed capital on the statements of revenues, expenses, and changes in net position.

Note 8. Regulatory Assets

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

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

Note 9. Assignment of Right of Way

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.

Note 10. Risk Management

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.

Note 11. Contingencies

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.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2019

ASRS - Pension	Reporting Fiscal Year (Measurement Date)				
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.033330%	0.032640%	0.033370%	0.031950%	0.034111%
Proportionate share of the net pension liability (asset)	$ 4,644,178	$ 5,084,676	$ 5,386,253	$ 4,977,319	$ 4,884,827
Covered payroll	$ 3,299,293	$ 3,191,509	$ 3,026,837	$ 3,021,540	$ 2,691,250
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	140.76%	159.32%	177.95%	164.73%	181.51%
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Contributions
June 30, 2019

ASRS - Pension

	Reporting Fiscal Year					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually required contribution	$ 373,158	$ 360,760	$ 343,199	$ 326,808	$ 251,641	$ 318,422
Contributions in relation to the contractually required contribution	(373,158)	(360,760)	(343,199)	(326,808)	(251,641)	(318,422)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 3,338,097	$ 3,299,293	$ 3,191,509	$ 3,026,837	$ 3,021,540	$ 2,691,250
Contributions as a percentage of covered payroll	11.18%	10.93%	10.75%	10.80%	8.33%	11.83%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of the Proportionate Share of the Net OPEB Liability
June 30, 2019

ASRS - Health insurance premium benefit	**Reporting Fiscal Year (Measurement Date)**		
	2019 (2018)	**2018 (2017)**	**2017 (2016)**
Proportion of the net OPEB (asset)	0.033940%	0.033120%	0.033120%
Proportionate share of the net OPEB (asset)	$ (12,221)	$ (18,031)	$ 9,577
Covered payroll	$ 3,299,293	$ 3,191,509	$ 3,026,837
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.37%	-0.56%	0.32%
Plan fiduciary net position as a percentage of the total OPEB liability	102.20%	103.57%	98.02%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Contributions
June 30, 2019

ASRS - Health insurance premium benefit

	Reporting Fiscal Year		
	2019	**2018**	**2017**
Contractually required contribution	$ 15,354	$ 14,563	$ 17,829
Contributions in relation to the contractually required contribution	(15,354)	(14,563)	(17,829)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 3,338,097	$ 3,299,293	$ 3,191,509
Contributions as a percentage of covered payroll	0.46%	0.44%	0.56%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of the Proportionate Share of the Net OPEB Liability
June 30, 2019

ASRS - Long-term disability	**Reporting Fiscal Year (Measurement Date)**		
	2019 (2018)	**2018 (2017)**	**2017 (2016)**
Proportion of the net OPEB (asset)	0.033380%	0.032770%	0.032769%
Proportionate share of the net OPEB (asset)	$ 17,441	$ 11,878	$ 11,776
Covered payroll	$ 3,299,293	$ 3,191,509	$ 3,026,837
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.53%	0.37%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	77.83%	84.44%	85.17%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Contributions
June 30, 2019

ASRS - Long-term disability

	Reporting Fiscal Year		
	2019	**2018**	**2017**
Contractually required contribution	$ 5,340	$ 5,296	$ 4,457
Contributions in relation to the contractually required contribution	(5,340)	(5,296)	(4,457)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 3,338,097	$ 3,299,293	$ 3,191,509
Contributions as a percentage of covered payroll	0.16%	0.17%	0.14%

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

Other Communications From Independent Auditors

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Metropolitan Domestic Water Improvement District
Tucson, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Metropolitan Domestic Water Improvement District as of and for the year ended June 30, 2019 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 4, 2019.

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.*

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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.

HintonBurdick, PLLC

HintonBurdick, PLLC
Gilbert, Arizona
September 4, 2019