

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component unit of Pima County, Arizona)

Audited Financial Statements

For the year ended June 30, 2017

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
For the year ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Marana Domestic Water Improvement District
Marana, Arizona

We have audited the accompanying financial statements of Marana Domestic Water Improvement District a component unit of the Pima County, Arizona, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marana Domestic Water Improvement District of the Pima County, Arizona, as of June 30, 2017, and the changes in fund net assets and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Marana Domestic Water Improvement District and do not purport to, and do not present fairly the fund net assets of the Pima County, Arizona, as of June 30, 2017, the changes in its fund net assets, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

C. Wesley Addison, P.C.

Tucson, Arizona
July 25, 2018

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

STATEMENT OF FUND NET ASSETS
June 30, 2017

ASSETS

Current assets:	
Cash and cash equivalents	\$ 233,716
Trade accounts receivable, net of \$-0- allowance	45,726
Prepaid expenses	1,735
Inventory	16,700
Total current assets	297,877
Fixed assets:	
Land	27,694
Building and improvements	78,489
Water system	2,797,901
Equipment	48,940
Meter reader and software	57,862
Vehicles	50,981
Total fixed assets	3,061,867
Less accumulated depreciation	(2,015,889)
Net fixed assets	1,045,978
Other assets:	
Debt reserve	107,208
Other reserves	116,997
Net other assets	224,205
Total assets	\$ 1,568,060

LIABILITIES AND FUND EQUITY

Current liabilities:	
Accounts Payable	\$ 16,289
Accrued and other liabilities	3,531
Deposits and rebates	13,300
Notes payable, current portion	52,304
Total current liabilities	85,424
Long-term liabilities:	
Notes payable	957,216
Less current portion	(52,304)
Less: unamortized debt issuance costs	(7,243)
Total long-term liabilities	897,669
Total liabilities	983,093
Net assets:	
Invested in capital assets, net of related debt	88,762
Restricted for debt service	107,208
Unrestricted	388,997
Total fund equity	584,967
Total liabilities and fund equity	\$ 1,568,060

See notes to financial statements

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

STATEMENT OF REVENUES, FUND NET ASSETS
For the year ended June 30, 2017

Operating revenues:	
Charges for services	\$ 494,687
Property tax revenue	<u>14,106</u>
Total operating revenues	508,793
Operating expenses:	
Employee compensation	163,716
Payroll taxes	21,478
Operating supplies and services	46,765
Utilities	44,216
Insurance premiums	26,120
Consultants and professional fees	20,090
General and administrative	52,387
Depreciation	116,374
Board meeting expenses	<u>3,743</u>
Total operating expenses	<u>494,889</u>
Operating income	13,904
Non-operating income and (expenses):	
Interest income	2,257
Interest expense note payable	<u>(41,202)</u>
Total non-operating expenses	<u>(38,945)</u>
Net loss	(25,041)
Net assets, beginning of year	<u>610,008</u>
Net assets, end of year	<u>\$ 584,967</u>

See notes to financial statements

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

STATEMENT OF CASH FLOWS
For the year ended June 30, 2017

Cash flows from operating activities:	
Cash received from customers for goods and services provided	\$ 519,212
Cash payments to suppliers for goods and services	(245,480)
Cash payments to employees for services	<u>(174,858)</u>
Net cash provided by operating activities	98,874
Cash flows from capital and related financing activities:	
Purchase of capital assets	-
Principal paid on bonds, notes, and equipment contracts	(50,584)
Other reserves	2,182
Debt reserve	<u>(29,713)</u>
Net cash (used) in capital and related financing activities	<u>(78,115)</u>
Net increase in cash and cash equivalents	20,759
Cash and cash equivalents at beginning of year	<u>212,957</u>
Cash and cash equivalents at end of year	<u>\$ 233,716</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (25,041)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	116,374
Amortization of debt issuance costs	497
Decrease in accounts receivable	10,385
Increase in prepaid expenses	(278)
Increase in other current assets	(317)
Increase in accounts payable	8,362
Increase in security deposits	34
Decrease in accrued liabilities	<u>(11,142)</u>
Net cash provided by operating activities	<u>\$ 98,874</u>

See notes to financial statements

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

1. Organization

The Marana Domestic Water Improvement District (MDWID) of Pima County is a municipal corporation organized in 1997 under the laws of Arizona. It is a public service corporation authorized to engage in the sale of water for commercial and domestic use. The Board of Directors has all the powers and duties of the Board of Supervisors of Pima County as the board of directors of a County improvement district that are not in conflict with the provisions of the law. The Pima County Supervisors may review and shall have veto authorization over all financial transactions of the Board of Directors of the District. Additionally, the Pima County Board of Supervisors may at any time revoke the authority of the Board of Directors of the District in order to protect the residents of the District. If this should occur, the Pima County Board of Supervisors would govern the District. Based on these factors, the District is reported as a separate component unit in the financial statements of Pima County.

