METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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HINTON BURDICK
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Metropolitan Domestic Water Improvement District
Tucson, Arizona

Report on the 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, 2023 and 2022, 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, 2023 and 2022, 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 controls 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2023, 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 18, 2023

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Board of Directors

Lee Jacobs, Chair, Scott Schladweiler, Vice Chair, James O. Doyle, Bryan Foulk, Richard A. Sarti

General Manager – Joseph Olsen, P.E.

Financial Management Team - Fiscal Year 2023

Chief Financial Officer – Diane Bracken, M.Adm.

Finance Manager - Shane Oman, M.B.A

Senior Accountant - Nancy Walton

Accounting Specialist – Sofia Padilla

The financial 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, 2023, and June 30, 2022. 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 Summary

The District was formed in 1992 with a five-member elected Board of Directors, from within the District boundaries. The District has over 22,100 active accounts with six service areas. In addition to the Metro Main Service area, in 1999, the District acquired the Metro Hub Service, and in December 2009, the District acquired Metro Southwest service areas including Diablo Village, E&T, and Lazy B. The District includes Arboles Viejos known as Metro West which was annexed into the District in 2005. This is a 619-acre planned development area that has no current services. The Metro Main service area covers approximately 26 square miles in the northwest metropolitan Tucson area with a water storage capacity of 13.6 million gallons. Metro Hub has storage capacity of 1.05 million gallons and Metro Southwest storage capacity is 747,000 gallons.

The District's water systems include approximately 400 miles of water mains, varying in size from 1.5-inch to 30-inch diameter. The District obtains all of its water from wells with 24 wells in Metro Main, 5 in Metro Hub, and 5 in Metro Southwest. The District wells range in depth from 70 feet to 650 feet. The District's water system includes 72 booster pumps, 11 steel above-ground storage tanks in the Metro Main service area varying in capacity from 8,000 gallons to 1,000,000 gallons. There are two storage tanks in the Hub service area with a capacity of 1,050,000 gallons and nine storage tanks in the Metro Southwest service area. The District operates 37 hydro pneumatic pressure tanks, most of which have a 5,000 gallon capacity, and two 5,000,000 gallon concrete reservoirs. The total District storage capacity is approximately 15,400,000 gallons.

The District operates under the mission "To deliver safe, reliable water to our customers"

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MDWID's basic financial statements, comprised of four 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 additional 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** present 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.

Summary of Net Position

	June 30, 2023	June 30, 2022
Current assets	$ 53,664,441	$ 45,677,981
Restricted cash and investments	2,109,867	1,598,626
Notes receivable – noncurrent	411,888	439,904
Capital assets, net of accumulated depreciation	81,048,774	81,870,352
Capital assets not being depreciated	7,995,484	6,840,245
Water recharge credits	14,024,162	12,548,823
Net OPEB assets	192,209	166,235
Total assets	$ 159,446,825	$ 149,142,166
Deferred outflows related to pensions	$ 907,229	$ 1,229,341
Deferred outflows loss on refund of debt	99,703	139,584
Deferred outflows related to OPEB	17,672	29,117
Total deferred outflows	1,024,604	1,398,042
Total assets and deferred outflows	$ 160,471,429	$ 150,540,208
Current liabilities	$ 7,814,564	$ 7,095,823
Non-Current liabilities	13,219,815	15,731,475
Total liabilities	$ 21,034,379	$ 22,827,298
Deferred inflows related to pensions	$ 144,504	$ 1,385,471
Deferred Inflow of OPEB	121,362	140,856
Total deferred inflows	$ 265,866	$ 1,526,327
Total liabilities and deferred inflows	$ 21,300,245	$ 24,353,625
Invested in capital assets	$ 77,955,534	$ 74,464,572
Restricted for:		
Debt service	$ 2,109,867	$ 1,598,626
Unrestricted	59,105,783	50,123,385
Total net position	**$139,171,184**	**$126,186,583**
Total liabilities, deferred inflows, and net position	**$160,471,429**	**$150,540,208**

MDWID's total net position shows an increase of $12.98 million over Fiscal Year 2022. Current assets increased $7.99 million over the previous year. Non-current assets increased by $2.32 million when compared to the prior fiscal year. The Deferred Outflows related to Pensions and Other Paid Employee Benefits (OPEB) as part of the GASB 68 and GASB 75 reporting requirements have decreased by $333,557 in Fiscal Year 2023. This consists of the Arizona State Retirement System (ASRS), ASRS Long-term Disability (LTD), and Health Benefits Supplement (HBS) withheld in Fiscal Year 2023 that will be reported as expenses in Fiscal Year 2024 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.

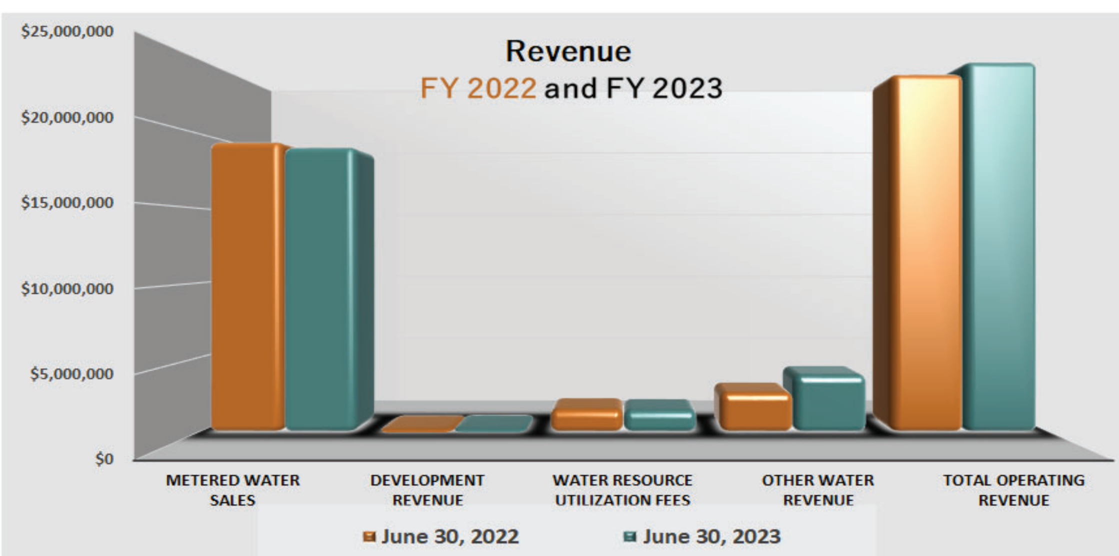
Water recharge credits continue to increase in value from increased storage quantity and valuation increases for a total gain in value of $1.48 million. Water recharge credits are based on the fair market value and the number of acre feet resulting in a book value of $14.02 million in Fiscal Year 2023, compared to $12.55 million in the prior fiscal year.

