GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen
CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Green Valley Domestic Water Improvement District
Green Valley, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Green Valley Domestic Water Improvement District (the District), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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.

Board of Directors
Green Valley Domestic Water Improvement District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Tucson, Arizona
December 10, 2018

INTRODUCTION

The Green Valley Domestic Water Improvement District (the District) was formed on December 17, 2002, 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 a water system and operating the water system, with operations commencing May 21, 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of four components: 1) statement of net position; 2) statement of revenues, expenses, and changes in net position; 3) statement of cash flows; and 4) notes to the financial statements.

STATEMENTS OF NET POSITION

The statement of net position (balance sheet) presents information about the District's assets and deferred outflows less liabilities and deferred inflows, with the difference being reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on pages 8 and 9 of this report.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., trade accounts receivable). The statement of revenues, expenses, and changes in net position can be found on page 10 of this report.

STATEMENTS OF CASH FLOWS

The statement of cash flows measures the District's ability to fund operations and capital spending from funds generated from operations. This measure excludes noncash gains and losses. The statement of cash flows can be found on page 11 of this report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies describes accounting policies, which are the specific accounting policies and methods of applying those principles, used by the District in preparing its financial statements. Accounting principles generally accepted in the United States of America require disclosure of all accounting policies that materially affect the determination of financial position, results of operations, and cash flows. The summary of significant accounting policies are listed on pages 12 through 18 of this report as Note 1 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12 through 30 of this report.

BUSINESS ACTIVITIES

The District was formed through the efforts of its residents to ensure they had a local voice about their water. The District serves approximately 4,400 customers in the geographical area south of Mission Twin Buttes Road to Elephant Head Road and generally west of Interstate 19 in Pima County, Arizona. Water is provided to residential, commercial, and golf course customers. Customers have control of their water rates by electing a board of directors from property owners within District boundaries.

THE DISTRICT AS A WHOLE

On May 21, 2003, Green Valley Municipal Property Corporation, an Arizona nonprofit corporation, acquired substantially all of the operating assets of Green Valley Water Company for lease to Green Valley Domestic Water Improvement District, an Arizona tax-levying improvement district. The purchase was financed through issuance of $9,305,000 lease revenue bonds.

The District's net position at June 30, 2018 of $2.549 million, decreased by 5.2% from June 30, 2017. The decrease is the result of an increase in repairs and maintenance and other operating costs during fiscal year 2018. The District's net position at June 30, 2017 decreased by 0.05% from June 30, 2016, decreasing from $2.690 million to $2.689 million. The fiscal year 2017 decrease can be attributed to a reduction in service revenue. The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District that includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid.

THE DISTRICT AS A WHOLE (CONTINUED)

The following table shows a comparison of assets, deferred outflows, liabilities, and net position for June 30, 2018, 2017, and 2016, is as follows:

	June 30, 2018	June 30, 2017	June 30, 2016
ASSETS			
Current Assets	$ 2,252,510	$ 2,092,649	$ 2,070,223
Capital Assets, Net of Accumulated Depreciation and Amortization	8,231,873	8,906,698	9,282,701
Total Assets	10,484,383	10,999,347	11,352,924
DEFERRED OUTFLOWS			
Pension	77,022	129,575	91,678
Loss on Refunding Debt	115,785	123,255	130,725
Total Deferred Outflows	192,807	252,830	222,403
CURRENT LIABILITIES	519,426	508,198	513,303
NONCURRENT LIABILITIES	7,566,618	7,972,163	8,316,375
Total Liabilities	8,086,044	8,480,361	8,829,678
DEFERRED INFLOWS			
Pension	41,670	83,065	55,419
Total Net Position	$ 2,549,476	$ 2,688,751	$ 2,690,230

THE DISTRICT AS A WHOLE (CONTINUED)

The following table shows a comparison of the revenues and expenses for the year ended June 30, 2018, 2017, and the 18 months ended June 30, 2016, is as follows:

