



Public Notice Pursuant to A.R.S. § 38-431.02

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
BOARD OF DIRECTORS**

MEETING NOTICE AND AGENDA

Thursday, January 24, 2019 – 11:00 a.m.

**Arizona Municipal Water Users Association
Board Conference Room
3003 North Central Avenue, Suite 1550
Phoenix, Arizona 85012**

A. Call to Order

B. General Business—Items for Discussion and Possible Action

1. Approval of the Minutes from the December 20, 2018 Meeting
2. Schedule Next Meeting Date: Thursday, February 28, 2019, 11:00 a.m.
3. Status of Lower Basin Drought Contingency Plan and DCP Steering Committee
4. 2019 Legislative Session
5. AMWUA Annual Financial Audit Report for Fiscal Year 2018

C. Executive Director's Report

D. Future Agenda Items

E. Adjournment

*The order of the agenda may be altered or changed by the AMWUA Board of Directors. Members of the AMWUA Board of Directors will attend either in person or by telephone or internet conferencing.

More information about AMWUA public meetings is available in the AMWUA office, online at www.amwua.org/what-we-do/public-meetings, or by request.

Arizona Municipal Water Users Association



BOARD OF DIRECTORS
MEETING MINUTES
December 20, 2018

VOTING MEMBERS PRESENT

Mayor Jim Lane, President, Scottsdale
Councilmember Eddie Cook, Vice President, Gilbert
Vice Mayor Lauren Kuby, Tempe
Councilmember Sheri Lauritano, Goodyear
Vice Mayor René Lopez, Chandler
Councilmember Bart Turner, Glendale
Mayor Thelda Williams, Phoenix

VOTING MEMBERS NOT PRESENT

Mayor Cathy Carlat, Secretary-Treasurer, Peoria
Councilmember Pat Dennis, Avondale
Councilmember Kevin Thompson, Mesa

OTHERS PRESENT

Patrick J. Adams, AMWUA	Ryan Lee, Glendale
Gretchen Baumgardner, Tempe	Ian Linssen, Mesa
Anthony Beckham, SRP	Frank Milam, Phoenix
Rob Bohr, Goodyear	Stuart Peckham, SRP
Gregg Capps, Chandler	Ryan Peters, Chandler
Gina Conrow, Phoenix	Diana Piña, AMWUA
Christian Delgado, Phoenix	Alex Ponikvar, ASU Law
Yesenia Dhott, Phoenix	John Raeder, Goodyear
Kathy Ferris, AMWUA	Tony Staffaroni, CAP
Brett Fleck, AMWUA	Warren Tenney, AMWUA
David Iwanski, AZ Water Association	Heather Turrentine, Gilbert
Sam Jaskolski, AMWUA	Carol Ward-Morris, AMWUA
Pat Kossan, AMWUA	

A. Call to Order

Mayor Lane called the meeting to order at 11:01 a.m.

B. General Business – Items for Discussion and Possible Action

1. Approval of the Minutes from the November 29, 2018 Meeting

Upon a motion by Councilmember Cook and a second by Councilmember Lauritano, the AMWUA Board of Directors unanimously approved the November 29, 2018 meeting minutes.

2. Next meeting scheduled: Thursday, January 24, 2019, 11:00 a.m., in the AMWUA office

3. Status of Lower Basin Drought Contingency Plan and DCP Steering Committee

Mr. Tenney shared an update on the Lower Basin Drought Contingency Plan (DCP) and DCP Steering Committee. He reviewed DCP progress thus far and that the AMWUA Board of Directors unanimously approved AMWUA's position of being in support of the Arizona DCP Implementation framework at its November 29th meeting. He reported that since then, the Central Arizona Water Conservation District (CAWCD) Board, the Governor, and many stakeholders have voiced support for the plan.

Mr. Tenney discussed that the Arizona DCP Implementation Plan is a delicate compromise that provides Ag mitigation, Non-Indian Agriculture (NIA) mitigation, and protection for Lake Mead. He then reviewed the details of the plan: mitigation, Intentionally Created Surplus (ICS) Offset Plan, balancing Lake Mead, and Municipal and Industrial (M&I) contributions. He stated that the DCP framework meets AMWUA's priorities for DCP: it is a path forward for implementing DCP, respects and follows the priority system, has a clear timeframe, transitions Pinal Ag from Colorado River water to groundwater, protects Lake Mead, and does not weaken Arizona's long-term water management.

Mr. Tenney reviewed the next steps and details to work out by January 31st, the deadline United States Bureau of Reclamation (Reclamation) Commissioner Burman set for Arizona to settle DCP before the federal government steps in and sets a plan for Arizona.

Vice Mayor Lopez, Mayor Lane, and Mr. Tenney discussed Pinal Ag's positions on DCP and Reclamation's position to protect the river basin system.

Vice Mayor Lopez, Mayor Lane, Mr. Tenney, and Ms. Ferris discussed the logistics of meeting the January 31st deadline and the DCP agreements, both interstate and intrastate.

4. 2019 Legislative Session

Mayor Lane and Mr. Aarons discussed the importance of passing DCP, protecting Lake Mead, the need to educate legislators on water issues, and legislative strategy.

Mr. Tenney reviewed some of AMWUA's legislative efforts, including informational handouts and working with its members' intergov staffs to coordinate efforts.

Vice Mayor Lopez, Mr. Tenney, and Councilmember Lauritano discussed the January 31st deadline.

Councilmember Turner, Mayor Lane, Councilmember Cook, and Mr. Tenney discussed Pinal Ag's interests, positions, and groundwater infrastructure.

Vice Mayor Kuby stated that it would be a good idea for AMWUA and its members to spread a positive message about their water efforts. Mayor Lane agreed.