In Fiscal Year 2023, current liabilities increased by $718,741 when compared to Fiscal Year 2022. Noncurrent liabilities decreased by $2.51 million with long term-debt decreasing by $2.90 million with payments made in Fiscal Year 2023. The net pension liability in accordance with GASB 68 increased by $1.11 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 Benefit Supplemental decreased by $3,827.

Summary of Revenue, Expenses and Changes in Net Position

Revenue

When comparing the operating revenue for Fiscal Year 2022 to Fiscal Year 2023, there was a revenue increase of $815,241.

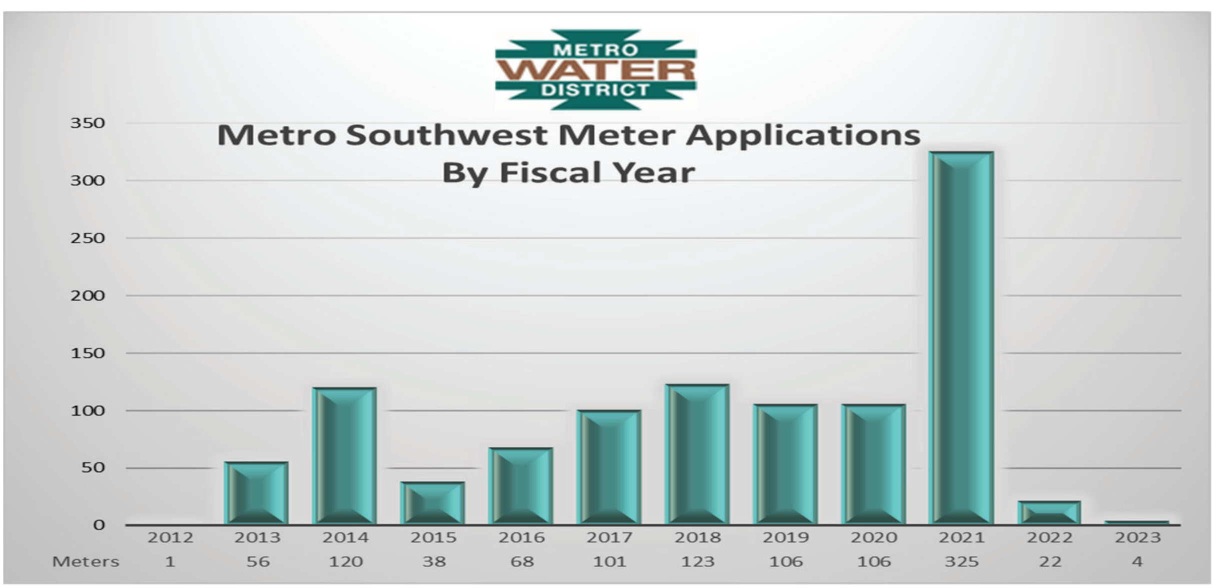


The Water Resource Utilization Fee was set at sixty cents per thousand gallons of water effective July 1, 2018. The District adjusted the Infrastructure Rehabilitation Fee in Fiscal Year 2023, to seventy-five cents per thousand gallons. By utilizing a break-even coverage analysis to maintain a 90% coverage of the fixed costs covered by the fixed revenue, the District is able to mitigate fluctuations in water consumption which impacts consumption-based revenue. This process was implementation in 2015 and fully executed in 2017 and has proven to be a successful practice at the District. The District and the District customers have more revenue stability and less volatility in rate and fee adjustments related to variations in water consumption.

Other water revenue sources include private fire risers, infrastructure rehabilitation fees, inspection fees, engineering plan review fees, sale of Central Arizona Project (CAP) water credits from Metro Main to Metro Southwest, accrued interest income, CAP conservation reimbursements (500 Plus Plan), and collection of bad debt. Rates for other services are reviewed and updated as needed to cover the cost of providing each service.

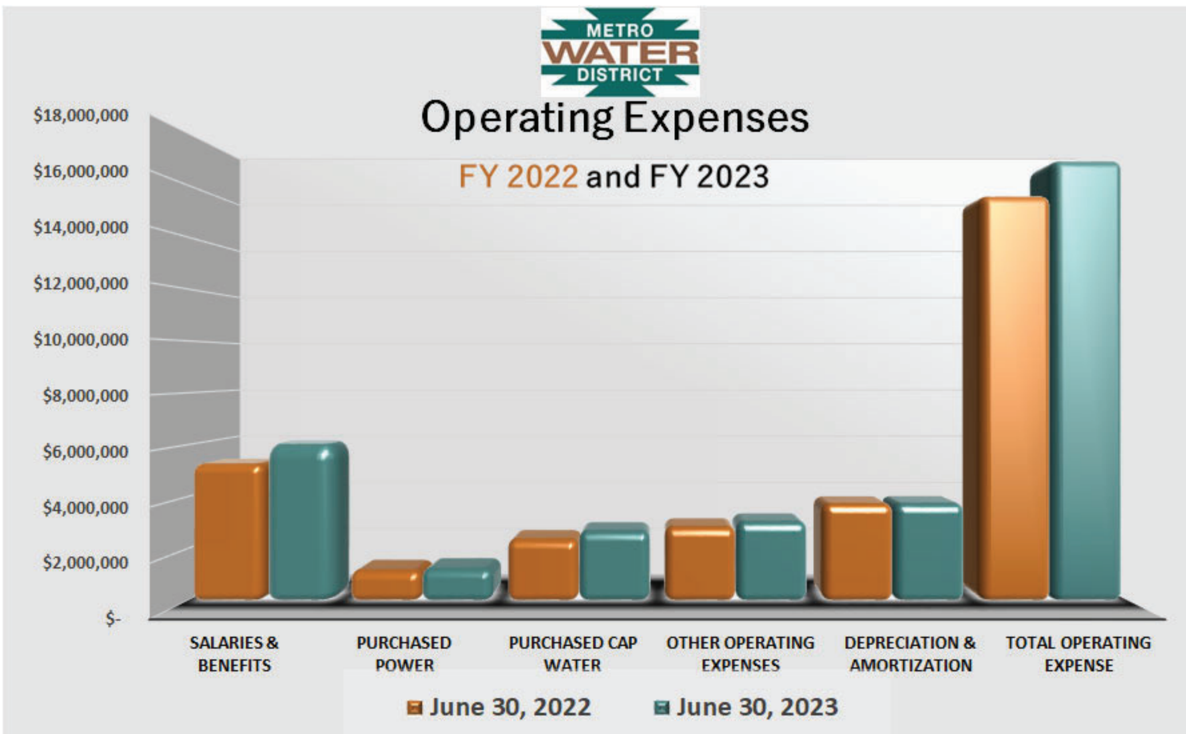
Requests for new meter installations within the District decreased with a total of 91-meter applications received in Fiscal Year 2023, compared to 92-meter applications in the prior fiscal year. Four new meter applications were for the Metro Southwest service areas with 87 new meter application for the Metro Main and Hub service areas.

