

**METROPOLITAN DOMESTIC WATER
IMPROVEMENT DISTRICT**



FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Financial Statements:	
Statement of Net Position.....	17
Statement of Revenues, Expenses and Changes in Net Position.....	19
Statement of Cash Flows.....	20
Notes to the Basic Financial Statements.....	22
Required Supplementary Information:	
Schedule of the Proportionate Share of the Net Pension Liability.....	45
Schedule of Contributions.....	46
Schedule of the Proportionate Share of the Net OPEB Liability (Health).....	47
Schedule of Contributions (Health).....	48
Schedule of the Proportionate Share of the Net OPEB Liability (LTD).....	49
Schedule of Contributions (LTD).....	50
Other Communications from Independent Auditors:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters.....	53

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HINTONBURDICK
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Metropolitan Domestic Water Improvement District
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Metropolitan Domestic Water Improvement District, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Metropolitan Domestic Water Improvement District as of June 30, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2021 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

Gilbert, Arizona

August 27, 2021

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

Board of Directors

**Judy Scrivener
Chair**

**Richard A. Sarti, P.E.
Vice Chair**

James O. Doyle

Bryan Foulk

Lee Jacobs

General Manager - Joseph Olsen, P.E.

District's Financial Team for Fiscal Year 2021

Chief Financial Officer – Diane Bracken, M.Adm.

Financial Controls Supervisor - Shane Oman, M.B.A

Senior Accountant - Nancy Walton

Accounting Specialists – Lucy Evans & Sofia Padilla

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

Management of the Metropolitan Domestic Water Improvement District (MDWID or the District) offers readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2021, and June 30, 2020. Readers are encouraged to consider the information presented here in conjunction with the preceding Independent Auditor's Report and the accompanying basic financial statements and notes to the financial statements.

District Framework

The boundaries of the District include approximately 400 miles of water mains. The Metro Hub service area was purchased in June 1999. In December 2009, the District acquired the Metro Southwest Thim Water System, located southwest of Tucson. The Thim Water System is now the District's Metro Southwest service area consisting of Diablo Village, E&T, and Lazy B. The Southwest service areas have not been annexed into the District's legal boundaries. The District has annexed Metro West located approximately 15 miles northwest of the Metro Main service area, but this service area is presently undeveloped.

The District obtains water from 37 active wells with 27 active wells in Metro Main, 5 wells in Metro Hub, and 5 wells in Metro Southwest. In addition, water is wheeled to the Lazy B service area in Metro Southwest. The total water storage capacity is 13.6 million gallons in the Metro Main service area, 1.19 million gallons in the Metro HUB service area, and 747,000 gallons in the Metro Southwest service areas.

Overview of the Financial Statements

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

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

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

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

The **Notes to the Financial Statements** provide additional information that is essential to understanding the data provided in the basic financial statements and specific accounting policies and methods of applying these principles in preparation of the financial statements.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

Summary of Net Position

The table below is a summary of the Statements of Net Position for Fiscal Years 2021 and 2020:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Current assets	\$ 38,561,838	\$ 30,709,850
Restricted cash and investments	1,364,316	4,267,209
Notes receivable – noncurrent	466,873	492,836
Capital assets, net of accumulated depreciation	82,635,065	82,280,754
Capital assets not being depreciated	7,407,764	5,388,751
Water recharge credits	11,285,194	10,767,125
Net OPEB assets	<u>23,378</u>	<u>9,087</u>
Total assets	<u>\$ 141,744,428</u>	<u>\$ 133,915,612</u>
Deferred outflows related to pensions	\$ 1,039,100	\$ 542,032
Deferred outflows, loss on refund of debt	179,466	496,546
Deferred outflows, related to OPEB	<u>65,943</u>	<u>47,018</u>
Total deferred outflows	1,284,509	1,085,596
Total assets and deferred outflows	<u>\$ 143,028,937</u>	<u>\$ 135,001,208</u>
Current liabilities	\$ 6,282,707	\$ 6,804,825
Long-term debt, compensated absences, pension and OPEB liabilities	<u>19,416,119</u>	<u>23,056,983</u>
Total liabilities	<u>\$ 25,698,826</u>	<u>\$ 29,861,808</u>
Deferred inflows related to pensions	\$ 56,371	\$ 418,146
Deferred Inflow of OPEB	<u>47,029</u>	<u>23,471</u>
Total deferred inflows	\$ 103,400	\$ 441,617
Total liabilities and deferred inflows	<u>\$ 25,802,226</u>	<u>\$ 30,303,425</u>
Invested in capital assets	\$ 74,198,220	\$ 66,587,944
Restricted for:		
Debt service	\$ 1,364,316	\$ 3,829,478
Repair and replacement	-	800,000
Unrestricted	<u>41,664,175</u>	<u>33,480,361</u>
Total net position	<u>\$117,226,711</u>	<u>\$ 104,697,783</u>
Total liabilities, deferred inflows, and net position	<u>\$143,028,937</u>	<u>\$ 135,001,208</u>

MDWID's total net position shows an increase of \$12.5 million over Fiscal Year 2020. Current assets increased \$7.9 million over the previous year with increases in cash and investments of \$7.7 million. Non-current assets decreased by \$23,172 with the elimination of restricted cash, and increases in both water recharge credits and capital assets. Restricted investments were eliminated as part of the 2020 Revenue Bond Refunding process. The Deferred Outflows related to Pensions and Other Paid Employee Benefits (OPEB) as part of the GASB 68 and GASB 75 reporting requirements have

**Metropolitan Domestic Water Improvement District
Management’s Discussion and Analysis
June 30, 2021 and June 30, 2020**

increased by \$515,993 in Fiscal Year 2021. This consists of the Arizona State Retirement System (ASRS), ASRS Long-term Disability (LTD), and Health Benefits Supplement (HBS) withheld in Fiscal Year 2021 that will be reported as expenses in Fiscal year 2022 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 7 of this financial report.

Water recharge credits continue to increase in value from increased storage quantity and valuation increases for a total gain in value of \$0.52 million. Water credits are based on the fair market value and the number of acre feet resulting in a book value of \$11.3 million in Fiscal Year 2021, compared to \$10.8 million in the prior fiscal year.

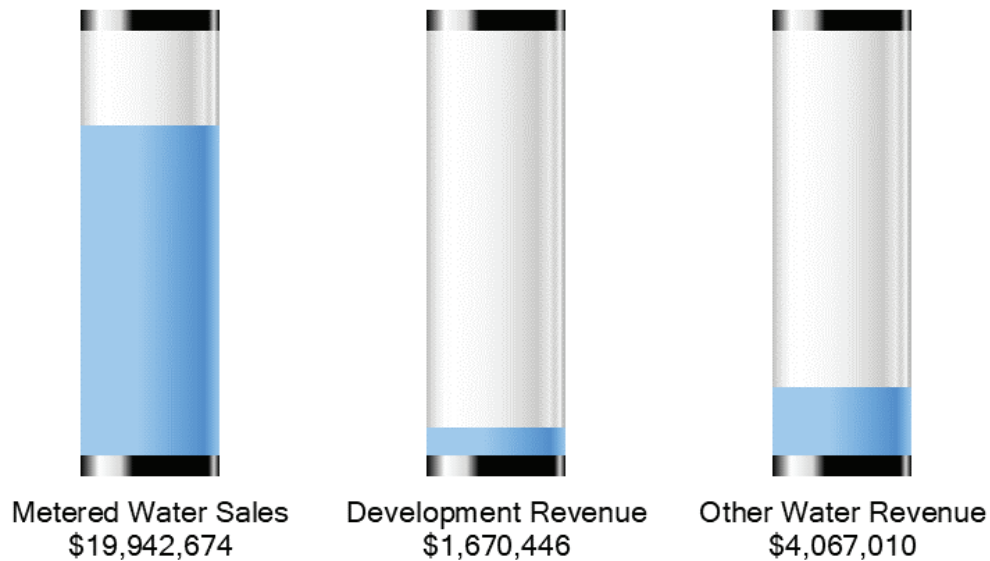
In Fiscal Year 2021, current liabilities decreased by \$522,118 when compared to Fiscal Year 2020. Noncurrent liabilities decreased by \$3.6 million with long term-debt decreasing by \$4.64 million. The net pension liability in accordance with GASB 68 increased by \$0.92 million. This amount consists of the difference between the projected and actual investment earnings along with the change in proportion and differences between the District’s contributions and the proportionate share of the ASRS pooled contributions. The OPEB liability in accordance with GASB 75, for Long-term Disability and Health Benefit Supplemental increased by \$3,560.

