

AGENDA ITEM #7 - ATTACHMENT B

**ARIZONA MUNICIPAL WATER
USERS ASSOCIATION
Phoenix, Arizona**

**FINANCIAL STATEMENTS
June 30, 2009 and 2008**

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Independent Auditor's Report

Board of Directors
Arizona Municipal Water Users Association
Phoenix, Arizona

We have audited the accompanying balance sheets of Arizona Municipal Water Users Association (AMWUA) as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of AMWUA's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AMWUA as of June 30, 2009 and 2008, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 to 9 is not a required part of the basic financial statements, but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements of AMWUA taken as a whole. The accompanying supplementary information is presented on a budget basis for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clifton Henderson LLP

Phoenix, Arizona
November 16, 2009

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
Management's Discussion and Analysis
June 30, 2009 and 2008

The following Management Discussion and Analysis (MD&A) of the Arizona Municipal Water Users's Association's (AMWUA) activities and financial performance provides an introduction to AMWUA's financial statements for the fiscal years ended June 30, 2009 and 2008.

Financial and Operational Highlights

Total net assets for AMWUA totaled \$989,739 at June 30, 2009 and \$1,061,655 at June 30, 2008, decreasing by \$71,916 for fiscal year 2009 and increasing by \$7,874 for fiscal year 2008.

For fiscal year 2009 revenues assessed to the member cities totaled \$1,474,528, net of a \$4,227 carryover from the previous fiscal year which represents a \$6,326 decrease from fiscal year 2008. For fiscal year 2008 revenues assessed to the member cities totaled \$1,480,854, net of a \$35,000 one-time membership contribution from the City of Avondale which represented a \$71,967 increase from fiscal year 2007.

In fiscal year 2009, total operating expenses were \$35,391 greater than in fiscal year 2008. A summary of the expense categories with major decreases and increases from last year's figures are as follows:

- Seven expense categories resulted in increases totaling \$99,665 when compared to the previous year's totals. The majority (89%) of this increase was in Salaries and Benefits. Salaries consist of payments made for work performed, retirement contributions, and payroll taxes and insurance. Total salaries increased due to a board approved pay raise, plus AMWUA had a total of 10 employees for the entire 2009 fiscal year. Whereas, AMWUA started fiscal year 2008 with only 8 employees then hired 2 additional staff members, increasing the total to 10 in the second quarter. Benefits consist of health and disability insurance, and vehicle and cell phone allowances. Health insurance increased by \$15,000.
- Seven expense categories resulted in decreases totaling \$64,274 when compared to the previous year's total. AMWUA made a conscious effort to cut basic operating costs and succeeded in the following areas: Travel and Meetings reduced by 19%, Office Supplies reduced by 30%, Postage and Shipping reduced by 54% facilitated by a much greater use of the internet for mailings and correspondence. Dues and Memberships reduced by 45%. Through the renegotiation of the telephone contract AMWUA was able to reduce the telephone/web access costs by 39% from the previous fiscal year. The Conservation program had a 27% reduction because Fiscal Year 2008 was higher than usual due to some projects that were started in Fiscal Year 2007 but completed in Fiscal Year 2008.

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- In fiscal year 2008 the City of Avondale made a one-time membership payment of \$35,000 to the Association . The following expenditures were made against those funds:

Fiscal Year 2008 Expenditure:

Remaining Balance at June 30, 2007	\$ 35,000
Digital Meeting Recording System	4,704
Dell Laptop Computer	1,345
Water Conservation Brochures	<u>17,500</u>

Remaining Balance at June 30, 2008	11,451
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Fiscal Year 2009 Expenditures

AMWUA Brochure	7,190
Office Furniture	<u>1,732</u>

Remaining Balance at June 30, 2009	<u><u>\$ 2,529</u></u>
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The unspent portion of \$2,529 will be appropriated in fiscal year 2010.

