

**METROPOLITAN DOMESTIC WATER
IMPROVEMENT DISTRICT**



FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Metropolitan Domestic Water Improvement District
Tucson, Arizona

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Metropolitan Domestic Water Improvement District (District), as of and for the years ended June 30, 2024, and 2023, 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, 2024, and 2023, 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 6, 2024, 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

Mesa, Arizona
September 6, 2024

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**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2024 and June 30, 2023**

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 2024

Chief Financial Officer - Diane Bracken, M.Adm.

Finance Manager - Shane Oman, M.B.A

Senior Accountant - Nancy Walton

Accounting Specialist - Sofia Padilla

The 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, 2024, and June 30, 2023. 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 22,200 active accounts with six service areas. In addition to the Metro Main Service area, in 1999, the District acquired the Metro Hub service area, and in December 2009, the District acquired Metro Southwest service areas including Diablo Village,

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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 thousand gallons to 1 million gallons. There are two storage tanks in the Hub service area with a capacity of 1.05 million 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-thousand-gallon capacity, and two 5-million-gallon concrete reservoirs. The total District storage capacity is approximately 15.4 million 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.

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Summary of Net Position

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Current assets	\$ 58,700,848	\$ 53,664,441
Restricted cash and investments	1,983,965	2,109,867
Notes receivable – noncurrent	382,787	411,888
Capital assets, net of accumulated depreciation	83,244,775	81,048,774
Capital assets not being depreciated	21,597,041	7,995,484
Water recharge credits	15,994,493	14,024,162
Net OPEB assets	<u>183,035</u>	<u>192,209</u>
Total assets	<u>\$ 182,086,944</u>	<u>\$ 159,446,825</u>
Deferred outflows related to pensions	\$ 698,406	\$ 907,229
Deferred outflows loss on refund of debt	59,822	99,703
Deferred outflows related to OPEB	<u>26,569</u>	<u>17,672</u>
Total deferred outflows	784,797	1,024,604
Total assets and deferred outflows	<u>\$ 182,871,741</u>	<u>\$ 160,471,429</u>
Current liabilities	\$ 14,995,605	\$ 7,814,564
Non-Current liabilities	<u>10,405,032</u>	<u>13,219,815</u>
Total liabilities	<u>\$ 25,400,637</u>	<u>\$ 21,034,379</u>
Deferred inflows related to pensions	\$ 241,515	\$ 144,504
Deferred Inflow of OPEB	<u>89,927</u>	<u>121,362</u>
Total deferred inflows of resources	\$ 331,442	\$ 265,866
Total liabilities and deferred inflows	<u>\$ 25,732,079</u>	<u>\$ 21,300,245</u>
Net Position		
Net investment in capital assets	\$ 97,214,193	\$ 77,955,534
Restricted for:		
Debt service	\$ 1,983,965	\$ 2,109,867
Unrestricted	<u>57,941,504</u>	<u>59,105,783</u>
Total net position	<u>\$ 157,139,662</u>	<u>\$ 139,171,184</u>
Total liabilities, deferred inflows, and net position	<u>\$ 182,871,741</u>	<u>\$ 160,471,429</u>

MDWID's total net position shows an increase of \$17.97 million over Fiscal Year 2023. Current assets increased \$5.04 million over the previous year. Non-current assets increased by \$17.60 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 increased by \$199,926 in Fiscal Year 2024. This consists of the Arizona State

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Retirement System (ASRS), ASRS Long-term Disability (LTD), and Health Benefits Supplement (HBS) withheld in Fiscal Year 2024 that will be reported as expenses in Fiscal Year 2025 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 9 of this financial report.

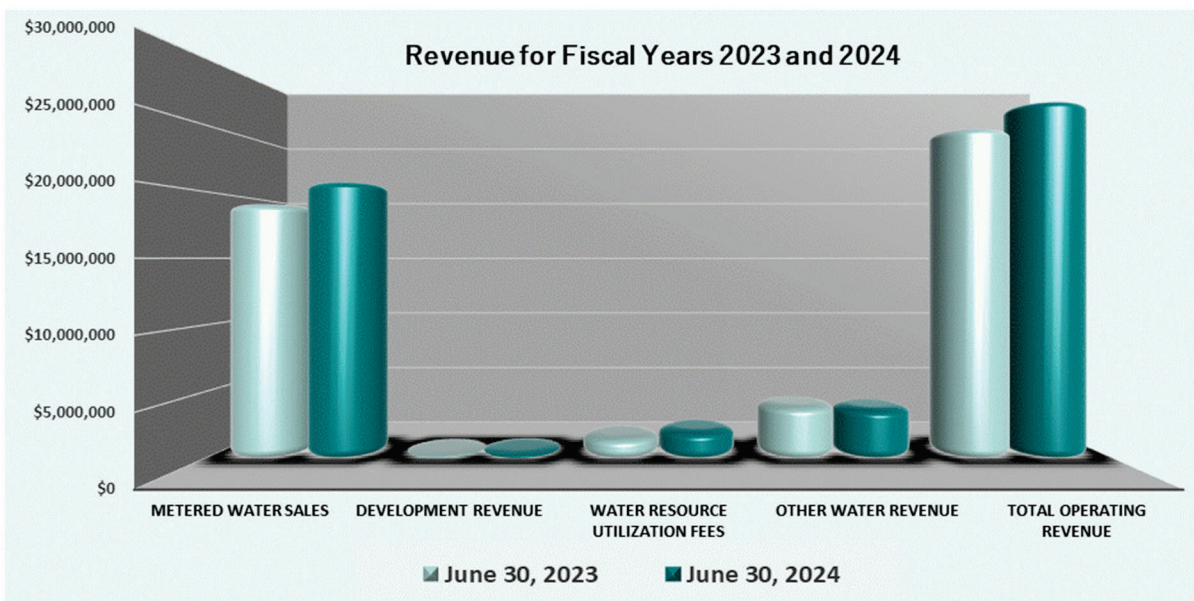
Water recharge credits continue to increase in value from increased storage quantity and valuation increases for a total gain in value of \$1.97 million. Water recharge credits are based on the fair market value and the number of acre feet resulting in a book value of \$15.99 million in Fiscal Year 2024, compared to \$14.02 million in the prior fiscal year.

In Fiscal Year 2024, current liabilities increased by \$7.18 million when compared to Fiscal Year 2023. Noncurrent liabilities decreased by \$2.81 million with long term-debt decreasing by \$2.95 million with payments made in Fiscal Year 2024. The net pension liability in accordance with GASB 68, decreased by \$129,840. 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 increased by \$1,247.

Summary of Revenue, Expenses and Changes in Net Position

Revenue

When comparing the operating revenue for Fiscal Year 2023 to Fiscal Year 2024, there was a revenue increase of \$2.03 million.



