METRO DOMESTIC WATER
IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

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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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Metropolitan Domestic Water Improvement District as of June 30, 2016 and 2015, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do no 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 2, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

HintonBurdick, PLLC
Flagstaff, Arizona
September 2, 2016

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Metropolitan Domestic Water Improvement District
Notes To Financial Statements
June 30, 2016 And June 30, 2015

Management of the Metropolitan Domestic Water Improvement District (MDWID or the District) offers readers of the financial statements this narrative overview and analysis of the financial activities of the District for the years ended June 30, 2016 and June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with the preceding Independent Auditors' Report and the accompanying basic financial statements and notes to the financial statements.

District Framework

MDWID was formed on July 7, 1992 when its residents successfully petitioned the Pima County Board of Supervisors to form a domestic water improvement district in order to have an independent and direct voice in water issues rather than be a part of Tucson Water. The District now has over 21,000 customer accounts, with service areas located on the northwest, northeast, and southwest portions of Tucson. A five member elected Board of Directors, from within its boundaries governs the District.

Overview of the Financial Statements

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

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

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

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

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

Note 1 contains the **Summary of Significant Accounting Policies.** This summary describes accounting policies, which are the specific accounting principles and the methods of applying those principles, used by MDWID in preparing its financial statements. Generally accepted accounting principles requires disclosure of all accounting policies that materially affect the determination of financial position, results of operations, and cash flows.

The District

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

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

Summary of Net Position

The table below is a summary of the Statements of Net Position for Fiscal Years 2016 and 2015:

	June 30, 2016	June 30, 2015
Current assets	$ 13,931,168	$ 12,147,578
Restricted cash and investments	8,296,618	8,195,835
Capital assets, net of accumulated depreciation	83,733,617	86,002,258
Regulatory assets	2,189,372	1,209,175
Water recharge credits	5,475,048	4,581,467
Total assets	$ 113,625,823	$ 112,136,313
Deferred outflows related to pensions	$ 462,628	$ 583,985
Deferred outflows, loss on refund of debt	872,450	985,122
Total deferred outflows	1,335,078	$ 1,569,107
Total assets and Deferred Outflows	$ 114,960,901	$ 113,705,420
Current liabilities	$ 8,459,440	$ 8,566,670
Long-term debt , pension liability and compensated absences	44,409,856	49,575,641
Total liabilities	$ 52,869,296	$ 58,142,311
Deferred inflows related to pensions	$ 613,852	$ 981,682
Total deferred inflows	613,852	$ 981,682
Total liabilities and deferred inflows	$ 53,483,148	$ 59,123,993
Invested in capital assets, net of related debt	$ 41,576,819	$ 37,854,863
Restricted for:		
Debt service	$ 7,496,618	$ 7,395,835
Repair and replacement	800,000	800,000
Unrestricted	11,604,316	8,530,729
Total net position	**$ 61,477,753**	**$ 54,581,427**
Total Liabilities, deferred inflows, and net position	**$ 114,960,901**	**$113,705,420**

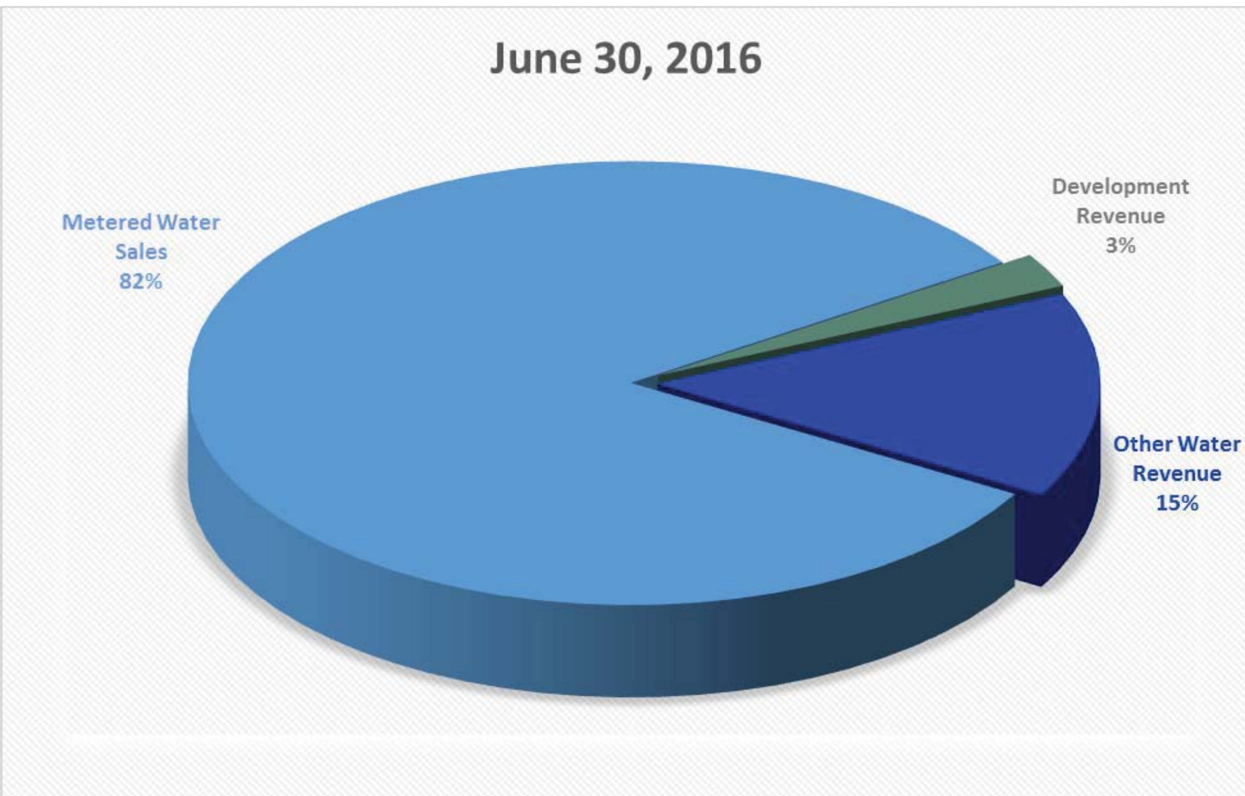
Summary of Net Position (Continued)

