

**METROPOLITAN DOMESTIC WATER  
IMPROVEMENT DISTRICT**



**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Metropolitan Domestic Water Improvement District  
Tucson, Arizona

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the business-type activities of Metropolitan Domestic Water Improvement District (District), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2022 and 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued or when applicable, one year after the date that the financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of 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 GAAS, 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.

### ***Change in Accounting Principle***

As described in Note 1 to the financial statements, in fiscal year 2022, the District implemented the provisions of GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022, 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 solely 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 effectiveness of 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  
September 23, 2022

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**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2022 and June 30, 2021**

**Board of Directors**

**Richard A. Sarti, P.E. - Chair – Current term cycle 2018-2022**

**Lee Jacobs, Vice Chair - Current term cycle February 2021 – 2024**

**James O. Doyle - Current term cycle 2018-2022**

**Bryan Foulk - Current term cycle 2020-2024**

**Scott Schladweiler - Current term cycle January 2022-December 2022**

**General Manager - Joseph Olsen, P.E.**

**Issued by the Financial Team - Fiscal Year 2022**

**Chief Financial Officer – Diane Bracken, M.Adm.**

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

**Senior Accountant - Nancy Walton**

**Accounting Specialist – Sofia Padilla**



**Metropolitan Domestic Water Improvement District**  
**Management's Discussion and Analysis**  
**June 30, 2022 and June 30, 2021**

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, 2022, and June 30, 2021. 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. In 2005, the District annexed Metro West located approximately 15 miles northwest of the Metro Main service area, and 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.

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**Summary of Net Position**

	<u>June 30, 2022</u>	<u>Restated June 30, 2021</u>
Current assets	\$ 45,677,981	\$ 38,561,838
Restricted cash and investments	1,598,626	1,364,316
Notes receivable - noncurrent	439,904	466,873
Capital assets, net of accumulated depreciation	81,870,352	83,393,062
Capital assets not being depreciated	6,840,245	7,407,764
Water recharge credits	12,548,823	11,285,194
Net OPEB assets	<u>166,235</u>	<u>23,378</u>
<b>Total assets</b>	<b><u>\$ 149,142,166</u></b>	<b><u>\$ 142,502,425</u></b>
Deferred outflows related to pensions	\$ 1,229,341	\$ 1,039,100
Deferred outflows, loss on refund of debt	139,584	179,466
Deferred outflows, related to OPEB	<u>29,117</u>	<u>65,943</u>
<b>Total deferred outflows</b>	<b>1,398,042</b>	<b>1,284,509</b>
<b>Total assets and deferred outflows</b>	<b><u>\$ 150,540,208</u></b>	<b><u>\$ 143,786,934</u></b>
Current liabilities	\$ 7,095,823	\$ 6,525,608
Non-Current liabilities	<u>15,731,475</u>	<u>20,055,981</u>
<b>Total liabilities</b>	<b><u>\$ 22,827,298</u></b>	<b><u>\$ 26,581,589</u></b>
Deferred inflows related to pensions	\$ 1,385,471	\$ 56,371
Deferred Inflow of OPEB	<u>140,856</u>	<u>47,029</u>
<b>Total deferred inflows</b>	<b>\$ 1,526,327</b>	<b>\$ 103,400</b>
<b>Total liabilities and deferred inflows</b>	<b><u>\$ 24,353,625</u></b>	<b><u>\$ 26,684,989</u></b>
Invested in capital assets	\$ 74,464,572	\$ 74,073,454
Restricted for:		
Debt service	\$ 1,598,626	\$ 1,364,316
Unrestricted	<u>50,123,385</u>	<u>41,664,175</u>
<b>Total net position</b>	<b><u>\$126,186,583</u></b>	<b><u>\$117,101,945</u></b>
<b>Total liabilities, deferred inflows, and net position</b>	<b><u>\$150,540,208</u></b>	<b><u>\$143,786,934</u></b>

MDWID's total net position shows an increase of \$9.08 million over Fiscal Year 2021. Current assets increased \$7.12 million over the previous year with increases in investments of \$7.34 million. Non-current assets decreased by \$476,402 when compared to the prior fiscal year. The Deferred Outflows related to Pensions and Other Paid Employee Benefits (OPEB) as part of the

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GASB 68 and GASB 75 reporting requirements have increased by \$113,533 in Fiscal Year 2022. This consists of the Arizona State Retirement System (ASRS), ASRS Long-term Disability (LTD), and Health Benefits Supplement (HBS) withheld in Fiscal Year 2022 that will be reported as expenses in Fiscal year 2023 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 8 of this financial report.

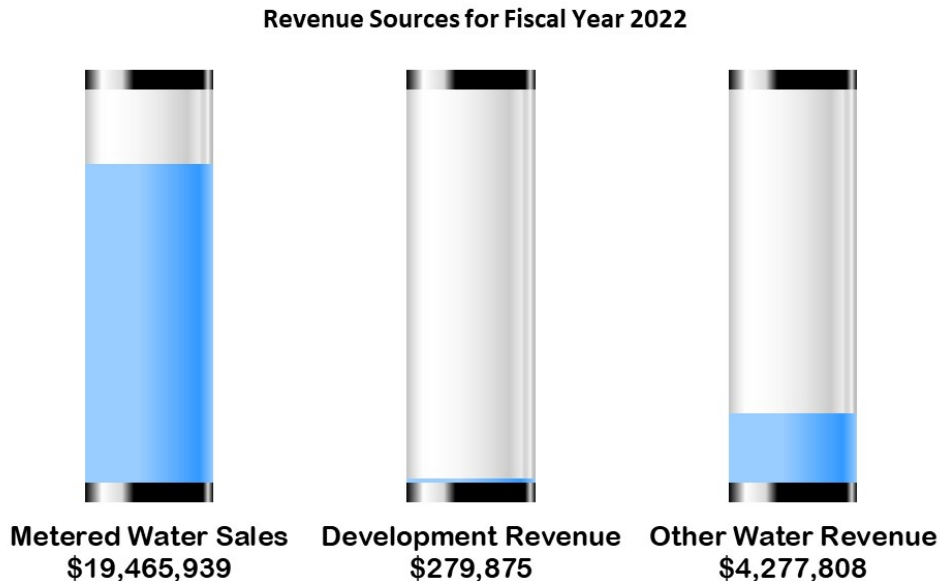
Water recharge credits continue to increase in value from increased storage quantity and valuation increases for a total gain in value of \$1.26 million. Water credits are based on the fair market value and the number of acre feet resulting in a book value of \$12.55 million in Fiscal Year 2022, compared to \$11.29 million in the prior fiscal year.

In Fiscal Year 2022, current liabilities increased by \$570,215 when compared to Fiscal Year 2021. Noncurrent liabilities decreased by \$4.32 million with long term-debt decreasing by \$4.14 million. The net pension liability in accordance with GASB 68 decreased by \$1.21 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 decreased by \$17,823.