In fiscal year 2008, total operating expenses increased by \$131,860. A summary of the expense categories with major decreases and increases from last year's figures are as follows:

- Ten expense categories resulted in increases totaling \$175,673 when compared to the previous year's totals. The majority (80%) of this increase was in Salaries and Benefits. Salaries and benefits increased primarily due to the filling of two positions. AMWUA's Word Processor's position was vacant 11 months during fiscal year 2007 and was filled in the third month of fiscal year 2008 and a new employee was hired in September 2007 to fill the vacant Information Coordinator position. AMWUA went from eight to ten employees during fiscal year 2008.
- Seven expense categories resulted in decreases totaling \$43,812 when compared to the previous year's total. The majority (89%) of this decrease was in Water Conservation, Legal and Accounting, Postage and Shipping, and Travel and Meetings. Water Conservation costs were down in large part because in the previous fiscal year there was a one time, special assessment expenditure, for a water-use and conservation survey that was not repeated in the current fiscal year. Legal and Accounting costs were less than the previous year mostly due to reduced audit fees with the engagement of the new accounting firm of Clifton Gunderson LLP. Postage and shipping costs decreased primarily because AMWUA is mailing and hand-delivering less since agenda packets are now available on-line through the AMWUA website. Travel and Meetings costs were down due to less travel by AMWUA employees and in fiscal year 2007 AMWUA hosted a Board of Directors retreat at a cost of over \$5,000 which wasn't repeated in fiscal year 2008.
- In Fiscal Year 2008 the Association recognized a \$12,834 loss on investments held by the State of Arizona government investment pool. This loss was related to the filing of an entity for protection under the United States Bankruptcy Code.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
Management's Discussion and Analysis
June 30, 2009 and 2008

Overview of the Financial Statements

AMWUA's basic financial statements include balance sheets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and the notes to the financial statements. AMWUA's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Summary of Net Assets

	Years ended June 30		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current Assets	\$ 1,113,790	\$ 1,242,194	\$ 1,269,146
Noncurrent Assets	1,203	1,203	1,203
Net Capital Assets	<u>54,283</u>	<u>26,631</u>	<u>35,541</u>
Total Assets	<u>\$ 1,169,276</u>	<u>\$ 1,270,028</u>	<u>\$ 1,305,890</u>
Current Liabilities	\$ 179,537	\$ 208,373	\$ 252,108
Invested in Capital Assets	54,283	26,631	35,541
Unrestricted Net Assets	<u>935,456</u>	<u>1,035,024</u>	<u>1,018,241</u>
Total Liabilities and net assets	<u>\$ 1,169,276</u>	<u>\$ 1,270,028</u>	<u>\$ 1,305,890</u>

- Current assets decreased \$128,404 in 2009 and decreased \$26,952 in 2008. Current assets consist primarily of cash and investments. Since the cash assessments generally match the anticipated expenses for each fiscal year, the cash and investments balances will fluctuate based upon the level of actual expenditures compared to the approved budget. However, the Fiscal Year 2009 budget included a draw from the Reserve Fund of up to \$130,500. So the cash assessments were less than the anticipated expenditures. This, with the reduction of earnings on investments, accounts for the decrease in current assets.
- Noncurrent assets were unchanged in 2009 and 2008. Noncurrent assets consist of a refundable deposit for workers compensation insurance.
- Net capital assets increased by \$27,652 during fiscal year 2009 and decreased by \$8,910 during fiscal year 2008. Capital assets consist of office furniture and equipment. AMWUA purchased a new computer system and some office furniture, and retired some obsolete fully depreciated equipment.
- Current liabilities decreased by \$28,836 in 2009 and decreased by \$43,735 in 2008. AMWUA maintains no debt. At fiscal year end, all liabilities consist of unpaid operating expenses, unearned revenues, and deferred rent (the difference between the cash paid for rent and the straight-line basis of rent over the life of the lease – recorded due to uneven and varied rent increases).
- Total net assets decreased by \$71,916 to \$989,739 for fiscal year 2009 and increased by \$7,874 to \$1,061,655 for fiscal year 2008. Net assets are unrestricted and available for continuing operations.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
Management's Discussion and Analysis
June 30, 2009 and 2008