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The Water Resource Utilization Fee (WRUF) was set at sixty cents per thousand gallons of water effective July 2018. In July 2023, the WRUF rate was increased to \$0.75 per 1,000 gallons, and effective July 2024, the WRUF increased to \$0.90 per 1,000 gallons. The Infrastructure Rehabilitation Fee increased in Fiscal Year 2023, from \$0.95 to \$1.50 for a 5/8” meter. By calculating rates using the break-even point analysis method, the District covers 90% of the fixed costs with fixed revenue. This standardization has enabled the District to mitigate fluctuations in water consumption which impacts, consumption-based revenue while maintaining a rate structure that encourages customers conservation of water. After implementing these standards in 2015 and fully executing the changes over two years, the results have proven to be successful for the District. The District and the District customers have both experienced less volatility in rate and fee adjustments related to variations in water consumption and a more predictable and stable revenue source provides a more accurate planning tool.

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.

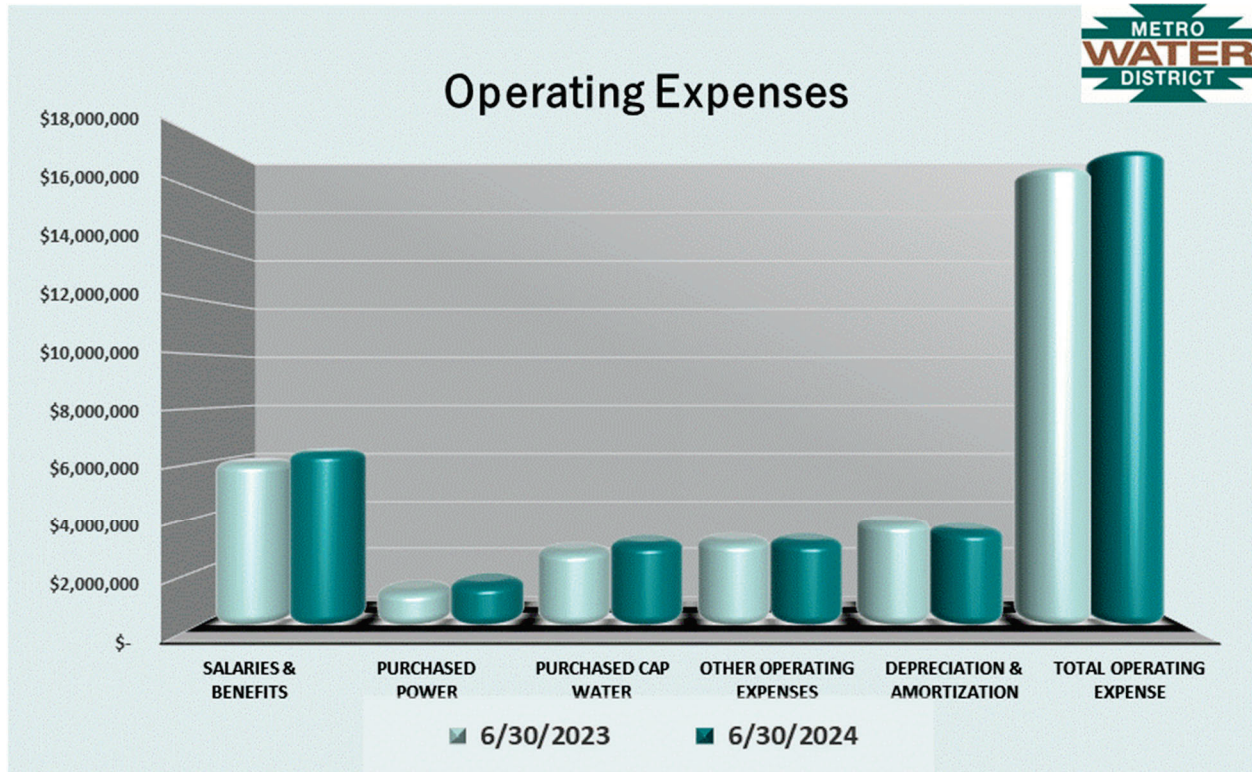
Requests for new meter installations within the District decreased with a total of 89-meter applications received in Fiscal Year 2024, compared to 91-meter applications in the prior fiscal year. Four new meter applications were received for the Metro Southwest service areas with 85 new meter applications 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.



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Operating Expenses

Operating expenses totaled \$17.53 million in Fiscal Year 2024 compared to \$16.93 million in Fiscal Year 2023 for an increase \$601,231 or 3.6%. 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 \$382,029 or 6.3% with a 5.5% cost of living increase. Salaries and employee benefits continue to be the District’s largest expenses, making up 36.7% of the total operating expenses in Fiscal Year 2024 compared to 35.7% in Fiscal Year 2023. The cost to purchase CAP water increased by 10.2% and this accounts for 17.15% of the total operating expenditures.

The cost of electricity increased by \$254,295 or 19.9%. Depreciation and amortization expenses totaled \$3.49 million in Fiscal Year 2024 compared to \$3.79 million for Fiscal Year 2023. Other operating expenses decreased by \$11,856 or 6.9% and make up 0.38% of the total operating expenses.

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Non-Operating Revenue/Expenses

Non-operating revenue exceeded non-operating expenses by \$6.26 million in Fiscal Year 2024. The income before capital contributions for Fiscal Year 2024 is \$15.59 million, compared to \$10.37 million in the Fiscal Year 2023. Capital assets contributed to the District by developers totaled \$2.37 million in Fiscal Year 2024 compared to \$2.62 million in Fiscal Year 2023.

The following table shows a comparison of the revenue and expenses and change in net position for Fiscal Years ended June 30, 2024, and June 30, 2023:

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Operating revenue:		
Metered water sales	\$ 20,802,435	\$ 19,116,506
Service charges and penalties	223,359	249,285
Development revenue	387,702	316,577
Other water revenue	<u>5,454,690</u>	<u>5,156,495</u>
Total operating revenue	<u>\$ 26,868,186</u>	<u>\$ 24,838,863</u>
Operating expenses:		
Salaries and employee benefits	\$ 6,434,061	\$ 6,052,032
Purchased power	1,531,321	1,277,026
Purchased CAP water	3,007,889	2,729,405
Other operating expenses	3,074,223	3,086,079
Depreciation and amortization	<u>3,486,630</u>	<u>3,788,351</u>
Total operating expenses	<u>\$ 17,534,124</u>	<u>\$ 16,932,893</u>
Operating income (loss)	<u>\$ 9,334,062</u>	<u>\$ 7,905,970</u>
Non-operating income (expenses)		
Investment income (loss) (net of market value adjustment)	\$ 1,660,996	\$ 595,573
Grant revenue	2,646,047	654,977
Gain (loss) on disposal of assets	180,000	31,110
Amortization of bond premiums	134,149	134,149
Gain related to water recharge activity	1,970,331	1,475,339
Interest expense	<u>(332,019)</u>	<u>(428,085)</u>
Total non-operating revenue (expenses)	<u>\$ 6,259,504</u>	<u>\$ 2,463,063</u>
Income before capital contributions	\$ 15,593,566	\$ 10,369,033
Capital contributions	<u>2,374,912</u>	<u>2,615,568</u>
Increase in net position	\$ 17,968,478	\$ 12,984,601
Total net position, beginning of year	<u>139,171,184</u>	<u>126,186,583</u>
Net position, end of year	<u>\$ 157,139,662</u>	<u>\$ 139,171,184</u>

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Funding History

On November 9, 2007, the Water Infrastructure Finance Authority of Arizona (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. This loan was paid in full, three years early on June 10, 2024.