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

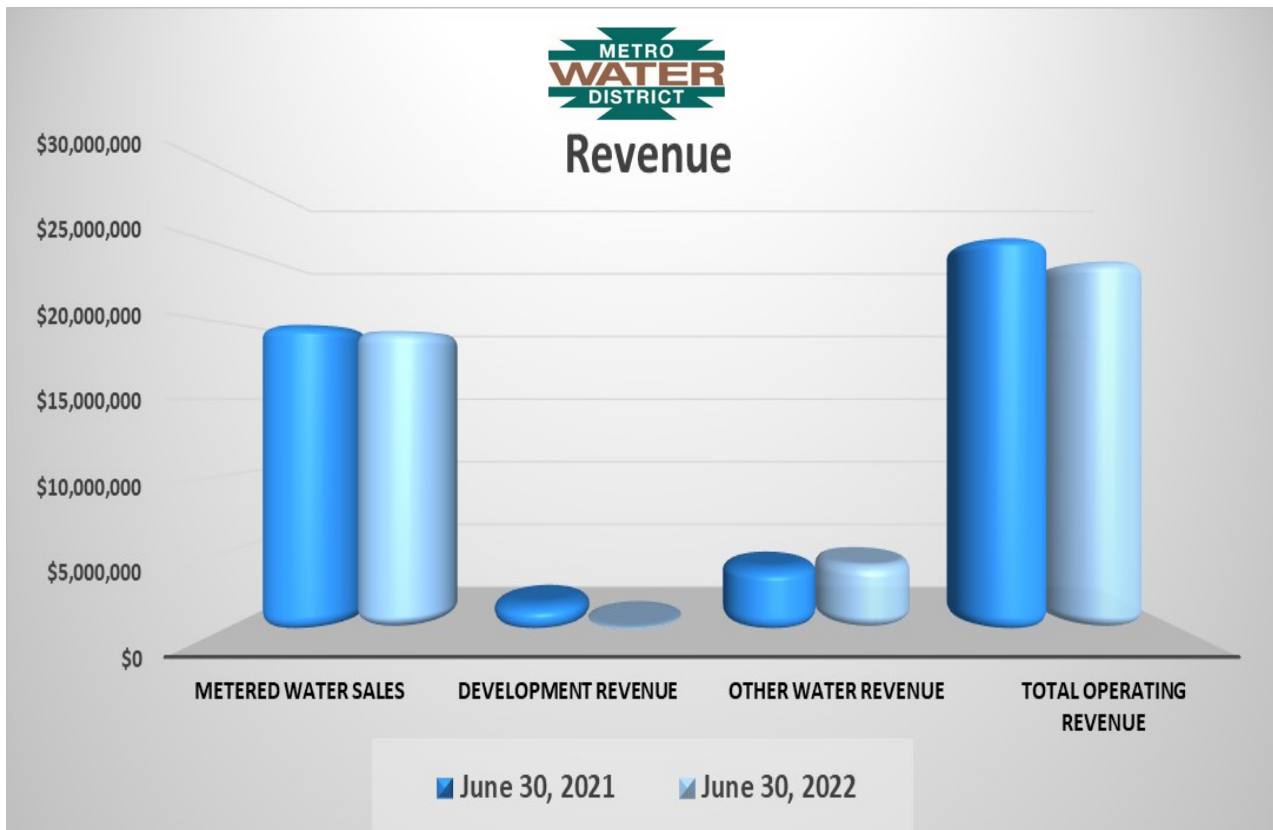
**Revenue**

The total revenue by source for Fiscal Year 2022 consists of 81% of revenue from metered water sales, 1% from Development Revenue, and 18% from other water revenue sources as shown below:



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The District’s metered water revenue is stable from year-to-year as shown in the table below that compares Fiscal Year 2021 in dark blue and Fiscal Year 2022 in light blue. When comparing the operating revenue for Fiscal Year 2021 to Fiscal Year 2022, there was a decrease of \$1.66 million with \$1.39 million of the reduction coming from Development Revenue.



The Water Resource Utilization Fee was set at sixty cents per thousand gallons of water effective July 1, 2018. The District adjusts the water 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.

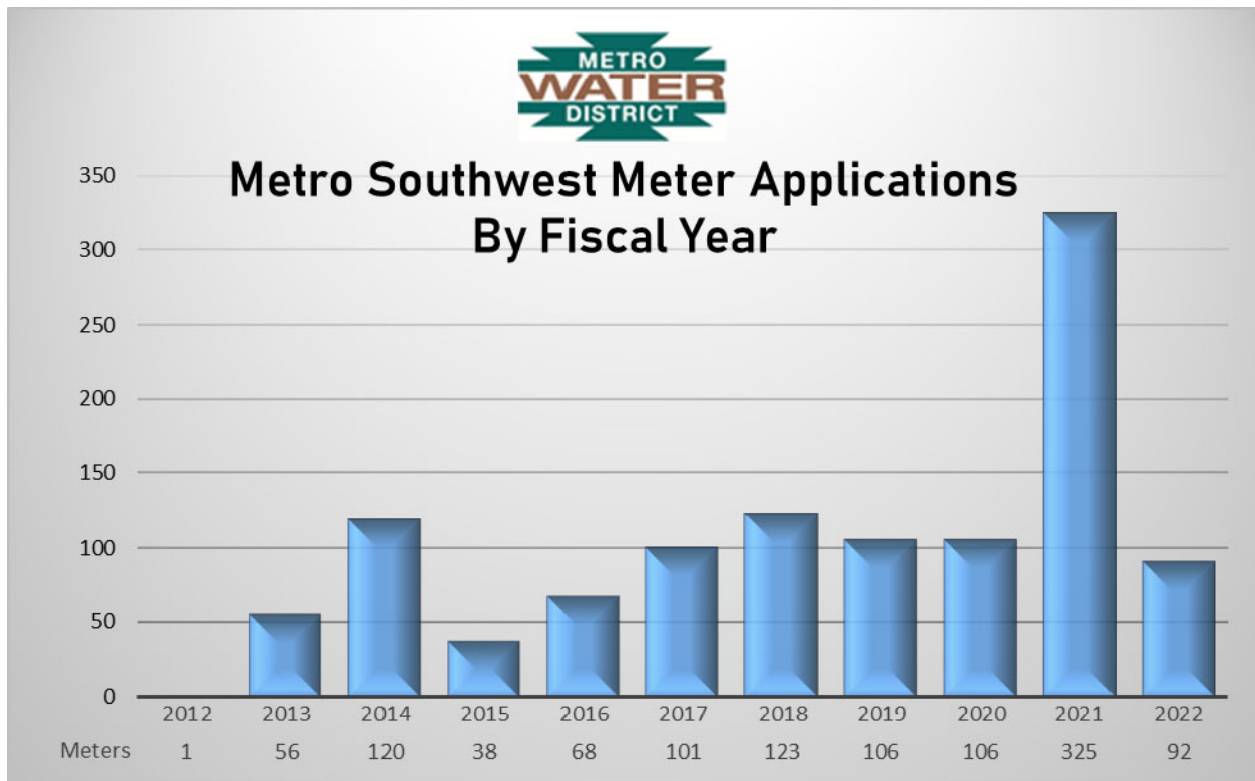
Other water revenue sources include private fire risers, infrastructure rehabilitation fees, inspection fees, engineering plan review fees, sale of CAP water credits from Metro Main to

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Metro Southwest, accrued interest income, 500 Plus Plan, CAP conservation reimbursements, 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 decreased with a total of 92-meter applications received in Fiscal Year 2022, compared to 596-meter applications in the prior fiscal year. Twenty-two new meter applications were for the Metro Southwest service areas.