Summary of Revenue, Expenses and Changes in Net Position

Revenue

The total revenue by source for Fiscal Year 2021, consists of 78% of revenue from metered water sales, 7% from Development Revenue, and 16% from other water revenue sources.

Revenue Sources for Fiscal Year 2021



**Metropolitan Domestic Water Improvement District
Management’s Discussion and Analysis
June 30, 2021 and June 30, 2020**

The District’s revenue sources are stable from year-to-year as shown in the table below that compares Fiscal Year 2020 in blue and Fiscal Year 2021 in green. When comparing the operating revenue for Fiscal Year 2021 to Fiscal Year 2020, there was an increase of \$1.63 million. With Metered Water Sales increasing by \$1.35 million. Development revenue was higher by \$0.44 million, and Other Water Revenue decreased by \$0.16 million.



The Water Resource Utilization Fee was set at sixty cents per thousand gallons of water effective July 1, 2018. The District continues adjusting the rates for consumption and fixed cost coverage by applying the break-even-point analysis to fixed and variable costs coverage. By maintaining this break-even coverage, the District is able to mitigate prior concerns about fluctuations in water consumption which impacts revenue. This has proven to provide the District with revenue stability and less volatility related to variations in water consumption. This has provided District customers with water rate stability and has greatly reduced the amount of rate increases needed over the years.

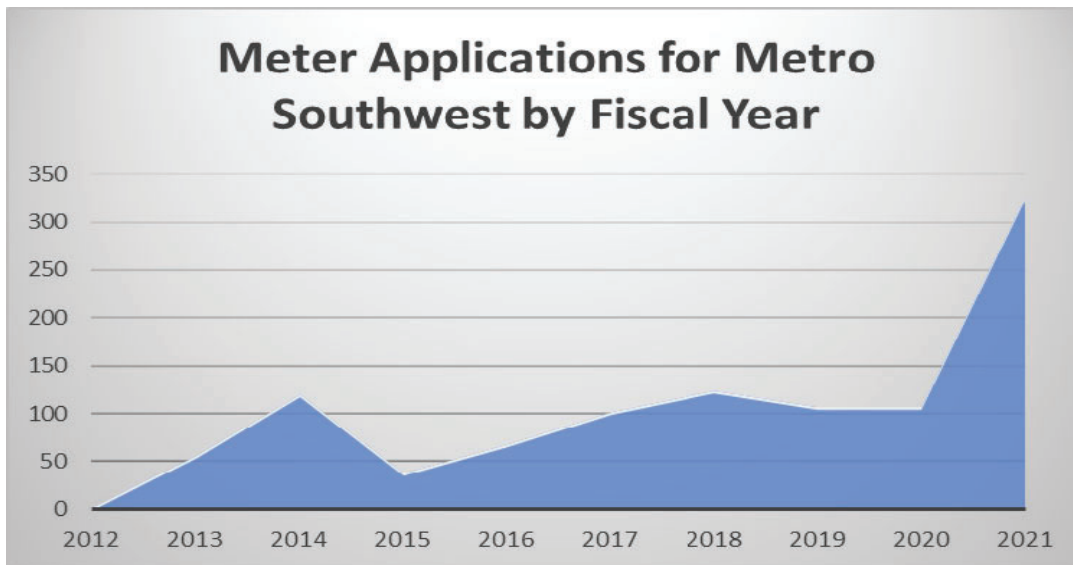
During Fiscal Year 2021, staff continued working throughout the COVID pandemic. In April 2020 all water disconnects for non-payment were suspended. Fees continued to be charged, and staff worked with customers to set up a variety of payment plans to accommodate the customers. In November 2020 the District resumed disconnects after sending out letters to all customers with accounts that were not current, adding a note to all billing statements, and adding an additional insert into the delinquent notifications, asking them to call the office to make payment arrangements. These processes worked well to mitigate the unpaid accounts, helped our customers during a difficult time by letting them pay what they could, and this helped to minimize the unpaid customer account balances. The District management team has been flexible and used sound logic to act quickly to implement changes in processes during the pandemic. Customer Service staff worked flawlessly from home with phone calls forwarded to their homes in place of the office and customers continued to receive uninterrupted service. After the planned remodeling of the administration offices, staff returned to work in a safe working environment.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

Other revenue sources include private fire risers, infrastructure rehabilitation fees, inspection fees, engineering plan review fees, sale of CAP water credits from Metro Main to Metro Southwest, accrued interest income, compensated conservation capital reimbursement, compensated conservation revenue (\$50/acre foot), and collection of bad debt. Rates for other services are reviewed and updated as needed to cover the cost of providing each service.

Requests for new meter installations within the District increased with a total of 596-meter applications received in Fiscal Year 2021, compared to 370-meter applications in the prior fiscal year. Three hundred and twenty-five new meter applications were for the Metro Southwest service areas.

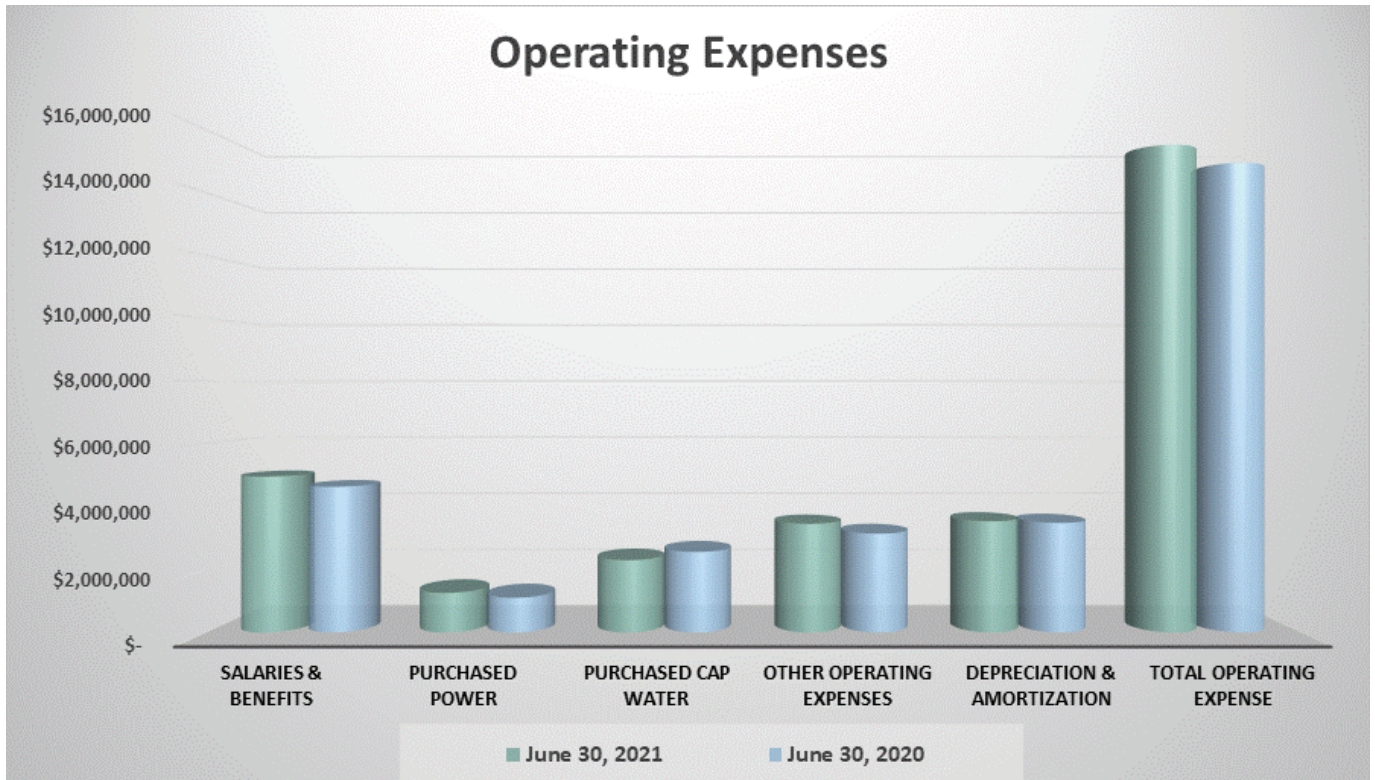
The Metro Southwest systems were purchased in 2009. The chart below shows the number of new meter applications received for the Metro Southwest service areas by fiscal year and shows the growth activity in these areas over the years.