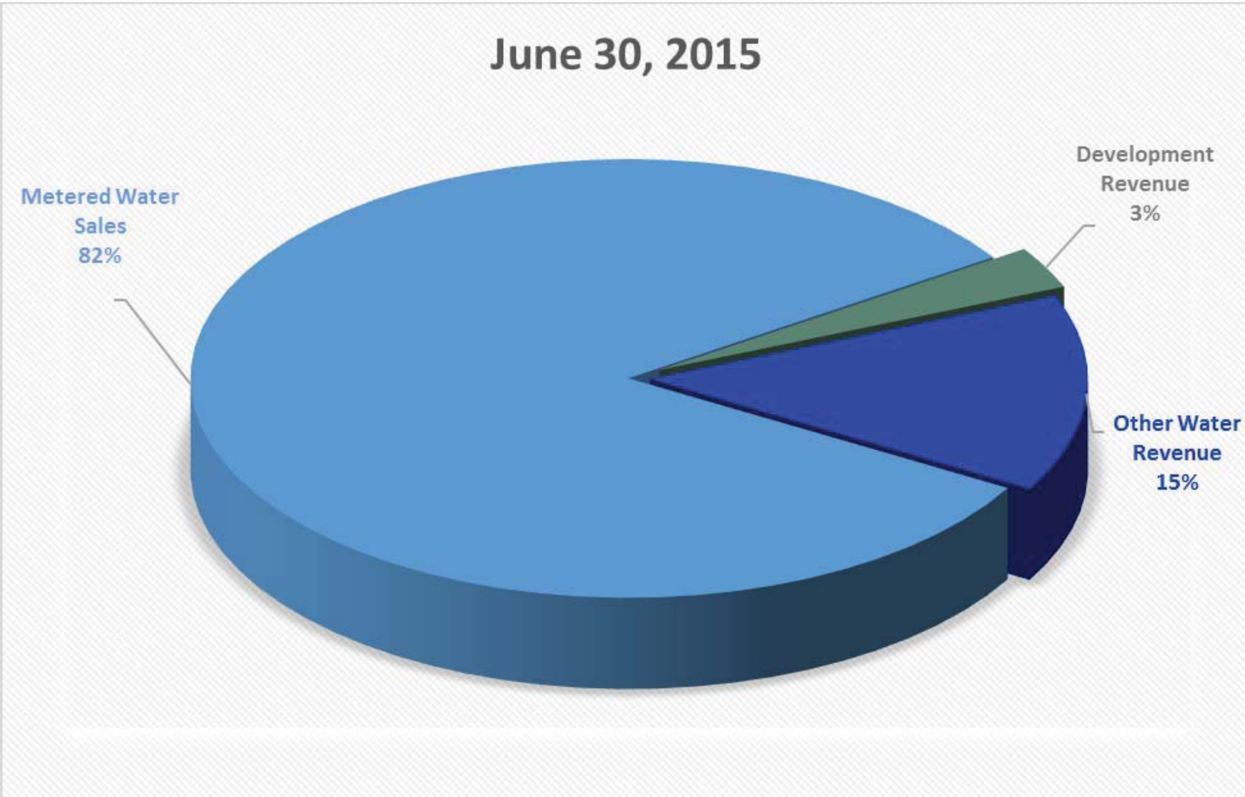
MDWID's total net position shows an increase of $6.9 million over Fiscal Year 2015 Current assets increased $1.78 million over the previous year with increases in cash and cash equivalents of $1.62 million. Non-current assets decreased by $.25 million with a $2.29 million reduction in capital assets net of accumulated depreciation. Capital assets not being depreciated increase $.98 million with the purchase of land, restricted cash and cash equivalents increased $.25 million, and recharged water credits increased $.89 million. The Deferred outflow related to pensions as part of the GASB 68 reporting requirements have decreased by $.23 million in Fiscal Year 2016. This consists of the Arizona State Retirement System (ASRS) withheld in Fiscal Year 2016 that will be reported as expenses in Fiscal year 2017 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 2016, current liabilities increased by $.11 million when compared to Fiscal Year 2015 with increases in bonds and notes payable. Long term-debt decreased by $5.17 million from the principal payments applied to existing debt. The total change in noncurrent liabilities before deferred inflows of resources is $5.27 million. The net pension liability in accordance with GASB 68 is lower by $.14 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 net position has increased by $6.9 million this fiscal year.