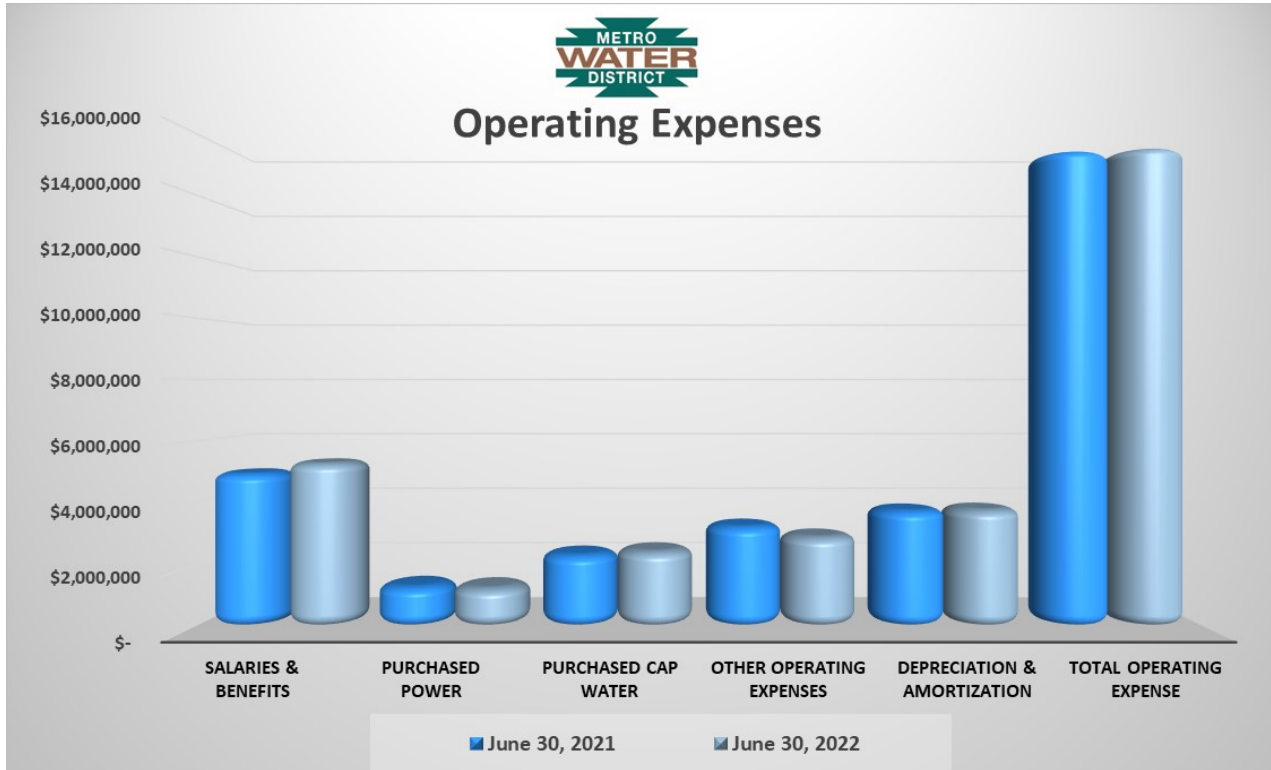
The Metro Southwest systems were purchased in 2009. The chart below shows the number of new meter applications received for the Metro Southwest service areas by fiscal year to show the growth activity patters in these areas over the years.



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**Operating Expenses**

Operating expenses totaled \$15.58 million in Fiscal Year 2022 compared to \$15.49 million in Fiscal Year 2021 for an increase \$95,270 or 0.62%. 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 \$341,085 or 6.88% with a 2% cost of living increase and a 2% merit increase. Three additional positions were added to the Utility Team. Salaries and employee benefits continue to be the District’s largest expenses, making up 34.0% of the total operating expenses in Fiscal Year 2022 compared to 32.0% in Fiscal Year 2021. The cost to purchase CAP water increased by 4.93% and this accounts for 15.5% of the total operating expenditures.

Depreciation and amortization expenses totaled \$3.78 million compared to \$3.75 million for Fiscal Year 2021. Purchased power costs were lower in Fiscal Year 2022 by 3.8% when compared to Fiscal Year 2021. 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 decreased by \$340,386.

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**Non-Operating Revenue/Expenses**

Non-operating revenue exceeded non-operating expenses by \$485,065 in Fiscal Year 2022.

The income before capital contributions for Fiscal Year 2022 is \$8.93 million, compared to \$10.18 million in the restated Fiscal Year 2021 financial statements. Capital assets contributed to the District by developers totaled \$159,575 in Fiscal Year 2022 compared to \$2.34 million in Fiscal Year 2021.

The following table shows a comparison of the revenue and expenses and change in net position for Fiscal Years ended June 30, 2022, June 30, 2021:

	<u>June 30, 2022</u>	<u>Restated June 30, 2021</u>
Metered water sales	\$ 19,465,939	\$ 19,942,674
Development revenue	279,875	1,670,446
Other water revenue	<u>4,277,808</u>	<u>4,067,010</u>
Total operating revenue	<u>\$ 24,023,622</u>	<u>\$ 25,680,130</u>
Salaries and employee benefits	\$ 5,297,397	\$ 4,956,312
Purchased power	1,209,410	1,257,146
Purchased CAP water	2,413,618	2,300,191
Other operating expenses	2,887,018	3,227,404
Depreciation and amortization	<u>3,776,181</u>	<u>3,747,301</u>
Total operating expenses	<u>\$ 15,583,624</u>	<u>\$ 15,488,354</u>
Operating income (loss)	<u>\$ 8,439,998</u>	<u>\$ 10,191,776</u>
Interest income (loss) (market value adjustment)	\$ (193,919)	\$ 260,868
Gain (loss) on disposal of assets	(195,092)	-
Amortization of bond premiums	134,149	(195,912)
Gain related to water recharge activity	1,263,630	518,069
Interest expense	<u>(523,703)</u>	<u>(594,330)</u>
Total non-operating revenue (expenses)	<u>\$ 485,065</u>	<u>\$ (11,305)</u>
Income before capital contributions	\$ 8,925,063	\$ 10,180,471
Capital contributions	<u>159,575</u>	<u>2,336,595</u>
Increase in net position	\$ 9,084,638	\$ 12,517,066
Total net position, beginning of year	<u>117,101,945</u>	<u>104,584,879</u>
<b>Net position, end of year</b>	<u><b>\$ 126,186,583</b></u>	<u><b>\$ 117,101,945</b></u>

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**Capital Improvement Funding History**

On November 9, 2007, WIFA approved a CIP 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. Upon completion, the final loan amount was \$11.76 million. With a \$3,181,976 principal balance as of June 30, 2022.

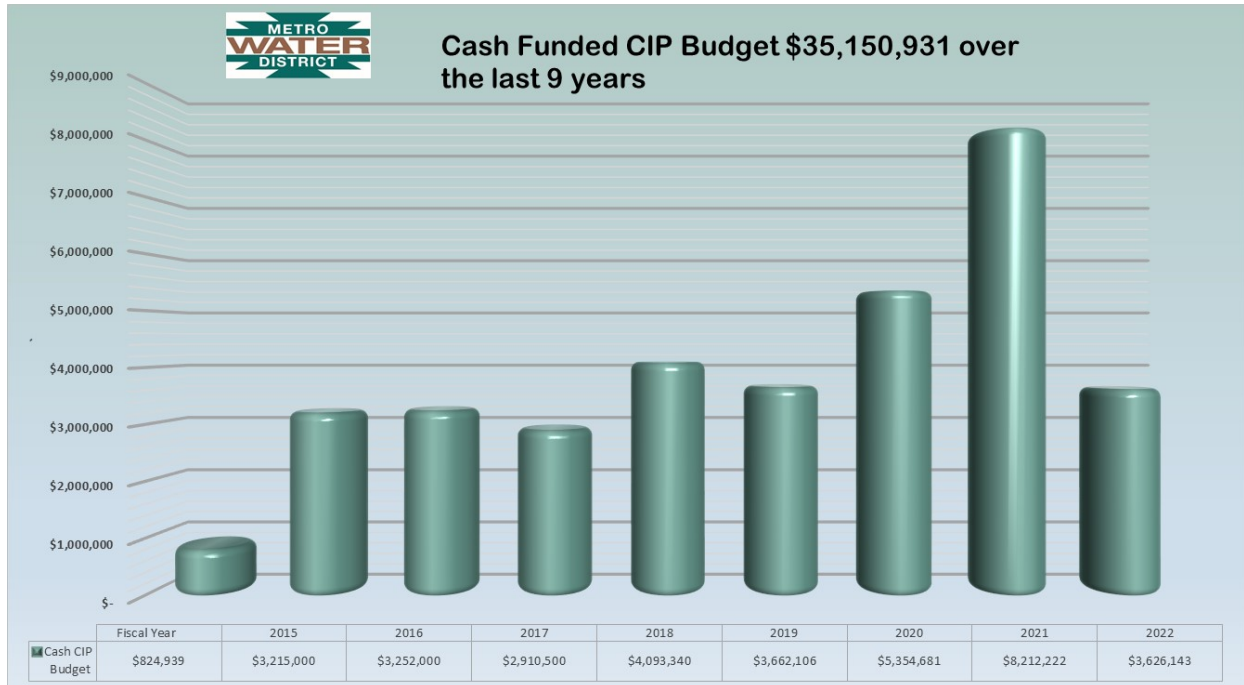
Although not part of the District's original CIP, in December 2009 the District was approved financing from WIFA in the amount of \$3.95 million which was later increased to \$4.25 million for the acquisition of three water systems on the southwest side of Tucson. The loan to purchase this service area 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. This loan has a \$2,365,406 outstanding principal balance as of June 30, 2022.