2. Summary of Significant Accounting Policies

Proprietary Fund Accounting

The accounts of MDWID are organized as an Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water services to the general public on a continuing basis are financed through user charges.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

Basis of Accounting refers to when revenues and expenses are recognized in the accounts and reported in the consolidated financial statements. Basis of Accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of Accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

In accordance with Government Accounting Standards Board (GASB) Statement 20 – Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, only those applicable Financial Accounting Standards Board (FASB) Statements of Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989 are applied unless those pronouncements conflict with or contradict GASB pronouncements.

Deposits

The Arizona Revised Statutes (ARS) require that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the ARS. ARS allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

See independent auditor's report.

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

2. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all short term investments with a purchased maturity of three months or less to be cash equivalents. At June 30, 2017, cash equivalents included cash on hand, checking accounts held by Pima County Treasurer, and one account held with National Bank of Arizona.

Revenue Recognition

The financial statement is presented on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

The District received Property Tax Levy income this year, with the income being used for repairs and maintenance to the infrastructure of the District.

Deferred Charges

Deferred charges represent financing costs which are being amortized over the related life of the bond issue using the straight-line method.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at historical cost. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings	30-40 years
Furniture, fixtures and equipment	5-7 years
Water system	10-20 years

Property and equipment with an original cost over \$5,000 are capitalized and recorded at cost. The costs of maintenance and repairs renewals are charged to expense in the year incurred. Expenditures which increase the useful lives of equipment are capitalized. When items are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Financing Costs

The Corporation incurred various financing costs in connection with obtaining the note payable. These costs are being amortized on a straight-line basis over 30 years.

Inventory Supplies

The District has purchased supplies for equipment repair which have been included in other current assets until such time as they are needed by the District.

Accounting Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Reclassifications

Cash accounts have been reclassified to reserve asset accounts to show items restricted for debt service or compliance requirements. These reclassifications have no effect on previously reported net income but does change the beginning cash balance on the cash flow statement.

See independent auditor's report.

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

3. Notes and Bonds Payable

Notes payable

On February 22, 2002, the Water Infrastructure Finance Authority of Arizona (WIFA) entered into a loan agreement under the Drinking Water Revolving Fund Loan program with the Marana Domestic Water Improvement District, Inc. in the amount of \$1,156,115. The loan is payable in monthly installments, commencing September 1, 2002, of \$5,849 including interest at 2.918%. As of July 1, 2007, the interest rate and monthly payment schedule have been adjusted, and will be adjusted three more times with the final payment due February 2032. At June 30, 2017, the outstanding balance is \$689,576.

Marana Domestic Water Improvement District must meet compliance requirements for the WIFA loan. These requirements include producing revenue in each year sufficient to pay Operations and Maintenance expenses for the system and revenues that equal the sum of 120% of the aggregate of the debt service or comparable payments and 100% of the debt service on comparable payments. The district had operating income before depreciation of \$130,278 while the debt service for the next year is \$59,499. The district has complied with the compliance requirements of WIFA.

Notes payable maturities are as follows:

For the years ending June 30,	Principal	Interest
2018	\$ 39,547	\$ 19,951
2019	40,738	18,761
2020-2024	222,852	74,643
2025-2029	258,495	39,000
2030-2032	127,944	4,435
	\$ 689,576	\$ 156,790

Bonds Payable

On February 19, 2004, the Rural Utility Services entered into a bond agreement with the Marana Domestic Water Improvement District, Inc. in the amount of \$397,000. The loan is payable in semi-annual installments, commencing January 1, 2004, for a total annual payment of \$25,135 including interest at 4.625% through January 1, 2032. At June 30, 2017, the outstanding balance of the bonds payable is \$267,640.