The three 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.



Operating Expenses

Operating expenses totaled $16.93 million in Fiscal Year 2023 compared to $15.58 million in Fiscal Year 2022 for an increase $1.35 million or 8.7%. 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 $754,635 or 14.3% with a 4% cost of living increase. Salaries and employee benefits continue to be the District's largest expenses, making up 35.7% of the total operating expenses in Fiscal Year 2023 compared to 34.0% in Fiscal Year 2022. The cost to purchase CAP water increased by 13.1% and this accounts for 16.1% of the total operating expenditures.

Depreciation and amortization expenses totaled $3.79 million in Fiscal Year 2023 compared to $3.78 million for Fiscal Year 2022. Purchased power costs were higher in Fiscal Year 2023 by 5.6% when compared to Fiscal Year 2022. The District continues to take advantage of interruptible rate options and solar is providing nearly all of the electricity used at the administrative buildings. All other operating expenses increased by $199,062 or 6.9% and make up 18.2% of the total operating expenses.

Non-Operating Revenue/Expenses

Non-operating revenue exceeded non-operating expenses by $2,463,063 in Fiscal Year 2023. The income before capital contributions for Fiscal Year 2023 is $10.37 million, compared to $8.93 million in the Fiscal Year 2022 financial statements. Capital assets contributed to the District by developers totaled $2,62 million in Fiscal Year 2023 compared to $159,575 in Fiscal Year 2022.

The following table shows a comparison of the revenue and expenses and change in net position for Fiscal Years ended June 30, 2023, and June 30, 2022:

	June 30, 2023	June 30, 2022
Metered water sales	$ 19,116,506	$ 19,465,939
Service charges and penalties	249,285	279,433
Development revenue	316,577	279,875
Other water revenue	5,156,495	4,277,808
Total operating revenue	$ 24,838,862	$ 24,023,622
Salaries and employee benefits	$ 6,052,032	$ 5,297,397
Purchased power	1,277,026	1,209,410
Purchased CAP water	2,729,405	2,413,618
Other operating expenses	3,086,079	2,887,018
Depreciation and amortization	3,788,351	3,776,181
Total operating expenses	$ 16,932,893	$ 15,583,624
Operating income (loss)	$ 7,905,970	$ 8,439,998
Investment income (loss) (net of market value adjustment)	$ 595,573	$ (193,919)
Grant revenue	654,977	-
Gain (loss) on disposal of assets	31,310	(195,092)
Amortization of bond premiums	134,149	134,149
Gain related to water recharge activity	1,475,339	1,263,630
Interest expense	(428,085)	(523,703)
Total non-operating revenue (expenses)	$ 2, 463,063	$ 485,065
Income before capital contributions	$ 10,369,033	$ 8,925,063
Capital contributions	2,615,568	159,575
Increase in net position	$ 12,984,601	$ 9,084,638
Total net position, beginning of year	126,186,583	117,101,945
Net position, end of year	$ 139,171,184	$ 126,186,583

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 an outstanding principal balance of $2,420,730.86 as of June 30, 2023.

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 an outstanding principal balance of $2,179,867.08 as of June 30, 2023.

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, 2023 was $5,280,000.

Bipartisan Infrastructure Law Funding

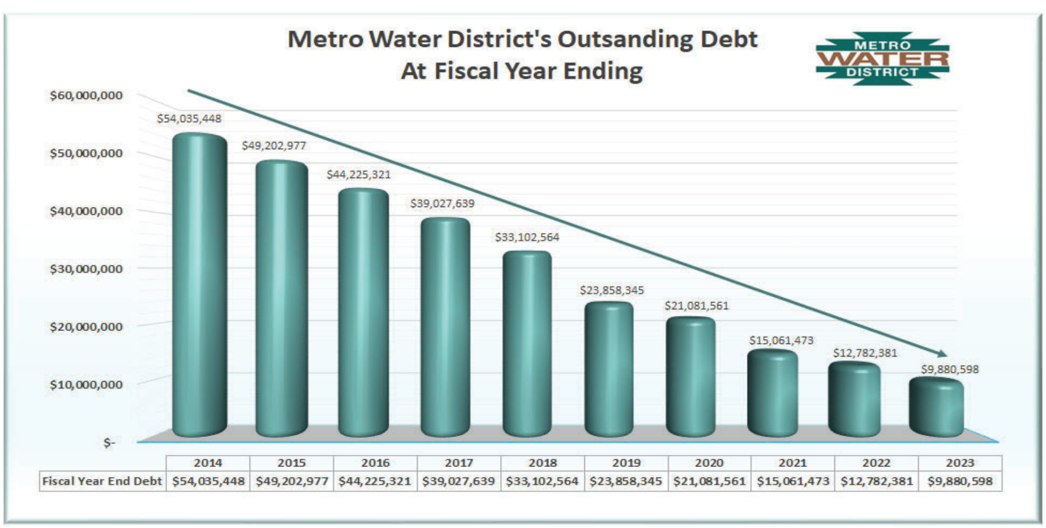
The Bipartisan Infrastructure Law made funding available through the Arizona State Revolving fund which is managed by Water Infrastructure Finance Authority of Arizona (WIFA). In Fiscal Year 2023 three new WIFA loans were obtained and they will provide the District with $3,043,520 of federal funding in the form of principal forgiveness for capital project as discussed below:

The E&T Well replacement was planned within the District Capital Improvement program to be cash funded, however, federal funding through WIFA was obtained. The loan request amount was $1,755,975.00 and the District received $610,777.00 of federally funded forgivable principal leaving an anticipated repayment amount of $1,145,198. This location is in a colonial so the interest rate was subsidized by 20% for a 2.04% interest rate. This is a 10-year loan term payable in full after the last draw with a 60-day notification. As of June 30, 2023, the District has not made any principal or interest payments with the first principal only payment of $104,395.84 due on July 1, 2023.

In order to obtain federal funding for the Ironwood Blend Well a $3,998,023.00 loan was obtained with a 20% subsidized interest rate of 2.04%. The District received $902,243.00 of federally funded forgivable principal on this project leaving an anticipated repayment amount of $3,095,780.00. This is a 10-year loan term payable in full after five years. As of June 30, 2023, the District has not made any principal or interest payments with the first principal only payment of $282,210.20 due on July 1, 2023.

The District has obtained a third WIFA loan for the Metro Northwest Recharge, Recovery and Delivery System booster station and pipeline project. The loan amount obtained was $14,198,283.00 with $1,532,500.00 of federally funded forgivable principal leaving an anticipated repayment amount of $12,665,783.00. This loan qualified for a Disadvantaged community and the interest rate was subsidized by 20% for a 1.944% interest rate on this 10-year loan that is payable in full after 5-years. The District will start spending this principal forgiveness in Fiscal Year 2024. As of June 30, 2023, the District has not made any principal or interest payments with the first principal only payment due on July 1, 2023.