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 and 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 the refunded amount was \$9,265,000 reducing the outstanding principal by \$4,457,881. The remaining outstanding bond principal balance as of June 30, 2022 was \$7,235,000.

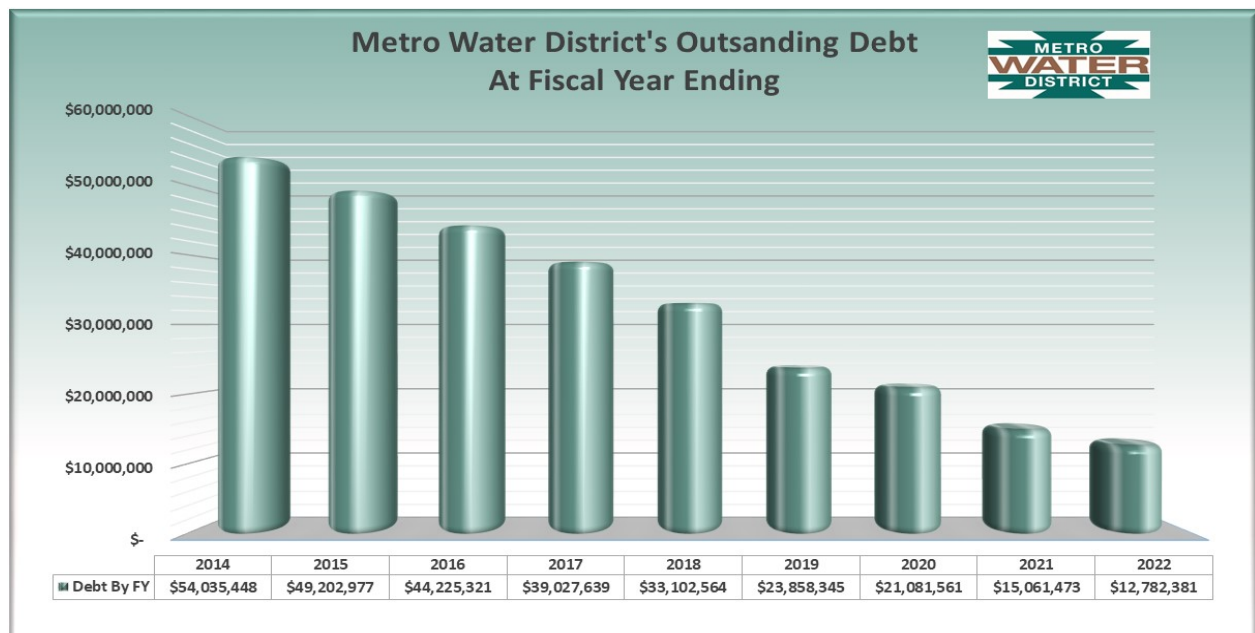


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The District has been cash funding all planned capital infrastructure improvements without incurring any new debt since Fiscal Year 2015, while paying down outstanding debt. Below is a chart showing the \$35,150,931 of cash funded budget within the Capital Improvement Program by fiscal year.



As of June 30, 2022, the Districts' outstanding debt was \$12.78 million with one long-term bond and two WIFA loans decreasing \$2.28 million in Fiscal Year 2022. The chart below shows the declining debt of the District at the end of each fiscal year starting with Fiscal Year 2014.



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**Factors for the Fiscal Year 2023 Budget**

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

On March 17, 2022, 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. On March 21, 2022, the requested budget for Fiscal Year 2023 was 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.

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 2023 adopted budget. Metered water revenue was budgeted at \$18.69 million.

On July 1, 2016, the Water Resource Utilization Fees increased to 50¢ per 1,000 gallons and in Fiscal Year 2019 this fee increased from 50¢ per 1,000 gallons to 60¢ per 1,000 gallons and has remained unchanged.

The Infrastructure Rehabilitation Fee of 95¢ for a 5/8-inch meter was established on January 1, 2021, and the rate will be \$1.50 for a 5/8-inch meter in all service areas effective July 1, 2022. This is the only rate change in Metro Main, Hub, Diablo Village, and Lazy B service areas. The E&T service area rates will increase the water availability rate and the tier rates effective July 1, 2022.

This budget is based upon the projected revenue sources and the available fund balance. The projected beginning operating fund balance for Fiscal Year 2023 was budgeted at \$31.07 million. The fund balance includes \$12.02 million of Water Resource Utilization Fees that have been collected to cash fund the land, design, and construction costs associated with the Northwest Recharge Recovery and Delivery System capital projects and other water resource initiatives.

The operating revenue for Fiscal Year 2023 is projected to be \$23.44 million, up \$338,909 from the Fiscal Year 2022 adopted budget.

The base budget Salaries and Benefits make up 34% of the District's operating budgeted expenses and have increased \$869,752 when compared to the prior fiscal year base budget with the addition of a new maintenance crew and an electrician position. The Adopted budget includes a 4% cost of living increase effective the first pay period in July 2022. In addition, the budget includes a potential 15% 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 decreased by 0.24%.

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The investments to support the District, include a variable frequency drive for the Diablo Village II Booster, cyber security upgrades, a copier/printer/scanner, a warehouse mini-split heat pump, and telemetry software.

Consultants and Contracted services increased \$56,251 when compared to the prior fiscal year adopted budget, with additional work on storage tanks rehabilitation and well maintenance. General Operating expenses are planned to be \$55,049 lower than Fiscal Year 2022 budget, with the implementation of GASB 87 moving the long-term leases out of operations.

The planned supply costs are expected to increase by \$139,647. With increased costs in the computer equipment, software, and maintenance agreements accounting for \$76,713 of this increase. Some obsolete inventory will be written off with a valuation of \$28,568, additional pump and motor supplies will be needed, and various other supplies costs have increased.

The cost of Central Arizona Project (CAP) Water and regulatory fees has increased by \$125,360 when compared to the prior fiscal year. The 2021 credit of \$84,262 will be applied in January to reduce the CAP cost increase in the budget down to a \$41,098.

Debt service payments are budgeted at \$511,681 higher than they were in Fiscal Year 2022 with the 2020 revenue bond refunding payment 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 totaling \$569,292 plus additional funding from operating revenue totaling \$3.16 million plus \$48,708 from Water Resource Utilization Fees for NWRD projects.