Summary of Revenue, Expenses and Changes in Net Position

Operating Revenue

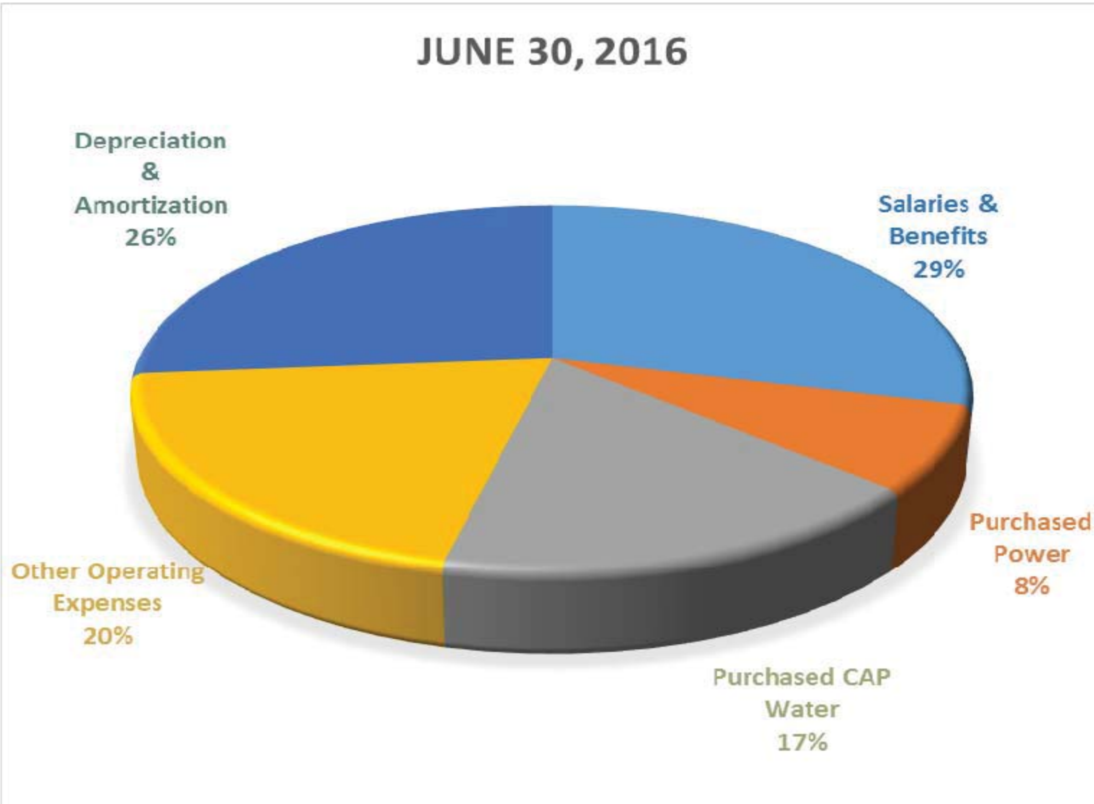


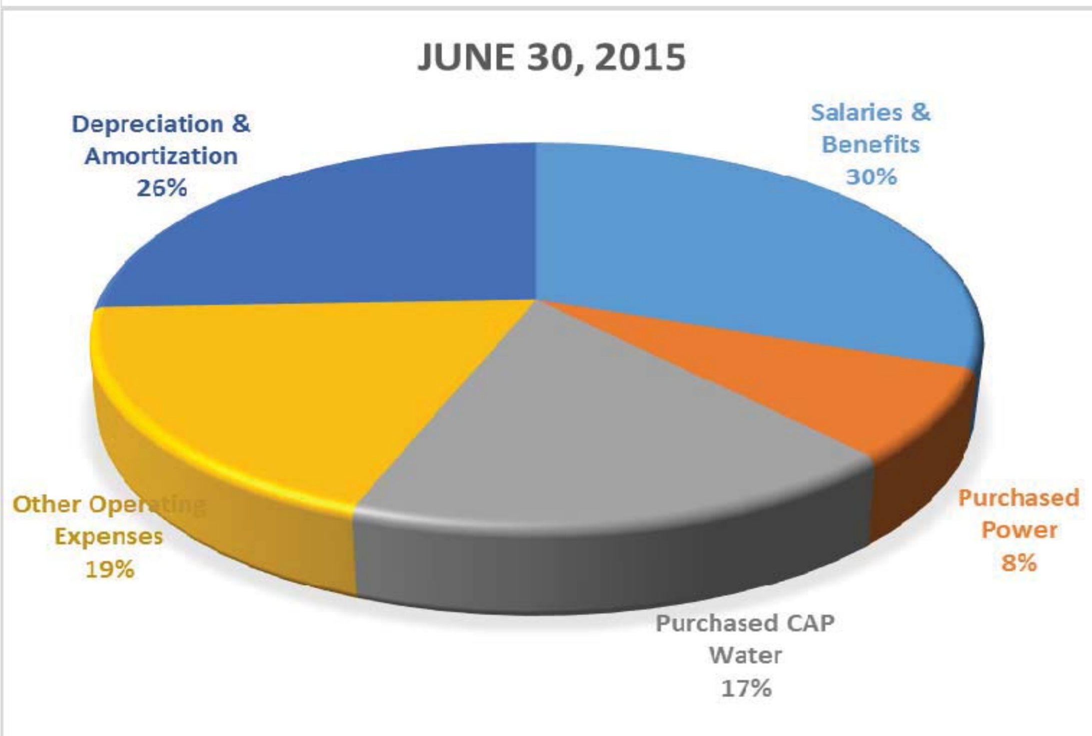


Total operating revenue for Fiscal Year 2016 totaled $19.4 million compared to $18.38 million in Fiscal Year 2015 for a 5.55% increase. At $16.01 million, Metered Water Sales accounted for 82% of the total operating revenue again this fiscal year. The Water sales increased $872,473 over the prior year by establishing a more stable revenue source to mitigate declining water usage. Other Water Revenue increased by 8.6% in Fiscal Year 2016 with the Water Resources Utilization Fee set at forty cents per thousand gallons of water effective July 1, 2014, and the inclusion of revenue from additional sources of water storage. The District will continue to monitor the water usage levels with trends of reduced water consumption continuing. However, on July 1, 2016, the District completed a two year rate plan to substantially increase the percentage of fixed costs covered with fixed revenue there by mitigating prior concerns about the effects of declining water usage and revenue. During Fiscal Year 2016, 83% of the fixed expenses were covered with fixed revenue. Fixed revenue in Fiscal Year 2017 is planned to cover 90% of the fixed costs providing the District with additional revenue stability and less volatility related to declining water consumption. Other revenue sources include private fire risers, inspection fees, and engineering plan review fees, sale of water CAP credits from Metro Main to Metro Southwest, accrued interest income, and collection of bad debt. Rates for all of these other services have been reviewed and updated as needed to cover the cost of services provided.

Meter applications for new services District wide increased with a total of 148 applications compared to 121 meter applications in the prior fiscal year. Metro Southwest generated 68 new meter applications. This system was purchased in 2009, with one new meter application in Fiscal Year 2012, 56 new meter applications in Fiscal Year 2013, 120 new meter applications in Fiscal Year 2014, and 38 new meter applications in Fiscal Year 2015. Development revenue for Fiscal Year 2016 totaled $488,549, which is a decrease of $82,195 when compared to the previous fiscal year.

Operating Expenses





Summary of Revenue, Expenses and Changes in Net Position

Operating expenses totaled $12.48 million in Fiscal Year 2016 compared to $12.53 million in Fiscal Year 2015. Salaries and benefits decreased by 1% with some staff time charged to capital projects, and operating expenses increased by 1%.

Salaries and employee benefits continue to be the District's largest expenditures, making up 29% of the total operating expenses. Fiscal Year 2016 had a decrease of $208,429. Funded positions include 48 full-time positions and one part-time position. Purchases of CAP water increased $59,496, and other operating expenses increased by $166,219 for a total operating expense increase of 1%.

Depreciation and amortization expenses totaled $3.29 million compared to $3.21 million for Fiscal Year 2015. Purchased power costs were lower again this fiscal year at $941,723 compared to $961,635 in the prior year. This decrease is attributable to more efficient pumping equipment, taking advantage of more interruptible rate options, and solar providing 91% of the electric used at the administrative buildings. Contracted Service increased by $99,693 in Fiscal Year 2016 with a $40,586 increase in meter premium paid to Thim Utility, and well monitoring cost increasing $54,125. Insurance and taxes in Fiscal Year were $146,017 compared to $141,643 in Fiscal Year 2015. Material supplies were lower in Fiscal Year 2016 with a total of $499,064 compared to $510,644 in Fiscal Year 2015. Other operating expenses at $873,957 compared to $800,225 in Fiscal Year 2015 were higher.

Non-Operating Revenue/Expenses

Non-operating expenses exceeded non-operating income by $448,478 in Fiscal Year 2016, compared to a positive amount of $217,444 for Fiscal year 2015. Water recharge credits continue to increase in value and in quantity with the current value assessment increasing by $893,581 in Fiscal Year 2016. Water credits are based on the fair market value and the number of acre feet resulting in a book value of $5,475,048 in Fiscal Year 2016, compared to $4,581,467 in the prior fiscal year. Interest income for Fiscal Year 2016 generated $330,421 compared to $252,878 in Fiscal year 2015. Interest expenses were slightly higher at $1,672,862 in Fiscal Year 2016 compared to $1,663,426 in the prior fiscal year.

The income before capital contributions for Fiscal Year 2016 was $6.47 million, an increase of $400,957 when compared to Fiscal Year 2015, which was $6.07 million. Capital assets contributed by developers totaled $423,177, compared to $834,554 in Fiscal Year 2015. The total net position as of June 30, 2016 is $61.48 million compared to $54.58 million in Fiscal Year 2015 for an increase in net position of $6.9 million.