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 \$1.99 million as of June 30, 2024.

On October 20, 2020, the 2013 Subordinate Revenue Bonds with a par amount of \$7.94 million and the WIFA 2009A loan which was a refunding of the 2005 series bonds with a remaining par amount of \$5.79 million were refunded into a 2020 Revenue Bond Series with a total par amount of \$9.27 million. 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 the refunding was \$13.72 million and the refunded amount was \$9.27 million reducing the outstanding principal by \$4.46 million. The remaining outstanding bond principal balance as of June 30, 2024, was \$2.78 million.

The Bipartisan Infrastructure Law made funding available through the Arizona State Revolving fund which is managed by WIFA Arizona. In Fiscal Year 2023 three new WIFA loans were obtained and two loans with 100% principal forgiveness. These agreements have provided the District with \$3.79 million of federal funding in the form of principal forgiveness for capital projects as discussed below. In addition, the District was approved for a \$3 million dollar grant from WIFA and a \$2 million dollar grant from the Bureau of Reclamation for a total of \$8.79 million of funding that did not come from customer rates.

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 amount was \$1.76 million and the District received \$610,777 of forgivable principal. This project had an interest rate

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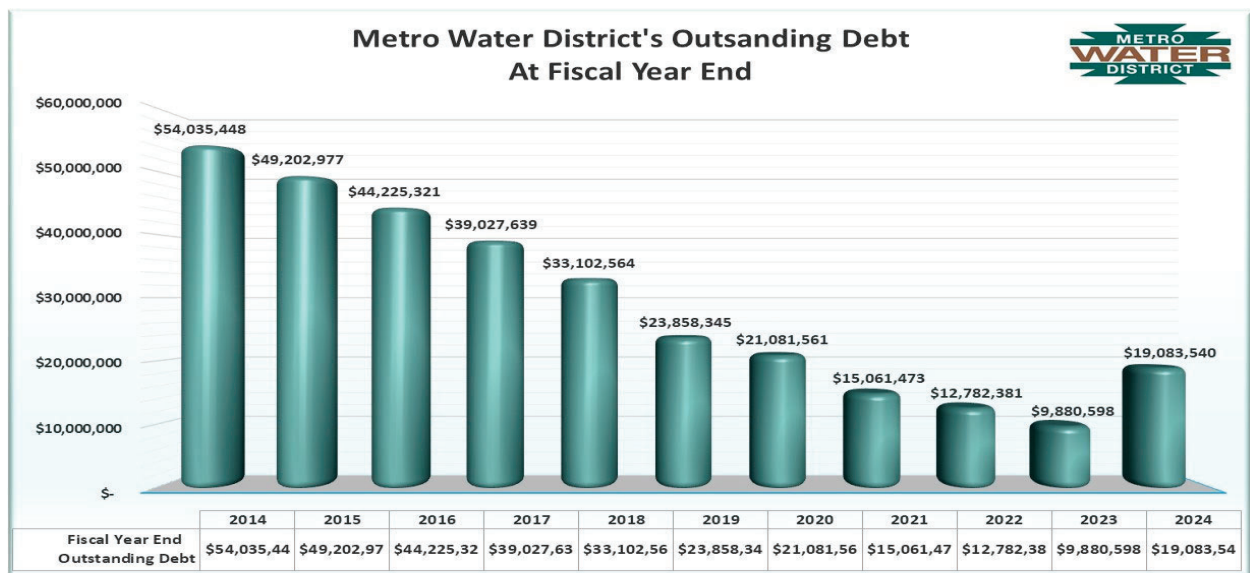
of 2.04% and it was a 10-year loan term payable in full after the last draw with a 60-day notification. This loan was paid in full on June 24, 2024.

The Ironwood Blend Well loan in the amount of \$4.00 million with an interest rate of 2.04% was obtained. The District received \$902,243 of forgivable principal on this project loan leaving a repayment amount of \$3.10 million. This is a 10-year loan term payable in full after five years. As of June 30, 2024, the District has made one principal payment with the second principal and interest payment due on July 1, 2024. The remaining outstanding bond principal balance as of June 30, 2024, was \$2.81 million.

The District has obtained a third WIFA loan for the Metro Northwest Recharge, Recovery and Delivery System (NWRRDS) booster station and pipeline project. The loan amount obtained was \$14.20 million with \$1.53 million of forgivable principal leaving an anticipated repayment amount of \$12.67 million. 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 started to spent this principal forgiveness in Fiscal Year 2024. As of June 30, 2024, the District has made one principal payment with the second payment due on July 1, 2024. The remaining outstanding bond principal balance as of June 30, 2024 was \$11.51 million.

On December 5, 2023, the District closed on two WIFA loans each providing 100% forgivable principal. The DeConcini Well Granular Activated Carbon GAC treatment project will receive \$375,791 of funding with zero dollars of intended repayment. The Riverside Crossing Well GAC treatment project will receive \$364,791 of funding with zero dollars of intended repayment.

As of June 30, 2024, the Districts' total outstanding debt was \$19.08 million. The chart below shows the outstanding debt totals by fiscal year for the last 11 years.



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Fiscal Year 2025 Budget

The Fiscal Year 2025 Budget was prepared by utilizing a priority driven budget process for the eleventh consecutive year. This process has created an environment that stimulates ownership, responsibility, transparency, and the ability to accomplish the goals and objectives that are aligned with the District mission “to deliver safe, reliable water to our customers”. Employees are engaged in finding ways to work smarter, safer, and more efficient along with identifying areas of cost savings and potential revenue opportunities.

On April 8, 2024, 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. The requested budget was adopted by the Board of Directors on May 13, 2024.

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 2025 adopted budget as part of the financial planning and revenue calculations. Metered water revenue was budgeted at \$21.46 million.

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 2025 was budgeted at \$30.98 million. The fund balance includes a projected Water Resource Utilization Fee balance of \$15.49 million planned to cash fund the land, design, and construction costs associated with the NWRRDS capital projects and other water resource initiatives. The NWRRDS projects will also utilize WIFA funding.

The operating revenue for Fiscal Year 2025 is projected to be \$28.88 million, up 10.46% or \$2.74 million from the Fiscal Year 2024 adopted budget. Other funding sources total \$28.64 million and include \$4 million of grant funding, \$9.30 million of Water Infrastructure Finance Authority of Arizona loans and principal forgiveness funding, and \$15.34 million of NWRRDS partner cost sharing reimbursements.