	Year Ended June 30, 2018	Year Ended June 30, 2017	18 Months Ended June 30, 2016
OPERATING REVENUE			
Metered Water Sales	$ 1,800,882	$ 1,732,850	$ 2,642,773
Service Charges and Penalties	77,284	51,299	65,684
Golf Course Revenue	641,002	688,986	922,529
Contributed Infrastructure	-	-	300,000
Other Water Revenue	117,978	86,965	145,267
Total Operating Revenue	2,637,146	2,560,100	4,076,253
OPERATING EXPENSES			
Salaries and Employee Benefits	582,755	601,060	849,982
Materials and Supplies	63,519	48,679	69,225
Utilities	212,090	225,934	316,863
Repairs and Maintenance	430,171	252,447	393,083
CAP Water Contract	85,500	58,900	64,600
Insurance and Taxes	81,488	78,751	114,613
Other Operating Expenses	191,925	184,223	243,590
Depreciation and Amortization	876,878	839,818	1,206,761
Total Operating Expenses	2,524,326	2,289,812	3,258,717
OPERATING INCOME	112,820	270,288	817,536
NONOPERATING REVENUE			
Gain on Disposal of Assets	7,500	-	-
NONOPERATING EXPENSES			
Amortization of Loss on Refunding of Debt	(7,470)	(7,470)	(11,205)
Interest Expense	(252,125)	(264,297)	(418,020)
Total Nonoperating Expenses	(252,095)	(271,767)	(429,225)
INCREASE (DECREASE) IN NET POSITION	(139,275)	(1,479)	388,311
Net Position – Beginning of Year	2,688,751	2,690,230	2,301,919
NET POSITION – END OF YEAR	$ 2,549,476	$ 2,688,751	$ 2,690,230

The District's net position decreased this year due to an increase in operating expense of 10.24% partially offset by an increase in operating revenue of 3.00%. For 2016, the District's net position benefited by a significant amount of contributed infrastructure as well as the period being 18 months.

REVENUES AND EXPENSES

Total expenses exceed revenues by $139,275 for the year ended June 30, 2018. Total expenses exceeded revenues by $1,479 for the year ended June 30, 2017.

Operating revenues for the year ended June 30, 2018 increased by $77,046 over 2017. 2017 decreased by $1,516,153 from June 30, 2016. The decrease at June 30, 2017 is due to there being 18 months in the fiscal period ended June 30, 2016.

Operating expenses for the year ended June 30, 2018 increased by $234,514 from the year ended June 30, 2017. The increase at June 30, 2018 is due to a rise in repairs and maintenance expense. Operating expenses for the year ended June 30, 2017 decreased by $968,905 because fiscal 2016 was for 18 months.

CAPITAL ASSETS

Capital assets, net of accumulated depreciation and amortization decreased by $674,825 as of the year ended June 30, 2018. The decrease is due to the disposal of assets and accumulated depreciation. Capital assets, net of accumulated depreciation and amortization, decreased by $376,003 during the year ended June 30, 2017. The decrease was due to accumulated depreciation. Capital assets, net of accumulated depreciation and amortization, increased by $67,966 during the 18-month period ended June 30, 2016. The increase was due to additions to the plant.

LONG-TERM DEBT

As of June 30, 2018 and 2017, and 2016, long-term debt was $7,292,627, $7,654,299, and $8,004,000, respectively. These amounts represent two 2013 series bonds secured by water revenue sources. The decrease in long-term debt was the result of payment of scheduled principal each year. There was no new long-term debt in either year.

CONTACTING THE DISTRICT OFFICE

This financial report is designed to provide our customers, consultants, and financial advisors with a general overview of the District's finances and to show the District's accountability for the revenue it receives. If you have any questions about this report or need additional information, contact the Chairman, Green Valley Domestic Water Improvement District, P.O. Box 623, Green Valley, Arizona 85622 or call 520-625-9112.

GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS

	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,867,929	$ 1,756,394
Trade Accounts Receivable, Net of Allowance	275,203	207,148
Unbilled Water Revenue and Prepaid Expenses	109,378	129,107
Total Current Assets	2,252,510	2,092,649
NONCURRENT ASSETS		
Capital Assets, Not Being Depreciated	1,296,895	1,188,298
Capital Assets, Net of Accumulated Depreciation and Amortization	6,238,869	6,975,624
Goodwill, Net of Accumulated Amortization	696,109	742,776
Total Noncurrent Assets	8,231,873	8,906,698
Total Assets	10,484,383	10,999,347
DEFERRED OUTFLOWS		
Pension	77,022	129,575
Loss on Refunding of Debt, Net	115,785	123,255
Total Deferred Outflows	192,807	252,830
Total Assets and Deferred Outflows	$ 10,677,190	$ 11,252,177

See accompanying Notes to Financial Statements.

GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS, AND NET POSITON	2018	2017
CURRENT LIABILITIES		
Accounts Payable	$ 72,543	$ 98,727
Accrued Liabilities	36,829	38,761
Sales Tax Payable	28,998	2,038
Deposits	7,000	7,000
Current Portion of Bonds Payable	374,056	361,672
Total Current Liabilities	519,426	508,198
NONCURRENT LIABILITIES		
Bonds Payable, Less Current Portion	6,918,571	7,292,627
Net Pension Liability – ASRS	648,047	679,536
Total Noncurrent Liabilities	7,566,618	7,972,163
Total Liabilities	8,086,044	8,480,361
DEFERRED INFLOWS		
Pension	41,670	83,065
NET POSITION		
Net Investment in Capital Assets	939,246	1,252,399
Unrestricted	1,610,230	1,436,352
Total Net Position	2,549,476	2,688,751
Total Liabilities, Deferred Inflows, and Net Position	$ 10,677,190	$ 11,252,177

See accompanying Notes to Financial Statements.

GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Metered Water Sales	$ 1,800,882	$ 1,732,850
Service Charges and Penalties	77,284	51,299
Golf Course Revenues	641,002	688,986
Other Water Revenues	117,978	86,965
Total Operating Revenues	2,637,146	2,560,100
OPERATING EXPENSES		
Salaries and Employee Benefits	582,755	601,060
Materials and Supplies	63,519	48,679
Utilities	212,090	225,934
Repairs and Maintenance	430,171	252,447
CAP Water Contract	85,500	58,900
Insurance and Taxes	81,488	78,751
Other Operating Expenses	191,925	184,223
Depreciation and Amortization	876,878	839,818
Total Operating Expenses	2,524,326	2,289,812
OPERATING INCOME	112,820	270,288
NONOPERATING EXPENSES		
Amortization of Loss on Refunding of Debt	(7,470)	(7,470)
Interest Expense	(252,125)	(264,297)
Gain on Disposal of Assets	7,500	-
Total Nonoperating Expenses	(252,095)	(271,767)
DECREASE IN NET POSITION	(139,275)	(1,479)
Net Position – Beginning of Year	2,688,751	2,690,230
NET POSITION – END OF YEAR	$ 2,549,476	$ 2,688,751

See accompanying Notes to Financial Statements.

GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 2,588,820	$ 2,591,349
Cash Payments to Suppliers of Goods and Services	(1,092,404)	(820,873)
Cash Payments to Employees for Services	(569,061)	(638,518)
Net Cash Provided by Operating Activities	927,355	1,131,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property, Plant, and Equipment	(202,053)	(463,815)
Proceeds from Sale of Property, Plant, and Equipment	7,500	-
Amortization of Loss on Refunding of Debt	(7,470)	(7,470)
Repayment of Bonds Payable	(361,672)	(349,701)
Interest Paid on Bonds Payable	(252,125)	(264,297)
Net Cash Used by Capital and Related Financing Activities	(815,820)	(1,085,283)
NET INCREASE IN CASH AND CASH EQUIVALENTS	111,535	46,675
Cash and Cash Equivalents – Beginning of Year	1,756,394	1,709,719
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 1,867,929	$ 1,756,394

RECONCILATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 112,820	$ 270,288
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	876,878	839,818
Effects of Changes in Operating Assets and Liabilities:		
Trade Accounts Receivable, Net of Allowance	(68,055)	42,734
Unbilled Accounts Receivable	19,729	(18,485)
Deferred Outflows	60,023	(30,427)
Accounts Payable	(26,184)	(28,145)
Accrued Liabilities	(1,932)	(2,750)
Deposits	-	7,000
Net Pension Liability	(31,489)	23,296
Sales Tax Payable	26,960	983
Deferred Inflows	(41,395)	27,646
Net Cash Provided by Operating Activities	$ 927,355	$ 1,131,958

NONCASH DISCLOSURES		
Amortization of Loss on Refunding of Debt	$ 7,470	$ 7,470

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Green Valley Domestic Water Improvement District (the District) was formed on December 17, 2002, with operations commencing May 21, 2003, 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 a water system and operating the water system.

The Green Valley Domestic Water Improvement District Board of Directors on February 21, 2003, formed the Green Valley Municipal Property Corporation (MPC) – a nonprofit corporation, for the sole purpose of assisting the District in financing the acquisition of substantially all of the operating assets of Green Valley Water Company, and to assist the District in any other matters and financings requested. During 2014, the board of directors approved the dissolution of the MPC and all accounts in MPC were transferred to the District.

The following is a summary of the District's significant policies:

The District's basic financial statements conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended,* and related pronouncements. Statement No. 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

<u>Net Investment in Capital Assets</u> – This component of net position consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

<u>Restricted</u> – This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

<u>Unrestricted</u> – This component of net position consists of the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reporting Entity

The financial statements of the District include all the operations of the District that are within the powers of the District's board of directors. The District became a component unit of Pima County, Arizona for the 2004 financial reporting period and was included in Pima County's Comprehensive Annual Financial Report. The decision to include the District in the reporting entity of Pima County was made by applying the criteria as set forth in generally accepted accounting principles (GAAP). Pima County was financially accountable for the District because PCBOS reviewed all financial transactions of the board of directors of the District. PCBOS had the authority to revoke the authority of the board of directors of the District in order to protect the residents of the District.

Legislation was passed in 1999 to remove the veto authority of a county board of supervisors (for the county within which a large domestic water improvement district is located) over the domestic water improvement district's financial transactions. This legislation was signed by the Governor and became effective August 6, 1999.

On July 3, 2013, the District issued revenue bonds in the amount of $7,050,000. Proceeds from this bond issuance were used to pay the 2003 bonds in full. On December 20, 2013, the District issued revenue bonds in the amount of $1,750,000. The proceeds from this second bond issuance were used to pay the WIFA loans in full.

On October 21, 2015, the District board of directors and the bank servicing the bonds approved the change of fiscal year-end from December 31 to June 30, effective as of that date.

Proprietary Fund Accounting

The accounts of the District are organized as an Enterprise Fund. An Enterprise Fund is used to account for business-type activities 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statements of net position. Net position is segregated into components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the 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.

Deposits and Investments

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 from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments are reported at fair value, as required by GASB Statement No. 31.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations, which generally require payment within 15 days from the invoice date. Accounts receivable are stated at the invoice amount. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due to the District could be adversely affected. Accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to allowance for doubtful accounts.

An allowance for doubtful accounts of $5,000 was recorded as of June 30, 2018 and 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

Reservoirs, Transmission and Distribution Mains, Hydrants, and Valves	7 to 20 Years
Structures, Buildings, and Improvements	20 Years
Wells, Pumping Equipment, Water Treatment Equipment, and Meters	7 to 20 Years
Other Plant Equipment	3 to 5 Years
Office Furniture, Equipment, and Vehicles	3 to 5 Years

Intangible Assets

The District acquired substantially all of the operating assets of Green Valley Water Company in a business combination accounted for as a purchase. The purchase price of $8,100,000 exceeded the net asset values of Green Valley Water Company at the date of acquisition by $1,400,000, which was considered goodwill that is being amortized on the straight-line method over 30 years.