Summary of Changes in Net Assets

	Years ended June 30		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues			
Annual assessments	\$ 1,474,528	\$ 1,480,854	\$ 1,408,888
Special assessments	8,921	23,550	75,000
Other	<u>3,715</u>	<u>3,750</u>	<u>2,155</u>
Total operating revenues	<u>1,487,164</u>	<u>1,508,154</u>	<u>1,486,043</u>
Operating expenses	<u>1,572,285</u>	<u>1,536,894</u>	<u>1,405,033</u>
Nonoperating revenues/(expenses)			
Interest on investments	13,205	49,199	57,308
Asset (impairment)/recovery	<u>-</u>	<u>(12,585)</u>	<u>3,131</u>
Total nonoperating revenues/ (expenses)	<u>13,205</u>	<u>36,614</u>	<u>60,439</u>
Increase (decrease) in net assets	(71,916)	7,874	141,449
Net assets, July 1	<u>1,061,655</u>	<u>1,053,781</u>	<u>912,332</u>
Net assets, July 30	<u><u>\$ 989,739</u></u>	<u><u>\$ 1,061,655</u></u>	<u><u>\$ 1,053,781</u></u>

Annual assessments decreased by \$6,326 in 2009 and increased by \$71,966 in 2008. The annual budget for Fiscal Year 2009 was \$37,098 less than Fiscal Year 2008.

Special assessments decreased by \$14,629 in 2009 and decreased by \$51,450 in 2008. Special assessments in 2009 represent expenditures from the \$35,000 one-time membership fee paid by the City of Avondale in Fiscal Year 2008.

Other revenues decreased by \$35 in 2009 and increased by \$1,595 in 2008. Other revenues primarily consist of revenues from certain conservation activities.

Net operating expenses increased by \$35,391 in 2009 and increased by \$131,861 in 2008.

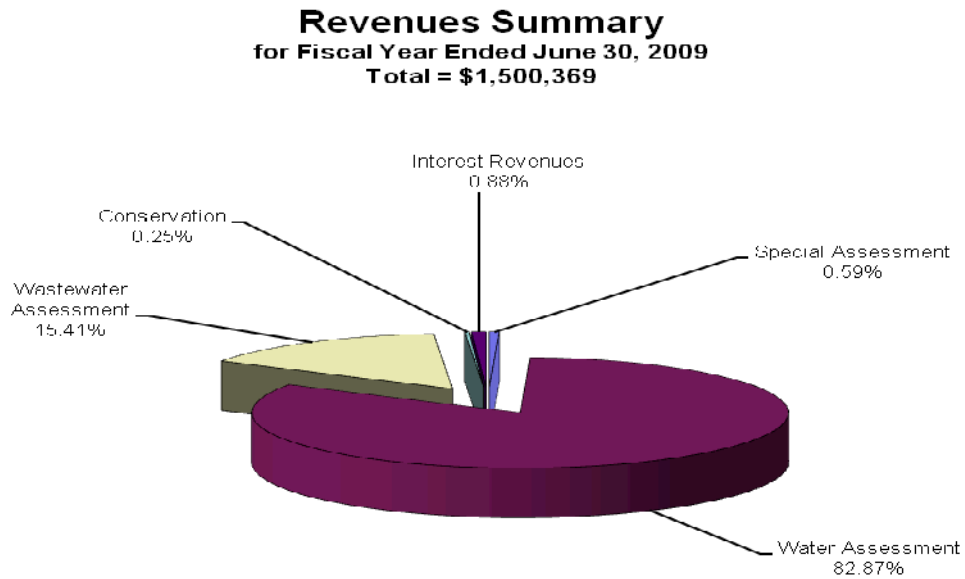
Nonoperating revenues (expenses) decreased by \$23,409 in 2009 and decreased by \$23,825 in 2008. This was due to the decrease of investment income (interest) on AMWUA's LGIP balance.