5. Conservation Communications and Outreach

Mr. Tenney stated that AMWUA cities have been leaders in water conservation for at least 40 years, yet, as DCP plays out in media stories and shortage nears, questions have been raised as to what Arizona is doing in conservation. He said AMWUA cities are accomplishing a lot and there is a need to have a more visible message about water conservation and what the public can do. Mr. Tenney invited Christian Delgado, City of Phoenix Water Resources Specialist, to present on the City of Phoenix's water conservation campaign, and then Carol Ward-Morris to present an update on *Water—Use It Wisely* and AMWUA's efforts.

Mr. Delgado shared a presentation overviewing the City of Phoenix's Water Conservation Campaign. He said the City's objective is to educate its residents on what it has been doing to prepare for shortage and the importance of ongoing water conservation. He added that the City plans to do outreach efforts including radio, print and digital buys, billboards, strategic signage, social media advertisements, and partnering its PHX Water Smart brand with the *Water—Use It Wisely* campaign to increase visibility. Mr. Delgado also reviewed Phoenix's continuous efforts including educational videos, workshops for residents, Spanish language efforts, Phoenix's Green Business program, and more.

Vice Mayor Lopez and Mr. Delgado discussed that the City of Phoenix partners with its local school districts to host water festivals and educate students.

In response to a question from Councilmember Turner, Mr. Delgado stated that the Phoenix Water Smart public service announcement videos are available on YouTube and other cities will be able to share them, though they will not be representative of other cities' water portfolios.

Ms. Ward-Morris discussed that despite ongoing drought and shortages on the Colorado River, the AMWUA members have sufficient supplies to meet demand and do not need to drive additional demand reductions at this time. She said the AMWUA cities recognize the need to reinforce the culture of conservation and to engage and encourage residents to keep up the effort. She explained that one of the challenges we face is that people tend to equate conservation with restrictions and wonder why we aren't limiting the amount of water they can use. She said residents and businesses may not realize that restrictions are not necessary because we have been taking measured steps, day after day, year after year, to be increasingly efficient. She stated that these efforts have been driven by smart policy, by investment from the cities in professional staff and programs tailored to their communities, and by residents and businesses.

Ms. Ward-Morris reviewed the *Water—Use It Wisely* campaign, our regional water conservation campaign, which was launched by Mesa, Phoenix, and Scottsdale twenty years ago and has since been adopted by 38 Arizona partners and 400 partners nationwide. She said the campaign was based on market research undertaken by AMWUA that discovered residents don't want to be told to conserve, but *how* to conservation. She also noted that research AMWUA undertook in 2007 found that residents familiar with the campaign have a much higher degree of confidence in their city's water management efforts.

Ms. Ward-Morris described the incredible benefit of the City of Phoenix's water conservation campaign partnering with elements of the *Water—Use It Wisely* campaign, as *Water—Use It Wisely's* funding is limited. She stated that much of *Water—Use It Wisely's* current budget is being focused on new creative and a traditional media buy that will launch January 7th, be split between January and early February, and then again in late March. She noted that digital advertising and social media will begin ramping up in advance of that and will continue through April. She stated that all *Water—Use It Wisely* partners have access to the campaign's materials and are encouraged to utilize them however possible within their communities.

Ms. Ward-Morris reviewed *Water—Use It Wisely's* new creative material: two thirty-second spots, two fifteen-second spots, eight short-looping animated videos for use on social media, and eight static banner images. She said as the material is finalized, AMWUA will be loading them into its digital asset management system for the partner staffs to access. She noted that some of the material will be translated in Spanish and additional collateral will be created specifically for the major social media platforms. She then previewed the two thirty-second videos for the AMWUA Management Board.

Ms. Ward-Morris reported that last week, AMWUA convened a meeting of communications and conservation staffs from the AMWUA membership, water agencies, and the *Water—Use It Wisely* partners to discuss communications and messaging efforts. She said the meeting was productive and will reconvene periodically as things evolve to continue coordinating, particularly ahead of Reclamation's April 24-month study.

Ms. Ward-Morris thanked the *Water—Use It Wisely* Steering Committee members who have been working very hard to get messaging ramped up, and the City of Phoenix for the investment they are making in their campaign and for cross branding with *Water—Use It Wisely*. She also noted appreciation for ADWR's increased contribution to the campaign. She said the *Water—Use It Wisely* campaign is a very important part of our strategy as we face shortage, not just in the near term, but for the next several years.

Vice Mayor Lopez suggested posting throwback *Water—Use It Wisely* campaigns to reinforce that Arizona does not currently have water restrictions due to all of the efforts and planning years ago.

6. AMWUA's 50th Anniversary

Mr. Tenney reported that 2019 marks AMWUA's 50th anniversary. He said AMWUA would like to use its 50th anniversary as a platform to highlight its accomplishments and continued efforts to facilitate, educate, collaborate, and advocate on water issues for its members. He stated that AMWUA has brainstormed several potential approaches to celebrate its 50 years, including: presenting to each of its member's city councils, publishing anniversary blogs on the AMWUA website, and hosting a breakfast on January 30th for Legislators to discuss water issues. Mr. Tenney then asked for the AMWUA Board of Directors' feedback.

Mayor Lane was supportive of the potential approaches to celebrate AMWUA's 50th anniversary.

Councilmember Turner suggested including previous AMWUA Board of Directors members as well as seeking additional funding for anniversary events from sponsors.

C. Executive Director's Report

Mr. Tenney recognized and thanked Ms. Pat Kossan for all of her hard work over the past five years as AMWUA's communications consultant as she retires at the end of December.

D. Future Agenda Items

There were no requests for future agenda items.

E. Adjournment

Upon a motion by Councilmember Turner and a second by Vice Mayor Kuby, Mayor Lane unanimously adjourned the meeting at 12:44 p.m.