Accumulated amortization totaled $703,891 and $657,224 at June 30, 2018 and 2017, respectively.

Unbilled Accounts Receivable

Unbilled accounts receivable are charges for services provided but not billed.

Presentation of Deferred Outflows and Deferred Inflows

Deferred outflows of resources are reported in the statement of net position in a separate section following assets. Deferred inflows of resources are reported in a separate section following liabilities. The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities for financial reporting purposes.

Compensated Absences

The District accrues vacation and sick leave as a liability when earned by employees.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Long-Term Obligations

Long-term debt obligations are reported as liabilities on the statement of net position. Bond premiums, discounts are amortized over the life of the bonds using the straight-line method.

Operating and Nonoperating Revenues and Expense

Operating revenues include the sales of water and other operating revenues such as service charges and hookup fee revenues. Operating expense includes power and water purchases and other costs to operate and maintain the District’s water system, including salaries, materials and supplies, contract services, insurance and taxes, depreciation, and other operating expenses. Nonoperating revenues include interest income. Nonoperating expenses include interest, amortization of intangible assets, and amortization of bond-related expenses.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan’s fiduciary net position and additions to/deductions from the plan’s 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 benefits terms. Investments are reported at fair value.

New Accounting Standards

GASB Statement No. 83, *Certain Asset Retirement Obligations.* This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for fiscal year 2019, it is not anticipated to impact the District.

GASB Statement No. 84, *Fiduciary Activities.* This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for fiscal year 2019, it is not anticipated to impact the District.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

GASB Statement No. 87, *Leases.* This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement is effective for fiscal year 2021. Management is in the process of determining the effect on the District upon adoption of this Statement.

Subsequent Events

Management evaluated subsequent events through December 10, 2018, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to December 10, 2018, that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2018.

NOTE 2 CASH AND CASH EQUIVALENTS

As of June 30, 2018, the District held no investments.

Interest Rate Risk

In accordance with Arizona statutes and its investment policy, the District manages its exposure to declines in fair values by limiting the maturity of investments to a maximum of five years. Operating funds are limited to three years.

Credit Risk

State law limits investments in commercial paper and corporate bonds to the two top ratings issued by nationally recognized statistical rating organizations. The District's investment policy incorporates these limits by reference to state law.

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District policies require that deposits in excess of depository insurance be secured by collateral pledged by the depository institution. As of June 30, 2018, the District's management believes the bank balances were fully insured or collateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy is to secure its investments through third party custody and safekeeping procedures with an institution designated as the primary agent. The primary agent issues a safekeeping receipt listing the specific instrument, the interest rate, the maturity, the CUSIP number, and other pertinent information.

The above fair values of deposits and investments are summarized on the accompanying statement of net position as follows:

	June 30, 2018	June 30, 2017
Total Deposits	$ 1,867,929	$ 1,756,394

Summary of cash and cash equivalents and noncash equivalents is as follows:

	June 30, 2018	June 30, 2017
Cash and Cash Equivalents	$ 1,867,929	$ 1,756,394
Total Deposits and Investments	$ 1,867,929	$ 1,756,394