Net assets decreased by \$71,916 in 2009 and increased by \$7,874 in 2008.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
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Operating Revenues

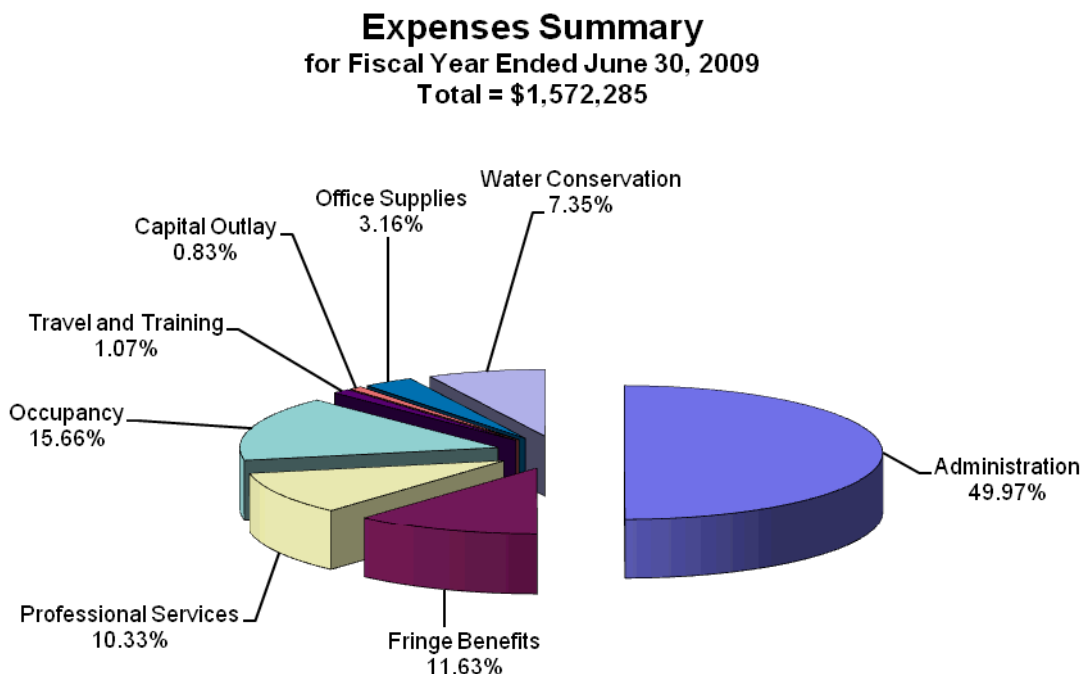
AMWUA's revenue is primarily generated by water and wastewater assessments from member cities. For fiscal year 2009, of the \$1,474,528 in revenue from annual assessments, \$1,243,306 represents water assessments, with the remaining \$231,222 representing wastewater assessments. The following chart shows the sources and the percentage of operating revenue by category for the fiscal year ended June 30, 2009.



ARIZONA MUNICIPAL WATER USERS ASSOCIATION
Management's Discussion and Analysis
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Operating Expenses

The following chart shows AMWUA's operating expenses by category for the year ended June 30, 2009.



AMWUA's Capital Assets

	Years ended June 30		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital Assets	\$ 214,797	\$ 196,969	\$ 191,370
Leasehold improvements	45,564	45,564	41,088
Less accumulated depreciation and amortization	<u>(206,078)</u>	<u>(215,902)</u>	<u>(196,917)</u>
Net capital assets	<u>\$ 54,283</u>	<u>\$ 26,631</u>	<u>\$ 35,541</u>

AMWUA owns no real property. Capital assets consists of office equipment for office operation and administration such as office furniture, computers, telephone equipment, etc. AMWUA capitalized a new computer system and some miscellaneous office furniture during Fiscal Year 2009. Net capital assets increased by \$27,652 during fiscal year 2009 and decreased by \$8,910 during fiscal year 2008.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
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Economic Factors and Next Year's Budget

During fiscal years 2009 and 2008, full membership water assessments were based on Maricopa Association of Governments' most recent population estimates, with a 49% ceiling and \$40,000 minimum. Associate membership assessment is set at \$25,000 for a population under 50,000 and \$35,000 for a population equal to or greater than 50,000. Wastewater assessments are based on flow ownership in the 91st Avenue WWTP at 179.25 mgd in a total plant of 191.75 mgd.