The base budget Salaries and Benefits make up 41.90% of the District's operating budgeted expenses and have increased \$95,352 when compared to the prior fiscal year base budget. The Adopted budget included a 4% cost of living increase effective the first pay period in July 2024. In addition, the budget includes a potential 8% increase in the cost of health insurance and a 5% increase in the cost of dental insurance along with a 7% increase in Workers Compensation for three months in Fiscal Year 2025, and Arizona State Retirement pension and health benefits rate decreasing by 0.02%.

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The budget for Consultants and Contracted services decreased 16.13% or \$227,714 when compared to the prior fiscal year adopted budget. General Operating expenses are planned to be 11.55% higher than they were in Fiscal Year 2024. Electricity costs for operations are budgeted at 24.56% or \$318,567 higher than they were in the Adopted Budget for Fiscal Year 2024.

The planned supply costs were budgeted with an increase of \$140,737, which includes the purchase of water meters that were budgeted \$121,083 higher than the prior fiscal year.

The projected cost of CAP Water increased 14.90% or \$395,420 when compared to the prior fiscal year.

Debt service payments were budgeted at \$4.87 million which is a 2.64% reduction when compared to Fiscal Year 2024.

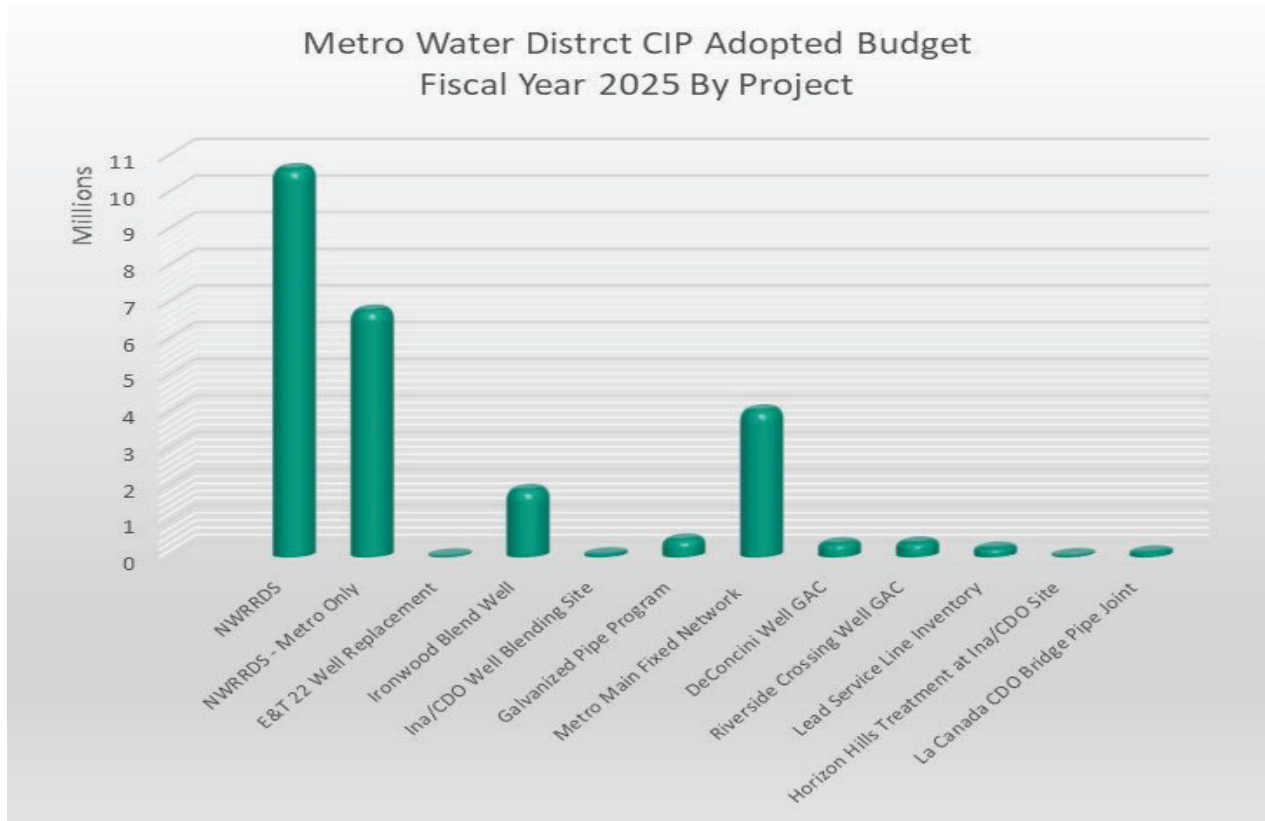
The investments to support the District's mission not included in the operating budget, total \$295,974 to fund a new virtual server including hardware and software, two switches, and a physical server. The warehouse roof recoating, a new security panel board and access system were funded. A backhoe trailer, a well site electrical upgrade, and a valve machine tablet controller were all funded. A mezzanine lift, a hydrant saver sockets set, and a new irrigation system for the conservation garden were all included in this funding plan.

The District's portion of the budgeted Capital Improvement Program for Fiscal Year 2025 totals \$24.95 million.

The NWRD project has started construction and was budgeted with planned spending totaling \$10.58 million. The NWRD Metro Recovery System is also under construction with a plan to spend \$6.72 million. The E&T well replacement has been completed and \$38,200 was budgeted to finalize the land purchase. The Ironwood Blend Well has been drilled and the budget includes \$1.83 million for final site improvements, well equipping and pipeline construction. The Metro Main advanced metering infrastructure and customer portal project plans to spend \$4.00 million in Fiscal Year 2025 with two grants totaling \$5.00 million for this project that is estimated to cost \$6.00 million. Construction of the DeConcini Well GAC was budgeted at \$375,791. Construction of the Riverside Crossing Well GAC was budgeted at \$394,791. The Lead Service Line Inventory will continue with a budget of \$250,000. The Galvanized Pipe Replacement Program will continue with the design and construction of projects with a budget of \$475,000. Design for the Ina/CDO Replacement Well site is planned with \$82,000. The budget includes \$50,000 for planning and design of the Horizon Hills Treatment at the Ina/CDO site. The La Canada Bridge Pipe Joint replacement and expansion joint will be installed with a budget of \$142,103.

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June 30, 2024 and June 30, 2023**

The chart below shows the budgeted projects in Fiscal Year 2025, with the cost of each project shown in millions.



Depreciation and amortization of assets were budgeted at \$3.55 million. These are non-cash budgeted expenses that will need to occur, requiring only budget authority.

The adopted budget includes revenue, fund balance, and other funding sources totaling \$88.49 million. Removing the NWRDRS Partner reimbursements totaling \$15.34 million results in a District total of \$73.15 million. The budgeted disbursements total \$64.43 million with \$15.34 million of NWRDRS partner costs for a District disbursement total of \$49.08 million.

**Metropolitan Domestic Water Improvement District
Management's Discussion and Analysis
June 30, 2024 and June 30, 2023**

Contacting the Metro Water District Office

This management and analysis 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 her at (520) 575-8100.