The Arizona Department of Transportation Oracle Road Pavement and Drainage Upgrades were not completed in Fiscal Years 2021 or 2022 and \$66,000 was carried forward into Fiscal Year 2023. The E&T 22 Well Replacement land acquisition and well drilling is funded \$1.42 million in Fiscal Year 2023. Large Meter Vault Replacements continue with the last two vaults planned to be replaced with a budget of \$20,000. The budget includes \$1.62 million for the Ironwood blending well site purchase, with the well design, site improvement, and drilling the well. Land acquisition work for a blending well for Ina and CDO was budgeted at \$24,000. Design and construction costs associated with deepening the New Linda Vista well were budgeted with \$356,000 of planned work. Design work for galvanized pipe replacements was budgeted at \$75,000 and Infrastructure Rehabilitation Fees will be the funding source for this project. The Northwest Recharge, Recovery, and Delivery system projects are budgeted with \$66,291 and \$17,583 of partner reimbursements for a District budget of \$48,708 and a funding source of Water Utilization Fees.

Depreciation and amortization of assets were budgeted at \$3.94 million. These are non-cash budgeted expenses that will need to occur, requiring only budget authority. The contingency fund for emergencies has remained at \$500,000 as budgeted in prior fiscal years.

The requested operating budget includes \$23,436,531 of revenue, \$17,583 from CIP projects and a projected beginning fund balance of \$31,067,815. The total revenue and funds available are

**Metropolitan Domestic Water Improvement District  
Management's Discussion and Analysis  
June 30, 2022 and June 30, 2021**

\$54,521,929. The requested operating expenses budget is \$13,968,628 which is higher than the prior fiscal year by \$1,079,949 or 8.38%. The total requested budget is \$26,012,250 with the addition of investments to support the District, CIP, depreciation, and amortization.

**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*

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**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Net Position**  
**June 30, 2022 and 2021**

	2022	Restated 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 23,785,869	\$ 24,912,458
Investments	16,266,758	8,930,177
Accounts receivable, net of allowance	2,263,929	2,251,016
Unbilled water revenue	684,880	735,539
Other receivables	1,132,353	479,765
Notes receivable - current	26,970	25,963
Prepaid expenses and deposits	805,654	752,909
Inventory	682,893	442,270
Other current assets	28,675	31,741
Total current assets	<u>45,677,981</u>	<u>38,561,838</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,598,626	1,364,316
Notes receivable - noncurrent	439,904	466,873
Capital assets not being depreciated	6,840,245	7,407,764
Capital assets, net of accumulated depreciation/ amortization	81,870,352	83,393,062
Water recharge credits	12,548,823	11,285,194
Net OPEB asset	166,235	23,378
Total noncurrent assets	<u>103,464,185</u>	<u>103,940,587</u>
Total assets	<u>149,142,166</u>	<u>142,502,425</u>
<b>Deferred outflows of resources</b>		
Loss on refunding of debt	139,584	179,466
Deferred outflows related to pensions	1,229,341	1,039,100
Deferred outflows related to OPEB	29,117	65,943
Total deferred outflows	<u>1,398,042</u>	<u>1,284,509</u>
Total assets and deferred outflows	<u>\$ 150,540,208</u>	<u>\$ 143,786,934</u>

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

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Statement of Net Position, Continued**  
**June 30, 2022 and 2021**

	2022	Restated 2021
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 430,391	\$ 626,146
Accrued liabilities	1,070,693	1,144,683
Salaries and wages payable	96,257	72,683
Deposits payable	917,760	771,212
Other liabilities	974,254	896,230
Current portion of leases	253,069	242,901
Current portion of compensated absences	227,321	227,321
Current portion of notes payable	946,784	919,091
Payable from restricted assets:		
Accrued interest on long term debt	224,294	265,341
Current maturity of bonds payable	1,955,000	1,360,000
Total current liabilities	<u>7,095,823</u>	<u>6,525,608</u>
Noncurrent liabilities:		
Leases, less current portion	601,469	639,862
Compensated absences	260,498	241,480
Notes payable, less current portion	4,600,598	5,547,382
Bonds payable, less current maturities	5,889,105	8,018,136
Net pension liability	4,372,844	5,584,337
Net OPEB liability	6,961	24,784
Total noncurrent liabilities	<u>15,731,475</u>	<u>20,055,981</u>
Total liabilities	<u>22,827,298</u>	<u>26,581,589</u>
<b>Deferred inflows of resources</b>		
Deferred inflows related to pensions	1,385,471	56,371
Deferred inflows related to OPEB	140,856	47,029
Total deferred inflows	<u>1,526,327</u>	<u>103,400</u>
Total liabilities and deferred inflows	<u>24,353,625</u>	<u>26,684,989</u>
<b>Net Position</b>		
Net investment in capital assets	74,464,572	74,073,454
Restricted for:		
Debt Service	1,598,626	1,364,316
Unrestricted	50,123,385	41,664,175
Total net position	<u>126,186,583</u>	<u>117,101,945</u>
Total liabilities, deferred inflows, and net position	<u>\$ 150,540,208</u>	<u>\$ 143,786,934</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, 2022 and 2021**

	2022	Restated 2021
<b>Operating revenue</b>		
Metered water sales	\$ 19,465,939	\$ 19,942,674
Service charges and penalties	279,433	285,971
Development revenue	279,875	1,670,446
Other water revenue	3,998,375	3,781,039
Total operating revenue	<u>24,023,622</u>	<u>25,680,130</u>
<b>Operating expenses</b>		
Salaries and employee benefits	5,297,397	4,956,312
Materials and supplies	706,046	830,697
Purchased power	1,209,410	1,257,146
Purchased CAP water	2,413,618	2,300,191
Contract services	1,038,376	1,230,740
Insurance	146,894	147,069
Other operating expenses	995,702	1,018,898
Depreciation and amortization	3,776,181	3,747,301
Total operating expenses	<u>15,583,624</u>	<u>15,488,354</u>
Operating income / (loss)	<u>8,439,998</u>	<u>10,191,776</u>
<b>Non-operating income (expenses)</b>		
Investment income (loss)	(193,919)	260,868
Amortization of bond premiums and deferred charges	134,149	(195,912)
Gain on water recharge credits	1,263,630	518,069
Gain (loss) on disposal of assets	(195,092)	-
Interest expense	(523,703)	(594,330)
Total non-operating revenue (expenses)	<u>485,065</u>	<u>(11,305)</u>
Income before capital contributions	8,925,063	10,180,471
Capital Contributions	159,575	2,336,595
Increase in net position	<u>9,084,638</u>	<u>12,517,066</u>
Total net position - beginning of year, restated	<u>117,101,945</u>	<u>104,584,879</u>
Total net position - end of year	<u>\$ 126,186,583</u>	<u>\$ 117,101,945</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, 2022 and 2021**

	2022	Restated 2021
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 23,411,846	\$ 25,486,906
Cash paid to suppliers for goods and services	(6,848,587)	(6,631,546)
Cash paid to employees	(5,357,466)	(4,948,633)
	<u>11,205,793</u>	<u>13,906,727</u>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from notes receivable	25,962	24,994
Proceeds from long-term debt	-	10,169,304
Principal paid on long-term debt	(2,279,092)	(15,285,088)
Principal paid on leases	(191,976)	(195,542)
Interest paid	(564,750)	(522,502)
Purchase of capital assets	(1,588,120)	(3,576,626)
Proceeds from the sale of capital assets	29,676	-
	<u>(4,568,300)</u>	<u>(9,385,460)</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	179,414	296,290
Transfer to (from) cash from (to) investments	(7,709,186)	772,199
	<u>(7,529,772)</u>	<u>1,068,489</u>
Net change in cash and cash equivalents, including restricted cash	(892,279)	5,589,756
Cash and cash equivalents, beginning of year including restricted cash	<u>26,276,774</u>	<u>20,687,018</u>
<b>Cash and cash equivalents, end of year including restricted cash</b>	<u>\$ 25,384,495</u>	<u>\$ 26,276,774</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, 2022 and 2021**