BOARD OF DIRECTORS
INFORMATION SUMMARY
January 24, 2019

Status of the Lower Basin Drought Contingency Plan and DCP Steering Committee

ANNUAL PLAN REFERENCE

Colorado River Drought / Shortage

Strategic Plan: Objectives – Prepare for Impacts of Drought & Shortage, Minimize Financial Impacts; Collaboration – Arizona Department of Water Resources, Central Arizona Project, Business Community

Actions:

- Remain engaged with developments to protect the Colorado River from drought and address the structural deficit.
- Seek ways AMWUA and its members can best individually and cooperatively respond to the increasing probability of a shortage declaration.

SUMMARY

On January 8, 2019, the Arizona Department of Water Resources (ADWR) and Central Arizona Project (CAP) reported to the DCP Steering Committee the progress of working out the details for the Arizona Drought Contingency Plan (DCP) Implementation Plan. The Implementation Plan mitigates Pinal Agriculture and Non-Indian Ag (NIA) priority water users along with ensuring water remains in Lake Mead.

The DCP Steering Committee discussed a few outstanding issues primarily related with Pinal Ag and homebuilders. The two main issues were -

- In response to Pinal Ag's desire for mitigation water under a Tier 2 shortage, Tucson Water has offered to backstop ag mitigation up to 35,000 AF for two years, in exchange for legislative reform of reclaimed water issues: the 2025 Sunset and Managed Recharge storage credits. Pinal Ag is also still saying they need more certainty for the funding for groundwater infrastructure.
- The Homebuilders continued to insist that a CAGR mitigation pool was necessary, despite Gila River Indian Community's (GRIC) Governor Lewis assurances that the GRIC/GRWS deal would take effect immediately upon DCP approval by Governor Ducey. Multiple stakeholders declared that they would not support any GRD pool, including Valley Partnership (developers), Phoenix, EPCOR, and the GRIC.

Arizona Municipal Water Users Association

When the Implementation Plan was initially presented, the AMWUA Board supported it because it respects and follows the priority system for the Central Arizona Project's (CAP) delivery of Colorado River water to Central and Southern Arizona; ensures water is left in Lake Mead; clearly defines how mitigation will work for Pinal agricultural irrigation districts and for Tribes and cities that have NIA water allocations; provides a transition for Pinal farmers from Colorado River water to their groundwater resources; sets a clear time frame for this implementation plan; and does not weaken Arizona's long-term water management.

United States Bureau of Reclamation Commissioner Brenda Burman stated that if the Colorado River Basin States have not approved DCP by January 31, 2019, the Federal Government will begin to take action to protect the River. Key legislators have indicated a willingness to work to meet the January 31st deadline.

AMWUA staff will provide an overview at the AMWUA Management Board meeting regarding the current status of the Arizona DCP Implementation Plan and the Lower Basin Drought Contingency Plan.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and provide direction regarding the Arizona DCP Implementation Plan.



BOARD OF DIRECTORS INFORMATION SUMMARY

January 24, 2019

UPDATED

2019 Legislative Session

ANNUAL PLAN REFERENCE

Legislation

Strategic Plan: Objectives – Advocate for Solutions, Safeguard Water Supplies, Reinforce Groundwater Management, Prepare for Impacts of Drought & Shortage; Collaboration – Legislature, Arizona Department of Water Resources, Central Arizona Project, Salt River Project, Water Community, and Business Community

Actions:

- Identify and track water legislation and other legislation of interest to our members.
- Provide weekly legislative updates during the session.
- Analyze and respond to legislation that impacts our members by taking positions, working with Legislators and Congressional Delegation, and engaging the media and public as needed.
- Develop outreach to Legislators to continue to inform them about water and AMWUA. This includes individual meetings, presentations, and forums.

Colorado River Drought / Shortage

Strategic Plan: Objectives – Prepare for Impacts of Drought & Shortage, Minimize Financial Impacts; Collaboration – Arizona Department of Water Resources, Central Arizona Project, Business Community

Actions:

- Remain engaged with developments to protect the Colorado River from drought and address the structural deficit.

Regional Recharge Efforts

Strategic Plan: Objectives – Augment Supplies, Elevate the Benefit of Water Reuse; Collaboration – Arizona Department of Water Resources, Water Community

Actions:

- Lead effort to amend State statute to ensure long-term storage credits will continue to be earned from effluent storage beyond 2025.

SUMMARY

The 2019 legislative session begins January 14, 2019. The Lower Basin Drought Contingency Plan (DCP) will be the focus for water legislation but it is possible other legislation will be introduced. AMWUA will be seeking to find a way to achieve its legislative agenda.

At the October 25, 2018 meeting, the AMWUA Board of Directors adopted the following 2019 legislative agenda:

Colorado River System – Support the implementation of the Lower Colorado River Basin Drought Contingency Plan, if such implementation protects our existing priorities and rights, including underground storage of our Colorado River and reclaimed water, and ensures water left in Lake Mead benefits the Colorado River System.

Reclaimed Water & Recharge – Advance legislation to enhance the value of reclaimed water by removing the 2025 sunset for the ability to earn long-term storage credits by recharging effluent and set the amount of credits earned from recharging effluent in a managed recharge project equivalent to Central Arizona Project water.

Arizona Water Management – Continue to take positions that strengthen Arizona’s water management including supporting the 1980 Groundwater Management Act and the ability of local water providers to manage, plan, conserve, and acquire water resources for their customers.

AMWUA’s Legislative Consultant and staff will review what is anticipated for the 2019 legislative session.

PROPOSED LEGISLATION

With the focus on DCP, it was anticipated that little to no water legislation would be introduced; however, a number of water bills have been introduced. Staff are tracking and reviewing all introduced legislation. A number of these bills are challenging to fully assess in light of not knowing what the final outcome of DCP will be and whether these bills will even have traction in the Legislature. Based on that, staff will continue to analyze legislation and anticipate next month we will have a much broader discussion about legislation. However, even with DCP as the primary legislative issue, staff have indentified two bills for the AMWUA Board to consider supporting. AMWUA staff would be pleased to answer any questions Board members may have regarding these bills and any others.