As of June 30, 2023, the Districts' outstanding debt was $9.88 million with one long-term bond and two WIFA loans decreasing $2.90 million in Fiscal Year 2023. In Fiscal Year 2023 there were no principal funding draws requested on the three new Federally funded WIFA loans. The District has cash funded all capital infrastructure projects without incurring any new debt since Fiscal Year 2013. The chart below shows the outstanding debt balance at the end of each of the last 10 fiscal years.



Fiscal Year 2024 Budget

The Fiscal Year 2024 Budget was prepared by utilizing a priority driven budget process for the tenth 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 efficiently along with identifying new revenue and funding sources.

On March 13, 2023, the requested budget was reviewed and discussed with the Board of Directors. The Board of Directors reviewed and discussed the planned revenue and rates, expenses, capital equipment purchases, and the capital improvement program. No recommended changes were suggested and staff were instructed to proceed with scheduling the Public Information meeting on May 2, 2023, and the Rate Hearing on May 15, 2023.

The District has maintained a strong revenue stability since Fiscal Year 2017 with fixed revenue covering 90% of the fixed cost. This level of stability continues with the Fiscal Year 2024 adopted budget as part of the financial planning and rate setting processes. Metered water revenue was budgeted at $20.15 million.

On July 1, 2016, the Water Resource Utilization Fee was set at $0.50 per 1,000 gallons. In Fiscal Year 2019 this fee increased from $0.50 per 1,000 gallons to $0.60 per 1,000 gallons and has remained unchanged until Fiscal Year 2024 when it will be $0.75 per 1,000 gallons.

The Infrastructure Rehabilitation Fee of $0.95 for a 5/8-inch meter was established on January 1, 2021, and increased to $1.50 for a 5/8-inch meter in all service areas on July 1, 2022.

This budget is based upon the projected revenue sources with applied rate and fee changes and the projected available fund balance. The projected beginning operating fund balance for Fiscal Year 2024 was budgeted at $33.34 million. The fund balance includes a projected Water Resource Utilization Fee balance of $16.49 million planned to cash fund the land, design, and construction costs associated with the Northwest Recharge Recovery and Delivery System (NWRRDS) capital projects and other water resource initiatives. The NWRRDS projects will also utilize WIFA funding as previously stated in the Bipartisan Infrastructure Law Funding section and other grant funding opportunities are being explored.

The operating revenue for Fiscal Year 2024 is projected to be $26.14 million, up 11.55% or $2.71 million from the Fiscal Year 2023 adopted budget. This includes a $734,400 increase in the water conservation revenue with 5,000-acre feet of District CAP water remaining in Lake Mead accounting for 3.13% of the overall increase in operating revenue from other sources. Water Resource Utilization Fees account for 1.78% of the operating revenue increase with the majority of the remaining 8.42% increase planned from metered water sales.

The base budget Salaries and Benefits make up 32.64% of the District's operating budgeted expenses and have increased $157,858 when compared to the prior fiscal year base budget. The Adopted budget includes a 5.5% cost of living increase effective the first pay period in July 2023. In addition, the budget includes a potential 12% increase in the cost of health insurance and a 5% increase in the cost of dental insurance along with a 10% increase in Workers Compensation for three months, and Arizona State Retirement pension and associated long-term disability increased by 0.12%.

Consultants and Contracted services decreased $45,310 when compared to the prior fiscal year adopted budget. General Operating expenses are planned to be 3.81% higher than they were in Fiscal Year 2023.

The planned supply costs are expected to increase by $102,705. With increased costs for motors and pumps and computer equipment, software, and maintenance agreements.

The cost of CAP Water and regulatory fees have increased by $162,371 when compared to the prior fiscal year. By leaving 5,000-acre feet of CAP Water in Lake Mead for conservation, costs were mitigated and water was conserved.

Debt service payments are budgeted at $1,144,911, higher than they were in Fiscal Year 2023 with principal payments on the three WIFA loans due in Fiscal Year 2024. The table below shows a comparison of the Adopted Operating Budget for Fiscal Year 2022, Fiscal Year 2023 and Fiscal Year 2024.

Three-year Operating Budget Comparison	***2022 Adopted Budget***	***2023 Adopted Budget***	***2024 Adopted Budget***	***% of Change 2023 to 2024***
Revenue from Operations	*$23,097,622*	*$23,436,531*	*$26,143,217*	*11.55%*
Operating Expenditures				
Salaries & Benefits	*$5,335,144*	*$6,204,896*	*$6,362,754*	*2.54%*
Consultant/Contract Services	*$1,400,685*	*$1,456,936*	*$1,411,626*	*-3.11%*
General Operating Expenses	*$1,369,704*	*$1,314,655*	*$1,364,705*	*3.81%*
Purchased Power	*$1,181,786*	*$1,209,000*	*$1,297,100*	*7.29%*
Supplies	*$828,469*	*$968,116*	*$1,070,821*	*10.61%*
CAP Water Purchase/AVRP O & M	*$2,772,891*	*$2,815,025*	*$2,977,396*	*5.77%*
Operating Expenditures	*$12,888,679*	*$13,968,628*	*$14,484,402*	*3.69%*
Debt Service - Principal/Interest	*$3,350,373*	*$3,862,054*	*$5,006,965*	*29.65%*
Contingency Fund for Emergencies	*$500,000*	*$500,000*	*$0*	*-100.00%*
Funding Compensated Absences	*$110,380*	*$0*	*$0*	*0.00%*
TOTAL OPERATING BUDGET	*$16,849,432*	*$18,330,682*	*$19,491,367*	*6.33%*

The investments to support the District's mission not included in the operating budget, includes two controllers for backup generation, adding a dock pit leveler to the warehouse for safety, two inventory management handheld mobile computers, and a mobile meter read collection system. Field staff requested a gas air compressor, a dirt and asphalt compactor, and a movable pressure recorder for checking the distribution system and well sites. A vacuum for operational potholing will also be used for potholing service line replacements and investigating galvanized and lead pipes. Adding a variable frequency drive to a booster station to replace a cycle stop valve used to modulate pressure. Additional shoring boxes were included to accommodate deeper trenches.