	2022	Restated 2021
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>		
Operating income / (loss)	\$ 8,439,998	\$ 10,191,776
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:		
Depreciation and amortization	3,776,181	3,747,301
Pension/OPEB expense	(102,661)	51,383
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(665,501)	(153,094)
(Increase)/decrease in unbilled water revenue	50,659	(40,458)
(Increase)/decrease in inventories	(240,623)	(161,800)
(Increase)/decrease in prepaid expenses	(52,745)	189,033
(Increase)/decrease in other current assets	3,066	328
Increase/(decrease) in accounts payable	(195,755)	(310,542)
Increase/(decrease) in accrued liabilities	4,034	184,364
Increase/(decrease) in deposits payable	146,548	252,140
Increase/(decrease) in accrued compensation	42,592	(43,704)
Net cash flows from operating activities	\$ 11,205,793	\$ 13,906,727

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

Amortization of premiums	\$ 174,030	\$ 121,168
Amortization of losses on advance refunding	(39,882)	(317,080)
Acquisition of capital assets from capital contributions	159,575	2,336,595
Acquisition of right to use assets from leases	163,751	259,516
Value assigned to recharge credits	1,263,630	518,069

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

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

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

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**Nature of Organization**

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

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

**Reporting Entity**

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

**Basis of Presentation – Fund Financial Statements**

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

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

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

**Encumbrance Accounting**

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

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

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

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**Use of Estimates**

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

**Budget Policy and Procedures**

The District adopts an annual budget. The budget is prepared on the accrual basis of accounting. The District is not legally required to adopt or submit the budget to any state or other oversight agency before it has been adopted by the Board. The District posts the adopted budget to the District 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, 2022**

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

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**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**

Capital assets are tangible and intangible assets, which include property, plant, equipment, and infrastructure assets. Additions to capital assets are recorded at cost (except for intangible right-to-use lease assets, the measurement of which is discussed in leases note below) or, if contributed, at their acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to non-operating income.

**Depreciation/Amortization**

Depreciation/amortization has been calculated on each class of depreciable/amortizable 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
Right to use equipment	20 years
Right to use vehicles	5-6 years

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net 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 net 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 OPEB related items.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

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

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**Postemployment Benefits**

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

**Compensated Absences**

The District's personnel policy provides full-time employees with annual leave and 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 and non-current liability. At June 30, 2022, the liability total balance is \$487,819 and is included in accrued liabilities in the accompanying financial statements.

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

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

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

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

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

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

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**Unamortized Debt Discounts or Premiums**

Debt discounts or premiums are amortized using the 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 recognizes 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, depreciation on capital assets, and amortization of leased 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 48,468.59 acre feet of recharge credits with estimated values ranging from \$211.14 to \$262.39 per acre foot for a total of approximately \$12,548,823 and \$11,285,194 as of June 30, 2022 and 2021, 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, 2022**

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

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**Net Position**

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

**Net Position Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the 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.

**Leases**

The District is a lessee for noncancellable leases of equipment and vehicles. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements. The District will recognize any lease liability if it meets the requirements of a lease under GASB 87.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate at the lease commencement date as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.



**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

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

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The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with current and noncurrent debt on the statement of net position.

**New Pronouncement**

For the year ended June 30, 2022, the District implemented the provisions of GASB Statement No. 87, Leases. GASB Statement No. 87 improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Implementation of this new statement resulted in a restatement of beginning net position (see Note 14).

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**Note 2. Deposits and Investments**

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As of June 30, 2022 and 2021 the District's cash and investments consisted of the following:

	<u>2022</u>	<u>2021</u>
Total cash in bank	\$ 12,534,819	\$ 14,481,160
Total cash in State Treasurer Investment Pool	2,665,121	2,290,066
Total cash on deposit with the Pima County Treasurer	10,184,555	9,505,548
Total investments	16,266,758	8,930,177
	<u>\$ 41,651,253</u>	<u>\$ 35,206,951</u>

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

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

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

	2022	2021
Cash and cash equivalents	\$ 23,785,869	\$ 24,912,458
Investments	16,266,758	8,930,177
Restricted cash and cash equivalents	1,598,626	1,364,316
	\$ 41,651,253	\$ 35,206,951

**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, 2022, the District's bank balance was \$24,364,844 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized. At 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.

*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, 2022**

**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 and commercial paper are measured at amortized cost.

Other investments are valued using quoted prices in active markets (Level 1 inputs). However, if the investments in the commercial notes are held to maturity, the face value of the investment will be returned to the District. Furthermore, if the notes are called early the face value plus interest as of the call date will be paid.

As of June 30, 2022 and 2021 the District had the following investments:

June 30, 2022				
Investment Type	Credit Quality Rating	Maturity Date or Weighted Average Maturity	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAA	0.14 years	\$ 2,665,121	14%
Federal Agency				
FHLB	AAA/AA+	9/11/2026	75,958	0%
FHLB	AAA/AA+	3/14/2031	890,602	5%
FHLB	AAA/AA+	11/7/2031	279,006	1%
Discounted commercial paper	BBB+	0.32 years	3,500,000	18%
Certificates of deposit*	N/A	2.68 years	1,750,000	9%
Commercial notes**	A2/BBB+/A	1.83 years	9,771,191	52%
<b>Total</b>			<b>\$ 18,931,878</b>	<b>100%</b>

\* - FDIC insured

\*\* These are reported at fair market value, but if they are held to maturity, the District will receive the investment

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

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

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%
<b>Total</b>			<b>\$ 11,220,242</b>	<b>100%</b>

\* - 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, 2022**

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**Note 3. Restricted Assets**

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Restricted assets consist of the following at June 30, 2022 and 2021:

	<u>June 30, 2022</u>
	<u>Bond Funds</u>
Cash and cash equivalents	<u>\$ 1,598,626</u>
Total	<u><u>\$ 1,598,626</u></u>
	<u>June 30, 2021</u>
	<u>Bond Funds</u>
Cash and cash equivalents	<u>\$ 1,364,316</u>
Total	<u><u>\$ 1,364,316</u></u>

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**Note 4. Notes Receivable**

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The District has notes receivable balances at June 30, 2022, and June 30, 2021, of \$466,874 and \$492,836, 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, 2022**

**Note 5. Capital Assets**

Capital asset activity for the years ended June 30, 2022 and 2021, was as follows:

	June 30, 2021	Additions	Disposals	Adjustments	June 30, 2022
Capital assets not being depreciated:					
Land	\$ 1,446,699	\$ -	\$ -	\$ -	\$ 1,446,699
Construction in progress	5,961,065	1,313,994	(119,191)	(1,762,322)	5,393,546
Total capital assets not being depreciated	<u>7,407,764</u>	<u>1,313,994</u>	<u>(119,191)</u>	<u>(1,762,322)</u>	<u>6,840,245</u>
Capital assets being depreciated:					
Water systems	119,461,597	159,575	(36,897)	1,752,767	121,337,042
Buildings and improvements	5,028,750	204,273	(160,400)	-	5,072,623
Vehicles, machinery, and equipment	2,071,107	69,853	(16,074)	9,555	2,134,441
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	<u>137,814,112</u>	<u>433,701</u>	<u>(213,371)</u>	<u>1,762,322</u>	<u>139,796,764</u>
Less: accumulated depreciation for:					
Water systems	(42,008,786)	(2,745,936)	21,900	-	(44,732,822)
Buildings and improvements	(2,068,375)	(154,504)	62,556	-	(2,160,323)
Vehicles, machinery, and equipment	(1,621,683)	(98,374)	16,074	-	(1,703,983)
Regulatory assets	(9,480,203)	(543,103)	-	-	(10,023,306)
Total accumulated depreciation	<u>(55,179,047)</u>	<u>(3,541,917)</u>	<u>100,530</u>	<u>-</u>	<u>(58,620,434)</u>
Total capital assets being depreciated, net	<u>82,635,065</u>	<u>(3,108,216)</u>	<u>(112,841)</u>	<u>1,762,322</u>	<u>81,176,330</u>
Lease assets **					
Right to use equipment	490,816	-	(23,335)	-	467,481
Right to use vehicles	1,042,106	170,289	-	-	1,212,395
Total lease assets being amortized	<u>1,532,922</u>	<u>170,289</u>	<u>(23,335)</u>	<u>-</u>	<u>1,679,876</u>
Less: accumulated amortization for:					
Right to use equipment	(254,742)	(25,708)	23,335	-	(257,115)
Right to use vehicles	(520,183)	(208,556)	-	-	(728,739)
Total lease assets being amortized	<u>(774,925)</u>	<u>(234,264)</u>	<u>23,335</u>	<u>-</u>	<u>(985,854)</u>
Total lease assets being amortized, net	<u>757,997</u>	<u>(63,975)</u>	<u>-</u>	<u>-</u>	<u>694,022</u>
Total capital assets, net	<u>\$ 90,800,826</u>	<u>\$ (1,858,197)</u>	<u>\$ (232,032)</u>	<u>\$ -</u>	<u>\$ 88,710,597</u>