**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

Operating Expenses

Operating expenses totaled \$15.5 million in Fiscal Year 2021 compared to \$14.9 million in Fiscal Year 2020 for an increase \$0.6 million or 3.8%. A two-year comparison of expenses is shown in the chart below.



Summary of Revenue, Expenses and Changes in Net Position

Salaries and benefits increased by \$322,028 or 6.95% with the cost of living, merit increases, and compensated absence payout upon retirement. Salaries and employee benefits continue to be the District's largest expenses, making up 32.0% of the total operating expenses in Fiscal Year 2021 compared to 31.0% in Fiscal Year 2020.

The cost to purchase CAP water decreased by \$0.26 million.

Depreciation and amortization expenses totaled \$3.54 million compared to \$3.49 million for Fiscal Year 2020. Purchased power costs were higher in Fiscal Year 2021 by 8.1% with increased water delivered to customers when compared to Fiscal Year 2020. The District continues to take advantage of interruptible rate options and solar is providing nearly all of the electricity used at the administrative buildings. Other operating expenses increased by \$0.31 million or 9.89% with 53% of this increase attributed to the cash paid issuance costs for the 2020 Bond Refunding.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

Non-Operating Revenue/Expenses

Non-operating revenue exceeded non-operating expenses by \$22,890 in Fiscal Year 2021, compared to \$1.5 million in Fiscal Year 2020.

The income before capital contributions for Fiscal Year 2021 is \$10.19 million, compared to \$10.61 million in Fiscal Year 2020. Capital assets contributed to the District by developers totaled \$2.34 million in Fiscal Year 2021 compared to \$1.48 million in Fiscal Year 2020.

The following table shows a comparison of the revenue and expenses and change in net position for Fiscal Years ended June 30, 2021, and June 30, 2020:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Metered water sales	\$ 19,942,674	\$ 18,596,955
Development revenue	1,670,446	1,231,385
Other water revenue	<u>4,067,010</u>	<u>4,225,341</u>
Total operating revenue	<u>\$ 25,680,130</u>	<u>\$ 24,053,681</u>
Salaries and employee benefits	\$ 4,956,312	\$ 4,634,284
Purchased power	1,257,146	1,107,651
Purchased CAP water	2,300,191	2,562,930
Other operating expenses	3,457,141	3,145,988
Depreciation and amortization	<u>3,539,897</u>	<u>3,486,674</u>
Total operating expenses	<u>\$ 15,510,687</u>	<u>\$ 14,937,527</u>
Operating income (loss)	<u>\$ 10,169,443</u>	<u>\$ 9,116,154</u>
Interest income (loss)	\$ 260,868	\$ 683,195
Gain (loss) on disposal of assets	-	(8,696)
Amortization of bond premiums	(195,912)	(78,161)
Gain related to water recharge activity	518,069	1,542,819
Interest expense	<u>(560,135)</u>	<u>(648,118)</u>
Total non-operating revenue (expenses)	<u>\$ 22,980</u>	<u>\$ 1,491,039</u>
Income before capital contributions	\$ 10,192,333	\$ 10,607,193
Capital contributions	<u>2,336,595</u>	<u>1,483,167</u>
Increase in net position	\$ 12,528,928	\$ 12,090,360
Total net position, beginning of year	<u>104,697,783</u>	<u>92,607,423</u>
Net position, end of year	<u>\$ 117,226,711</u>	<u>\$ 104,697,783</u>

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

Improvement Funding History

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

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

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

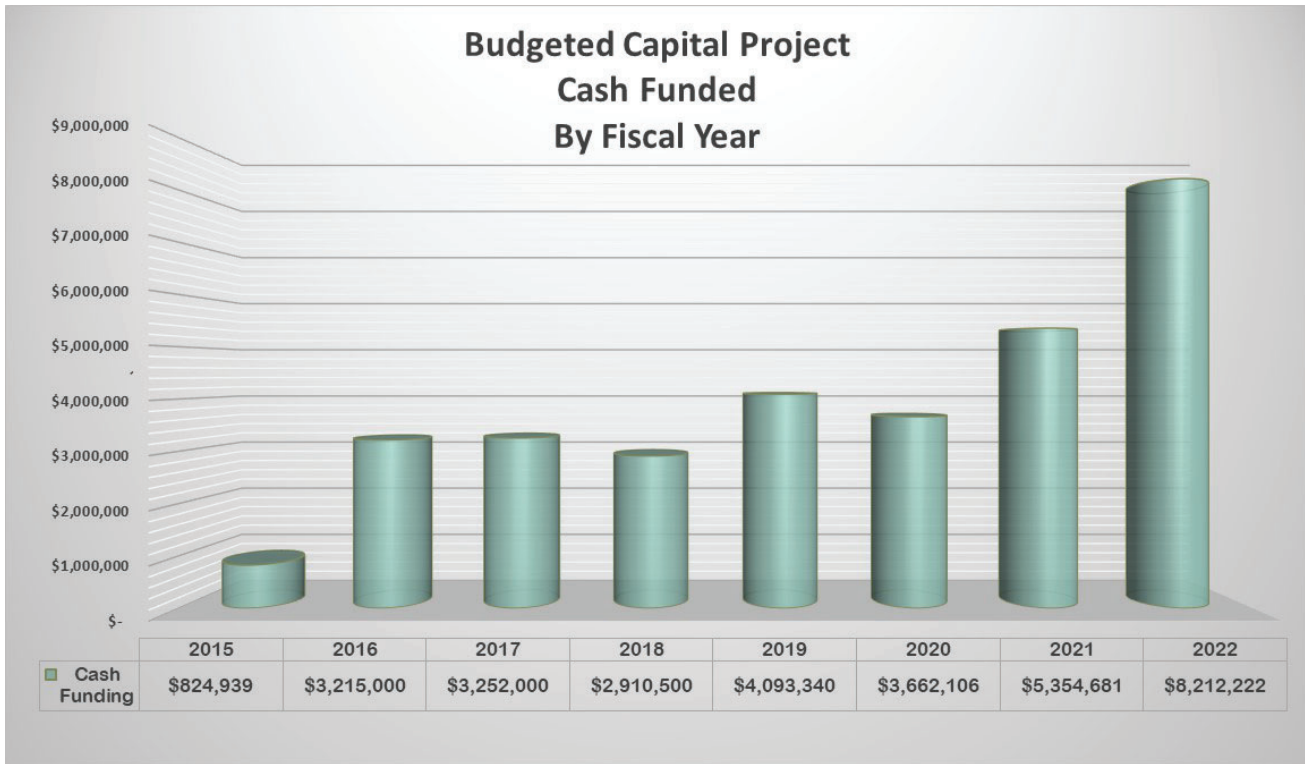
Although not part of the District's original CIP, in December 2009 the District was approved financing from WIFA in the amount of \$3.95 million which was later increased to \$4.25 million for the acquisition of three water systems on the southwest side of Tucson. The loan to purchase this service area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

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

On June 28, 2018, the District defeased the non-callable 2002 Subordinate Obligation Revenue Refunding Bond. This defeasance allows the District to legally remove this debt from financial statements. On June 1, 2019, the final payment was made on the note payable for the Hub Water Purchase. On January 1, 2019, the final payment was made on the 2009, Senior Water Revenue Bonds. On January 3, 2019, the 2011 Senior Water Revenue obligations were defeased.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

The District has been cash funding all planned capital infrastructure improvements without incurring any new debt since Fiscal Year 2015. Below is a chart showing the amount of cash budgeted projects within the Capital Improvement Program by fiscal year.