HB 2464: water infrastructure finance; municipal approval (Shope).

The Water Infrastructure Finance Authority (WIFA) is an Arizona state agency that provides low interest loans for water and wastewater infrastructure improvement. Under current law, any city or town with a population of more than 50,000 must request voter authorization in order to accept a WIFA loan. HB 2464 raises this threshold, applying the requirement to cities or towns with populations greater than 150,000. This effectively lowers the burden of WIFA loan eligibility for municipalities with ≤150,000 residents, including some AMWUA members. Staff would like to explore the possibility of having the population threshold increased.

Recommended Position: Support

HB 2394: water efficient plumbing (Engel and six others).

This bill updates Arizona’s water efficiency standards for indoor water fixtures, starting in 2020. Arizona’s efficiency requirements for plumbing fixtures have not been updated since they were last aligned with federal standards in 1992. HB 2394 would bring these efficiency standards into alignment with the voluntary EPA WaterSense standards, a national water efficiency certification program that AMWUA continues to support.

Recommended Position: Support

RECOMMENDATION

The AMWUA Board of Directors is encouraged to discuss the 2019 legislative session and consider taking the following position on at least these introduced bills: Support HB 2464 and HB 2394.



BOARD OF DIRECTORS
INFORMATION SUMMARY
January 24, 2019

AMWUA Annual Financial Audit Report for Fiscal Year 2018

STRATEGIC PLAN REFERENCE

Operational Principles – Manage an Efficient and Effective Association

SUMMARY

The AMWUA Annual Financial Audit Report for the fiscal year ending June 30, 2018 is presented for your review and information.

This audit report issued by the independent accounting firm of Heinfeld, Meech & Co., P.C. includes their opinion that the financial statements included in this report present fairly, in all material respects, the financial position of AMWUA as of June 30, 2018.

Also provided is the required Management Letter (SAS 114) from the auditors to the AMWUA Board of Directors containing information about significant findings related to the audit. There were no significant findings with respect to the audit; however, the audit disclosed two opportunities to strengthen internal controls:

- In June 2018, AMWUA transferred \$116,000 from the Local Government Investment Pool (LGIP) to the Money Market Account. The transfer was made to ensure sufficient liquidity in the operating accounts until member assessments were received. The auditors noted that this transfer should have had Board approval because Board policy on reserve and contingency funds states those funds need to be kept with the State Treasurer in the LGIP.

Although not common, this type of transfer had been done in prior years in order to cover potential cash short falls due to the timing of when initial assessment payments were received. This transfer was done by the outgoing financial consultant to make sure funds were in the operating account while the new accounting firm was taking over monthly transactions. The funds transferred in June 2018 were replaced in the LGIP in October 2018.

In the future, the Executive Director will receive approval from the AMWUA Board prior to any transfers from the LGIP being made.

Arizona Municipal Water Users Association

- AMWUA received orders for Landscape Plants for the Arizona Desert brochures in the amount of \$46,010 and fulfilled the orders through placing an order with a vendor. AMWUA paid the vendor and then billed the member and nonmember organizations. The transaction was run through the balance sheet and not properly reflected in revenue and expense. An audit adjustment was made to increase revenue and expense in the amount of \$46,010.

The recording of this type of transaction has been changed during the current fiscal year to follow Generally Accepted Accounting Principles. We will also include these types of transactions as revenue and expense in the FY20 budget.

AMWUA takes very seriously its fiduciary responsibility to our member cities by fulfilling our mission requirements within the parameters of the approved budget. This independent audit report confirms that AMWUA completed Fiscal Year 2018 under budget and continues to be on a fiscally sound footing to meet the future needs of the Association.

RECOMMENDATION

At its January 9th meeting, the AMWUA Management Board unanimously recommended that the AMWUA Board of Directors accept the audit report as presented.

ATTACHMENTS

- **Attachment A:** Board of Directors Governance Letter
- **Attachment B:** Board of Directors Management Letter
- **Attachment C:** Annual Financial Audit Report

December 28, 2018

To the Board of Directors
Arizona Municipal Water Users Association

We have audited the financial statements of Arizona Municipal Water Users Association for the year ended June 30, 2018 and 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Arizona Municipal Water Users Association are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments.

The most sensitive estimates affecting the financial statements are:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time management estimates those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on leave rates and Organization policies regarding payment of unused vested leave.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Arizona Municipal Water Users Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the Organization's auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*
- Management Letter

Other Important Communications Related to the Audit

Attached to this letter are a copy of the signed engagement letter provided to us at the initiation of the audit, and a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner identified in the attached engagement letter.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Arizona Municipal Water Users Association and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

1. Is ongoing anti-fraud training provided to all employees of the organization?

- Do employees understand what constitutes fraud?
- Have the costs of fraud to the company and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
- Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
- Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

2. Is an effective fraud reporting mechanism in place?

- Have employees been taught how to communicate concerns about known or potential wrongdoing?
- Is there an anonymous reporting channel available to employees, such as a third-party hotline?
- Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
- Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
- Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

- 4. Is the management climate/tone at the top one of honesty and integrity?**
 - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
 - Are performance goals realistic?
 - Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
 - Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?
- 5. Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?**
- 6. Are strong anti-fraud controls in place and operating effectively, including the following?**
 - Proper separation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations
- 7. Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**
- 8. Does the hiring policy include the following (where permitted by law)?**
 - Past employment verification
 - Criminal and civil background checks
 - Credit checks
 - Drug screening
 - Education verification
 - References check
- 9. Are employee support programs in place to assist employees struggling with addictions, mental/ emotional health, family or financial problems?**
- 10. Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?**
- 11. Are anonymous surveys conducted to assess employee morale?**



Arizona Municipal Water Users Association
Management Letter
Year Ended June 30, 2018

Board of Directors
Arizona Municipal Water Users Association

Members of the Board:

In planning and conducting our audit of the financial statements of Arizona Municipal Water Users Association (AMWUA) for the year ended June 30, 2018, we performed the following as required by *Government Auditing Standards* (GAS):

- Considered AMWUA's internal control over financial reporting.
- Tested compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on AMWUA's financial statements.