Depreciation/amortization expense for the year ended June 30, 2022, was \$3,776,181.

\*\*June 30, 2021, balances have been restated for the District's leased assets and related amortization that have been added with the implementation of GASB Statement No. 87, Leases. See Note 14 for more detail.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 5. Capital Assets**

	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>
Lease assets **					
Right to use equipment	-	-	-	490,816	490,816
Right to use vehicles	-	-	-	1,042,106	1,042,106
Total lease assets being amortized	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,532,922</u>	<u>1,532,922</u>
Less: accumulated amortization for:					
Right to use equipment	-	-	-	(254,742)	(254,742)
Right to use vehicles	-	-	-	(520,183)	(520,183)
Total lease assets being amortized	<u>-</u>	<u>-</u>	<u>-</u>	<u>(774,925)</u>	<u>(774,925)</u>
Total lease assets being amortized, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>757,997</u>	<u>757,997</u>
Total capital assets, net	<u>\$ 87,669,505</u>	<u>\$ 2,373,324</u>	<u>\$ -</u>	<u>\$ 757,997</u>	<u>\$ 90,800,826</u>

Depreciation/amortization expense for the year ended June 30, 2021, was \$3,539,987.

\*\*June 30, 2021, balances have been restated for the District's leased assets and related amortization that have been added with the implementation of GASB Statement No. 87, Leases. See Note 14 for more detail.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 6. Long-Term Debt**

The following is a summary of changes in long-term debt for the years ended June 30, 2022 and 2021:

	<b>Balance 6/30/2021</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2022</b>	<b>Current Portion</b>
Bonds from Direct Placements	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Bonds	8,595,000	-	(1,360,000)	7,235,000	1,955,000
Unamortized Premiums	783,136	-	(174,031)	609,105	-
Notes Payable from					
Direct Borrowings	6,466,473	-	(919,091)	5,547,382	946,784
Leases**	882,763	163,751	(191,976)	854,538	253,069
Compensated Absences	468,801	328,161	(309,143)	487,819	227,321
Net Pension Liability	5,584,337	1,497,991	(2,709,484)	4,372,844	-
	<u>\$ 22,780,510</u>	<u>\$ 1,989,903</u>	<u>\$ (5,663,725)</u>	<u>\$ 19,106,688</u>	<u>\$ 3,382,174</u>

	<b>Balance 6/30/2020</b>	<b>Additions</b>	<b>Retirements</b>	<b>Restatement</b>	<b>Balance 6/30/2021</b>	<b>Current Portion</b>
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						
Direct Borrowings	13,144,561	-	(6,678,088)	-	6,466,473	919,091
Leases**	-	-	-	882,763	882,763	242,901
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>\$ 882,763</u>	<u>\$ 22,780,510</u>	<u>\$ 2,749,313</u>

\*\*June 30, 2021, balances have been restated for the District's leased assets and related amortization that have been added with the implementation of GASB Statement No. 87, Leases. See Note 14 for more detail.



**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 6. Long-Term Debt, Continued**

**Bonds Payable**

The annual requirements to amortize bonds outstanding at June 30, 2022, are as follows:

Bonds Payable			
Year Ended June 30,	Principal	Interest	Total
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
2027	-	-	-
Total	\$ 7,235,000	\$ 470,300	\$ 7,705,300

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

	2022	2021
\$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.	\$ 7,235,000	\$ 8,595,000
Unamortized bond premiums	609,105	783,136
Total bonds payable	\$ 7,844,105	\$ 9,378,136

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, 2022**

**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, 2022, are as follows:

Notes Payable from Direct Borrowings			
Year Ended June 30,	Principal	Interest	Total
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	208,339	43,680	252,019
2028-2032	1,137,258	121,434	1,258,692
2033	244,279	3,591	247,870
Total	\$ 5,547,382	\$ 598,403	\$ 6,145,785

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

	2022	2021
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.	\$ 3,181,976	\$ 3,920,827
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.	2,365,406	2,545,646
Total notes payable	\$ 5,547,382	\$ 6,466,473

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, 2022**

**Note 7. Leases**

**Leases Payable**

The District has entered into multiple lease agreements as lessee for the acquisition and use of District equipment and vehicles. As of June 30, 2022, the value of the lease liability was \$854,538. The District is required to make monthly principal and interest payments ranging from \$133 to \$2,194. The lease interest rates vary from 1.21% to 6.38%. Some of the vehicle leases have commitments or initial charges before the lease may commence. Right to use asset lives depend on the lease agreements ranging from 5 to 6 years for vehicles and 20 years for solar panels. In addition, the District does have a purchase option at the end of the lease for the solar panels. The purchase price would be based on an appraisal value of an appraiser chosen by the Lessor. The value of the right-to-use asset as of the end of the current fiscal year was \$1,679,876 and had accumulated amortization of \$985,854.

The future principal and interest lease payments as of June 30, 2022, were as follows:

Leases			
Year Ended June 30,	Principal	Interest	Total
2023	\$ 253,069	\$ 26,549	\$ 279,618
2024	152,102	16,571	168,673
2025	142,013	10,498	152,511
2026	134,124	5,540	139,664
2027	70,477	1,829	72,306
2028-2032	102,754	2,558	105,312
Total	\$ 854,539	\$ 63,545	\$ 918,084

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 8. Retirement and Pension Plans**

**Arizona State Retirement System (ASRS)**

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

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

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

\* With actuarially reduced benefits.

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$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, 2022**

**Note 8. 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, 2022, statute required active ASRS members to contribute at the actuarially determined rate of 12.41 percent (12.22 percent for retirement and 0.19 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 12.41 percent (12.01 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.19 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, 2022 were:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2022	\$ 480,503	\$ 8,402	\$ 7,602

**Liability** – At June 30, 2022, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	Net pension/OPEB (asset) liability
Pension	\$ 4,372,844
Health insurance premium benefit	(166,235)
Long-term disability	6,961

The net asset and net liabilities were measured as of June 30, 2021. 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, 2020, to the measurement date of June 30, 2021. The total liabilities as of June 30, 2021, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2020, including decreasing the discount rate from 7.5 percent to 7.0 percent and changing the projected salary increases from 2.7–7.2 percent to 2.9–8.4 percent.