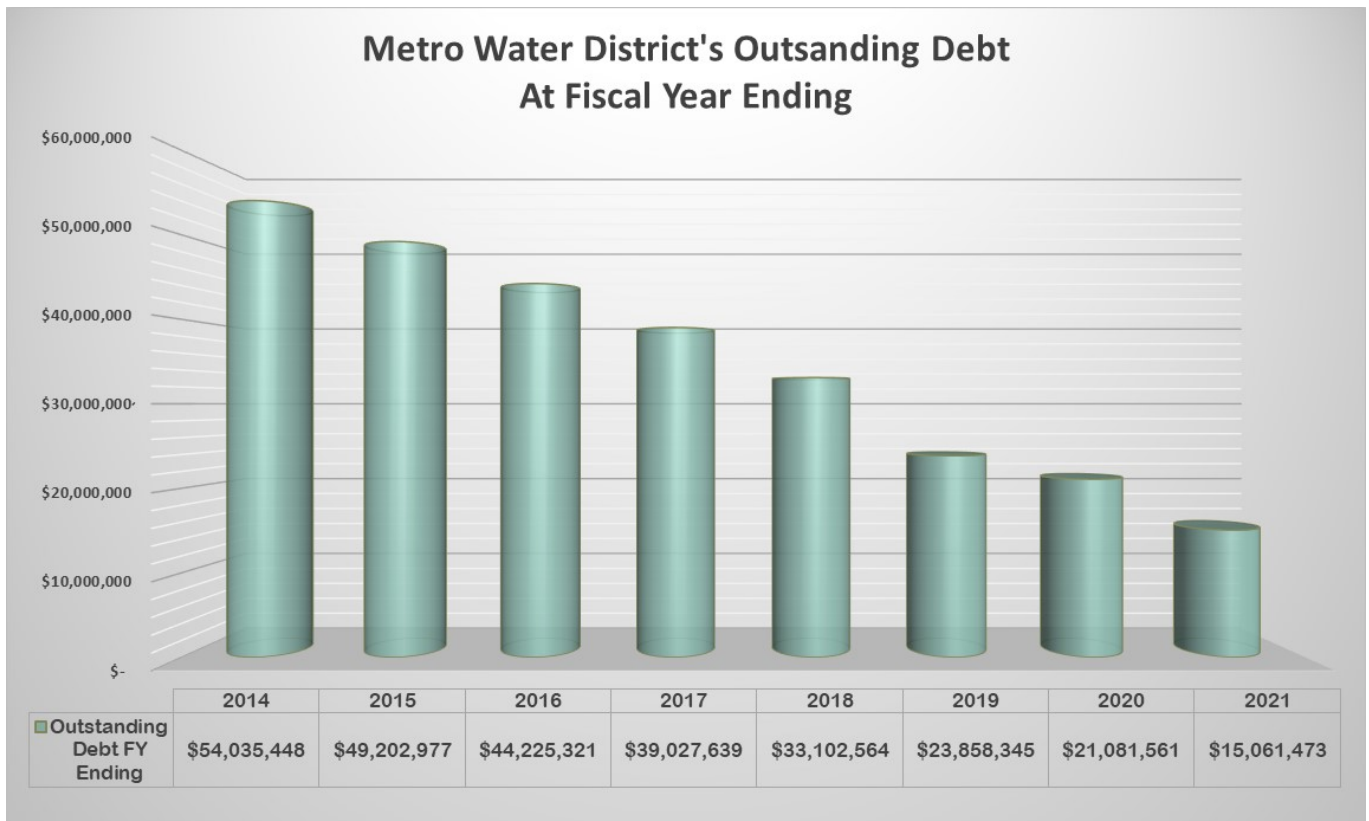
Long-Term Debt Obligations

In January 2013 the District restructured the long-term debt with a refunding of the 2002 Senior Water Revenue Bonds and the 2002 Subordinate Refunding Bonds. This refinancing provided an immediate cash flow to the District by restructuring the debt service requirements and deferring principal payments on these loans. On June 21, 2019, the 2013 Senior Water Revenue Bonds were paid in full, three and one-half years early avoiding more than \$150,000 of interest payments.

On October 20, 2020, the 2013 Subordinate Revenue Bonds with a par amount of \$7,937,000 and the WIFA 2009A loan, which was a refunding of the 2005 series bonds, with a par amount of \$5,785,881.28, were refunded into a 2020 Revenue Bond Series with a total par amount of \$9,265,000. During this refunding all debt reserve requirements were removed, and a repair and replace fund requirement was lifted for the two remaining WIFA loans. The debt reserve funds were applied to pay down the outstanding principal amount in addition to cash funding the bond refunding process. The outstanding debt on these two obligations prior to refunding was \$13,722,881 and with this \$9,265,000 total revenue refunding the par amount was reduced by \$4,457,881.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

As of June 30, 2021, the District had \$15.06 million of outstanding debt in one bond and two WIFA loans, with \$23.86 million outstanding at the beginning of the prior fiscal year for a long-term debt decrease of \$8.80 million in Fiscal Year 2021. The chart below shows the declining debt obligations of the District at the end of each fiscal year starting with Fiscal Year 2014.



Fiscal Year 2022 Budget

The Fiscal Year 2022 Budget was prepared by utilizing a priority driven budget process for the eighth consecutive year. This process has created an environment that stimulates ownership, responsibility, transparency, and the ability to accomplish the goals and objectives that are aligned with the mission of the District. Employees are engaged in finding ways to work smarter, safer, and more efficient along with identifying new revenue sources.

The following steps were incorporated into the preparation of the District's adopted budget for Fiscal Year 2022:

- On March 16, 2021, the requested budget was reviewed and discussed with the Financial Oversight Committee. The Financial Oversight Committee made a recommendation to proceed with the requested budget and rate changes as presented.
- On March 22, 2021, the requested budget for Fiscal Year 2022 and proposed rate changes for two fiscal years were presented to the Board of Directors at a study session. The Board of Directors reviewed the revenue, expenses, planned capital equipment purchases, and the planned capital improvement program.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

- On May 12, 2021, a rate hearing was held, and approved all requested rate changes for Fiscal Year 2022 and Fiscal Year 2023. The rate hearing was followed by a Board meeting where the budget was adopted. The total requested budget includes a rate adjustment to increase the availability fee in all service areas, and tier rate changes in Metro Main and Hub, Diablo Village, and E&T with no change to the Lazy B service area.
- Revenue stability was achieved in Fiscal Year 2017 with fixed revenue covering 90% of the fixed cost and this stability continues with the Fiscal Year 2022 adopted budget. Metered water revenue was budgeted at \$18.7 million. The base data used in the rate model was Fiscal Year 2020 actual consumption data compiled with rate changes and analysis applied in each meter size and service area.
- On July 1, 2016, the Water Resource Utilization Fees increased to \$0.50 per 1,000 gallons and in Fiscal Year 2019 this fee increased from \$0.50 per 1,000 gallons to \$0.60 per 1,000 gallons and remains unchanged.
- The Infrastructure Rehabilitation Fee of 95¢ for a 5/8-inch meter was established on January 1, 2021, and is planned to generate \$308,992 of revenue in Fiscal Year 2022. The Fiscal Year 2023 rate will increase this fee to \$1.50 for a 5/8-inch meter in all service areas with an effective date of July 1, 2022. This will be the only rate change in Metro Main, Hub, Diablo Village, and Lazy B service areas. The E&T service area rates will increase the availability fee and the tier rates effective July 1, 2022. This will align the tier rates in Diablo Village and E&T service areas.
- This budget is based upon the projected revenue sources and the available fund balance. The projected beginning operating fund balance for Fiscal Year 2022 was budgeted at \$18.5 million, which is a \$4.7 million increase over the Fiscal Year 2021 Adopted Budget beginning fund balance. The fund balance includes \$6.53 million of Water Resource Utilization Fees that have been collected to cash fund the land, design, and some construction costs associated with the two Northwest Recharge Recovery and Delivery System capital projects and other water resource initiatives.
- The operating revenue for Fiscal Year 2022 is projected to be \$23.1 million, up \$0.5 million from the Fiscal Year 2021 adopted budget.
- The base budget Salaries and Benefits make up 33% of the District's operating budgeted expenses and have increased \$35,002 or 0.66% when compared to the prior fiscal year base budget. The Adopted budget includes a 2% cost of living increase effective the first pay period in July 2021 and the potential for up to a 2% merit increase in January 2022 for eligible employees. Due to the high inflation in the first half of 2021, a 2.5% cost of living increase was applied in July. In addition, the budget includes a potential 12% increase in the cost of health insurance and a 5% increase in the cost of dental insurance along with a 20% increase in Workers Compensation for three months, and Arizona State Retirement and associated long-term disability increases totaling 0.19%.