The District's portion of the budgeted Capital Improvement Program totals $19,619,215 and includes the Northwest Recharge Recovery and Delivery System (NWRRDS) projects that will start construction. The E&T well that was drilled in Fiscal Year 2023 will be equipped, site improvements, and final design completed. The Ironwood Blend Well was budgeted for design, well equipping, and construction. Funding to acquire land for well replacements was included in the CIP plan. The New Linda Vista well was drilled in Fiscal Year 2023 and the equipping and site work will be completed in Fiscal Year 2024. The galvanized pipe replacement program was funded for design and start of construction. The automated metering infrastructure implementation and customer platform project was included in the budget. This project has been selected by the Bureau of Reclamation for a $2 million dollar grant, and awarded a $3 million-dollar WIFA Water Conservation Grant that was requested and received after completing the Adopted Budget. A small mainline replacement project on Orange Grove Road was approved. Adding a perimeter wall around a well site to prevent erosion and control water flow will protect the environment and help the District to be a good neighbor within the community. The total CIP adopted budget is $28,461,648, less the NWRRDS Partner contributions of $8,842,433 for a District CIP budget of $19,619,215.

Depreciation and amortization of assets were budgeted at $3.96 million. These are non-cash budgeted expenses that will need to occur, requiring only budget authority.

The requested operating budget includes $26,143,217 of revenue, $17,110,200 from CIP projects, grant funding, and a projected beginning fund balance of $33,338,672. The total revenue and funds available are $76,592,089. The total requested budget is $52,171,265 with the addition of investments to support the District, CIP, depreciation, and amortization. This is a $26,159,015 budget increase with the construction of NWRRDS projects planned to start in Fiscal Year 2024.

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, financial and strategic planning. 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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	$ 35,230,077	$ 23,785,869
Investments	11,289,380	16,266,758
Accounts receivable, net of allowance	2,191,895	2,263,929
Unbilled water revenue	763,656	684,880
Due from other governments	402,551	-
Other receivables	2,263,321	1,132,353
Notes receivable - current	28,015	26,970
Prepaid expenses and deposits	823,078	805,654
Inventory	646,147	682,893
Other current assets	26,321	28,675
Total current assets	53,664,441	45,677,981
Noncurrent assets:		
Restricted cash and cash equivalents	2,109,867	1,598,626
Notes receivable - noncurrent	411,888	439,904
Capital assets not being depreciated	7,995,484	6,840,245
Capital assets, net of accumulated depreciation/ amortization	81,048,774	81,870,352
Water recharge credits	14,024,162	12,548,823
Net OPEB asset	192,209	166,235
Total noncurrent assets	105,782,384	103,464,185
Total assets	159,446,825	149,142,166
Deferred outflows of resources		
Loss on refunding of debt	99,703	139,584
Deferred outflows related to pensions	907,229	1,229,341
Deferred outflows related to OPEB	17,672	29,117
Total deferred outflows	1,024,604	1,398,042
Total assets and deferred outflows	$ 160,471,429	$ 150,540,208

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position, Continued
June 30, 2023 and 2022

	2023	2022
Liabilities		
Current liabilities:		
Accounts payable	$ 664,661	$ 430,391
Accrued liabilities	955,456	1,070,693
Salaries and wages payable	117,102	96,257
Deposits payable	949,212	917,760
Other liabilities	1,108,646	974,254
Current portion of leases	221,651	253,069
Current portion of compensated absences	146,594	227,321
Current portion of notes payable	975,312	946,784
Payable from restricted assets:		
Accrued interest on long term debt	170,930	224,294
Current maturity of bonds payable	2,505,000	1,955,000
Total current liabilities	7,814,564	7,095,823
Noncurrent liabilities:		
Leases, less current portion	551,399	601,469
Compensated absences	344,022	260,498
Notes payable, less current portion	3,625,287	4,600,598
Bonds payable, less current maturities	3,210,075	5,889,105
Net pension liability	5,485,898	4,372,844
Net OPEB liability	3,134	6,961
Total noncurrent liabilities	13,219,815	15,731,475
Total liabilities	21,034,379	22,827,298
Deferred inflows of resources		
Deferred inflows related to pensions	144,504	1,385,471
Deferred inflows related to OPEB	121,362	140,856
Total deferred inflows	265,866	1,526,327
Total liabilities and deferred inflows	21,300,245	24,353,625
Net Position		
Net investment in capital assets	77,955,534	74,464,572
Restricted for:		
Debt Service	2,109,867	1,598,626
Unrestricted	59,105,783	50,123,385
Total net position	139,171,184	126,186,583
Total liabilities, deferred inflows, and net position	$ 160,471,429	$ 150,540,208

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, 2023 and 2022

	2023	2022
Operating revenue		
Metered water sales	$ 19,116,506	$ 19,465,939
Service charges and penalties	249,285	279,433
Development revenue	316,577	279,875
Other water revenue	5,156,495	3,998,375
Total operating revenue	24,838,863	24,023,622
Operating expenses		
Salaries and employee benefits	6,052,032	5,297,397
Materials and supplies	834,046	706,046
Purchased power	1,277,026	1,209,410
Purchased CAP water	2,729,405	2,413,618
Contract services	1,054,452	1,038,376
Insurance	159,803	146,894
Other operating expenses	1,037,778	995,702
Depreciation and amortization	3,788,351	3,776,181
Total operating expenses	16,932,893	15,583,624
Operating income / (loss)	7,905,970	8,439,998
Non-operating income (expenses)		
Investment income (loss)	595,573	(193,919)
Amortization of bond premiums and deferred charges	134,149	134,149
Gain on water recharge credits	1,475,339	1,263,630
Grant revenue	654,977	-
Gain (loss) on disposal of assets	31,110	(195,092)
Interest expense	(428,085)	(523,703)
Total non-operating revenue (expenses)	2,463,063	485,065
Income before capital contributions	10,369,033	8,925,063
Capital Contributions	2,615,568	159,575
Increase in net position	12,984,601	9,084,638
Total net position - beginning of year, restated	126,186,583	117,101,945
Total net position - end of year	$ 139,171,184	$ 126,186,583

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	$ 23,703,507	$ 23,411,846
Cash paid to suppliers for goods and services	(6,788,311)	(6,848,587)
Cash paid to employees	(5,872,041)	(5,357,466)
Cash flows from operating activities	11,043,155	11,205,793
Cash flows from capital and related financing activities:		
Proceeds from notes receivable	26,971	25,962
Principal paid on long-term debt	(2,901,783)	(2,279,092)
Principal paid on leases	(202,358)	(191,976)
Interest paid	(481,449)	(564,750)
Purchase of capital assets	(1,302,911)	(1,588,120)
Proceeds from the sale of capital assets	31,470	29,676
Capital grants	252,426	-
Cash flows from capital and related financing activities	(4,577,634)	(4,568,300)
Cash flows from investing activities:		
Interest on investments	810,619	179,414
Transfer to (from) cash from (to) investments	4,679,309	(7,709,186)
Cash flows from investing activities	5,489,928	(7,529,772)
Net change in cash and cash equivalents, including restricted cash	11,955,449	(892,279)
Cash and cash equivalents, beginning of year including restricted cash	25,384,495	26,276,774
Cash and cash equivalents, end of year including restricted cash	$ 37,339,944	$ 25,384,495