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	June 30, 2017 Balances	Increases	Decreases	June 30, 2018 Balances
Capital Assets Not Being Depreciated:				
Land	$ 17,050	$ 72,027	$ -	$ 89,077
Water Supply and Recharge Rights	1,171,248	-	-	1,171,248
Construction in Progress	-	36,570	-	36,570
Total Capital Assets Not Being Depreciated	1,188,298	108,597	-	1,296,895
Capital Assets Being Depreciated:				
Water Systems	9,703,387	-	-	9,703,387
Building and Improvements	2,504,434	-	-	2,504,434
Vehicles, Machinery, and Equipment	2,702,892	93,456	(409,831)	2,386,517
Land Rights	25,500	-	-	25,500
Goodwill	1,400,000	-	-	1,400,000
Total Capital Assets Being Depreciated	16,336,213	93,456	(409,831)	16,019,838
Less: Accumulated Depreciation and Amortization for:				
Water Systems	5,339,756	491,860	-	5,831,616
Building and Improvements	841,912	179,438	-	1,021,350
Vehicles, Machinery, and Equipment	1,767,871	157,893	(409,831)	1,515,933
Land Rights	11,050	1,020	-	12,070
Goodwill	657,224	46,667	-	703,891
Total Accumulated Depreciation and Amortization	8,617,813	876,878	(409,831)	9,084,860
Total Capital Assets Being Depreciated and Amortized, Net	7,718,400	(783,422)	-	6,934,978
Capital Assets, Net	$ 8,906,698	$ (674,825)	$ -	$ 8,231,873

NOTE 4 CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2017 was as follows:

	June 30, 2016 Balances	Increases	Decreases	June 30, 2017 Balances
Capital Assets Not Being Depreciated:				
Land	$ 17,050	$ -	$ -	$ 17,050
Water Supply and Recharge Rights	1,171,248	-	-	1,171,248
Total Capital Assets Not Being Depreciated	1,188,298	-	-	1,188,298
Capital Assets Being Depreciated:				
Water Systems	9,570,423	132,964	-	9,703,387
Building and Improvements	2,237,721	266,713	-	2,504,434
Vehicles, Machinery, and Equipment	2,638,754	64,138	-	2,702,892
Land Rights	25,500	-	-	25,500
Goodwill	1,400,000	-	-	1,400,000
Total Capital Assets Being Depreciated	15,872,398	463,815	-	16,336,213
Less: Accumulated Depreciation and Amortization for:				
Water Systems	4,851,357	488,399	-	5,339,756
Building and Improvements	688,846	153,066	-	841,912
Vehicles, Machinery, and Equipment	1,617,204	150,667	-	1,767,871
Land Rights	10,030	1,020	-	11,050
Goodwill	610,558	46,666	-	657,224
Total Accumulated Depreciation and Amortization	7,777,995	839,818	-	8,617,813
Total Capital Assets Being Depreciated and Amortized, Net	8,094,403	(376,003)	-	7,718,400
Capital Assets, Net	$ 9,282,701	$ (376,003)	$ -	$ 8,906,698

Depreciation and amortization expense was $876,878 and $839,818 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5 BONDS PAYABLE

Revenue refunding bonds payable at June 30, 2018 and 2017 are comprised of the following:

Description	June 30, 2018	June 30, 2017
Green Valley Domestic Water Improvement District of Pima County, Water Revenue Refunding Bond, Series 2013, due in monthly installments of principal and interest in the amount of $40,716 through July 1, 2033; interest rate is 3.25%, secured by water revenues.	$ 5,819,467	$ 6,113,723
Green Valley Domestic Water Improvement District of Pima County, Water Revenue Refunding Bond, Second Series 2013, due in monthly installments of principal and interest in the amount of $10,525 through January 1, 2034; interest rate is 3.90%, secured by water revenues.	1,473,160	1,540,576
Total Bonds Payable	7,292,627	7,654,299
Less: Current Portion	(374,056)	(361,672)
Total Long-Term Bonds Payable, Net of Current Portion	$ 6,918,571	$ 7,292,627

In a resolution adopted June 27, 2013, the District approved the authorization of the Series 2013 Water Revenue Refunding bonds not to exceed $7.05 million. The primary purpose of the bond issue was to pay and redeem the Series 2003 bonds.

In a resolution adopted December 12, 2013, the District approved the authorization of the Second Series 2013 bond not to exceed $1.8 million. The primary purpose of this bond issue was to prepay the outstanding WIFA loans.