The investments to support the District, included a new three position maintenance crew with wages and benefits totaling \$248,630 and additional operating expenses totaling \$91,798. These costs will be added to the base budget.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

- Consultants and Contracted services were budgeted \$173,981 higher than the prior fiscal year with an additional media replacement planned, additional arc flash work planned, and the addition of outside recruitment services.
- General Operating expenses are planned to be \$87,587 higher than the Fiscal Year 2021 budget. There is no election planned which will reduce the operating cost by \$26,000 and there is an increase of \$115,540 to enhance District-wide security.
- The planned supply costs are expected to increase by \$14,864. With increased costs in the computer equipment, software, and maintenance agreements utilized as more processes within the District are automated.
- The cost of CAP Water and regulatory fees has decreased by \$682,300 when compared to the prior fiscal year. As part of the compensated conservation program, 3,500-acre feet of water will remain in Lake Mead and the District will be reimbursed for the capital costs associated with this water in addition to receiving \$50 per acre foot.
- Debt service payments are budgeted at \$1,050,065 lower than Fiscal Year 2021 which was \$2,021,732 lower than Fiscal Year 2020. Fiscal year 2021 debt service payments were reduced with early payoff of debt and bond defeasance. Fiscal year 2022 debt service payments were reduced with the 2020 revenue bond refunding that reduced the District's outstanding debt by an additional \$4,457,881.
- Funding for capital projects is derived from budgeted development fees for new service connections of \$0.57 million plus additional funding from operating revenue totaling \$3.15 million plus \$5.06 million from Water Resource Utilization Fees for NWRDRS for a total CIP of \$8.21 million of cash funding for the capital projects. The NWRDRS project partners will be funding \$4.03 million dollars towards this project if Fiscal Year 2022.
- The Arizona Department of Transportation Oracle Road Pavement and Drainage Upgrades were not completed in the prior fiscal year and \$0.1 million was carried forward into Fiscal Year 2022. The additional storage planned in Fiscal Year 2021 at the AVRP Recharge Facility work was not completed and \$149,749 of construction work is planned again in Fiscal Year 2022 to get the new meter installed. The E&T 22 Well Replacement land acquisition was planned at \$20,700 in Fiscal Year 2021. E&T Well planning, design, land acquisition, and drilling a well are all planned and funded in Fiscal Year 2022. Large Meter Vault Replacements continue with eight-meter vaults planned to be replaced with a budget of \$49,000. The Ironwood blending well site will be purchased, with the well design, site improvement, and drilling to be completed this fiscal year. Design and construction of the Skyline Ranchos Mainline replacement phase I was budgeted at \$27,550. Preliminary design work was budgeted for the Creeger Road Mainline Replacement \$76,500, and for 1010 to 1070 W. Orange Grove Road Mainline Replacement \$17,880.
- Depreciation and amortization of assets was budgeted at \$3.7 million. This is included as non-cash budgeted expenses that will need to occur, requiring only budget authority.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2021 and June 30, 2020**

- A contingency for sick and vacation payouts was budgeted at \$110,380 to cover anticipated retirees and to fund the vested vacation payouts in full. The contingency fund for emergencies has remained at \$0.5 million as budgeted in prior fiscal years.
- The requested operating budget includes \$23,097,622 of revenue, \$4,032,318 from CIP project partners, and a projected beginning fund balance of \$18,527,686. The total revenue and funds available are \$45,657,626. The requested operating budget is \$16,849,432 which is lower than the prior fiscal year by \$1,350,288. The total requested budget is \$33,492,398 with the addition of investments to support the District, CIP, depreciation, and amortization.
- The District will be implementing GASB 87 lease accounting in Fiscal Year 2022.

Contacting the Metro Water District Office

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

This information is an integral part of the accompanying Financial Statements

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 24,912,458	\$ 18,657,607
Investments	8,930,177	7,500,000
Accounts receivable, net of allowance	2,251,016	2,168,227
Unbilled water revenue	735,539	695,081
Other receivables	479,765	409,460
Notes receivable - current	25,963	24,994
Prepaid expenses and deposits	752,909	941,942
Inventory	442,270	280,470
Other current assets	31,741	32,069
Total current assets	<u>38,561,838</u>	<u>30,709,850</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,364,316	2,029,411
Restricted investments	-	2,237,798
Notes receivable - noncurrent	466,873	492,836
Capital assets not being depreciated	7,407,764	5,388,751
Capital assets, net of accumulated depreciation	82,635,065	82,280,754
Water recharge credits	11,285,194	10,767,125
Net OPEB asset	23,378	9,087
Total noncurrent assets	<u>103,182,590</u>	<u>103,205,762</u>
Total assets	<u>141,744,428</u>	<u>133,915,612</u>
Deferred outflows of resources		
Loss on refunding of debt	179,466	496,546
Deferred outflows related to pensions	1,039,100	542,032
Deferred outflows related to OPEB	65,943	47,018
Total deferred outflows	<u>1,284,509</u>	<u>1,085,596</u>
Total assets and deferred outflows	<u>\$ 143,028,937</u>	<u>\$ 135,001,208</u>

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position, Continued
June 30, 2021 and 2020

	2021	2020
Liabilities		
Current liabilities:		
Accounts payable	\$ 626,146	\$ 936,688
Salaries and wages payable	72,683	55,232
Accrued liabilities	1,144,683	1,034,247
Deposits payable	771,212	519,072
Other liabilities	896,230	822,302
Current portion of notes payable	919,091	1,983,771
Current portion of compensated absences	227,321	370,000
Payable from restricted assets:		
Accrued interest on long term debt	265,341	193,513
Current maturity of bonds payable	1,360,000	890,000
Total current liabilities	<u>6,282,707</u>	<u>6,804,825</u>
Noncurrent liabilities:		
Compensated absences	241,480	159,956
Net pension liability	5,584,337	4,668,013
Net OPEB liability	24,784	21,224
Notes payable, less current portion	5,547,382	11,160,790
Bonds payable, less current maturities	8,018,136	7,047,000
Total noncurrent liabilities	<u>19,416,119</u>	<u>23,056,983</u>
Total liabilities	<u>25,698,826</u>	<u>29,861,808</u>
Deferred inflows of resources		
Deferred inflows related to pensions	56,371	418,146
Deferred inflows related to OPEB	47,029	23,471
Total deferred inflows	<u>103,400</u>	<u>441,617</u>
Total liabilities and deferred inflows	<u>25,802,226</u>	<u>30,303,425</u>
Net Position		
Net investment in capital assets	74,198,220	66,587,944
Restricted for:		
Debt Service	1,364,316	3,467,209
Repair and replacement	-	800,000
Unrestricted	41,664,175	33,842,630
Total net position	<u>117,226,711</u>	<u>104,697,783</u>
Total liabilities, deferred inflows, and net position	<u>\$ 143,028,937</u>	<u>\$ 135,001,208</u>