Any audit findings that are required to be reported by GAS have been included in AMWUA's Financial Statements and Report on Internal Control and on Compliance for the year ended June 30, 2018. Our audit disclosed opportunities for strengthening internal controls and instances of non-compliance with a Board Policy as well as Financial Reporting requirements that did not meet the reporting criteria. Management should address these items to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with Board Policies and Financial Reporting requirements. Those items and our related recommendations are briefly described in the accompanying summary.

This information is intended for the AMWUA Board of Directors and is not intended to be and should not be used by anyone other than the specified party. However, this information is a matter of public record, and its distribution is not limited.

We have already discussed these items and suggestions with AMWUA personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 21, 2018

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2018**

Reserve Fund

1. In June 2018, AMWUA transferred \$116,000 from the Local Government Investment Pool (LGIP) to the Money Market Account. This money was part of the reserve fund established in accordance with Board Policy. The transfer was made to ensure sufficient liquidity in the operating accounts until member assessments were received. The transfer was made without approval from the Board. Per review of the Board policy on the reserve fund and contingency funds, they must be kept with the State Treasurer in the LGIP.

It is recommended that AMWUA keep all reserve fund and contingency fund monies in the LGIP unless the Board provides approval to move them to another account.

Management Response: Management acknowledges the Contingency Fund and Reserve Fund Policy as written. Once we received a majority of the assessment payments, we transferred the funds back into the LGIP. The \$116,000 referred to in this finding was transferred back into LGIP on October 26, 2018.

In the past, we have transferred funds from LGIP in June in order to cover operating expenses as we awaited payment of the next fiscal year assessment invoices from our members. Management will discuss with the Board on how to handle this situation in future years if it arises.

Financial Reporting

1. AMWUA received orders for Landscape Plants for the Arizona Desert Brochures in the amount of \$46,010 and fulfilled the orders through placing an order with a vendor. AMWUA paid the vendor and then billed the member and nonmember organizations. The transaction was run through the balance sheet and not properly reflected in revenue and expense. A significant audit adjustment was made to increase revenue and expense in the amount of \$46,010. Management has implemented this reporting requirement for fiscal year 2019 by including the estimated revenues and expenditures in the fiscal year 2019 budget and recording all transactions for the new year.

It's recommended that management review all transactions to ensure their conformity with Generally Accepted Accounting Principles (GAAP).



Arizona Municipal Water Users Association
Phoenix, Arizona
Financial Statements
June 30, 2018 and 2017

Arizona Municipal Water Users Association
Phoenix, Arizona

Financial Statements
June 30, 2018 and June 30, 2017

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
JUNE 30, 2018 AND 2017**

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FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arizona Municipal Water Users Association

Report on the Financial Statements

We have audited the accompanying financial statements of Arizona Municipal Water Users Association (AMWUA), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise AMWUA's 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Arizona Municipal Water Users Association, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and net pension liability information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise AMWUA's financial statements. The Schedule of Comparison of Revenues and Expenses to Budgeted Amounts as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Comparison of Revenues and Expenses to Budgeted Amounts is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of Arizona Municipal Water Users Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arizona Municipal Water Users Association's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

The following Management Discussion and Analysis (MD&A) of the Arizona Municipal Water Users Association's (AMWUA) activities and financial performance provides an introduction to AMWUA's financial statements for the fiscal years ended June 30, 2018 and 2017.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Total net position for AMWUA equaled a negative \$78,264 at June 30, 2018, and a negative \$239,794 at June 30, 2017 increasing by \$161,530 for fiscal year 2018 and increasing by \$107,264 for fiscal year 2017. AMWUA's net position was negatively impacted in fiscal year 2015 with the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68), which required AMWUA to record its proportionate share of unfunded pension liabilities for pension plans in which it participates.

For fiscal year 2018, revenues assessed to the member cities totaled \$1,336,396 which represents a \$41,471 increase from fiscal year 2017. For fiscal year 2017, revenues assessed to the member cities totaled \$1,294,925 which represents a \$14,688 increase from fiscal year 2016. Each city is assessed the same amount for the first 50 percent of the water portion of the budget, and the second 50 percent is based on population.

Fiscal Year 2018 Assessments by City

<u>City</u>	<u>Assessment</u>	<u>Percentage</u>
Phoenix	\$ 426,914	31.95
Mesa	161,982	12.12
Scottsdale	115,644	8.65
Glendale	107,948	8.08
Tempe	115,393	8.64
Chandler	95,657	7.16
Gilbert	93,965	7.03
Peoria	82,232	6.15
Avondale	68,481	5.12
Goodyear	68,180	5.10
Total	<u>\$ 1,336,396</u>	<u>100.00</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Below is a listing of operating expenses by major budget category comparing the approved budget to actual budget (cash) basis, and actual GAAP basis:

	<u>Approved Budget</u>	<u>Actual Expenses</u>	<u>Actual GAAP</u>
Administration	\$ 672,048	\$ 673,701	\$ 528,749
Employee Benefits	128,120	127,199	128,943
Professional Services	212,900	210,911	210,911
Occupancy	190,900	194,648	187,556
Travel and Training	14,500	17,826	17,826
Capital Outlay	11,200	14,001	10,340
Office Operating Expenses	30,600	16,554	62,564
Water Conservation	90,000	108,312	108,312
	<u>\$ 1,350,268</u>	<u>\$ 1,363,152</u>	<u>\$ 1,255,200</u>

See the Supplemental Information for a reconciliation of the actual budget to the actual GAAP basis.