NOTE 6 REFUNDING OF BONDS

On June 27, 2013, the District issued $7,050,000 water revenue refunding bonds Series 2013 to refund Series 2003 lease revenue bonds and to pay costs related to the issuance of the bonds. The interest rate on Series 2013 was 3.25% with a final maturity due July 1, 2033. The refunded bonds will reduce the total debt service payment over the next 20 years of the bonds by approximately $2,520,000 and obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $1,892,000.

NOTE 7 LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2018 are as follows:

	June 30, 2017	Increases	Decreases	June 30, 2018	Current Portion
Series 2013 Bonds	$ 7,654,299	$ -	$ (361,672)	$ 7,292,627	$ 374,056
Total	$ 7,654,299	$ -	$ (361,672)	$ 7,292,627	$ 374,056

	June 30, 2016	Increases	Decreases	June 30, 2017	Current Portion
Series 2013 Bonds	$ 8,004,000	$ -	$ (349,701)	$ 7,654,299	$ 361,672
Total	$ 8,004,000	$ -	$ (349,701)	$ 7,654,299	$ 361,672

Debt service requirements on long-term obligations after June 30, 2018 are as follows:

	2013 Series I Bonds		2013 Series II Bonds	
Year Ending June 30,	Principal	Interest	Principal	Interest
2019	$ 303,960	$ 184,631	$ 70,096	$ 56,209
2020	313,987	174,604	72,876	53,426
2021	324,345	164,244	75,769	50,533
2022	335,047	153,546	78,778	47,524
2023	346,104	142,493	81,906	44,396
2024 – 2028	1,908,986	533,483	460,969	170,541
2029 – 2033	2,245,920	197,056	560,043	71,466
2034	41,113	110	72,728	949
Total	$ 5,819,462	$ 1,550,167	$ 1,473,165	$ 495,044

NOTE 8 LINE OF CREDIT

The District maintained a revolving line of credit with Wells Fargo Bank, N.A. which matured in March 2017. At June 30, 2018, the District did not have a line of credit.

NOTE 9 SOURCES OF PAYMENT OF THE BONDS

At June 30, 2018, the bonds are special revenue obligations of the District, payable solely from water system revenues. The District has pledged net revenues to the trustee, for the benefit of the owners of the bonds, its right to receive the net revenues. The bonds are not general obligations of the District, the county, or the state, and neither constitutes an indebtedness of the District or a charge against the general taxing power of the District nor a liability of the District or the District for payment of the bonds from any source other than the sources pledged therefore. The bonds are not secured in any manner by special assessments levied by the District.

NOTE 9 SOURCES OF PAYMENT OF THE BONDS (CONTINUED)

General

The bonds are payable as to both principal and interest from water revenues derived by the District from the operation of the water system. For purposes of the bond issuance, the term "water revenues" means all service charges, income, moneys, and receipts derived by the District from the ownership, use, and operation of the water system, or any part thereof, including, without limitation, interest received on, and profits realized from the sale of, investments made with moneys of the water system, minus operating expenses (all reasonable and normal expenses incurred by the District in connection with the operation of the water system).

Rate Covenant

At June 30, 2018, the District has covenanted in its resolution and to establish and maintain water system rates, fees, and other charges sufficient to pay operating expenses and to produce an aggregate amount of water revenues in excess of expense in each fiscal year equal to at least 120% of the then-current fiscal year's principal and interest requirements on the bonds. At June 30, 2018, management believes the District was in compliance with the covenant.

NOTE 10 RETIREMENT PLAN

The District records its retirement plan in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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 web site at www.azasrs.gov.

NOTE 10 RETIREMENT PLAN (CONTINUED)

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 Months of Last 120 Months	Highest 60 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 earnings. 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 survivor benefit is determined by the retirement benefit option chosen. 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.