Metropolitan Domestic Water Improvement District
Notes To Financial Statements
June 30, 2016 And June 30, 2015

The following table shows a comparison of the revenue and expenses and change in net assets for Fiscal Years ended June 30, 2016, June 30, 2015:

	June 30, 2016	June 30, 2015
Metered water sales	$ 16,011,201	$ 15,138,725
Development revenue	488,549	570,744
Other water revenue	2,904,324	2,674,090
Total operating revenue	$ 19,404,074	$ 18,383,559
Salaries and employee benefits	$ 3,629,205	$ 3,837,634
Purchased power	941,723	961,635
Purchased CAP water	2,118,882	2,178,378
Other operating expenses	2,505,329	2,339,110
Depreciation and amortization	3,287,308	3,212,054
Total operating expenses	$ 12,482,447	$ 12,528,811
Operating income	$ 6,921,627	$ 5,854,748
Interest income (loss)	$ 330,421	$ 252,878
Gain (loss) on disposal of assets	50,396	67,350
Grant revenue	-	-
Amortization of bond premiums	(50,014)	(50,264)
Gain related to water recharge activity	893,581	1,610,906
Interest expense	(1,672,862)	(1,663,426)
Total non-operating revenue (expenses)	$ (448,478)	$ 217,444
Income before capital contributions	$ 6,473,149	$ 6,072,192
Capital contributions	423,177	834,554
Increase in net position	$ 6,896,326	$ 6,906,746
Total Net position, beginning of year	54,581,427	53,026,908
Adjustment to beginning net position – GASB 68	-	$ (5,352,227)
Net position, end of year	$ 61,477,753	$ 54,581,427

District's Capital Improvement Program

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

Another $28 million in debt was authorized by District voters on March 2005 for the ongoing CIP. From this authorization the District was granted a $15.375 million loan with the Water Infrastructure Finance Authority of Arizona (WIFA) in October 2005 for the design and construction of six major capital projects, including the 5 million gallon state-of-the-art James Tripp Reservoir underground facility. All funding associated with the 2005 loan were spent by October 2008.

On November 9, 2007, WIFA approved the second phase of the $28 million CIP with a loan in the amount of $12.625 million. This loan was originally scheduled to fund two transmission mains, five mainline projects, and the drilling of a new well; however, it was revised to include a transmission main for the La Canada Drive 'A' Zone, projects in the Riverside area that consists of a transmission main and well site improvements to serve new development in the area along the Rillito River. In addition, it included a fixed network metering system to better serve the 1,600 customers in the Hub service area, improved arsenic vessels for two Hub well sites, and a Variable Frequency Drive unit to be installed at the District's Magee/La Cholla well site. These projects have been completed and the final loan amount is $11.763 million.

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

WIFA also approved a $400,000, 20 year loan in January 2013 to help fund the remaining improvements needed at the Riverside well site. During Fiscal Year 2014 additional principal payments totaling $91,731 were applied, in Fiscal Year 2015, an additional $71,295.74 was applied to principal, and Fiscal Year 2016 an additional $60,000 was applied to principal, substantially reduce the total interest payments over the life of this loan along with reducing the duration of the 20 year loan. The Original loan extended through July 2032 and by making additional principal payments, this loan was satisfied on July 1, 2016 saving the District $110,084 in avoided interest payments.

For the past three fiscal years, the District has been cash funding all planned capital improvements without incurring any additional debt. The Capital Improvement Projects budgets included funding for $824,939 in Fiscal Year 2015, $3,215,000 in Fiscal Year 2016, and has $3,252,000 planned in Fiscal Year 2017.

Long-Term Debt Obligations

As of June 30, 2016 the District had $44.2 million in long-term bonds and notes payable, with $49.4 as of June 30, 2015 for a $5.1 million decrease. In January 2013 the District restructured the long term debt with a refunding of the 2002 Senior Water Revenue Bonds and the 2002 Subordinate Refunding Bonds. This refinancing provided an immediate cash flow reduction to the District by restructuring the debt service requirements and deferring principal payments on some of the loans.

Factors for the Fiscal Year 2017 Budget

When the current Chief Financial Officer and the General Manager began working at Metro Water District we implemented a priority driven budget process. Fiscal Year 2017 is the third year of a priority driven budget process and we continue to see improvements resulting from the cultural changes created with this collaborative process. Employees are engaged in finding ways to work smarter, safer, and more efficient. Cost saving roll into the fund balance and are available to be included in prioritization of needs each fiscal year.

With the above process changes in place, the following items were incorporated into the preparation of the MDWID adopted budget for Fiscal Year 2017:

- On May 23, 2016 a rate hearing was held to approve rate changes effective July 1, 2016. These rate changes adjust the fixed and variable rate structure by increasing the water availability rates and eliminating the first tiers of water consumption charges by including the first 3,000 gallons of water in the availability rate. The implemented rate changes will stabilize revenue with fixed revenue covering 90% of the fixed cost. The District was covering 83% of our planned fixed costs with fixed revenue in the prior fiscal year. With trends continuing to reflect reduced water usage, this revenue stabilization will smooth the impact on revenue collections. Meter Water Sales were budgeted at $16.4 million, which is $972,159 higher than the prior fiscal year budget. On July 1, 2016, the Water Resource Utilization Fees increased from $.40 per 1,000 gallons to $.50 per 1,000 gallons.

- In addition to stabilizing the fixed and variable rates and revenue, new fees for meter testing and re-reading meters were approved at the May 23, 2016 rate hearing to be effective July 1, 2016.

- With approved revenue rates in place, a budget could be formulated based upon projected revenue and fund balances. The projected beginning operating fund balance for Fiscal Year 2017 was budgeted at $7.2 million, which is $.7 million higher than the Fiscal Year 2016 beginning balance. The fund balance includes $1.83 million of Water Resources Utilization Fees collected and not spent as of June 30, 2016 on approved projects.

- The planned operating revenue is projected to be $20 million, up $1.46 million from Fiscal Year 2016.

- Salaries and Benefits for Metro Water staff increased $263,495 including a proposed increase in health care, the addition of one position, increasing hours on the part-time position to create a full-time position, and a requested 1% COLA and up to a 3% merit increase for eligible staff.

- Consultants and Contracted Services increased by $68,006. Changes include a decrease in corrosion monitoring, janitorial costs, mailing services, meter replacements, and miscellaneous consulting services along with increases in storage tank rehabilitation, meter premiums on new meters installed in the Metro Southwest service area, maintenance of auxiliary power engines, office equipment maintenance, and a slight increase in bee and snake removal services. Software maintenance agreements increased with the implementation of additional electronic software in Fiscal Year 2016 such as IBAK backflow software, RCM-Reliable Centered Maintenance, and CMMS-Computerized Maintenance Management System.

- General Operating expenses are planned to be about $43,221 higher in Fiscal Year 2017, including the retiree health insurance subsidies, additional education and training, as well as an increase in vehicle lease costs.

- Although CAP Water Purchases have increased $405,386, the revenue generated from the water storage of 1,635.5 acre feet for Marana is $408,911 which offsets the additional costs.