OVERVIEW OF OPERATING EXPENSES

Expenses for Administration include salaries and pension-funding payments to the Arizona State Retirement System. The actual expenses for Administration were over budget by \$1,653. Employee Benefits, which includes payroll taxes, payroll processing, medical, dental, and disability insurance, and cell phone allowance was under budget by \$921.

Professional Services include audit fees and contracts for the following services: Website Maintenance and Redevelopment, Communication, Legal, Legislative, and Financial. The actual for Professional Services was under budget by \$1,989.

Occupancy costs include building lease, building operating expenses, and telephone and internet charges. The actual was over budget by \$3,748. AMWUA's share of the building's operating costs and telephone charges were more than anticipated.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

OVERVIEW OF OPERATING EXPENSES

The actual for Travel and Training was over budget by \$3,326.

Capital Outlay includes the copier lease and money spent on computer software and hardware upgrades. The expenditures for this line item was over budget by \$2,801.

Office operating expenses includes all expenses related to office operations. This includes supplies, meetings (lunch and snacks provided to attendees of the management and board meetings), printing costs, postage and deliveries, subscription and reference, dues and memberships, office liability insurance, and equipment maintenance costs. The actual was less than the budget by \$14,046.

Water Conservation had total expenditures of \$108,312 of a total budget of \$90,000. The difference is attributable to unspent funds encumbered from the prior year to be spent in fiscal year 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

AMWUA's financial statements include the statements of net position; statements of revenues, expenses, and changes in net position; 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 Position

	Years ended June 30		
	2018	2017	2016
Current assets	\$ 952,297	\$ 960,933	\$ 955,120
Net capital assets	8,621	11,234	22,671
Deferred outflows	184,285	164,450	82,235
Total assets and deferred outflows of resources	<u>1,145,203</u>	<u>1,136,617</u>	<u>1,060,026</u>
Current liabilities	174,482	202,309	156,840
Net pension liability	937,799	873,228	924,728
Deferred inflow	111,186	300,874	325,516
Net investment in capital assets	8,621	11,234	22,671
Unrestricted	<u>(86,885)</u>	<u>(251,028)</u>	<u>(369,729)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,145,203</u>	<u>\$ 1,136,617</u>	<u>\$ 1,060,026</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS

- Current assets decreased \$8,636 in 2018 and increased \$5,813 in 2017. Current assets consist primarily of cash, investments in the Arizona State Local Government Investment Pool, and in some years, a small amount of receivables and prepaids. 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 expenses compared to the approved budget.
- Net Capital assets decreased by \$2,613 during fiscal year 2018 and decreased by \$11,437 during fiscal year 2017. Capital assets consist of office furniture, equipment, and certain leasehold improvements. AMWUA capitalized a \$3,661 expense for 41 conference room chairs. AMWUA's threshold for capitalization is \$1,000. For fiscal year 2018, old and fully depreciated equipment was disposed of in the amount of \$6,493. The Association had no capital asset disposals in fiscal year 2017.
- Current Liabilities decreased by \$27,827 in 2018 and increased by \$45,469 in 2017. At fiscal year end, all current 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).
- Net Pension Liability represents AMWUA's proportionate share of the net pension liability of the Arizona State Retirement System (ASRS). This is a new reporting requirement and was implemented in fiscal year 2016 to satisfy the requirements of GASB 68.
- Total Net Position increased by \$161,530 to a negative \$78,264 in fiscal year 2018 and increased by \$107,264 to a negative \$239,794 in fiscal year 2017. This was primarily due to significant reductions in AMWUA's pension expense in both fiscal years.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS

Summary of Changes in Net Position

	Years ended June 30		
	2018	2017	2016
Operating revenues			
Annual assessments	\$ 1,354,313	\$ 1,236,925	\$ 1,280,238
Other	51,001	4,992	4,992
Total operating revenues	<u>1,405,314</u>	<u>1,241,917</u>	<u>1,285,230</u>
Operating expenses	<u>1,255,200</u>	<u>1,140,543</u>	<u>1,162,613</u>
Nonoperating revenues			
Interest on investments	11,416	5,543	2,483
LGIP asset impairment recovery		347	395
Total nonoperating revenues	<u>11,416</u>	<u>5,890</u>	<u>2,878</u>
Increase in net position	161,530	107,264	125,495
Net position, July 1, as restated	<u>(239,794)</u>	<u>(347,058)</u>	<u>(472,553)</u>
Net position, June 30	<u>\$ (78,264)</u>	<u>\$ (239,794)</u>	<u>\$ (347,058)</u>

- Actual annual assessments billed to the cities increased by \$41,471 in 2018 and increased by \$14,687 in 2017. The summary of changes in net position shown above reflects different changes in assessments for fiscal year 2017 and 2018 due to funds encumbered in 2017 and 2018 to be spent in fiscal years 2018 and 2019, respectively.
- Other revenues increased \$46,009 in 2018 due to an increase in reimbursements related to the Desert Plant Brochures. Other revenues include race registration fees and sponsorships secured to support the Fix-a-Leak campaign (fiscal year 2016), and deferred income recognized related to the lease moving allowance and reimbursement for printing the Desert Plant Brochures for member and non-member organizations.
- Total operating expenses increased by \$114,657 in 2018 and decreased by \$22,070 in 2017.
- Nonoperating revenues increased by \$5,526 in 2018 and increased by \$3,012 in 2017. Nonoperating revenues consist of interest on investments and recoveries from a previous LGIP investment loss dating back to 2004.