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, 2018, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 11.48% (11.34% for retirement and 0.14% for long-term disability) of the active members' annual covered payroll. For the year ended June 30, 2017, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 11.48% (11.34% for retirement and 0.14% for long-term disability) of the active members' annual covered payroll.

NOTE 10 RETIREMENT PLAN (CONTINUED)

The District's contributions for the current and prior period, all of which were equal to the required contributions, were as follows:

Period Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
June 30, 2016	63,840	2,941	306
June 30, 2017	42,740	1,863	447
June 30, 2018	43,705	2,122	533

Pension Liability – At June 30, 2018 and 2017, the District reported a liability of $648,047 and $679,536, respectively, for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability form an actuarial valuation as of June 30, 2016 to the measurement date of June 30, 2017. The District's proportion of the net pension 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, 2017. The District's proportion measured as of June 30, 2018 and 2017 was 0.00004160% and 0.00004207%, respectively, a decrease of 0.0000047%.

Pension Expense and Deferred Outflows/Inflows of Resources – For the years ended June 30, 2018 and 2017, the District recognized pension expense for ASRS of $27,339 and $60,650, respectively. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -	$ 41,670
Difference Between Projected and Actual Earnings on Pension Plan Investments	4,653	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	518	-
Changes in Assumptions	28,146	-
District Contributions Subsequent to the Measurement Date	43,705	-
Total	$ 77,022	$ 41,670

NOTE 10 RETIREMENT PLAN (CONTINUED)

The $43,705 reported as deferred outflows of resources related to ASRS pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the ASRS pension will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2018	$ (28,235)
2019	24,360
2020	7,429
2021	(11,907)

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

Actuarial Valuation Date	June 30, 2016
Actuarial Roll-Forward Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation	Fair value
Investment Rate of Return	8%
Projected Salary Increases	3 – 6.75%
Inflation	3%
Permanent Benefit Increase	Included
Mortality Rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012.

NOTE 10 RETIREMENT PLAN (CONTINUED)

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

	Expected Return Arithmetic Basis		
Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.73%	3.87%
Fixed Income	25%	3.70%	0.91%
Commodities	2%	3.84%	0.08%
Real Estate	10%	4.25%	0.42%
Multi-Asset Class	5%	3.41%	0.17%
Total	100%		5.45%
Inflation			3.25%
Expected Arithmetic Nominal Return			8.70%

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.70%. 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 pension plan's fiduciary net positon was project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 10 RETIREMENT PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8% as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

	1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
District's Proportionate Share of Net Pension Liability	$ 831,779	$ 648,047	$ 494,523

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

NOTE 11 INSURANCE AND RISK MANAGEMENT

The District is exposed to various risks of losses related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained commercial coverage for Workers' Compensation Insurance, Employers Liability Insurance, Other States Insurance, and Commercial Property Coverage. The District retains all of the risk not covered by commercial carriers and has effectively managed risk through various employee education and prevention programs.

GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY COST-SHARING PLANS
JUNE 30, 2018 AND 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2018 (2017)	2017 (2016)	2016 (2015)
District's Proportion of the Net Pension Liability	0.004160%	0.004207%	0.004210%
District's Proportionate Share of the Net Pension Liability	$ 648,047	$ 679,536	$ 656,240
District's Covered-Employee Payroll	$ 430,154	$ 416,990	$ 400,835
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	150.65%	162.96%	163.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.92%	67.06%	68.35%

GREEN VALLEY DOMESTIC WATER IMPROVEMENT DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
JUNE 30, 2018 AND 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2018 (2017)	2017 (2016)	2016 (2015)
Statutorily Required Contribution	$ 43,705	$ 42,740	$ 44,258
District's Contributions in Relation to the Statutorily Required Contribution	(43,705)	(42,740)	(44,258)
District's Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered-Employee Payroll	$ 430,154	$ 416,990	$ 400,835
District's Contributions as a Percentage of Covered-Employee Payroll	10.16%	10.25%	11.04%

The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.