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, 2023 and 2022

Reconciliation of operating income (loss) to net cash flows from operating activities:	2023	2022
Operating income / (loss)	$ 7,905,970	$ 8,439,998
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:		
Depreciation and amortization	3,788,351	3,776,181
Pension/OPEB expense	156,349	(102,661)
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(1,058,934)	(665,501)
(Increase)/decrease in unbilled water revenue	(78,776)	50,659
(Increase)/decrease in inventories	36,746	(240,623)
(Increase)/decrease in prepaid expenses	(17,424)	(52,745)
(Increase)/decrease in other current assets	2,354	3,066
Increase/(decrease) in accounts payable	234,270	(195,755)
Increase/(decrease) in accrued liabilities	19,155	4,034
Increase/(decrease) in deposits payable	31,452	146,548
Increase/(decrease) in accrued compensation	23,642	42,592
Net cash flows from operating activities	$ 11,043,155	$ 11,205,793

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES

Amortization of premiums	$ 174,030	$ 174,030
Amortization of losses on advance refunding	(39,881)	(39,882)
Acquisition of capital assets from capital contributions	2,615,568	159,575
Acquisition of right to use assets from leases	165,845	163,751
Value assigned to recharge credits	1,475,339	1,263,630

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

Note 1. Summary of Significant Accounting Policies

Nature of Organization

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

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

Reporting Entity

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

Basis of Presentation – Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Encumbrance Accounting

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

Note 1. Summary of Significant Accounting Policies, Continued

Use of Estimates

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

Budget Policy and Procedures

The District adopts an annual budget. The budget is prepared on the accrual basis of accounting. The District is not legally required to adopt or submit the budget to any state or other oversight agency before it has been adopted by the Board. The District posts 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 billed and collected for Pima County. An allowance for uncollectible accounts receivable is not provided because management determined the amounts to be immaterial.

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.

Note 1. Summary of Significant Accounting Policies, Continued

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 and subscription-based information technology arrangements, the measurement of which is discussed in leases and SBITAs 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	3-15 years
Water rights (regulatory assets)	30 years
Right to use equipment	20 years
Right to use vehicles	5-6 years
Right to use subscription asset	2 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.

Note 1. Summary of Significant Accounting Policies, Continued

Postemployment Benefits

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

Compensated Absences

The District's personnel policy provides full-time employees with annual leave and full-time and part-time employees with annual sick leave in varying amounts, and at termination, an employee is paid for accumulated (vested) annual leave and long-term employees are also paid for sick leave as noted below. Accordingly, compensation for annual leave is charged to expense as utilized by the employee, and accumulated unpaid annual leave and qualifying sick leave, which is payable upon an employee's termination if conditions are met, is recorded as a current and non-current liability. At June 30, 2023, the liability total balance is $490,616 and is included in accrued liabilities in the accompanying financial statements.

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

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

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Unamortized Debt Discounts or Premiums

Debt discounts or premiums are amortized using the 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/amortization on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Other Non-current Assets

Other non-current assets include 51,017.14 acre feet of recharge credits with estimated values ranging from \$224.40 to \$279.00 per acre foot for a total estimated value of \$14,024,462 and \$12,548,823 as of June 30, 2023 and 2022, 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 5,000 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.

Note 1. Summary of Significant Accounting Policies, Continued

Net Position

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

Net Position Flow Assumption

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

Note 1. Summary of Significant Accounting Policies, Continued

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.

Subscription-Based Information Technology Arrangement (SBITA)

The District has entered into contracts for noncancellable uses of SBITAs. The District will recognize any SBITA liability if it meets the requirements of a SBITA under GASB 96.

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

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

- The District uses the interest rate implicit in the SBITA as the discount rate. When the interest rate implicit in the SBITA is not provided, the District generally uses its estimated incremental borrowing rate at the subscription commencement date as the discount rate for subscriptions.

The subscription term includes the noncancellable period of the subscription.

New Pronouncement

For the year ended June 30, 2023, the District implemented the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which (1) defines a subscription-based information technology arrangement (SBITA); (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. As a result, the District's financial statements have been modified to reflect the implementation of this new standard. The District has no SBITA liabilities outstanding at June 30, 2023.

Note 2. Deposits and Investments

As of June 30, 2023 and 2022 the District's cash and investments consisted of the following:

	2023	2022
Total cash in bank	$ 24,163,799	$ 12,534,819
Total cash in State Treasurer Investment Pool	3,261,338	2,665,121
Total cash on deposit with the Pima County Treasurer	9,914,807	10,184,555
Total investments	11,289,380	16,266,758
	$ 48,629,324	$ 41,651,253

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

	2023	2022
Cash and cash equivalents	$ 35,230,077	$ 23,785,869
Investments	11,289,380	16,266,758
Restricted cash and cash equivalents	2,109,867	1,598,626
	$ 48,629,324	$ 41,651,253

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, 2023, the District's bank balance was $38,912,266 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized. At 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.

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.

Note 2. Deposits and Investments, Continued

Fair value measurement

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

Investment Fund

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

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.

Note 2. Deposits and Investments, Continued

As of June 30, 2023 and 2022 the District had the following investments:

June 30, 2023

Investment Type	Credit Quality Rating	Maturity Date or Weighted Average Maturity	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAAf/S1+	0.12 years	$ 3,261,338	22%
Federal Agency				
FHLB	AA+	9/11/2026	73,816	1%
FHLB	AA+	3/14/2031	842,724	6%
FHLB	AA+	11/7/2031	259,932	2%
Certificates of deposit*	N/A	2 years	1,750,000	12%
Commercial notes**	A2/BBB+/A	1.31 years	8,362,908	57%
Total			$ 14,550,718	100%

* - FDIC insured
** These are reported at fair market value, but if held to maturity, the District will receive a full return of the investment

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	19%
Certificates of deposit*	N/A	2.68 years	1,750,000	9%
Commercial notes**	A2/BBB+/A	1.83 years	9,771,191	52%
Total			$ 18,931,878	100%

* - FDIC insured
** These are reported at fair market value, but if held to maturity, the District will receive a full return of the investment

Note 3. Restricted Assets

Restricted assets consist of the following at June 30, 2023 and 2022:

	June 30, 2023
	Bond Funds
Cash and cash equivalents	$ 2,109,867
Total	$ 2,109,867

	June 30, 2022
	Bond Funds
Cash and cash equivalents	$ 1,598,626
Total	$ 1,598,626

Note 4. Notes Receivable

The District has notes receivable balances at June 30, 2023, and June 30, 2022, of $439,903 and $466,874, respectively. Payments are received monthly for $3,691, bearing an interest rate of 3.81%. The receivable will mature in December 2035.