- Debt service principal and interest payments for Fiscal Year 2017 will be $6,514,773 based on the amortization schedules of bonds and loans. This is near the same as Fiscal Year 2016 due to a refinancing that took place in January 2013. The Debt Service Reserve requirements have been satisfied and no additional funds were budgeted this year. The Riverside Well Equipment loan for $400,000 was a 20-year loan with a payment completion date of July 1, 2032. This budget includes the final payment on this loan on July 1, 2016. The additional principal payment included in the past two adopted budgets, along with additional principal payment in the Fiscal Year 2017 adopted budget, have saved the District $110,084 in interest payments. The Debt Service Reserve Funding account has a balance of $5,057,696 as of June 30, 2016 with a required balance is $4,636,079. Additional earning on this investment will be applied to pay debt service payments in Fiscal year 2017.

- Funding for capital projects is derived from budgeted development fees for new service connections. Fiscal Year 2017 includes $185,986 for planned new connection, plus Fiscal Year 2016 extra revenue of $55,992, $22,000 for Gold Canyon PVC Service line project carried forward form the prior fiscal year, $320,000 for waterline replacement projects not completed in Fiscal Year 2016 and carried forward from the prior fiscal year, and $10,000 for the Hub Retaining Wall will be near completing but will have some expenditures carry into Fiscal Year 2017 for a total of $593,978. Since the system development fees are not covering all of the infrastructure needs, $958,022 from operating revenue will be used to fund capital infrastructure. The CAP Recovery, Recharge and Delivery System project will move forward with land acquisitions and begin design activities with a budget of $1.7 million dollars. One million of this project funding has rolled forward from the prior fiscal year. The total Water Resource Utilization Fees collected as of January 2016 generated $1,940,634.59 with $142,138.74 spent.

- Depreciation expense and amortization of assets are budgeted at $3,293,195 and these non-cash budgeted expenditures have been included in the adopted budget. The total revenue and projected beginning fund balance is $26,757,506 with budget disbursements of $24,562,778.

- A contingency for sick and vacation payouts has been budgeted at $61,267 to cover anticipated retirees. The contingency fund for emergencies has remained at $500,000 as in prior years.

Contacting the Metro Water District Office

This management report is designed to provide our customers, consultants, and financial advisors with a general overview of the District's finances along with demonstrating the District's accountability, and fiscal stewardship of the revenue received, and planned expenditures. 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 Dr., Tucson, Arizona 85704 or call (520) 575-8100.

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METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 9,902,037	$ 8,282,328
Accounts receivable, net of allowance	1,932,889	1,873,982
Unbilled water revenue	639,279	595,825
Other receivables	114,680	109,994
Notes receivable - current	607,061	591,184
Prepaid expenses and deposits	464,001	422,350
Inventory	255,726	256,804
Other current assets	15,495	15,111
Total current assets	13,931,168	12,147,578
Noncurrent assets:		
Restricted cash and cash equivalents	2,877,549	2,626,868
Restricted investments	5,419,069	5,568,967
Capital assets not being depreciated	2,189,372	1,209,175
Capital assets, net of accumulated depreciation	83,733,617	86,002,258
Water recharge credits	5,475,048	4,581,467
Total noncurrent assets	99,694,655	99,988,735
Total assets	113,625,823	112,136,313
Deferred outflows of resources		
Deferred outflows related to pensions	462,628	583,985
Loss on refunding of debt	872,450	985,122
Total deferred outflows	1,335,078	1,569,107
Total assets and deferred outflows	$ 114,960,901	$ 113,705,420

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position, Continued
June 30, 2016 and 2015

	2016	2015
Liabilities		
Current liabilities:		
Accounts payable	$ 570,407	$ 646,810
Salaries and wages payable	11,776	101,604
Accrued liabilities	874,711	950,241
Deposits payable	474,300	454,650
Other liabilities	572,504	612,802
Current portion of notes payable	2,032,680	1,937,656
Current portion of compensated absences	250,000	250,000
Payable from restricted assets:		
Accrued interest on long term debt	475,318	540,163
Current maturity of bonds payable	3,197,744	3,072,744
Total current liabilities	8,459,440	8,566,670
Noncurrent liabilities:		
Compensated absences	316,791	344,644
Net pension liability	4,977,319	4,884,827
Notes payable, less current portion	19,070,640	21,103,320
Bonds payable, less current maturities	20,045,106	23,242,850
Total noncurrent liabilities	44,409,856	49,575,641
Total liabilities	52,869,296	58,142,311
Deferred inflows of resources		
Deferred inflows related to pensions	613,852	981,682
Total deferred inflows	613,852	981,682
Total liabilities and deferred inflows	53,483,148	59,123,993
Net Position		
Net investment in capital assets	41,576,819	37,854,863
Restricted for:		
Debt Service	7,496,618	7,395,835
Repair and replacement	800,000	800,000
Unrestricted	11,604,316	8,530,729
Total net position	61,477,753	54,581,427
Total liabilities, deferred inflows, and net position	$ 114,960,901	$ 113,705,420

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, 2016 and 2015

	2016	2015
Operating revenues		
Metered water sales	$ 16,011,201	$ 15,138,725
Service charges and penalties	237,743	237,301
Development revenues	488,549	570,744
Other water revenues	2,666,581	2,436,789
Total operating revenues	19,404,074	18,383,559
Operating expenses		
Salaries and employee benefits	3,629,205	3,837,634
Materials and supplies	499,064	510,644
Purchased power	941,723	961,635
Purchased CAP water	2,118,882	2,178,378
Contract services	986,291	886,598
Insurance and taxes	146,017	141,643
Other operating expenses	873,957	800,225
Depreciation and amortization	3,287,308	3,212,054
Total operating expenses	12,482,447	12,528,811
Operating income / (loss)	6,921,627	5,854,748
Non-operating income (expenses)		
Interest income	330,421	252,878
Amortization of bond premiums	(50,014)	(50,264)
Gain on water recharge credits	893,581	1,610,906
Gain (loss) on disposal of assets	50,396	67,350
Interest expense	(1,672,862)	(1,663,426)
Total non-operating revenue (expenses)	(448,478)	217,444
Income before capital contributions	6,473,149	6,072,192
Capital Contributions	423,177	834,554
Increase in net position	6,896,326	6,906,746
Total net position - beginning of year	54,581,427	53,026,908
Adjustment to beginning net position - GASB 68	-	(5,352,227)
Total net position - end of year	$ 61,477,753	$ 54,581,427

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 19,297,027	$ 18,341,396
Cash paid to suppliers for goods and services	(5,779,088)	(5,237,966)
Cash paid to employees	(3,746,886)	(3,756,707)
Cash flows from operating activities	9,771,053	9,346,723
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(4,977,656)	(4,832,471)
Interest paid	(1,737,707)	(1,539,329)
Purchase of capital assets	(1,589,687)	(1,347,076)
Proceeds from the sale of capital assets	12,500	33,168
Cash flows from capital and related financing activities	(8,292,550)	(7,685,708)
Cash flows from investing activities:		
Interest on investments	330,421	252,878
Transfer to (from) cash from (to) investments	61,466	136,695
Cash flows from investing activities	391,887	389,573
Net change in cash and cash equivalents, including restricted cash	1,870,390	2,050,588
Cash and cash equivalents, beginning of year including restricted cash	10,909,196	8,858,608
Cash and cash equivalents, end of year including restricted cash	$ 12,779,586	$ 10,909,196