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenue		
Metered water sales	\$ 19,942,674	\$ 18,596,955
Service charges and penalties	285,971	281,197
Development revenue	1,670,446	1,231,385
Other water revenue	3,781,039	3,944,144
Total operating revenue	<u>25,680,130</u>	<u>24,053,681</u>
Operating expenses		
Salaries and employee benefits	4,956,312	4,634,284
Materials and supplies	830,697	743,488
Purchased power	1,257,146	1,107,651
Purchased CAP water	2,300,191	2,562,930
Contract services	1,230,740	1,205,666
Insurance and taxes	147,069	145,673
Other operating expenses	1,248,635	1,051,161
Depreciation and amortization	3,539,897	3,486,674
Total operating expenses	<u>15,510,687</u>	<u>14,937,527</u>
Operating income / (loss)	<u>10,169,443</u>	<u>9,116,154</u>
Non-operating income (expenses)		
Interest income	260,868	683,195
Amortization of bond premiums and deferred charges	(195,912)	(78,161)
Gain on water recharge credits	518,069	1,542,819
Gain (loss) on disposal of assets	-	(8,696)
Interest expense	(560,135)	(648,118)
Total non-operating revenue (expenses)	<u>22,890</u>	<u>1,491,039</u>
Income before capital contributions	10,192,333	10,607,193
Capital Contributions	2,336,595	1,483,167
Increase in net position	<u>12,528,928</u>	<u>12,090,360</u>
Total net position - beginning of year	<u>104,697,783</u>	<u>92,607,423</u>
Total net position - end of year	<u>\$ 117,226,711</u>	<u>\$ 104,697,783</u>

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 25,486,906	\$ 23,891,251
Cash paid to suppliers for goods and services	(6,861,283)	(6,514,785)
Cash paid to employees	(4,948,633)	(4,560,067)
	<u>13,676,990</u>	<u>12,816,399</u>
Cash flows from capital and related financing activities:		
Proceeds from notes receivable	24,994	24,061
Proceeds from long-term debt	10,169,304	-
Principal paid on long-term debt	(15,285,088)	(2,776,784)
Interest paid	(488,307)	(676,423)
Purchase of capital assets	(3,576,626)	(2,059,439)
	<u>(9,155,723)</u>	<u>(5,488,585)</u>
Cash flows from investing activities:		
Interest on investments	296,290	566,991
Transfer to (from) cash from (to) investments	772,199	3,489,442
	<u>1,068,489</u>	<u>4,056,433</u>
Net change in cash and cash equivalents, including restricted cash	5,589,756	11,384,247
Cash and cash equivalents, beginning of year including restricted cash	<u>20,687,018</u>	<u>9,302,771</u>
Cash and cash equivalents, end of year including restricted cash	<u><u>\$ 26,276,774</u></u>	<u><u>\$ 20,687,018</u></u>

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Cash Flows - Continued
For the Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income / (loss)	\$ 10,169,443	\$ 9,116,154
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:		
Depreciation	3,539,897	3,486,674
Pension/OPEB expense	51,383	8,277
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(153,094)	(119,328)
(Increase)/decrease in unbilled water revenue	(40,458)	(45,048)
(Increase)/decrease in inventories	(161,800)	(39,910)
(Increase)/decrease in prepaid expenses	189,033	(66,818)
(Increase)/decrease in other current assets	328	1,946
Increase/(decrease) in accounts payable	(310,542)	242,757
Increase/(decrease) in accrued liabilities	184,364	148,983
Increase/(decrease) in deposits payable	252,140	16,772
Increase/(decrease) in accrued compensation	(43,704)	65,940
	\$ 13,676,990	\$ 12,816,399

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES

Amortization of premiums	\$ 121,168	\$ 4,597
Amortization of losses on advance refunding	(317,080)	(82,758)
Acquisition of capital assets from capital contributions	2,336,595	1,483,167
Value assigned to recharge credits	518,069	1,542,819

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 1. Summary of Significant Accounting Policies

Nature of Organization

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

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

Reporting Entity

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

Basis of Presentation – Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Encumbrance Accounting

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Use of Estimates

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

Budget Policy and Procedures

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

Cash and Cash Equivalents

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

Cash and Investments

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

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

Accounts Receivable

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Inventory

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

Capital Assets

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

Depreciation

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

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

Deferred Outflows/Inflows of Resources

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

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Postemployment Benefits

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

Compensated Absences

The District's personnel policy provides full-time employees with annual leave and full-time and part-time employees with annual 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, 2021, the liability total balance is \$468,801 and is included in accrued liabilities in the accompanying financial statements.

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

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

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

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Unamortized Debt Discounts or Premiums

Debt discounts or premiums are amortized using the straight-line 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 straight-line 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 Revenue and Expenses

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue 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 revenue of the District is charges to customers for sales and services. The District also recognize as operating revenue obligation fees charged uniformly to all customers and the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Other Non-current Assets

Other non-current assets include 49,638.47 acre feet of recharge credits with estimated values ranging from \$178.50 to \$232.80 per acre foot for a total of approximately \$11,285,194 and \$10,767,125 as of June 30, 2021 and 2020, 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 of CAP allocation with 3,500 acre feet remaining in Lake Mead. Credits can be sold/swapped with any interested parties, both public and private within and beyond the District's service area.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Net Position

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

Net Position Flow Assumption

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

Note 2. Deposits and Investments

As of June 30, 2021 and 2020 the District’s cash and investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Total cash in bank	\$ 14,481,160	\$ 11,963,931
Total cash in State Treasurer Investment Pool	2,290,066	2,173,165
Total cash on deposit with the Pima County Treasurer	9,505,548	6,549,922
Total investments	8,930,177	9,737,798
	<u>\$ 35,206,951</u>	<u>\$ 30,424,816</u>

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 2. Deposits and Investments, Continued

A reconciliation of cash and investments as shown on the Statement of Net Position follows:

	2021	2020
Cash and cash equivalents	\$ 24,912,458	\$ 18,657,607
Investments	8,930,177	7,500,000
Restricted cash and cash equivalents	1,364,316	2,029,411
Restricted investments	-	2,237,798
	\$ 35,206,951	\$ 30,424,816

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, 2021, the District's bank balance was \$30,779,430 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized. At June 30, 2020, the District's bank balance was \$26,108,034 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized.

Interest Rate Risk

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

Credit risk

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

Fair value measurement

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 2. Deposits and Investments, Continued

Investment Fund

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

Certificates of deposit are measured at amortized cost.

Other investments are valued using quoted prices in active markets (Level 1 inputs). As of June 30, 2021 and 2020 the District had the following investments:

June 30, 2021				
Investment Type	Credit Quality Rating	Maturity Date	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAA	**	\$ 2,290,066	20%
Federal Agency				
FHLB	AAA/AA+	11/29/2021	307,266	3%
FHLB	AAA/AA+	9/11/2026	83,837	1%
FHLB	AAA/AA+	3/14/2031	1,039,073	9%
Discounted commercial paper	BBB+	****	3,500,000	31%
Bonds-certificates of deposit*	N/A	***	4,000,000	36%
Total			\$ 11,220,242	100%

* - FDIC insured

** - Pool 5 has a weighted average maturity of .18 years

*** - Certificates of Deposit have a weighted average maturity of 1.18 years

**** - Commercial papers have a weighted average maturity of .5 years

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 2. Deposits and Investments, Continued

June 30, 2020				
Investment Type	Credit Quality Rating	Maturity Date	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAA	**	\$ 2,173,165	18%
Federal Agency				
FHLB	AAA/AA+	11/29/2021	312,408	3%
FHLB	AAA/AA+	9/11/2026	85,500	1%
FNMA	Aaa/AA+	10/7/2021	196,906	2%
FHLM	Aaa/AA+	1/13/2022	443,303	4%
FFCB	Aaa/AA+	12/13/2022	692,824	6%
PEFC	Aaa	7/15/2024	506,857	4%
Bonds-certificates of deposit*	N/A	***	7,500,000	63%
Total			\$ 11,910,963	100%

* - FDIC insured

** - Pool 5 has a weighted average maturity of .13 years

*** - Certificates of Deposit have a weighted average maturity of .94 years

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 3. Restricted Assets

Restricted assets consist of the following at June 30, 2021 and 2020:

	June 30, 2021			
	Bond Funds	Reserve Funds	Repair and Replacement Funds	Total
Cash and cash equivalents	\$ 1,364,316	\$ -	\$ -	\$ 1,364,316
Total	\$ 1,364,316	\$ -	\$ -	\$ 1,364,316
	June 30, 2020			
	Bond Funds	Reserve Funds	Repair and Replacement Funds	Total
Cash and cash equivalents	\$ 1,169,905	\$ 457,414	\$ 402,092	\$ 2,029,411
U.S. Government securities	-	1,333,033	397,908	1,730,941
Other securities	-	506,857	-	506,857
Total	\$ 1,169,905	\$ 2,297,304	\$ 800,000	\$ 4,267,209