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, 2021. The District's proportion measured as of June 30, 2021, and the change from its proportions measured as of June 30, 2020, were:

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 8. Retirement and Pension Plans, Continued**

	Proportion June 30, 2020	Proportion June 30, 2021	Increase (decrease) from June 30, 2020
Pension	0.03223%	0.03328%	0.00105%
Health insurance premium benefit	0.03302%	0.03412%	0.00110%
Long-term disability	0.03267%	0.03372%	0.00105%

**Expense** – For the year ended June 30, 2022, the District recognized the following pension and OPEB expense.

<u>Pension/OPEB Expense</u>	
Pension	\$ 408,039
Health insurance premium benefit	(19,266)
Long-term disability	5,241

**Deferred outflows/inflows of resources** – At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-term disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 66,660	\$ -	\$ -	\$ 57,651	\$ 2,011	\$ 567
Changes of assumptions or other inputs	569,161	-	8,241	6,721	2,226	8,771
Net difference between projected and actual earnings on pension plan investments	-	1,385,471	-	61,665	-	4,821
Changes in proportion and differences between contributions and proportionate share of contributions	113,017	-	8	433	638	227
Contributions subsequent to the measurement date	480,503	-	8,402	-	7,602	-
<b>Total</b>	<b>\$ 1,229,341</b>	<b>\$ 1,385,471</b>	<b>\$ 16,651</b>	<b>\$ 126,470</b>	<b>\$ 12,477</b>	<b>\$ 14,386</b>

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 8. 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, 2023. 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
2023	\$ 80,190	\$ (27,715)	\$ (1,285)
2024	66,046	(26,576)	(1,201)
2025	(305,425)	(29,131)	(1,375)
2026	(477,444)	(32,175)	(2,105)
2027	-	(2,624)	(788)
Thereafter	-	-	(2,757)

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

Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9-8.4% 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, 2020, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 8. Retirement and Pension Plans, Continued**

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 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:

<b>Asset Class</b>	<b>Target asset allocation</b>	<b>Long-term expected geometric real rate of return</b>
Equity	50%	4.90%
Fixed Income - Credit	20%	5.20%
Fixed Income - Interest Rate Sensitive Bonds	10%	0.72%
Real Estate	20%	5.70%
<b>Totals</b>	<b>100%</b>	

**Discount Rate** – At June 30, 2021, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2020. 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 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:



**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 8. Retirement and Pension Plans, Continued**

	1% Decrease 6.0%	Discount Rate 7.0%	1% Increase 8.0%
Proportionate share of the			
Net pension liability	\$ 6,878,118	\$ 4,372,844	\$ 2,284,139
Net insurance premium benefit liability (asset)	(110,065)	(166,235)	(213,999)
Net long-term disability liability	9,064	6,961	4,926

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

**Note 9. Contributed Capital**

Capital assets contributed by land developers and others, consisting of construction of certain portions of the distribution systems and other assets, totaled \$159,575 and \$2,336,595 during the years ended June 30, 2022 and 2021, respectively, and are included in contributed capital on the statements of revenues, expenses, and changes in net position.

**Note 10. 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, 2022**

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**Note 11. Assignment of Right of Way**

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

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**Note 12. Risk Management**

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

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**Note 13. Contingencies**

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

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**Note 14. Restatement Adjustment**

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For the year ended June 30, 2022, the District implemented the provisions of GASB Statement No. 87, Leases. GASB Statement No. 87 improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Implementation of this new statement resulted in a restatement of beginning net position and various other 2021 balances. The 2021 items that have been restated are detailed below:

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2022**

**Note 14. Restatement Adjustment, Continued**

	Previously Stated Amount	Adjustment	Restated Amount
<b>Statement of Net Position</b>			
Assets			
Capital assets, net of accumulated depreciation/amortization	\$ 82,635,065	\$ 757,997	\$ 83,393,062
Liabilities			
Current portion of leases	-	242,901	242,901
Leases, less current portion	-	639,862	639,862
Net Position			
Net investment in capital assets	74,198,220	(124,766)	74,073,454
Total net position	117,226,711	(124,766)	117,101,945
<b>Statement of revenues, expenses, and changes in net position</b>			
Operating expenses			
Other operating expenses	1,248,635	(229,737)	1,018,898
Depreciation and amortization	3,539,897	207,404	3,747,301
Operating income	10,169,443	22,333	10,191,776
Non-operating income (expenses)			
Interest expense	(560,135)	(34,195)	(594,330)
Increase in net position	12,528,928	(11,862)	12,517,066
Total net position - beginning of year	104,697,783	(112,904)	104,584,879
Total net position - end of year	117,226,711	(124,766)	117,101,945
<b>Statement of Cash Flows</b>			
Cash flows from operating activities:			
Cash paid to suppliers for goods and services	(6,861,283)	229,737	(6,631,546)
Cash flows from capital and related financing activities:			
Principal paid on leases	-	(195,542)	(195,542)
Interest paid	(488,307)	(34,195)	(522,502)
Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income / (loss)	10,169,443	22,333	10,191,776
Depreciation and amortization	3,539,897	207,404	3,747,301

**REQUIRED SUPPLEMENTARY INFORMATION**

**METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**June 30, 2022**

ASRS - Pension	Reporting Fiscal Year (Measurement Date)							
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.03328%	0.03223%	0.03280%	0.03330%	0.03264%	0.03337%	0.03195%	0.03411%
Proportionate share of the net pension liability (asset)	\$ 4,372,844	\$ 5,584,337	\$ 4,668,013	\$ 4,664,178	\$ 5,084,676	\$ 5,386,253	\$ 4,977,319	\$ 4,884,827
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
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	112.83%	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	78.58%	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, 2022**

ASRS - Pension	Reporting Fiscal Year								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 480,503	\$ 435,741	\$ 403,552	\$ 373,158	\$ 360,760	\$ 343,199	\$ 326,808	\$ 251,641	\$ 318,422
Contributions in relation to the contractually required contribution	(480,503)	(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>	<u>\$ -</u>
Covered payroll	\$ 4,020,469	\$ 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	11.95%	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, 2022**

ASRS - Health insurance premium benefit	Reporting Fiscal Year (Measurement Date)					
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.03412%	0.03302%	0.03288%	0.03394%	0.03312%	0.03312%
Proportionate share of the net OPEB (asset)	\$ (166,235)	\$ (23,378)	\$ (9,087)	\$ (12,221)	\$ (18,031)	\$ 9,577
Covered payroll	\$ 3,875,435	\$ 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	-4.29%	-0.66%	-0.27%	-0.37%	-0.56%	0.32%
Plan fiduciary net position as a percentage of the total OPEB liability	130.24%	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, 2022**

ASRS - Health insurance premium benefit	Reporting Fiscal Year					
	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 8,402	\$ 14,587	\$ 17,270	\$ 15,354	\$ 14,563	\$ 17,829
Contributions in relation to the contractually required contribution	(8,402)	(14,587)	(17,270)	(15,354)	(14,563)	(17,829)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,020,469	\$ 3,875,435	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509
Contributions as a percentage of covered payroll	0.21%	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, 2022**

ASRS - Long-term disability	Reporting Fiscal Year (Measurement Date)					
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.03372%	0.03267%	0.03258%	0.03338%	0.03277%	0.032769%
Proportionate share of the net OPEB (asset)	\$ 6,961	\$ 24,784	\$ 21,224	\$ 17,441	\$ 11,878	\$ 11,776
Covered payroll	\$ 3,875,435	\$ 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	0.18%	0.70%	0.64%	0.53%	0.37%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	90.38%	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, 2022**

ASRS - Long-term disability	Reporting Fiscal Year					
	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 7,602	\$ 6,732	\$ 5,992	\$ 5,340	\$ 5,296	\$ 4,457
Contributions in relation to the contractually required contribution	(7,602)	(6,732)	(5,992)	(5,340)	(5,296)	(4,457)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 4,020,469	\$ 3,875,435	\$ 3,545,182	\$ 3,338,097	\$ 3,299,293	\$ 3,191,509
Contributions as a percentage of covered payroll	0.19%	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**



**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 (District) as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 23, 2022.

**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 Standards*.

## 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  
September 23, 2022