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, 2016 and 2015

	2016	2015
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income / (loss)	$ 6,921,627	$ 5,854,748
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:		
Depreciation	3,287,308	3,212,054
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(63,593)	(33,553)
(Increase)/decrease in unbilled water revenue	(43,454)	(8,610)
(Increase)/decrease in inventories	1,078	(345)
(Increase)/decrease in prepaid insurance	(41,651)	(100,424)
Increase/(decrease) in accounts payable	(76,403)	165,442
Increase/(decrease) in accrued liabilities	(115,828)	192,714
Increase/(decrease) in deposits payable	19,650	(16,230)
Increase/(decrease) in accrued compensation	(117,681)	80,927
Net cash flows from operating activities	$ 9,771,053	$ 9,346,723

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES

	2016	2015
Amortization of premiums	$ 32,744	$ 32,744
Amortization of losses on advance refunding	(112,673)	(82,758)
Acquisition of capital assets from capital contributions	423,177	834,554
Value assigned to recharge credits	893,581	1,610,906

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 municipal corporation governed by a five member governing board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

There were no component units which are combined to form the reporting entity.

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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

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 weighted average cost.

Capital Assets

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

Depreciation

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

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

Deferred Outflows/Inflows of Resources

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Pensions

For purposes of measuring the pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan's fiduciary net position of the Arizona State Retirement System (ASRS) and addition to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

The District's personnel policy provides full-time employees with annual leave and sick leave in varying amounts, and at termination, an employee is paid for accumulated (vested) annual leave and long-term employees are also paid for sick leave as noted below. Accordingly, compensation for annual leave is charged to expense as utilized by the employee, and accumulated unpaid annual leave and qualifying sick leave, which is payable upon an employee's termination if conditions are met, is recorded as a current liability. At June 30, 2016 the liability total balance is $566,791 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 water fund and sewer fund are charges to customers for sales and services. The water and sewer funds 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 27,490 acre feet of recharge credits with estimated values ranging from $172 to $201 per acre foot for a total of approximately $5,475,048 and $4,581,467 as of June 30, 2016 and 2015, 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.

New Accounting Pronouncement

For the year ended June 30, 2015, the District implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. Implementation of these new Statements resulted in a restatement of beginning net position in the District’s financial statements.

Note 2. Deposits and Investments

As of June 30, 2016 and 2015 the Districts cash and investments consisted of the following:

	2016	2015
Total cash in Bank	$ 2,756,657	$ 2,137,363
Total cash in State Treasurer Investment Pool	2,239,363	2,352,663
Total cash on deposit with the Pima County Treasurer	5,046,248	3,607,941
Total Investments	8,156,387	8,380,196
	$ 18,198,655	$ 16,478,163

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

	2016	2015
Cash and cash equivalents	$ 9,902,037	$ 8,282,328
Restricted cash and cash equivalents	2,877,549	2,626,868
Restricted investments	5,419,069	5,568,967
	$ 18,198,655	$ 16,478,163

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, 2016, the District's bank balance was $10,696,128 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized. At June 30, 2015, the District's bank balance was $8,998,908 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 of 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.

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.

As of June 30, 2016 and 2015 the District had the following investments:

June 30, 2016

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

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

Note 2. Deposits and Investments, Continued

June 30, 2015				
Investment Type	Credit Quality Rating	Maturity Date	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAA	**	$ 2,352,663	28%
Commercial Paper				
Natixis US Cin COP	N/A	12/4/2017	169,015	2%
Federal Agency				
FFCB	Aaa/A+	12/4/2018	453,526	5%
FNMA	Aaa/A+	11/26/2019	446,331	5%
FNMA	Aaa/A+	12/24/2020	441,964	5%
FFCB	Aaa/A+	2/1/2022	441,660	5%
FNMA	Aaa/A+	8/23/2022	376,593	5%
FHLB	Aaa/A+	12/9/2022	386,756	5%
FFCB	Aaa/A+	12/13/2022	770,625	9%
FNMA	Aaa/A+	12/20/2022	486,780	6%
FNMA	Aaa/A+	10/30/2023	972,920	12%
FNMA	Aaa/A+	12/24/2020	783,659	9%
FNMA	Aaa/A+	8/28/2017	297,704	4%
Total			$ 8,380,196	100%

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

Note 3. Restricted Assets

Restricted assets consist of the following at June 30, 2016 and 2015:

	June 30, 2016			
	Bond Funds	Reserve Funds	Repair and Replacement Funds	Total
Cash and cash equivalents	$ 2,438,922	$ 430,497	$ 8,130	$ 2,877,549
U.S. Government securities	-	4,627,200	169,097	4,796,297
Other securities	-	-	622,773	622,773
Total	$ 2,438,922	$ 5,057,696	$ 800,000	$ 8,296,618

Note 3. Restricted Assets, Continued

	June 30, 2015			
	Bond Funds	Reserve Funds	Repair and Replacement Funds	Total
Cash and cash equivalents	$ 2,576,999	$ 41,681	$ 8,188	$ 2,626,868
U.S. Government securities	-	4,777,155	169,015	4,946,170
Other securities	-	-	622,797	622,797
Total	$ 2,576,999	$ 4,818,836	$ 800,000	$ 8,195,835

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

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

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

b. Senior Bond Fund – On or before the twenty-fifth day of each month, the following deposits will be made to the "Senior Bond Fund":

- Commencing February 25, 2002 through June 25, 2002, one-fifth of the amount which, when added to accrued interest received from the 2002 Senior Bonds coming due on July 1, 2002, will be sufficient to pay interest coming due on the 2002 Senior Bonds, and one-sixth of the amount of interest coming due on July 1, 2003 on the 1999 Senior Bonds refinanced with 2009 Senior Bonds. Thereafter, to the Senior Bond Fund one-sixth of the interest payable on all of the Senior Bonds on the next interest payment date.

- Commencing February 25, 2002 through December 25, 2002, one-eleventh of the amount which will be sufficient to pay principal on the 2002 Senior Bonds coming due January 1, 2003, and one-twelfth of the amount of which will be sufficient to pay principal on the 1999 refinanced in 2009 Senior Bonds coming due January 1, 2003. Thereafter, one-twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the senior bonds then outstanding.

Note 3. Restricted Assets, Continued

- Commencing February 25, 2011, one-sixth of the interest payable on the parity obligations then outstanding on the next interest payment date.

- Commencing February 25, 2011, one-twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the parity obligations then outstanding.

- Commencing July 1, 2014, one-sixth of the interest payable on the parity obligations then outstanding on the next interest payment date for the Subordinate Obligation Revenue Refunding Bonds, Series 2013.

- Commencing July 1, 2019, one-twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the parity obligations then outstanding for the Subordinate Obligation Revenue Refunding Bonds, Series 2013.