Note 5. Capital Assets

Capital asset activity for the years ended June 30, 2023 and 2022, was as follows:

	June 30, 2022	Additions	Disposals	Adjustments	June 30, 2023
Capital assets not being depreciated:					
Land	$ 1,446,699	$ -	$ -	$ 72,999	$ 1,519,698
Construction in progress	5,393,546	1,247,040	-	(164,800)	6,475,786
Total capital assets not being depreciated	6,840,245	1,247,040	-	(91,801)	7,995,484
Capital assets being depreciated:					
Water systems	121,337,042	2,639,827	-	91,801	124,068,670
Buildings and improvements	5,072,623	5,401	(3,247)	-	5,074,777
Vehicles, machinery, and equipment	2,134,441	10,044	-	-	2,144,485
Regulatory assets	11,252,658	-	-	-	11,252,658
Total capital assets being depreciated	139,796,764	2,655,272	(3,247)	91,801	142,540,590
Less: accumulated depreciation for:					
Water systems	(44,732,822)	(2,803,902)	-	-	(47,536,724)
Buildings and improvements	(2,160,323)	(140,758)	2,887	-	(2,298,194)
Vehicles, machinery, and equipment	(1,703,983)	(70,195)	-	-	(1,774,178)
Regulatory assets	(10,023,306)	(543,102)	-	-	(10,566,408)
Total accumulated depreciation	(58,620,434)	(3,557,957)	2,887	-	(62,175,504)
Total capital assets being depreciated, net	81,176,330	(902,685)	(360)	91,801	80,365,086
Lease and subscription assets:					
Right to use equipment	467,481	-	-		467,481
Right to use vehicles	1,212,395	206,484	(124,646)	-	1,294,233
Right to use subscription asset	-	30,308	-	-	30,308
Total lease and subscription assets being amortized	1,679,876	236,792	(124,646)	-	1,792,022
Less: accumulated amortization for:					
Right to use equipment	(257,115)	(23,374)	-	-	(280,489)
Right to use vehicles	(728,739)	(196,916)	123,067	-	(802,588)
Right to use subscription asset	-	(10,104)	-	(15,153)	(25,257)
Total accumulated amortization	(985,854)	(230,394)	123,067	(15,153)	(1,108,334)
Total lease and subscription assets being amortized, net	694,022	6,398	(1,579)	(15,153)	683,688
Total capital assets, net	$ 88,710,597	$ 350,753	$ (1,939)	$ (15,153)	$ 89,044,258

Depreciation/amortization expense for the year ended June 30, 2023, was $3,788,351.

Note 5. Capital Assets

	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	7,407,764	1,313,994	(119,191)	(1,762,322)	6,840,245
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	137,814,112	433,701	(213,371)	1,762,322	139,796,764
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	(55,179,047)	(3,541,917)	100,530	-	(58,620,434)
Total capital assets being depreciated, net	82,635,065	(3,108,216)	(112,841)	1,762,322	81,176,330
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	1,532,922	170,289	(23,335)	-	1,679,876
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 accumulated amortization	(774,925)	(234,264)	23,335	-	(985,854)
Total lease assets being amortized, net	757,997	(63,975)	-	-	694,022
Total capital assets, net	$ 90,800,826	$ (1,858,197)	$ (232,032)	$ -	$ 88,710,597

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

Note 6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2023 and 2022:

	Balance 6/30/2022	Additions	Retirements	Balance 6/30/2023	Current Portion
Revenue Bonds	$ 7,235,000	$ -	$ (1,955,000)	$ 5,280,000	$ 2,505,000
Unamortized Premiums	609,105	-	(174,030)	435,075	-
Notes Payable from					
Direct Borrowings	5,547,382	-	(946,783)	4,600,599	975,312
Leases	854,538	165,845	(247,333)	773,050	221,651
Compensated Absences	487,819	341,473	(338,676)	490,616	146,594
Net Pension Liability	4,372,844	1,497,991	(384,937)	5,485,898	-
	$ 19,106,688	$ 2,005,309	$ (4,046,759)	$ 17,065,238	$ 3,848,557

	Balance 6/30/2021	Additions	Retirements	Balance 6/30/2022	Current Portion
Revenue Bonds	$ 8,595,000	$ -	$ (1,360,000)	$ 7,235,000	$ 1,955,000
Unamortized Premiums	783,136	-	(174,031)	609,105	-
Notes Payable					
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	-
	$ 22,780,510	$ 1,989,903	$ (5,663,725)	$ 19,106,688	$ 3,382,174

Note 6. Long-Term Debt, Continued

Bonds Payable

The annual requirements to amortize bonds outstanding at June 30, 2023, are as follows:

Year Ended June 30,	Principal	Interest	Total
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	-	-	-
2028	-	-	-
2029-2033	-	-	-
Total	$ 5,280,000	$ 226,800	$ 5,506,800

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

	2023	2022
$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.	$ 5,280,000	$ 7,235,000
Unamortized bond premiums	435,075	609,105
Total bonds payable	$ 5,715,075	$ 7,844,105

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 eliminate $4,457,881 of outstanding debt and resulted in an economic gain of $703,380. This reduces the total debt service payments by $749,493.

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, 2023, are as follows:

Year Ended June 30,	Principal	Interest	Total
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	214,465	37,465	251,930
2029-2033	1,167,073	87,560	1,254,633
Total	$ 4,600,599	$ 446,678	$ 5,047,277

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

	2023	2022
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.	$ 2,420,732	$ 3,181,976
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.	2,179,867	2,365,406
Total notes payable	$ 4,600,599	$ 5,547,382

For the WIFA loans, no collateral is required. 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.

The District has been awarded three additional loan agreements with the Water Infrastructure Finance Authority (WIFA) as follows:

The E&T Well replacement loan is for $1,755,975. Of this amount $610,777 is federally funded forgivable principal leaving an anticipated repayment amount of $1,145,198. The interest rate is 2.04% with a 10-year loan term payable in full after the last draw with a 60-day notification. As of June 30, 2023, the District has not made any principal or interest payments and the outstanding loan balance is $0. The first principal only payment of $104,396 is due on July 1st.

Note 6. Long-Term Debt, Continued

The Ironwood Blend Well loan is for $3,998,023. Of this amount $902,243 is federally funded forgivable principal leaving an anticipated repayment amount of $3,095,780. The interest rate is 2.04% with a 10-year loan term payable in full after five years. As of June 30, 2023, the District has not made any principal or interest payments and the outstanding loan balance is $0. The first principal only payment of $282,210 is due on July 1st.

The Metro Northwest Recharge, Recovery and Delivery System booster station and pipeline project loan is for $14,198,283. Of this amount $1,532,500 is federally funded forgivable principal leaving an anticipated repayment amount of $12,665,783. The interest rate is 1.944% and payable in full after 5-years. As of June 30, 2023, the District has not made any principal or interest payments and the outstanding loan balance is $0. The first principal only payment will be due on July 1st.