This information is an integral part of the accompanying Financial Statements

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METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2024 and 2023

	2024	Restated 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,649,005	\$ 29,879,588
Investments	17,508,944	16,639,869
Accounts receivable, net of allowance	2,285,816	2,191,895
Unbilled water revenue	753,999	763,656
Due from other governments	1,289,163	402,551
Other receivables	3,700,334	2,263,321
Notes receivable - current	29,102	28,015
Prepaid expenses and deposits	905,357	823,078
Inventory	565,155	646,147
Other current assets	13,973	26,321
Total current assets	58,700,848	53,664,441
Noncurrent assets:		
Restricted cash and cash equivalents	1,983,965	2,109,867
Notes receivable - noncurrent	382,787	411,888
Capital assets not being depreciated	21,597,041	7,995,484
Capital assets, net of accumulated depreciation/ amortization	83,244,775	81,048,774
Water recharge credits	15,994,493	14,024,162
Net OPEB asset	183,035	192,209
Total noncurrent assets	123,386,096	105,782,384
Total assets	182,086,944	159,446,825
Deferred outflows of resources		
Loss on refunding of debt	59,822	99,703
Deferred outflows related to pensions	698,406	907,229
Deferred outflows related to OPEB	26,569	17,672
Total deferred outflows	784,797	1,024,604
Total assets and deferred outflows	\$ 182,871,741	\$ 160,471,429

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Net Position, Continued
June 30, 2024 and 2023

	2024	2023
Liabilities		
Current liabilities:		
Accounts payable	\$ 8,788,810	\$ 664,661
Accrued liabilities	986,860	955,456
Salaries and wages payable	130,332	117,102
Deposits payable	972,828	949,212
Other liabilities	894,823	1,108,646
Current portion of leases and SBITAs	294,192	221,651
Current portion of compensated absences	264,384	146,594
Current portion of notes payable	484,576	975,312
Payable from restricted assets:		
Accrued interest on long term debt	83,800	170,930
Current maturity of bonds payable	2,095,000	2,505,000
Total current liabilities	14,995,605	7,814,564
Noncurrent liabilities:		
Leases and SBITAs, less current portion	872,465	551,399
Compensated absences	290,738	344,022
Notes payable, less current portion	2,940,345	3,625,287
Bonds payable, less current maturities	941,045	3,210,075
Net pension liability	5,356,058	5,485,898
Net OPEB liability	4,381	3,134
Total noncurrent liabilities	10,405,032	13,219,815
Total liabilities	25,400,637	21,034,379
Deferred inflows of resources		
Deferred inflows related to pensions	241,515	144,504
Deferred inflows related to OPEB	89,927	121,362
Total deferred inflows	331,442	265,866
Total liabilities and deferred inflows	25,732,079	21,300,245
Net Position		
Net investment in capital assets	97,214,193	77,955,534
Restricted for:		
Debt Service	1,983,965	2,109,867
Unrestricted	57,941,504	59,105,783
Total net position	157,139,662	139,171,184
Total liabilities, deferred inflows, and net position	\$ 182,871,741	\$ 160,471,429

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, 2024 and 2023

	2024	2023
Operating revenue		
Metered water sales	\$ 20,802,435	\$ 19,116,506
Service charges and penalties	223,359	249,285
Development revenue	387,702	316,577
Other water revenue	5,454,690	5,156,495
Total operating revenue	<u>26,868,186</u>	<u>24,838,863</u>
Operating expenses		
Salaries and employee benefits	6,434,061	6,052,032
Materials and supplies	933,835	834,046
Purchased power	1,531,321	1,277,026
Purchased CAP water	3,007,889	2,729,405
Contract services	632,742	1,054,452
Insurance	190,379	159,803
Other operating expenses	1,317,267	1,037,778
Depreciation and amortization	3,486,630	3,788,351
Total operating expenses	<u>17,534,124</u>	<u>16,932,893</u>
Operating income / (loss)	<u>9,334,062</u>	<u>7,905,970</u>
Non-operating income (expenses)		
Investment income (loss)	1,660,996	595,573
Amortization of bond premiums and deferred charges	134,149	134,149
Gain on water recharge credits	1,970,331	1,475,339
Grant revenue	2,646,047	654,977
Gain (loss) on disposal of assets	180,000	31,110
Interest expense	(332,019)	(428,085)
Total non-operating revenue (expenses)	<u>6,259,504</u>	<u>2,463,063</u>
Income before capital contributions	15,593,566	10,369,033
Capital Contributions	2,374,912	2,615,568
Increase in net position	<u>17,968,478</u>	<u>12,984,601</u>
Total net position - beginning of year	<u>139,171,184</u>	<u>126,186,583</u>
Total net position - end of year	<u>\$ 157,139,662</u>	<u>\$ 139,171,184</u>

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Cash Flows
For the Years Ended June 30, 2024 and 2023

	2024	Restated 2023
Cash flows from operating activities:		
Cash received from customers	\$ 25,359,257	\$ 23,703,507
Cash paid to suppliers for goods and services	350,626	(6,788,311)
Cash paid to employees	(6,210,242)	(5,872,041)
	<u>19,499,641</u>	<u>11,043,155</u>
Cash flows from capital and related financing activities:		
Proceeds from notes receivable	28,014	26,971
Proceeds from long-term debt	2,317,745	-
Principal paid on long-term debt	(5,998,423)	(2,901,783)
Principal paid on leases and SBITAs	(199,238)	(202,358)
Interest paid	(419,149)	(481,449)
Purchase of capital assets	(16,213,079)	(1,302,911)
Proceeds from the sale of capital assets	71,735	31,470
Capital grants	1,759,435	252,426
	<u>(18,652,960)</u>	<u>(4,577,634)</u>
Cash flows from investing activities:		
Interest on investments	1,507,152	810,619
Transfer to (from) cash from (to) investments	(710,318)	(419,991)
	<u>796,834</u>	<u>390,628</u>
Net change in cash and cash equivalents, including restricted cash	1,643,515	6,856,149
Cash and cash equivalents, beginning of year including restricted cash	<u>31,989,455</u>	<u>25,133,306</u>
Cash and cash equivalents, end of year including restricted cash	<u>\$ 33,632,970</u>	<u>\$ 31,989,455</u>

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Statement of Cash Flows - Continued
For the Years Ended June 30, 2024 and 2023

Reconciliation of operating income (loss) to net cash flows from operating activities:	<u>2024</u>	<u>2023</u>
Operating income / (loss)	\$ 9,334,062	\$ 7,905,970
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:		
Depreciation and amortization	3,486,630	3,788,351
Pension/OPEB expense	146,083	156,349
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(1,530,934)	(1,058,934)
(Increase)/decrease in unbilled water revenue	9,657	(78,776)
(Increase)/decrease in inventory	80,992	36,746
(Increase)/decrease in prepaid expenses	(82,279)	(17,424)
(Increase)/decrease in other current assets	12,348	2,354
Increase/(decrease) in accounts payable	8,124,149	234,270
Increase/(decrease) in accrued liabilities	(182,419)	19,155
Increase/(decrease) in deposits payable	23,616	31,452
Increase/(decrease) in accrued compensation	77,736	23,642
Net cash flows from operating activities	<u>\$ 19,499,641</u>	<u>\$ 11,043,155</u>