In May 2009, the fiscal year 2010 Budget was approved by the AMWUA board of directors. The fiscal year 2010 Budget decreased by 3.09% over the fiscal year 2009 budget. The Board decided that the Operating Reserve balance (the money invested in the Local Government Investment Pool with the State of Arizona) should be drawn down and applied to operating costs. As a result, the fiscal year 2010 budget was approved with an Operating Reserve offset of \$110,600; \$67,300 to be applied to the office space lease payments; and \$43,300 for the common area maintenance of the building. This has the effect of reducing the total annual assessments received from the cities for fiscal year 2010.

Requests for Financial Information

This financial report is designed to provide a general overview of AMWUA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the controller of AMWUA.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
BALANCE SHEETS
June 30, 2009 and 2008**

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 82,971	\$ 34,241
Investments	1,008,327	1,144,261
Restricted cash	-	30,000
Prepaid expenses and other assets	<u>22,492</u>	<u>33,692</u>
Total current assets	1,113,790	1,242,194
CAPITAL ASSETS, NET	54,283	26,631
DEPOSITS	<u>1,203</u>	<u>1,203</u>
TOTAL ASSETS	<u>\$ 1,169,276</u>	<u>\$ 1,270,028</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 4,420	\$ 19,072
Accrued expenses	127,802	133,065
Deferred revenue	<u>47,315</u>	<u>56,236</u>
Total current liabilities	<u>179,537</u>	<u>208,373</u>
NET ASSETS		
Invested in Capital Assets	54,283	26,631
Unrestricted	<u>935,456</u>	<u>1,035,024</u>
Total net assets	<u>989,739</u>	<u>1,061,655</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,169,276</u>	<u>\$ 1,270,028</u>

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Annual assessments	\$ 1,474,528	\$ 1,480,854
Assessments - special programs	8,921	23,550
Other	<u>3,715</u>	<u>3,750</u>
Total operating revenues	<u>1,487,164</u>	<u>1,508,154</u>
EXPENSES		
Salaries	846,630	773,309
Benefits	121,952	106,681
Occupancy costs	239,425	235,772
Legal and accounting	162,485	160,685
Water conservation	115,531	158,652
Printing and duplicating	15,489	15,548
Depreciation and amortization	15,265	18,985
Travel and meetings	8,108	9,966
Office supplies	11,512	16,518
Subscriptions and reference materials	11,467	10,099
Postage and shipping	4,712	10,294
General business insurance	1,734	1,669
Dues	3,417	6,180
Conferences	4,558	6,062
Training	<u>10,000</u>	<u>6,474</u>
Total operating expenses	<u>1,572,285</u>	<u>1,536,894</u>
Operating loss	(85,121)	(28,740)
NON-OPERATING REVENUES (LOSS):		
Interest on investments	13,205	49,199
Loss recovery on investments	-	249
Loss on investments	<u>-</u>	<u>(12,834)</u>
CHANGE IN NET ASSETS	(71,916)	7,874
NET ASSETS, BEGINNING OF YEAR	<u>1,061,655</u>	<u>1,053,781</u>
NET ASSETS, END OF YEAR	<u>\$ 989,739</u>	<u>\$ 1,061,655</u>