Note 4. Notes Receivable

The District has notes receivable balances at June 30, 2021, and June 30, 2020, of \$492,836 and \$517,830, respectively. Payments are received monthly for \$3,691, bearing an interest rate of 3.81%. The receivable will mature in December 2035.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 5. 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 acquisition 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, 2021 and 2020 was \$3,539,897 and \$3,486,674, respectively. Capital asset activity for the years ended June 30, 2021 and 2020 was as follows:

	June 30, 2020	Additions	Disposals	Adjustments	June 30, 2021
Capital assets not being depreciated:					
Land	\$ 1,446,699	\$ -	\$ -	\$ -	\$ 1,446,699
Construction in progress	3,942,052	3,471,792	-	(1,452,779)	5,961,065
Total capital assets not being depreciated	<u>5,388,751</u>	<u>3,471,792</u>	<u>-</u>	<u>(1,452,779)</u>	<u>7,407,764</u>
Capital assets being depreciated:					
Water systems	115,675,980	2,350,470	-	1,435,147	119,461,597
Buildings and improvements	5,025,249	1,751	-	1,750	5,028,750
Vehicles, machinery, and equipment	1,966,017	89,208	-	15,882	2,071,107
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	<u>133,919,904</u>	<u>2,441,429</u>	<u>-</u>	<u>1,452,779</u>	<u>137,814,112</u>
Less: accumulated depreciation for:					
Water systems	(39,288,734)	(2,720,052)	-	-	(42,008,786)
Buildings and improvements	(1,902,600)	(165,775)	-	-	(2,068,375)
Vehicles, machinery, and equipment	(1,510,716)	(110,967)	-	-	(1,621,683)
Regulatory assets	(8,937,100)	(543,103)	-	-	(9,480,203)
Total accumulated depreciation	<u>(51,639,150)</u>	<u>(3,539,897)</u>	<u>-</u>	<u>-</u>	<u>(55,179,047)</u>
Total capital assets being depreciated, net	<u>82,280,754</u>	<u>(1,098,468)</u>	<u>-</u>	<u>1,452,779</u>	<u>82,635,065</u>
Total capital assets, net of accumulated depreciation	<u>\$ 87,669,505</u>	<u>\$ 2,373,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,042,829</u>

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 5. Capital Assets and Depreciation, Continued

	June 30, 2019	Additions	Disposals	Adjustments	June 30, 2020
Capital assets not being depreciated:					
Land	\$ 1,446,699	\$ -	\$ -	\$ -	\$ 1,446,699
Construction in progress	2,465,972	1,911,333	-	(435,253)	3,942,052
Total capital assets not being depreciated	<u>3,912,671</u>	<u>1,911,333</u>	<u>-</u>	<u>(435,253)</u>	<u>5,388,751</u>
Capital assets being depreciated:					
Water systems	113,897,438	1,456,769	-	321,773	115,675,980
Buildings and improvements	4,846,611	69,958	(4,800)	113,480	5,025,249
Vehicles, machinery, and equipment	1,948,991	104,546	(87,520)	-	1,966,017
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	<u>131,945,698</u>	<u>1,631,273</u>	<u>(92,320)</u>	<u>435,253</u>	<u>133,919,904</u>
Less: accumulated depreciation for:					
Water systems	(36,616,572)	(2,672,162)	-	-	(39,288,734)
Buildings and improvements	(1,742,914)	(164,486)	4,800	-	(1,902,600)
Vehicles, machinery, and equipment	(1,482,618)	(106,923)	78,825	-	(1,510,716)
Regulatory assets	(8,393,997)	(543,103)	-	-	(8,937,100)
Total accumulated depreciation	<u>(48,236,101)</u>	<u>(3,486,674)</u>	<u>83,625</u>	<u>-</u>	<u>(51,639,150)</u>
Total capital assets being depreciated, net	<u>83,709,597</u>	<u>(1,855,401)</u>	<u>(8,695)</u>	<u>435,253</u>	<u>82,280,754</u>
Total capital assets, net of accumulated depreciation	<u>\$ 87,622,268</u>	<u>\$ 55,932</u>	<u>\$ (8,695)</u>	<u>\$ -</u>	<u>\$ 87,669,505</u>

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2021 and 2020:

	<u>Balance 6/30/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2021</u>	<u>Current Portion</u>
Bonds from Direct Placements	\$ 7,937,000	\$ -	\$ (7,937,000)	\$ -	\$ -
Revenue Bonds	-	9,265,000	(670,000)	8,595,000	1,360,000
Unamortized Premiums	-	904,304	(121,168)	783,136	-
Notes Payable from					
Direct Borrowings	13,144,561	-	(6,678,088)	6,466,473	919,091
Compensated Absences	529,956	370,969	(432,124)	468,801	227,321
Net Pension Liability	4,668,013	1,497,991	(581,667)	5,584,337	-
	<u>\$ 26,279,530</u>	<u>\$ 12,038,264</u>	<u>\$(16,420,047)</u>	<u>\$ 21,897,747</u>	<u>\$ 2,506,412</u>
	<u>Balance 6/30/2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2020</u>	<u>Current Portion</u>
Bonds from Direct Placements	\$ 8,787,000	\$ -	\$ (850,000)	\$ 7,937,000	\$ 890,000
Unamortized Premiums	4,597	-	(4,597)	-	-
Notes Payable					
Direct Borrowings	15,071,345	-	(1,926,784)	13,144,561	1,983,771
Compensated Absences	493,287	345,301	(308,632)	529,956	370,000
Net Pension Liability	4,644,178	39,328	(15,493)	4,668,013	-
	<u>\$ 29,000,407</u>	<u>\$ 384,629</u>	<u>\$ (3,105,505)</u>	<u>\$ 26,279,530</u>	<u>\$ 3,243,771</u>

Bonds Payable

The annual requirements for the next five years and 5 year increments thereafter to amortize bonds outstanding at June 30, 2021 are as follows:

Bonds Payable			
Year Ended June 30,	Principal	Interest	Total
2022	\$ 1,360,000	\$ 309,800	\$ 1,669,800
2023	1,955,000	243,500	2,198,500
2024	2,505,000	154,300	2,659,300
2025	2,095,000	62,300	2,157,300
2026	680,000	10,200	690,200
Total	<u>\$ 8,595,000</u>	<u>\$ 780,100</u>	<u>\$ 9,375,100</u>

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 6. Long-Term Debt, Continued

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

	2021	2020
<p>\$9,265,000 - Metropolitan Domestic Water Improvement District of Pima County, Senior Lien Water Revenue Refunding Bond Series 2020, due in annual installments varying from \$680,000 to \$2,505,000 through January 1, 2026; interest rate is 3% to 4% and is secured by water revenue.</p>	\$ 8,595,000	\$ -
<p>\$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.</p>	-	7,937,000
<p>Unamortized bond premiums</p>	783,136	-
<p>Total bonds payable</p>	\$ 9,378,136	\$ 7,937,000

On October 20, 2020, the District issued the 2020 Water Revenue Refunding Bonds of \$9,265,000 for a current refunding of the 2009A Water Revenue Refunding Bonds and the 2013 Water Revenue Refunding Bonds. The refunding was undertaken to reduce total debt service payments by \$749,493 and resulted in an economic gain of \$703,380.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 6. Long-Term Debt, Continued

Notes Payable

The annual requirements for the next five years and 5 year increments thereafter to amortize notes payable outstanding at June 30, 2021 are as follows:

Notes Payable from Direct Borrowings			
Year Ended June 30,	Principal	Interest	Total
2022	\$ 919,091	\$ 179,835	\$ 1,098,926
2023	946,784	151,725	1,098,509
2024	975,312	122,766	1,098,078
2025	1,004,700	92,936	1,097,636
2026	1,030,710	62,271	1,092,981
2027-2031	1,104,777	154,392	1,259,169
2032-2035	485,099	14,313	499,412
Total	\$ 6,466,473	\$ 778,238	\$ 7,244,711

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

	2021	2020
Loan payable to Water Infrastructure Financing Authority (WIFA-1), due in semi-annual payments through January 1, 2027; interest rate at 3.031% per annum and is secured by water revenues.	\$ 3,920,827	\$ 4,637,942
Loan payable to Water Infrastructure Financing Authority (WIFA-3), due in semi-annual payments through January 1, 2025; interest rate at 2.877% per annum and is secured by water revenues.	-	5,785,881
Loan payable to Water Infrastructure Financing Authority (WIFA-4), due in semi-annual payments through January 1, 2033; interest rate at 2.940% per annum and is secured by water revenues.	2,545,646	2,720,738
Total notes payable	\$ 6,466,473	\$ 13,144,561

For the WIFA loans, no collateral is required. In the event of deficiency, guarantor reserve funds will be utilized. In the event of default, legal proceedings may enforce and compel performance duties including setting and collecting sufficient rates and revenues sufficient to provide for payments of the bonds.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 7. Retirement and Pension Plans, Continued

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.