- Commencing July 1, 2014, one-sixth of the interest payable on the parity obligations then outstanding on the next interest payment date for the Water Refunding Bonds, Series 2013, and Senior Lien.

- Commencing July 1, 2019, one twelfth of the principal or matured accreted value becoming due on the next succeeding principal payment date on all of the parity obligations then outstanding for the Water Refunding Bonds, Series 2013, and Senior Lien.

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, 2016 and 2015.

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.

Note 3. Restricted Assets, Continued

f. <u>Subordinate Obligation Bond Fund</u> – 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. <u>Subordinate Reserve Fund Guarantor Reimbursement Fund</u> – 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, 2016 and 2015.

h. <u>Subordinate Reserve Fund</u> – On or before the twenty-fifth day of each month, to the subordinate bond reserve fund an amount equal to one-twelfth of the amount required to increase or restore the subordinate bond reserve fund value to the subordinate reserve requirement within a one year period, or such amount as is required hereunder to restore the subordinate bond reserve fund to the subordinate bond reserve requirement after a subordinate bond reserve drawdown.

i. Any remaining net proceeds available for subordinate bond debt service shall be first applied to pay the HUB Purchase Agreement and any other subordinate obligations having an inferior lien and claim on the net revenues.

j. All money remaining in the revenue fund after all of the payments required in a) through i) above have been made, shall be regarded as surplus and may be used for any lawful purpose of the District.

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

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

Note 4. Capital Assets and Depreciation

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. Depreciation expense for the years ended June 30, 2016 and 2015 was $3,287,308 and $3,212,054, respectively. Capital asset activity for the years ended June 30, 2016 and 2015 was as follows:

	June 30, 2015	Additions	Disposals	Adjustments	June 30, 2016
Capital assets not being depreciated:					
Land	$ 1,011,004	$ 355,374	$ (14,000)	$ 40,000	$ 1,392,378
Construction in progress	198,171	736,679	(19,318)	(118,538)	796,994
Total capital assets not being depreciated	1,209,175	1,092,053	(33,318)	(78,538)	2,189,372
Captital assets being depreciated:					
Water systems	103,869,541	558,728	-	78,538	104,506,807
Buildings and improvements	4,277,925	202,229	-	-	4,480,154
Vehicles, machinery, and equipment	2,241,657	179,172	(311,513)	-	2,109,316
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	121,641,781	940,129	(311,513)	78,538	122,348,935
Less: accumulated depreication for:					
Water systems	(26,150,763)	(2,744,208)	311,513	-	(28,583,458)
Buildings and improvements	(1,230,424)	-	-	-	(1,230,424)
Vehicles, machinery, and equipment	(2,036,758)	-	-	-	(2,036,758)
Regulatory assets	(6,221,578)	(543,100)	-	-	(6,764,678)
Total accumulated depreciation	(35,639,523)	(3,287,308)	311,513	-	(38,615,318)
Total capital assets being depreciated, net	86,002,258	(2,347,179)	-	78,538	83,733,617
Total capital assets, net of accumulated depreciation	$ 87,211,433	$ (1,255,126)	$ (33,318)	$ -	$ 85,922,989

Note 4. Capital Assets and Depreciation, Continued

	June 30, 2014	Additions	Disposals	Adjustments	June 30, 2015
Capital assets not being depreciated:					
Land	$ 987,004	$ 24,000	$ -	$ -	$ 1,011,004
Construction in progress	2,077,348	1,059,791	(2,938,968)	-	198,171
Total capital assets not being depreciated	3,064,352	1,083,791	(2,938,968)	-	1,209,175
Captital assets being depreciated:					
Water systems	101,370,550	2,503,394	(4,403)	-	103,869,541
Buildings and improvements	3,680,606	597,319	-	-	4,277,925
Vehicles, machinery, and equipment	2,283,526	101,540	(143,409)	-	2,241,657
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	118,587,340	3,202,253	(147,812)	-	121,641,781
Less: accumulated depreication for:					
Water systems	(23,676,071)	(2,477,554)	2,862	-	(26,150,763)
Buildings and improvements	(1,099,564)	(130,860)	-	-	(1,230,424)
Vehicles, machinery, and equipment	(2,119,651)	(60,540)	143,433	-	(2,036,758)
Regulatory assets	(5,678,478)	(543,100)	-	-	(6,221,578)
Total accumulated depreciation	(32,573,764)	(3,212,054)	146,295	-	(35,639,523)
Total capital assets being depreciated, net	86,013,576	(9,801)	(1,517)	-	86,002,258
Total capital assets, net of accumulated depreciation	$ 89,077,928	$ 1,073,990	$ (2,940,485)	$ -	$ 87,211,433

Note 5. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2016 and 2015:

	Balance 6/30/2015	Additions	Retirements	Balance 6/30/2016	Current Portion
Bonds	$ 26,162,000	$ -	$ (3,040,000)	$ 23,122,000	$ 3,165,000
Unamortized Premiums	153,594	-	(32,744)	120,850	32,744
Notes Payable	23,040,977	-	(1,937,656)	21,103,321	2,032,680
Compensated Absences	594,644	297,322	(325,174)	566,791	250,000
Net Pension Liability	4,884,827	-	92,492	4,977,319	-
	$ 54,836,041	$ 297,322	$ (5,243,082)	$ 49,890,281	$ 5,480,424

	Balance 6/30/14	Additions	Retirements	Balance 6/30/15	Current Portion
Bonds	$ 29,107,000	$ -	$ (2,945,000)	$ 26,162,000	$ 3,040,000
Unamortized Premiums	186,337	-	(32,744)	153,593	32,744
Notes Payable	24,928,448	-	(1,887,471)	23,040,977	1,937,656
Compensated Absences	531,673	265,836	(202,865)	594,644	250,000
Net Pension Liability	5,352,227	-	(467,400)	4,884,827	-
	$ 60,105,685	$ 265,836	$ (5,535,480)	$ 54,836,041	$ 5,260,400

Bonds Payable

The annual requirements for the next five years and 5 year increments thereafter to amortize bonds outstanding at June 30, 2016 are as follows:

Bonds Payable			
Year Ended June 30,	Principal	Interest	Total
2017	$ 3,165,000	$ 713,971	$ 3,878,971
2018	3,270,000	590,089	3,860,089
2019	3,435,000	457,280	3,892,280
2020	2,300,000	346,231	2,646,231
2021	2,370,000	274,941	2,644,941
2022-2026	8,582,000	530,382	9,112,382
2027-2031	-	10,428	10,428
Total	$ 23,122,000	$ 2,923,321	$ 26,045,321