Bonds payable maturities are as follows:

For the years ending June 30,	Principal	Interest
2018	\$ 12,757	\$ 12,378
2019	13,347	11,788
2020-2024	76,587	49,090
2025-2029	96,013	29,664
2030-2032	68,936	6,463
	\$ 267,640	\$ 109,383

See independent auditor's report.

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

3. Notes and Bonds Payable, continued

Schedule of Changes in Bonds and Notes Payable

Discretely presented component unit of Pima County:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due within 1 year
WIFA loan payable	\$ 727,967	\$ -0-	\$ 38,391	\$ 689,576	\$ 39,547
USRD bonds	<u>279,833</u>	<u>-0-</u>	<u>12,193</u>	<u>267,640</u>	<u>12,757</u>
Total	<u>\$ 1,007,800</u>	<u>\$ -0-</u>	<u>\$ 45,856</u>	<u>\$ 957,216</u>	<u>\$ 52,304</u>

Unamortized Debt Issuance Costs

The Company incurred various financing costs in connection with obtaining the mortgage payable. These costs are being amortized on a straight-line basis over 30 years, the life of the loan. When the loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

Debt issuance costs	\$ 14,900
Less amortized costs	<u>7,657</u>
Total unamortized debt issuance costs	<u>\$ 7,243</u>

4. Debt Service Reserve

The terms of the WIFA loan require a debt service of \$58,494 be established. The debt service reserve contributions are payable in monthly installments of \$975. As of June 30, 2017, the WIFA debt service reserve balance is \$60,070. The USRD bond requires a reserve be established over a ten year period which will total \$25,496. The payment is to be paid annually in the amount of \$2,549. As of June 30, 2017, the USRD reserve balance is \$47,138.

5. Fair Value of Financial Instruments

The Corporation's financial instruments are cash and cash equivalents, accounts receivable, accounts payable, notes payable, and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The recorded values of notes payable and long-term debt approximate their fair values, as interest approximates market rates.

6. Current Vulnerability Due to Certain Concentrations

The Corporation's sole asset is Marana Domestic Water District. The Corporation's operations are concentrated in the water utility market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by these agencies. Such changes may occur with little notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with a change.

See independent auditor's report.

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
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NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

7. Schedule of Changes in Fixed Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 27,694	\$ -0-	\$ -0-	\$ 27,694
Buildings and Improvements	78,489	-0-	-0-	78,489
Water System	2,797,901	-0-	-0-	2,797,901
Equipment	48,940	-0-	-0-	48,940
Meter Reader and Software	57,862	-0-	-0-	57,862
Vehicles	50,981	-0-	-0-	50,981
Total	<u>\$ 3,061,867</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 3,061,867</u>

Schedule of Changes in Accumulated Depreciation

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Buildings and Improvements	\$ 45,658	\$ 3,524	\$ -0-	\$ 49,182
Water System	1,673,650	109,068	-0-	1,782,718
Equipment	46,308	540	-0-	46,848
Meter Reader and Software	87,949	2,327	-0-	90,276
Vehicles	45,950	915	-0-	46,865
Total	<u>\$ 1,899,515</u>	<u>\$ 116,374</u>	<u>\$ -0-</u>	<u>\$ 2,015,889</u>

8. Date of Management's review

In accordance with ASC 855, the Company has evaluated subsequent events through July 25, 2018, the date these financials were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

See independent auditor's report.

SUPPLEMENTARY INFORMATION

MARANA DOMESTIC WATER IMPROVEMENT DISTRICT
(A Component Unit of Pima County, Arizona)

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017

	Administrative	Operating	Total
Employee compensation	\$ 65,375	\$ 98,341	\$ 163,716
Payroll taxes	8,576	12,902	21,478
Operating supplies and services	-	46,765	46,765
Utilities	2,211	42,005	44,216
Insurance premiums	4,702	21,418	26,120
Consultants and professional services	-	20,090	20,090
General and administrative	52,387	-	52,387
Board expenses	3,743	-	3,743
Depreciation	5,819	110,555	116,374
Total expenses before interest expense	142,813	352,076	494,889
Interest Expense	-	41,202	41,202
Total expenses	\$ 142,813	\$ 393,278	\$ 536,091

See Independent Auditor's Report