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES

Amortization of premiums	\$ 174,030	\$ 174,030
Amortization of losses on advance refunding	(39,881)	(39,881)
Acquisition of capital assets from capital contributions	2,374,912	2,615,568
Acquisition of right to use assets from leases and SBITAs	750,208	165,845
Value assigned to recharge credits	1,970,331	1,475,339

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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 revenue 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 District customers for water usage, and also for 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 consists mainly of water meters, water pump parts, pipe, and other repair parts. Cost is determined on a last in first out (LIFO) cost.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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 notes 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	2-4 years

Deferred Outflows/Inflows of Resources

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

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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, 2024, the liability total balance is \$555,122 and is included in accrued liabilities in the accompanying financial statements.

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

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

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

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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, and 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 52,255.23 acre feet of recharge credits with estimated values ranging from \$255 to \$309.63 per acre foot for a total estimated value of \$15,994,493 and \$14,024,162 as of June 30, 2024 and 2023, 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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 2. Deposits and Investments

As of June 30, 2024 and 2023 the District's cash and investments consisted of the following:

	2024	Restated 2023
Total cash in bank	\$ 21,690,220	\$ 18,813,310
Total cash in State Treasurer Investment Pool	3,253,996	3,261,338
Total cash on deposit with the Pima County Treasurer	8,688,754	9,914,807
Total investments	17,508,944	16,639,869
	<u>\$ 51,141,914</u>	<u>\$ 48,629,324</u>

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

	2024	Restated 2023
Cash and cash equivalents	\$ 31,649,005	\$ 29,879,588
Investments	17,508,944	16,639,869
Restricted cash and cash equivalents	1,983,965	2,109,867
	<u>\$ 51,141,914</u>	<u>\$ 48,629,324</u>

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, 2024, the District's bank balance was \$36,152,698 and none of that balance was exposed to custodial credit risk because it was not insured or collateralized. At June 30, 2023, the District's bank balance was \$33,561,777 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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 2. Deposits and Investments, Continued

As of June 30, 2024 and 2023 the District had the following investments:

June 30, 2024				
Investment Type	Credit Quality Rating	Maturity Date or Weighted Average Maturity	Fair Value	Percent of Total
State Treasurer's Investment Pool #5	AAAf/S1+	0.10 years	\$ 3,253,996	16%
Federal Agency				
FHLB	AA+	9/11/2026	75,310	0%
FHLB	AA+	3/14/2031	856,931	4%
FHLB	AA+	11/7/2031	261,742	1%
Money market mutual funds	Aaa-mf	0.09 years	11,043,957	54%
Certificates of deposit*	N/A	1.76 years	2,750,000	13%
Commercial notes**	A2/BBB+/A	2.06 years	2,521,004	12%
Total			\$ 20,762,940	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, 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	16%
Federal Agency				
FHLB	AA+	9/11/2026	73,816	0%
FHLB	AA+	3/14/2031	842,724	4%
FHLB	AA+	11/7/2031	259,932	1%
Money market mutual funds	Aaa-mf	0.09 years	5,350,489	27%
Certificates of deposit*	N/A	2 years	1,750,000	9%
Commercial notes**	A2/BBB+/A	1.31 years	8,362,908	43%
Total			\$ 19,901,207	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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 3. Restricted Assets

Restricted assets consist of the following at June 30, 2024 and 2023:

	<u>June 30, 2024</u>
	<u>Bond Funds</u>
Cash and cash equivalents	<u>\$ 1,983,965</u>
Total	<u><u>\$ 1,983,965</u></u>
	<u>June 30, 2023</u>
	<u>Bond Funds</u>
Cash and cash equivalents	<u>\$ 2,109,867</u>
Total	<u><u>\$ 2,109,867</u></u>

Note 4. Notes Receivable

The District has notes receivable balances at June 30, 2024, and June 30, 2023, of \$411,889 and \$439,903, respectively. Payments are received monthly for \$3,691, bearing an interest rate of 3.81%. The receivable will mature in December 2035.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 5. Capital Assets

Capital asset activity for the years ended June 30, 2024 and 2023, was as follows:

	June 30, 2023	Additions	Disposals	Adjustments	June 30, 2024
Capital assets not being depreciated:					
Land	\$ 1,519,698	\$ -	\$ -	\$ 456,833	\$ 1,976,531
Construction in progress	<u>6,475,786</u>	<u>15,994,417</u>	<u>(50,304)</u>	<u>(2,799,389)</u>	<u>19,620,510</u>
Total capital assets not being depreciated	<u>7,995,484</u>	<u>15,994,417</u>	<u>(50,304)</u>	<u>(2,342,556)</u>	<u>21,597,041</u>
Capital assets being depreciated:					
Water systems	124,068,670	2,381,391	-	2,307,244	128,757,305
Buildings and improvements	5,074,777	26,618	-	-	5,101,395
Vehicles, machinery, and equipment	2,144,485	135,822	(3,784)	5,339	2,281,862
Regulatory assets	<u>11,252,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,252,658</u>
Total capital assets being depreciated	<u>142,540,590</u>	<u>2,543,831</u>	<u>(3,784)</u>	<u>2,312,583</u>	<u>147,393,220</u>
Less: accumulated depreciation for:					
Water systems	(47,536,724)	(2,841,200)	-	-	(50,377,924)
Buildings and improvements	(2,298,194)	(126,984)	-	-	(2,425,178)
Vehicles, machinery, and equipment	(1,774,178)	(87,076)	3,784	-	(1,857,470)
Regulatory assets	<u>(10,566,408)</u>	<u>(152,500)</u>	<u>-</u>	<u>-</u>	<u>(10,718,908)</u>
Total accumulated depreciation	<u>(62,175,504)</u>	<u>(3,207,760)</u>	<u>3,784</u>	<u>-</u>	<u>(65,379,480)</u>
Total capital assets being depreciated, net	<u>80,365,086</u>	<u>(663,929)</u>	<u>-</u>	<u>2,312,583</u>	<u>82,013,740</u>
Lease and subscription assets:					
Right to use equipment	467,481	-	-	-	467,481
Right to use vehicles	1,294,233	521,705	(229,389)	-	1,586,549
Right to use subscription asset	<u>30,308</u>	<u>278,246</u>	<u>(30,308)</u>	<u>29,973</u>	<u>308,219</u>
Total lease and subscription assets being amortized	<u>1,792,022</u>	<u>799,951</u>	<u>(259,697)</u>	<u>29,973</u>	<u>2,362,249</u>
Less: accumulated amortization for:					
Right to use equipment	(280,489)	(23,374)	-	-	(303,863)
Right to use vehicles	(802,588)	(213,504)	225,682	-	(790,410)
Right to use subscription asset	<u>(25,257)</u>	<u>(41,992)</u>	<u>30,308</u>	<u>-</u>	<u>(36,941)</u>
Total accumulated amortization	<u>(1,108,334)</u>	<u>(278,870)</u>	<u>255,990</u>	<u>-</u>	<u>(1,131,214)</u>
Total lease and subscription assets being amortized, net	<u>683,688</u>	<u>521,081</u>	<u>(3,707)</u>	<u>29,973</u>	<u>1,231,035</u>
Total capital assets, net	<u>\$ 89,044,258</u>	<u>\$ 15,851,569</u>	<u>\$ (54,011)</u>	<u>\$ -</u>	<u>\$ 104,841,816</u>