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members and customers	\$ 1,478,243	\$ 1,514,604
Cash paid to employees	(964,368)	(875,926)
Cash paid to suppliers	<u>(601,367)</u>	<u>(667,704)</u>
Net cash used in operating activities	<u>(87,492)</u>	<u>(29,026)</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	<u>(42,917)</u>	<u>(10,075)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales (purchases) of investments	135,934	(39,374)
Interest on investments	13,205	49,199
Loss on investments	-	(12,834)
Loss recovery on investments	<u>-</u>	<u>249</u>
Net cash provided by (used in) investing activities	<u>149,139</u>	<u>(2,760)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,730	(41,861)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>64,241</u>	<u>106,102</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 82,971</u>	<u>\$ 64,241</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (85,121)	\$ (28,740)
Adjustments:		
Depreciation and amortization	15,265	18,985
(Increase) decrease in assets:		
Restricted cash	-	30,000
Prepaid expenses and other assets	11,200	(5,535)
(Decrease) increase in liabilities:		
Accounts payable	(14,652)	7,905
Accrued expenses	(5,263)	(28,091)
Deferred revenue	<u>(8,921)</u>	<u>(23,550)</u>
Net cash used in operating activities	<u>\$ (87,492)</u>	<u>\$ (29,026)</u>

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arizona Municipal Water Users Association (AMWUA) was incorporated on March 10, 1969. The Association is a not-for-profit corporation formed for the purpose of providing a forum for the discussion of the planning for the solution of regional water problems, to ensure maximum efficiency and economy in maintaining and securing water and water rights, and in producing, treating, conserving, and distributing water for urban uses through the pooling of common resources and intergovernmental cooperation.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that government's proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins. Governmental entities are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Association has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

The Association is a special purpose governmental entity, engaged only in business-type activities. It is required to present the financial statements required for enterprise funds, which include a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It also requires a Management's Discussion and Analysis as required supplementary information.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Association evaluates its estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that its estimates and assumptions are reasonable in the circumstances; however, actual results may differ from those estimates.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Association places all of its investments within the Arizona Local Government Investment Pool. All such investments are stated at fair value based upon quoted market prices.

Capital Assets

Capital assets are initially recorded at cost. These assets are depreciated on the straight-line method over their estimated useful lives, generally five years for furniture and equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the associated lease.

Operating Revenues

Operating revenues primarily reflect members' assessments for water activities. All operating revenues are recognized when earned.

Deferred Revenue

Special assessment advances received prior to the service commitments are deferred.

Tax-Exempt Status

The Association has received a tax determination letter indicating that it qualifies as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code. The Association is also exempt from State of Arizona taxation.

NOTE 2 – CASH AND INVESTMENTS

The Association places its cash with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit of \$250,000. At June 30, 2009 and 2008, the amount of the FDIC insurance coverage limit was greater than the Association's cash balance.

As of June 30, 2009, there were no funds marked for restricted cash. Restricted cash in 2008 relates to funds received from Member Assessments that had been earmarked for computer equipment.

The Association places all of its investments within the Arizona Local Government Investment Pool (LGIP). The Arizona State Treasurer's Office operates this pool to provide professional short-term investment services to a wide array of public entities. By investing in the LGIP, participants are able to benefit from the substantial aggregate buying power of the state portfolio as well as a pool of monies from other participants. Therefore, the Association has no individual investments in excess of 5% of the total investments as of June 30, 2009 and 2008.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The LGIP is primarily invested in commercial paper and government agency notes, with lesser investments in repurchase agreements and corporate notes. The LGIP is unrated and had a weighted average maturity of 44 days and 45 days at June 30, 2009 and 2008, respectively. The maximum weighted average maturity permitted for the LGIP is 240 days.

A following is a summary of the Association's cash and investments:

	<u>2009</u>	<u>2008</u>
Cash in bank	\$ 82,971	\$ 64,241
Investments in LGIP	<u>1,008,327</u>	<u>1,144,261</u>
	<u>\$ 1,091,298</u>	<u>\$ 1,208,502</u>