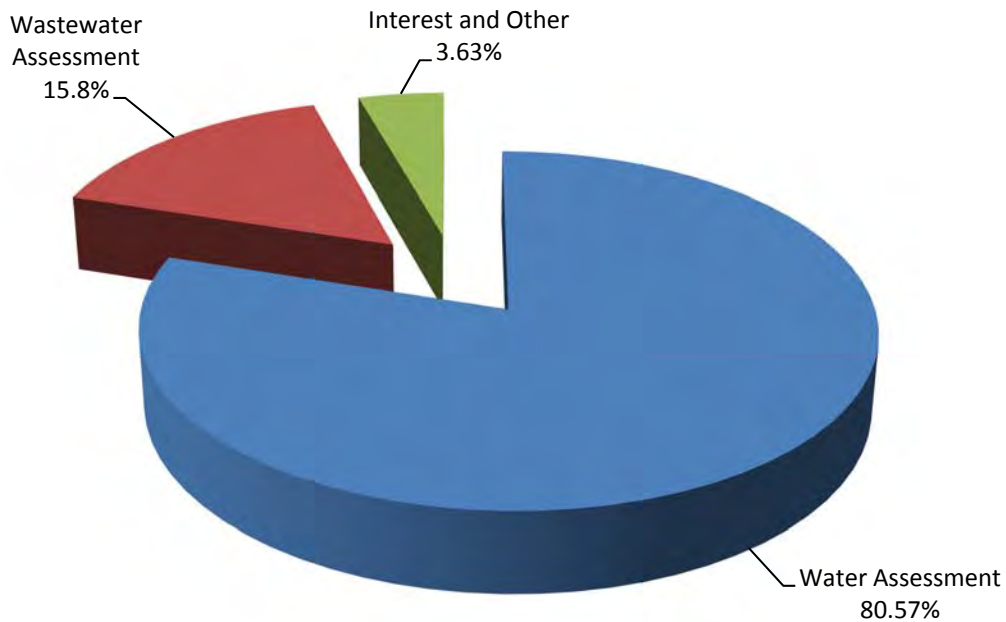
**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS

Operating Revenues

AMWUA's revenue is primarily (96.4 percent) generated by water and wastewater assessments from member cities. For fiscal year 2018, of the \$1,354,313 in revenue recognized from annual assessments, \$1,132,225 represents water assessments, with the remaining \$222,088 representing wastewater assessments. The following chart shows the sources and the percentage of all revenue by category for the fiscal year ended June 30, 2018.

Revenues Summary
for Fiscal Year Ended June 30, 2018
Total = \$1,405,314

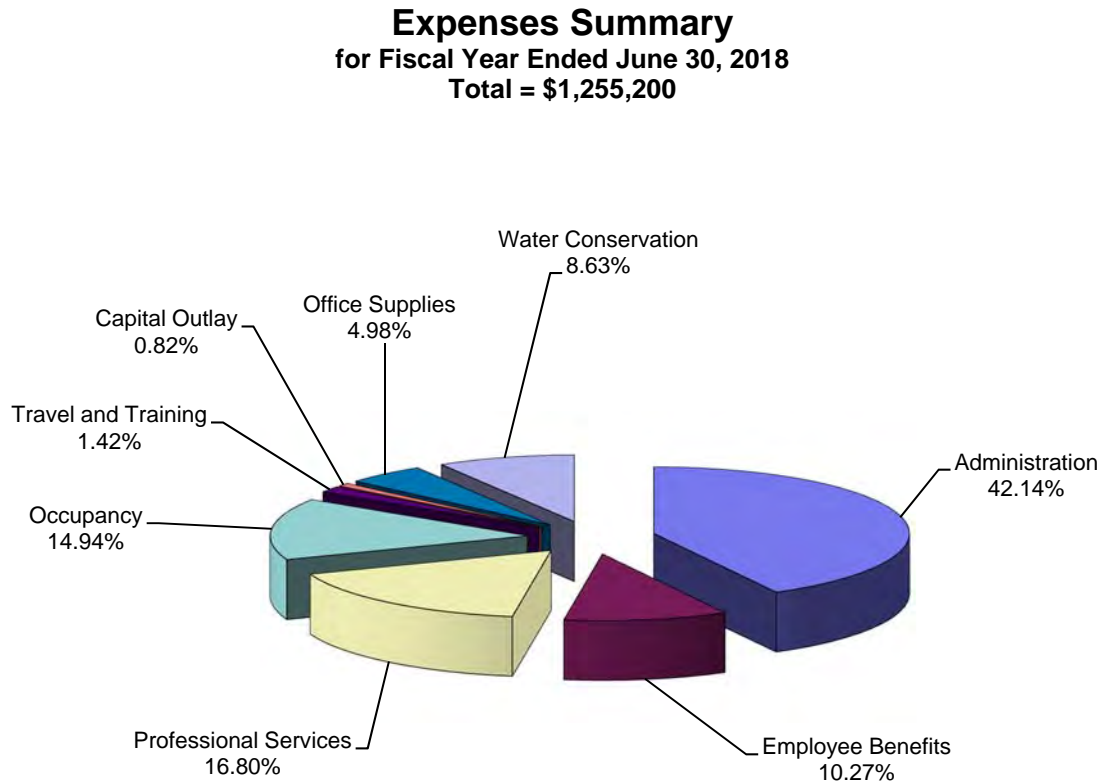


**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS

Operating Expenses

The following chart shows AMWUA's operating expenses by category for the year ended June 30, 2018.



AMWUA's Capital Assets

	Years ended June 30		
	2018	2017	2016
Property and equipment	\$ 170,292	\$ 173,125	\$ 170,062
Leasehold improvements	52,665	52,665	52,665
Less accumulated depreciation and amortization	(214,336)	(214,556)	(200,056)
Net property and equipment	\$ 8,621	\$ 11,234	\$ 22,671

AMWUA owns no real property. Property and equipment consists of office equipment for office operations and administration such as office furniture, computers, telephone equipment, etc. Net property and equipment decreased by \$2,613 during fiscal year 2018 and decreased by \$11,437 during fiscal year 2017.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS

Economic Factors and Next Year's Budget and Rates

Starting in fiscal year 2017, all AMWUA members are voting members and each member pays 50 percent of the AMWUA water portion of the budget equally, the remaining 50 percent is allocated by member population. In previous fiscal years, voting membership water assessments were based on Maricopa Association of Governments' most recent population estimates, with a 49 percent ceiling and \$40,000 minimum. Non-voting membership assessment was 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 204.50 million gallons per day.