Depreciation/amortization expense for the year ended June 30, 2024, was \$3,486,630.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 5. Capital Assets, Continued

	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 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	-	-	30,308.00
Total lease 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	<u>\$ 88,710,597</u>	<u>\$ 350,753</u>	<u>\$ (1,939)</u>	<u>\$ (15,153)</u>	<u>\$ 89,044,258</u>

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the years ended June 30, 2024 and 2023:

	Balance 6/30/2023	Additions	Retirements	Balance 6/30/2024	Current Portion
Revenue Bonds	\$ 5,280,000	\$ -	\$ (2,505,000)	\$ 2,775,000	\$ 2,095,000
Unamortized Premiums	435,075	-	(174,030)	261,045	-
Notes Payable from					
Direct Borrowings	4,600,599	2,317,745	(3,493,422)	3,424,921	484,576
Leases	773,050	543,793	(356,601)	960,242	236,679
SBITA Liability	-	206,415	-	206,415	57,513
Compensated Absences	490,616	343,431	(278,925)	555,122	264,384
Net Pension Liability	5,485,898	214,236	(344,076)	5,356,058	-
	<u>\$ 17,065,238</u>	<u>\$ 3,625,620</u>	<u>\$ (7,152,054)</u>	<u>\$ 13,538,803</u>	<u>\$ 3,138,152</u>

	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					
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	-
	<u>\$ 19,106,688</u>	<u>\$ 2,005,309</u>	<u>\$ (4,046,759)</u>	<u>\$ 17,065,238</u>	<u>\$ 3,848,557</u>

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 6. Long-Term Liabilities, Continued

Bonds Payable

The annual requirements to amortize bonds outstanding at June 30, 2024, are as follows:

Year Ended June 30,	Principal	Interest	Total
2025	\$ 2,095,000	\$ 62,300	\$ 2,157,300
2026	680,000	10,200	690,200
2027	-	-	-
2028	-	-	-
2029	-	-	-
2030-2034	-	-	-
Total	<u>\$ 2,775,000</u>	<u>\$ 72,500</u>	<u>\$ 2,847,500</u>

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

	2024	2023
\$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 \$2,095,000 through January 1, 2026; interest rate is 3% to 4% and is secured by water revenue.	\$ 2,775,000	\$ 5,280,000
Unamortized bond premiums	261,045	435,075
Total bonds payable	<u>\$ 3,036,045</u>	<u>\$ 5,715,075</u>

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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 6. Long-Term Liabilities, Continued

Notes Payable

The annual requirements for the next five years and 5 year increments thereafter to amortize notes payable outstanding at June 30, 2024, are as follows:

Year Ended June 30,	Principal	Interest	Total
2025	\$ 484,576	\$ 81,941	\$ 566,517
2026	496,231	70,141	566,372
2027	508,176	58,048	566,224
2028	520,417	45,654	566,071
2029	469,219	33,601	502,820
2030-2034	946,302	56,494	1,002,796
Total	<u>\$ 3,424,921</u>	<u>\$ 345,879</u>	<u>\$ 3,770,800</u>

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

	<u>2024</u>	<u>2023</u>
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
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.	1,988,874	2,179,867
Loan payable to Water Infrastructure Financing Authority (WIFA-5), due in semi-annual payments through January 1, 2032; interest rate at 3.400% per annum and is secured by water revenues.	1,436,047	-
Total notes payable	<u>\$ 3,424,921</u>	<u>\$ 4,600,599</u>

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 an additional loan agreement with the Water Infrastructure Finance Authority (WIFA) as follows:

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 6. Long-Term Liabilities, Continued

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. During fiscal year June 30, 2024, the \$1,532,500 forgivable portion has been recognized in revenue. No loan proceeds were received during fiscal year 2024 and the outstanding loan balance at June 30, 2024 is \$0. However, a principal payment of \$1,159,687 was due and paid during fiscal year 2024 and is recorded in due from other governments until loan proceeds are received by the District and the prepayment will reduce the loan payable.

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, 2024, the value of the lease liability was \$960,242. The District is required to make monthly principal and interest payments ranging from \$162 to \$2,194. The lease interest rates vary from 1.21% to 8.37%. 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 lease right-to-use asset as of the end of the current fiscal year was \$2,054,030 and had accumulated amortization of \$1,131,214.

The future principal and interest lease payments as of June 30, 2024, were as follows:

Year Ended June 30,	Principal	Interest	Total
2025	\$ 238,872	\$ 46,371	\$ 285,243
2026	210,802	34,777	245,579
2027	153,221	24,998	178,219
2028	134,878	16,720	151,598
2029	170,471	7,674	178,145
2030-2034	51,998	658	52,656
Total	\$ 960,242	\$ 131,198	\$ 1,091,440

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 8. Subscription-Based Information Technology Arrangements

The District has entered into multiple Subscription-Based Information Technology Arrangements (SBITAs) for various IT services. As of June 30, 2024, the value of the SBITA liability was \$206,415. The District is required to make annual principal and interest payments ranging from \$13,422 to \$42,834. The SBITA rate is 1.21%, which is the incremental borrowing rate. Right-to-use asset lives depend on the SBITA agreement, which range from 2 years to 4 years. The value of the SBITA right-to-use asset as of the end of the current fiscal year was \$308,219 and had accumulated amortization of \$36,941.

The future principal and interest lease payments as of June 30, 2024, were as follows:

Year Ended	Principal	Interest	Total
June 30,	<u> </u>	<u> </u>	<u> </u>
2025	\$ 55,320	\$ 2,221	\$ 57,541
2026	57,323	1,541	58,864
2027	45,901	905	46,806
2028	47,871	339	48,210
2029	-	-	-
2030-2034	-	-	-
Total	<u>\$ 206,415</u>	<u>\$ 5,005</u>	<u>\$ 211,420</u>

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 9. 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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 9. 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, 2024, statute required active ASRS members to contribute at the actuarially determined rate of 12.29 percent (12.14 percent for retirement and 0.15 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 12.29 percent (12.03 percent for retirement, 0.11 percent for health insurance premium benefit, and 0.15 percent for long-term disability) of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 9.99 percent (9.94 percent for retirement and 0.05 percent for long-term disability) of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the ASRS would typically fill. The District's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2024 were:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2024	\$ 561,818	\$ 5,137	\$ 7,005

Liability – At June 30, 2024, 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	\$ 5,356,058
Health insurance premium benefit	(183,035)
Long-term disability	4,381

The net asset and net liabilities were measured as of June 30, 2023. 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, 2022, to the measurement date of June 30, 2023.