NOTE 3 – CAPITAL ASSETS

Capital assets at June 30, 2009, consist of the following:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2009</u>
Capital Assets:				
Furniture and equipment	\$ 196,969	\$ 42,917	\$ 25,089	\$ 214,797
Leasehold improvements	<u>45,564</u>	<u>-</u>	<u>-</u>	<u>45,564</u>
Total depreciable assets	<u>242,533</u>	<u>42,917</u>	<u>25,089</u>	<u>260,361</u>
Less accumulated depreciation:				
Furniture and equipment	183,772	10,989	(25,089)	169,672
Leasehold improvements	<u>32,130</u>	<u>4,276</u>	<u>-</u>	<u>36,406</u>
Total accumulated depreciation	<u>215,902</u>	<u>15,265</u>	<u>(25,089)</u>	<u>206,078</u>
Capital Assets, net of accumulated depreciation and amortization	<u>\$ 26,631</u>	<u>\$ 27,652</u>	<u>\$ -</u>	<u>\$ 54,283</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Capital assets at June 30, 2008, consist of the following:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2008</u>
Capital Assets:				
Furniture and equipment	\$ 191,370	\$ 5,599	\$ -	\$ 196,969
Leasehold improvements	<u>41,088</u>	<u>4,476</u>	<u>-</u>	<u>45,564</u>
Total depreciable assets	<u>232,458</u>	<u>10,075</u>	<u>-</u>	<u>242,533</u>
Less accumulated depreciation:				
Furniture and equipment	168,317	15,455	-	183,772
Leasehold improvements	<u>28,600</u>	<u>3,530</u>	<u>-</u>	<u>32,130</u>
Total accumulated depreciation	<u>196,917</u>	<u>18,985</u>	<u>-</u>	<u>215,902</u>
Capital Assets, net of accumulated depreciation and amortization	<u>\$ 35,541</u>	<u>\$ (8,910)</u>	<u>\$ -</u>	<u>\$ 26,631</u>

NOTE 4 – OPERATING LEASES

AMWUA leases certain equipment under non-cancelable operating leases that expire in 2010.

AMWUA previously entered into a facility lease which expires August 31, 2011. The lease calls for varied and uneven scheduled rent increases throughout the term of the lease. As such, rent expense for this lease is recorded on a straight-line basis over the term of the lease. Included in accrued expenses at June 30, 2009 and 2008, is \$53,872 and \$72,240, respectively, in deferred rent related to this lease.

Total rent expense for all leases was \$187,450 and \$186,659 for the years ended June 30, 2009 and 2008, respectively, and is included in occupancy costs on the statements of revenues, expenses and changes in net assets.

Future minimum lease payments under noncancelable operating leases are as follows:

2010	\$ 187,042
2011	189,309
2012	31,669
2013	<u>-</u>
Total future minimum lease payments	<u>\$ 408,020</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 5 – ANNUAL ASSESSMENTS

AMWUA assesses each of its voting members dues based upon revenues and operating costs for the year. During fiscal years 2009 and 2008, full membership water assessments are based on Maricopa Association of Governments' most recent population estimates, with a 49% ceiling and \$40,000 minimum. Associate membership assessment is set at \$25,000 for a population under 50,000 and \$35,000 for a population equal to or greater than 50,000. Wastewater assessments are based on flow ownership in the 91st Avenue Wastewater Treatment Plant at 179.25 million gallon per day in a total plant of 191.75 million gallon per day. Non-voting members are assessed dues at a flat rate determined by the board of directors. The following summarizes the dues assessed:

	<u>2009</u>	<u>2008</u>
Voting members:		
City of Chandler*	\$ 86,831	\$ 85,662
City of Glendale	105,612	107,971
City of Mesa	201,971	207,084
City of Peoria*	54,553	52,800
City of Phoenix	684,373	696,077
City of Scottsdale	103,380	105,533
City of Tempe	89,494	93,409
Town of Gilbert*	73,314	67,318
City of Avondale*	<u>40,000</u>	<u>40,000</u>
Total voting members	1,439,528	1,455,854
Non-voting members:		
City of Goodyear*	<u>35,000</u>	<u>25,000</u>
Total annual assessments	<u>\$ 1,474,528</u>	<u>\$ 1,480,854</u>

*Member does not have an ownership interest in the 91st Avenue Wastewater Treatment Plant.