Note 5. Long-Term Debt, Continued

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

	2016	2015
$24,855,000 - Metropolitan Domestic Water District of Pima County, Water Revenue and Refunding Bonds, Series 2002, due in annual installments varying from $225,000 to $1,800,000 through July 1, 2023; interest rate is variable from 2.9% to 5.25% and is secured by water revenue.	$ 1,940,000	$ 2,525,000
$15,910,000 - Metropolitan Domestic Water District of Pima County, Water Revenue and Refunding Bonds, Series 2009, due in annual installments varying from $247,182 to $2,071,884 through January 1, 2019; interest rate is variable from 2.50% to 3.625% and is secured by water revenue.	5,855,000	7,670,000
$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.	3,600,000	4,240,000
$2,940,000 - Metropolitan Domestic Water Improvement District of Pima County, Senior Lien Water Revenue Refunding Bond Series 2013, due in annual installments varying from $535,000 to $1,000,000 through January 1, 2023; interest rate is 2.6% and is secured by water revenue. No principal payment required until January 1, 2020.	2,940,000	2,940,000
$8,787,000 - Metropolitan Domestic Water Improvement District of Pima County, Senior Lien Water Revenue Refunding Bond Series 2013, due in annual installments varying from $787,000 to $1,975,000 through January 1, 2023; interest rate is 2.65% and is secured by water revenue. No principal payment is required until July 1, 2020.	8,787,000	8,787,000
Unamortized bond premiums	120,850	153,594
Total bonds payable	$ 23,242,850	$ 26,315,594

Note 5. Long-Term Debt, Continued

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

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

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

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

Note 5. Long-Term Debt, Continued

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

The 2014 Subordinate Bond was issued and delivered pursuant to resolution passed and adopted by the Board Directors of the District on January 14, 2013. The Series 2013 Subordinate Bond matures on July 1, 2026, in the total aggregate principal amount of $8.787 million. The series 2013 Subordinate Bond is being issued for the purpose of providing funds to be used to advance refund certain of the District's Subordinate Obligation Water Revenue Refunding Bonds, Series 2002 (the "Subordinate Bonds being Refunded") and to pay the costs of issuance of the Series 2013 Subordinate Bond.

On January 22, 2013, MDWID approved the authorization of the Senior Lien Water Refunding Bonds, Series 2014, in the amount of $2.940 million. The net proceeds of the Senior Lien Bond will be used for the purpose of (a) refunding and redeeming the Series 2002 Bonds Being Refunded (as defined in the Bond Resolution) and (b) paying costs relating to the issuance of the Senior Lien Bond. The series 2013 Senior Lien Bond matures on January 1, 2023, in the total aggregate principal amount of $2.940 million.

Notes Payable

The annual requirements for the next five years and 5 year increments thereafter to amortize notes payable outstanding at June 30, 2016 are as follows:

Notes Payable			
Year Ended June 30,	Principal	Interest	Total
2017	$ 2,032,680	$ 728,056	$ 2,760,736
2018	1,975,076	682,913	2,657,989
2019	2,024,288	624,115	2,648,403
2020	1,926,715	415,331	2,342,046
2021	1,983,771	357,882	2,341,652
2022-2026	9,570,915	861,129	10,432,044
2027-2031	1,104,777	170,632	1,275,409
2032-2036	485,100	21,444	506,543
Total	$ 21,103,321	$ 3,861,501	$ 24,964,822

Note 5. Long-Term Debt, Continued

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

	2016	2015
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.	$ 459,024	$ 598,840
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.	7,301,553	7,919,213
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.	9,851,203	10,796,507
Loan payable to Water Infrastructure Financing Authority (WIFA-4), due in semi-annual payments through January 1, 2033; interest rate varies with a maximum of 2.940% per annum and is secured by water revenues.	3,372,508	3,523,985
Loan payable to Water Infrastructure Financing Authority (WIFA-5), due in semi-annual payments through July 1, 2032; interest rate varies with a maximum of 2.800% per annum and is secured by water revenues.	119,033	202,432
Total notes payable	$ 21,103,321	$ 23,040,977

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 January 1, 1984	**Initial Membership Date Between January 1, 1984 and 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	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 Or Highest 60 consecutive months of last 120 months	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

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

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.5 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

Note 6. Retirement and Pension Plans, Continued

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

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2014	$ 318,422	$ 17,855	$ 7,142
2015	251,641	13,633	2,773
2016	326,808	15,060	3,614

Pension liability – At June 30, 2016, the District reported a liability of $4,977,319 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015, was 0.031950 percent, which was a decrease of 0.001063 percent from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2016, the District recognized pension expense for ASRS of $268,252. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 135,820	$ 260,817
Changes in assumptions	-	159,512
Changes in proportion and differences between contributions and proportional share of contributions	-	193,523
Contributions subsequent to the measurement date	326,808	-
Total	$ 462,628	$ 613,852

Note 6. Retirement and Pension Plans, Continued

The $326,808 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ended June 30	Deferred Outflows (Inflows) of Resources
2017	$ (216,268)
2018	(250,604)
2019	(126,307)
2020	115,147
2021	-
Thereafter	-

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

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

Note 6. Retirement and Pension Plans, Continued

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

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

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

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

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of Net pension (asset) / liability	$ 6,521,989	$ 4,977,319	$ 3,918,714

Note 6. Retirement and Pension Plans, Continued

Pension plan fiduciary net position – Detailed information about the pension plan's 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 conveyance systems, totaled $423,177 and $834,554 during the years ended June 30, 2016 and 2015, 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.

Note 12. Restatement Adjustments

As mentioned in Note 1 to the financial statements, in the year ended June 30, 2015 the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* in fiscal year 2015. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. This resulted in a restatement for the year ended June 30, 2015's beginning net positions as follows:

Restatement adjustment -		
implementation of GASB 68:		
Net pension liability	$	(5,670,649)
Deferred outflows - contributions		
made during fiscal year 2014		318,422
Total Restatement Adjustment	$	(5,352,227)

The District is required to maintain a repair and replacement reserve fund of $800,000 as disclosed in Note 3. The District has this amount and other funds, which are not restricted, similarly deposited. In prior years the District's financial statements have disclosed the total of all these funds as restricted net position. The restricted net position has been properly stated for the year ended June 30, 2016 and the 2015 statements have been restated with the repairs and replacement restricted net position of $800,000. The net effect was to increase unrestricted net position and cash and to decrease restricted net position and restricted cash.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2016

	Reporting Fiscal Year (Measurement Date) 2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.033013%	0.034111%
Proportionate share of the net pension liability (asset)	$ 4,977,319	$ 4,884,827
Covered employee payroll	$ 3,026,837	$ 3,021,540
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	164.44%	161.67%
Plan fiduciary net position as a percentage of the total pension liability	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, 2016

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

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

Other Communications From Independent Auditors

HintonBurdick
CPAs & Advisors

Members:
Chad B. Atkinson, CPA
Kris J. Braunberger, CPA
Robert S. Cox, CPA
Todd B. Feltner, CPA
K. Mark Frost, CPA
Morris J Peacock, CPA
Phillip S. Peine, CPA
Steven D Palmer, CPA
Michael K. Spilker, CPA
Kevin L. Stephens, CPA
Mark E. Tichenor, CPA
Michael J. Torgerson, CPA

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, 2016 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 2, 2016.

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.

Hinton Burdick, PLLC

HintonBurdick, PLLC
Flagstaff, Arizona
September 2, 2016