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, 2023. The District's proportion measured as of June 30, 2023, and the change from its proportions measured as of June 30, 2022, were:

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 9. Retirement and Pension Plans, Continued

	Proportion June 30, 2022	Proportion June 30, 2023	Increase (decrease) from June 30, 2022
Pension	0.03361%	0.03310%	-0.00051%
Health insurance premium benefit	0.03444%	0.03390%	-0.00054%
Long-term disability	0.03393%	0.03343%	-0.00050%

Expense – For the year ended June 30, 2024, the District recognized the following pension and OPEB expense.

	<u>Pension/OPEB Expense</u>
Pension	\$ 747,771
Health insurance premium benefit	(21,818)
Long-term disability	4,257

Deferred outflows/inflows of resources – At June 30, 2024, 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	\$ 121,026	\$ -	\$ 7,724	\$ 68,258	\$ 3,955	\$ 2,466
Changes of assumptions or other inputs	-	-	-	3,642	1,156	6,376
Net difference between projected and actual earnings on pension plan investments	-	189,502	-	8,039	-	351
Changes in proportion and differences between contributions and proportionate share of contributions	15,562	52,013	1,083	518	509	277
Contributions subsequent to the measurement date	561,818	-	5,137	-	7,005	-
Total	\$ 698,406	\$ 241,515	\$ 13,944	\$ 80,457	\$ 12,625	\$ 9,470

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, 2025. 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:

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 9. Retirement and Pension Plans, Continued

Recognized in Year Ended June 30,	Pension	Health Insurance Premium Benefit	Long-term disability
2025	\$ (40,637)	\$ (30,518)	\$ (462)
2026	(244,968)	(33,543)	(1,186)
2027	204,227	(4,183)	119
2028	(23,549)	(4,016)	(1,125)
2029	-	610	(1,053)
Thereafter	-	-	(143)

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

Actuarial valuation date	June 30, 2022
Actuarial roll forward date	June 30, 2023
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, 2022, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

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:

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 9. Retirement and Pension Plans, Continued

Asset Class	Target asset allocation	Long-term expected geometric real rate of return
Public Equity	44%	3.50%
Credit	23%	5.90%
Real Estate	17%	5.90%
Private Equity	10%	6.70%
Interest Rate Sensitive	6%	1.50%
Totals	100%	

Discount Rate – At June 30, 2023, 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:

	1% Decrease 6.0%	Discount Rate 7.0%	1% Increase 8.0%
Proportionate share of the			
Net pension liability	\$ 8,022,589	\$ 5,356,058	\$ 3,132,644
Net insurance premium benefit liability (asset)	(127,934)	(183,035)	(229,859)
Net long-term disability liability	6,406	4,381	2,388

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

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 10. Contributed Capital

Capital assets contributed by land developers and others, consisting of construction of certain portions of the distribution systems and other assets, totaled \$2,374,912 and \$2,615,568 during the years ended June 30, 2024 and 2023, respectively, and are included in contributed capital on the statements of revenues, expenses, and changes in net position.

Note 11. 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 12. 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 13. 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.

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 14. Contingencies

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

Note 15. Restatement

Some money market funds were previously reported as cash and should have been reported as investments. 2023 balances have been updated to reflect this change.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2024

	Reporting Fiscal Year (Measurement Date)									
	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
ASRS - Pension										
Proportion of the net pension liability (asset)	0.03310%	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)	\$ 5,356,058	\$ 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	\$ 4,336,434	\$ 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
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	123.51%	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	75.47%	74.26%	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of Contributions
June 30, 2024

ASRS - Pension	Reporting Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 561,818	\$ 514,970	\$ 480,503	\$ 435,741	\$ 403,552	\$ 373,158	\$ 360,760	\$ 343,199	\$ 326,808	\$ 251,641
Contributions in relation to the contractually required contribution	(561,818)	(514,970)	(480,503)	(435,741)	(403,552)	(373,158)	(360,760)	(343,199)	(326,808)	(251,641)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,763,869	\$ 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
Contributions as a percentage of covered payroll	11.79%	11.88%	11.95%	11.24%	11.38%	11.18%	10.93%	10.75%	10.80%	8.33%

METROPOLITAN DOMESTIC WATER IMPROVEMENT DISTRICT
Schedule of the Proportionate Share of the Net OPEB Liability
June 30, 2024

ASRS - Health insurance premium benefit	Reporting Fiscal Year (Measurement Date)							
	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2018)
Proportion of the net OPEB (asset)	0.03390%	0.03444%	0.03412%	0.03302%	0.03288%	0.03394%	0.03312%	0.03312%
Proportionate share of the net OPEB (asset)	\$ (183,035)	\$ (192,209)	\$ (166,235)	\$ (23,378)	\$ (9,087)	\$ (12,221)	\$ (18,031)	\$ 9,577
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
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-4.22%	-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	134.37%	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, 2024

ASRS - Health insurance premium benefit	Reporting Fiscal Year							
	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 5,137	\$ 4,752	\$ 8,402	\$ 14,587	\$ 17,270	\$ 15,354	\$ 14,563	\$ 17,829
Contributions in relation to the contractually required contribution	(5,137)	(4,752)	(8,402)	(14,587)	(17,270)	(15,354)	(14,563)	(17,829)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 4,763,869	\$ 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%	0.11%	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, 2024

ASRS - Long-term disability	Reporting Fiscal Year (Measurement Date)							
	2024 (2023)	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Proportion of the net OPEB (asset)	0.03343%	0.03393%	0.03372%	0.03267%	0.03258%	0.03338%	0.03277%	0.03277%
Proportionate share of the net OPEB (asset)	\$ 4,381	\$ 3,134	\$ 6,961	\$ 24,784	\$ 21,224	\$ 17,441	\$ 11,878	\$ 11,776
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
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.10%	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	93.70%	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, 2024

ASRS - Long-term disability	Reporting Fiscal Year							
	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 7,005	\$ 6,048	\$ 7,602	\$ 6,732	\$ 5,992	\$ 5,340	\$ 5,296	\$ 4,457
Contributions in relation to the contractually required contribution	(7,005)	(6,048)	(7,602)	(6,732)	(5,992)	(5,340)	(5,296)	(4,457)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,763,869	\$ 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	0.15%	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



HINTONBURDICK
CPAs & ADVISORS

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

Board of Directors
Metropolitan Domestic Water Improvement District
Tucson, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Metropolitan Domestic Water Improvement District (District) as of and for the year ended June 30, 2024, 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 6, 2024.

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

Mesa, Arizona
September 6, 2024