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, 2023, the value of the lease liability was $771,272. 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 $1,792,022 and had accumulated amortization of $1,108,334.

The future principal and interest lease payments as of June 30, 2023, were as follows:

Year Ended June 30,	Principal	Interest	Total
2024	$ 221,651	$ 26,632	$ 248,283
2025	162,727	16,957	179,684
2026	154,435	10,624	165,059
2027	92,262	5,438	97,700
2028	64,446	2,183	66,629
2029-2033	77,529	1,455	78,984
Total	$ 773,050	$ 63,289	$ 836,339

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.

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

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

* With actuarially reduced benefits.

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

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

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, 2023, statue required active ASRS members to contribute at the actuarially determined rate of 12.17 percent (12.03 percent for retirement and 0.14 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 12.17 percent (11.92 percent for retirement, 0.11 percent for health insurance premium benefit, and 0.14 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, 2023 were:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2023	$ 505,011	$ 4,660	$ 5,931

Liability – At June 30, 2023, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	Net pension/OPEB (asset) liability
Pension	$ 5,485,898
Health insurance premium benefit	(192,209)
Long-term disability	3,134

The net asset and net liabilities were measured as of June 30, 2022. 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, 2021, to the measurement date of June 30, 2022.

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, 2022. The District's proportion measured as of June 30, 2022, and the change from its proportions measured as of June 30, 2021, were:

Note 8. Retirement and Pension Plans, Continued

	Proportion June 30, 2021	Proportion June 30, 2022	Increase (decrease) from June 30, 2021
Pension	0.03328%	0.03361%	0.00033%
Health insurance premium benefit	0.03412%	0.03444%	0.00032%
Long-term disability	0.03372%	0.03393%	0.00021%

Expense – For the year ended June 30, 2023, the District recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	$ 699,210
Health insurance premium benefit	(28,399)
Long-term disability	1,152

Deferred outflows/inflows of resources – At June 30, 2023, 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	$ 46,743	$ -	$ -	$ 98,093	$ 1,631	$ 2,920
Changes of assumptions or other inputs	272,276	-	3,121	5,242	1,707	7,648
Net difference between projected and actual earnings on pension plan investments	-	144,504	-	6,475	-	97
Changes in proportion and differences between contributions and proportionate share of contributions	83,199	-	1	705	621	182
Contributions subsequent to the measurement date	505,011	-	4,660	-	5,931	-
Total	$ 907,229	$ 144,504	$ 7,782	$ 110,515	$ 9,890	$ 10,847

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, 2024. 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
2024	$ 327,490	$ (29,537)	$ (584)
2025	(50,168)	(32,115)	(760)
2026	(250,893)	(35,188)	(1,495)
2027	231,285	(5,361)	(170)
2028	-	(5,193)	(1,433)
Thereafter	-	-	(2,446)

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

Actuarial valuation date	June 30, 2021
Actuarial roll forward date	June 30, 2022
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, 2021, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

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. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target asset allocation	Long-term expected geometric real rate of return
Equity	50%	3.90%
Fixed Income - Credit	20%	5.30%
Fixed Income - Interest Rate Sensitive Bonds	10%	(0.20)%
Real Estate	20%	6.00%
Totals	100%	

Discount Rate – At June 30, 2022, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the District's proportionate share of the ASRS net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the District's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.0 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:

Note 8. Retirement and Pension Plans, Continued

Proportionate share of the	1% Decrease 6.0%	Discount Rate 7.0%	1% Increase 8.0%
Net pension liability	$ 8,094,280	$ 5,485,898	$ 3,310,916
Net insurance premium benefit liability (asset)	(138,209)	(192,209)	(238,027)
Net long-term disability liability	5,195	3,134	1,136

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 $2,615,568 and $159,575 during the years ended June 30, 2023 and 2022, 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.

Note 11. Assignment of Right of Way

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

Note 12. Risk Management

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

Note 13. Contingencies

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

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2023

ASRS - Pension

	Reporting Fiscal Year (Measurement Date)								
	2023 (2022)	**2022 (2021)**	**2021 (2020)**	**2020 (2019)**	**2019 (2018)**	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**
Proportion of the net pension liability (asset)	0.03361%	0.03328%	0.03223%	0.03280%	0.03330%	0.03264%	0.03337%	0.03195%	0.03411%
Proportionate share of the net pension liability (asset)	$ 5,485,898	$ 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	$ 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
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	136.45%	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	74.26%	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, 2023

ASRS - Pension

	Reporting Fiscal Year									
	2023	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually required contribution	$ 505,011	$ 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	(505,011)	(480,503)	(435,741)	(403,552)	(373,158)	(360,760)	(343,199)	(326,808)	(251,641)	(318,422)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 4,336,434	$ 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	11.65%	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, 2023

ASRS - Health insurance premium benefit	Reporting Fiscal Year (Measurement Date)						
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2018)
Proportion of the net OPEB (asset)	0.03444%	0.03412%	0.03302%	0.03288%	0.03394%	0.03312%	0.03312%
Proportionate share of the net OPEB (asset)	$ (192,209)	$ (166,235)	$ (23,378)	$ (9,087)	$ (12,221)	$ (18,031)	$ 9,577
Covered payroll	$ 4,020,469	$ 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	-4.78%	-4.29%	-0.66%	-0.27%	-0.37%	-0.56%	0.32%
Plan fiduciary net position as a percentage of the total OPEB liability	137.79%	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, 2023

ASRS - Health insurance premium benefit	Reporting Fiscal Year						
	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	$ 4,660	$ 8,402	$ 14,587	$ 17,270	$ 15,354	$ 14,563	$ 17,829
Contributions in relation to the contractually required contribution	(4,660)	(8,402)	(14,587)	(17,270)	(15,354)	(14,563)	(17,829)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 4,336,434	$ 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	0.11%	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, 2023

ASRS - Long-term disability	Reporting Fiscal Year (Measurement Date) 2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.03393%	0.03372%	0.03267%	0.03258%	0.03338%	0.03277%	0.03277%
Proportionate share of the net OPEB (asset)	$ 3,134	$ 6,961	$ 24,784	$ 21,224	$ 17,441	$ 11,878	$ 11,776
Covered payroll	$ 4,020,469	$ 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	0.08%	0.18%	0.70%	0.64%	0.53%	0.37%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	95.40%	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, 2023

ASRS - Long-term disability	Reporting Fiscal Year						
	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	$ 5,931	$ 7,602	$ 6,732	$ 5,992	$ 5,340	$ 5,296	$ 4,457
Contributions in relation to the contractually required contribution	(5,931)	(7,602)	(6,732)	(5,992)	(5,340)	(5,296)	(4,457)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 4,336,434	$ 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	0.14%	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

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HINTON BURDICK
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, 2023 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 18, 2023.

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 18, 2023