NOTE 6 – FUNCTIONAL EXPENSES

Expenses incurred during 2009 and 2008 were for:

	<u>2009</u>	<u>2008</u>
Water conservation	\$ 115,531	\$ 158,652
Water policy:		
Water	1,081,735	992,848
Wastewater	194,949	208,420
Management and general	<u>180,070</u>	<u>176,974</u>
Total	<u>\$ 1,572,285</u>	<u>\$ 1,536,894</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 7 – DEFERRED COMPENSATION PLANS

In October 2004, the Association became eligible to join the Arizona State Retirement System (ASRS). The ASRS is a cost-sharing, multiple employer, defined benefit pension plan established by the State of Arizona to provide pension benefits for employees of the state and employees of participating political subdivisions and school districts. Additionally, the ASRS provides a health insurance premium benefit and sponsors medical and dental coverage for retired members. The Association made monthly retirement contributions into the ASRS at the rate of 8.95% and 9.1% of the participants' annual salaries in 2009 and 2008, respectively. AMWUA still maintains the Plan 457, in that each employee who wishes to participate has an individual account to which the employee may make voluntary contributions.

AMWUA's contributions related to the ASRS were \$63,062 and \$60,272 for the years ended June 30, 2009 and 2008, respectively. AMWUA funded 100% of its annual required contribution to the ASRS for the years ended June 30, 2009 and 2008. The most recent actuarial valuation report for the ASRS was completed as of June 30, 2007. Each year, the ASRS issues a Comprehensive Annual Financial Report, which can be obtained on the ASRS website.

NOTE 8 – SUBSEQUENT EVENTS

Management evaluated subsequent events through November 16, 2009, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2009, but prior to November 16, 2009, that provided additional evidence about conditions that existed at June 30, 2009, have been recognized in the financial statements for the year ended June 30, 2009. Events or transactions that provided evidence about conditions that did not exist at June 30, 2009, 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, 2009.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
SCHEDULE OF COMPARISON OF REVENUES AND
EXPENDITURES TO BUDGETED AMOUNTS
(Budget Basis)
Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u> <i>(Budget Basis)</i>	<u>Variance</u>
Revenues:			
Water assessments	\$ 1,243,307	\$ 1,243,306	\$ 1
Wastewater assessment	231,222	231,222	-
Carryover	4,227	-	4,227
Reserve offset	130,500	106,238	24,262
Conservation	-	3,540	(3,540)
Interest revenues	-	10,392	(10,392)
Miscellaneous revenues	<u>-</u>	<u>175</u>	<u>(175)</u>
Total revenues	<u>1,609,256</u>	<u>1,594,873</u>	<u>14,383</u>
Expenditures:			
Administration	771,626	772,578	(952)
Fringe benefits	169,160	182,899	(13,739)
Professional services	160,300	162,485	(2,185)
Occupancy	232,170	249,334	(17,164)
Travel and expenses	22,000	16,839	5,161
Capital outlay	80,000	54,450	25,550
Office supplies and expenses	59,000	48,912	10,088
Water conservation	<u>115,000</u>	<u>115,531</u>	<u>(531)</u>
Total expenditures	<u>1,609,256</u>	<u>1,603,028</u>	<u>6,228</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ (8,155)</u>	<u>\$ 8,155</u>

The Association's budget is adopted on a basis other than generally accepted accounting principles (GAAP). The reconciliation of the actual excess of revenues over expenditure shown on the budget basis to the change in net assets shown in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2009, is as follows:

Excess of revenues over expenditures – actual – budget basis	\$ (8,155)
Items not requiring (providing) cash:	
Depreciation and amortization	(15,265)
Recognition of rent expense on a straight-line basis for GAAP	18,368
Recognition of interest revenue for GAAP	2,812
Recognition of capital expenditures for GAAP	42,383
Decrease in vacation accrual	(13,944)
Decrease in accrued expenses	(798)
Portion of unspent special assessments	8,921
Reserve funds offset	<u>(106,238)</u>
Decrease in net assets – GAAP basis	<u>\$ (71,916)</u>