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

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

* With actuarially reduced benefits.

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

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 7. Retirement and Pension Plans, Continued

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

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, 2021, statute required active ASRS members to contribute at the actuarially determined rate of 12.22 percent (12.04 percent for retirement and 0.18 percent for long-term disability) of the members' annual covered payroll, and the statute required the District to contribute at the actuarially determined rate of 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 percent for long-term disability) of the active members' annual covered payroll. The District's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2021 were:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2021	\$ 435,741	\$ 14,587	\$ 6,732

Liability – At June 30, 2021, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	Net pension/OPEB (asset) liability
Pension	\$ 5,584,337
Health insurance premium benefit	(23,378)
Long-term disability	24,784

The net asset and net liabilities were measured as of June 30, 2020. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2019, to the measurement date of June 30, 2020.

The District's proportion of the net asset or net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2020. The District's proportion measured as of June 30, 2020, and the change from its proportions measured as of June 30, 2019, were:

	Proportion June 30, 2019	Proportion June 30, 2020	Increase (decrease) from June 30, 2019
Pension	0.03208%	0.03223%	0.00015%
Health insurance premium benefit	0.03288%	0.03302%	0.00014%
Long-term disability	0.03258%	0.03267%	0.00009%

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 7. Retirement and Pension Plans, Continued

Expense – For the year ended June 30, 2021, the District recognized the following pension and OPEB expense.

	<u>Pension/OPEB Expense</u>
Pension	\$ 493,050
Health insurance premium benefit	7,385
Long-term disability	7,826

Deferred outflows/inflows of resources – At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>Health Insurance Premium Benefit</u>		<u>Long-term disability</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 50,520	\$ -	\$ -	\$ 46,065	\$ 2,157	\$ 638
Changes of assumptions or other inputs	-	-	12,961	-	2,670	-
Net difference between projected and actual earnings on pension plan investments	538,616	-	23,920	-	2,729	-
Changes in proportion and differences between contributions and proportionate share of contributions	14,223	56,371	15	54	172	272
Contributions subsequent to the measurement date	435,741	-	14,587	-	6,732	-
Total	\$ 1,039,100	\$ 56,371	\$ 51,483	\$ 46,119	\$ 14,460	\$ 910

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 7. Retirement and Pension Plans, Continued

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Recognized in Year Ended June 30,	Pension	Health Insurance Premium Benefit	Long-term disability
2022	13,677	(4,977)	\$ 1,123
2023	171,897	85	1,565
2024	194,823	1,187	1,646
2025	166,591	(1,286)	1,477
2026	-	(4,232)	771
Thereafter	-	-	236

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

Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 7. Retirement and Pension Plans, Continued

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

Asset Class	Target Asset Allocation	Real Return Geometric Basis	Long Term Contribution to Expected Real Return
Equity	50%	6.39%	3.20%
Fixed Income - Credit	20%	5.44%	1.09%
Fixed Income - Interest Rate Sensitive Bonds	10%	0.22%	0.02%
Real Estate	20%	5.85%	1.17%
Totals	100%		5.48%

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

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 7. Retirement and Pension Plans, Continued

Proportionate share of the	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
Net pension liability	\$ 7,636,506	\$ 5,584,337	\$ 3,868,830
Net insurance premium benefit liability (asset)	30,674	(23,378)	(69,379)
Net long-term disability liability	27,060	24,784	22,575

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

Note 8. Contributed Capital

Capital assets contributed by land developers and others, consisting of construction of certain portions of the distribution systems and other assets, totaled \$2,336,595 and \$1,483,167 during the years ended June 30, 2021 and 2020, respectively, and are included in contributed capital on the statements of revenues, expenses, and changes in net position.

Note 9. Regulatory Assets

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

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2021

Note 10. 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 11. 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 12. Contingencies

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

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2021

ASRS - Pension	Reporting Fiscal Year (Measurement Date)						
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.032230%	0.032800%	0.033300%	0.032640%	0.033370%	0.0319500%	0.0341110%
Proportionate share of the net pension liability (asset)	\$ 5,584,337	\$ 4,668,013	\$ 4,664,178	\$ 5,084,676	\$ 5,386,253	\$ 4,977,319	\$ 4,884,827
Covered payroll	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509	\$ 3,026,837	\$ 3,021,540	\$ 2,691,250
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	157.52%	139.84%	140.76%	159.32%	177.95%	164.73%	181.51%
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Contributions
June 30, 2021

ASRS - Pension

	Reporting Fiscal Year							
	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 435,741	\$ 403,552	\$ 373,158	\$ 360,760	\$ 343,199	\$ 326,808	\$ 251,641	\$ 318,422
Contributions in relation to the contractually required contribution	(435,741)	(403,552)	(373,158)	(360,760)	(343,199)	(326,808)	(251,641)	(318,422)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,875,435	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509	\$ 3,026,837	\$ 3,021,540	\$ 2,691,250
Contributions as a percentage of covered payroll	11.24%	11.38%	11.18%	10.93%	10.75%	10.80%	8.33%	11.83%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of the Proportionate Share of the Net OPEB Liability
June 30, 2021

ASRS - Health insurance premium benefit	Reporting Fiscal Year (Measurement Date)				
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.033020%	0.032880%	0.033940%	0.033120%	0.033120%
Proportionate share of the net OPEB (asset)	\$ (23,378)	\$ (9,087)	\$ (12,221)	\$ (18,031)	\$ 9,577
Covered payroll	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509	\$ 3,026,837
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.66%	-0.27%	-0.37%	-0.56%	0.32%
Plan fiduciary net position as a percentage of the total OPEB liability	104.33%	101.62%	102.20%	103.57%	98.02%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Contributions
June 30, 2021

ASRS - Health insurance premium benefit

	Reporting Fiscal Year				
	2021	2020	2019	2018	2017
Contractually required contribution	\$ 14,587	\$ 17,270	\$ 15,354	\$ 14,563	\$ 17,829
Contributions in relation to the contractually required contribution	(14,587)	(17,270)	(15,354)	(14,563)	(17,829)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,875,435	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509
Contributions as a percentage of covered payroll	0.38%	0.49%	0.46%	0.44%	0.56%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of the Proportionate Share of the Net OPEB Liability
June 30, 2021

ASRS - Long-term disability	Reporting Fiscal Year (Measurement Date)				
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.03267%	0.03258%	0.03338%	0.03277%	0.032769%
Proportionate share of the net OPEB (asset)	\$ 24,784	\$ 21,224	\$ 17,441	\$ 11,878	\$ 11,776
Covered payroll	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509	\$ 3,026,837
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.70%	0.64%	0.53%	0.37%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	68.01%	72.85%	77.83%	84.44%	85.17%

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Contributions
June 30, 2021

ASRS - Long-term disability

	Reporting Fiscal Year				
	2021	2020	2019	2018	2017
Contractually required contribution	\$ 6,732	\$ 5,992	\$ 5,340	\$ 5,296	\$ 4,457
Contributions in relation to the contractually required contribution	(6,732)	(5,992)	(5,340)	(5,296)	(4,457)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,875,435	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509
Contributions as a percentage of covered payroll	0.17%	0.17%	0.16%	0.17%	0.14%

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

Other Communications from Independent Auditors

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HINTONBURDICK
CPAs & ADVISORS

**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, 2021 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 27, 2021.

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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standard*.

Purpose of this Report

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



HintonBurdick, PLLC
Gilbert, Arizona
August 27, 2021