In May 2018, the AMWUA Board of Directors approved the fiscal year 2019 Budget. The fiscal year 2019 Budget increased by 3.6 percent over the fiscal year 2018 budget.

AMWUA is in the eighth year of a 10-year lease, which will expire in March 2021.

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 Executive Director of AMWUA.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 189,902	\$ 117,555
Investments	702,218	807,025
Prepaid expenses and other assets	<u>60,177</u>	<u>36,353</u>
Total current assets	952,297	960,933
CAPITAL ASSETS, NET	8,621	11,234
TOTAL ASSETS	<u>960,918</u>	<u>972,167</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan items	<u>184,285</u>	<u>164,450</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 1,145,203</u></u>	<u><u>\$ 1,136,617</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 3,212	\$ 4,236
Accrued expenses	54,111	59,749
Compensated absences payable	63,766	62,023
Unearned revenue	<u>53,393</u>	<u>76,301</u>
Total current liabilities	<u>174,482</u>	<u>202,309</u>
NONCURRENT LIABILITIES		
Net Pension Liability	<u>937,799</u>	<u>873,228</u>
TOTAL LIABILITIES	<u>1,112,281</u>	<u>1,075,537</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan items	<u>111,186</u>	<u>300,874</u>
NET POSITION		
Net investment in capital assets	8,621	11,234
Unrestricted	<u>(86,885)</u>	<u>(251,028)</u>
Total net position	<u>(78,264)</u>	<u>(239,794)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 1,145,203</u></u>	<u><u>\$ 1,136,617</u></u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Annual assessments	\$ 1,354,313	\$ 1,236,925
Other	51,001	4,992
Total operating revenues	1,405,314	1,241,917
 OPERATING EXPENSES		
Salaries	586,054	524,872
Benefits	71,637	68,663
Occupancy costs	181,283	234,998
Legal and accounting	123,400	123,900
Temporary services	82,711	97,682
Water conservation	108,312	31,906
Printing and duplicating	51,099	5,846
Consulting services	4,800	10,060
Depreciation and amortization	6,273	14,499
Travel and meetings	12,230	6,928
Office supplies	9,021	4,679
Subscription and reference materials	1,183	985
Postage and shipping	1,513	1,435
General business insurance	4,032	3,908
Dues	1,565	851
Conferences	9,915	8,636
Training	172	695
Total operating expenses	1,255,200	1,140,543
Operating income	150,114	101,374
 NON-OPERATING REVENUES		
Interest on investments	11,416	5,543
LGIP asset impairment recovery		347
Total non-operating revenues	11,416	5,890
 CHANGE IN NET POSITION	161,530	107,264
 NET POSITION, BEGINNING OF YEAR	(239,794)	(347,058)
 NET POSITION, END OF YEAR	\$ (78,264)	\$ (239,794)

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM/(USED FOR) OPERATING ACTIVITIES		
Cash received from members and customers	\$ 1,352,550	\$ 1,294,926
Cash paid to employees	(800,900)	(753,992)
Cash paid to suppliers and vendors	(591,866)	(542,439)
	<u>(40,216)</u>	<u>(1,505)</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(3,661)	(3,062)
	<u>(3,661)</u>	<u>(3,062)</u>
CASH FLOWS FROM/(USED FOR) INVESTING ACTIVITIES		
Purchases of investments		(135,227)
Sale of investments	116,000	
Interest on investments	224	5,543
Loss recovery on investments		347
	<u>116,224</u>	<u>(129,337)</u>
Net cash provided by/(used for) investing activities		
	<u>116,224</u>	<u>(129,337)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	72,347	(133,904)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>117,555</u>	<u>251,459</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 189,902</u>	<u>\$ 117,555</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income	\$ 150,114	\$ 101,374
Adjustments:		
Depreciation and amortization	6,273	14,499
(Increase) decrease in assets		
Prepaid expenses and other current assets	(23,824)	(4,490)
Increase (decrease) in liabilities		
Accounts payable	(1,024)	(4,849)
Accrued expenses	(3,895)	(2,692)
Pension plan items	(144,952)	(158,356)
Unearned revenue	(22,908)	53,009
	<u>(40,216)</u>	<u>(1,505)</u>
Net cash provided by/(used for) operating activities	<u>\$ (40,216)</u>	<u>\$ (1,505)</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 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.

The more significant of AMWUA'S accounting policies are described below.

A. Basis of Presentation

The 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.

AMWUA 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 statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It also requires a Management's Discussion and Analysis as required supplementary information.

B. 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, AMWUA 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.

C. Investments

AMWUA 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.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Capital Assets

Capital assets are initially recorded at cost. These assets are depreciated using the straight-line method over their estimated useful lives, generally three to five years for furniture and equipment. The capitalization threshold is \$1,000. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the associated lease.

E. Operating Revenues

Operating revenues primarily reflect members' assessments for water and wastewater activities. All operating revenues are recognized when earned. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. Unearned Revenue

Unearned revenue consists primarily of a cash lease incentive received at the beginning of the lease and is being amortized to revenue over the life of the lease and unspent members' assessments.

G. Tax-Exempt Status

AMWUA 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. AMWUA is also exempt from State of Arizona taxation.

H. Cash and Cash Equivalents

For purposes of the statement of cash flows, AMWUA considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

J. Compensated Absences

AMWUA's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements.

K. Contingency and Reserve Funds Status

In March 2013, the Board of Directors approved the Contingency Fund and Reserve Fund Policy directing and restricting the use of AMWUA's excess cash.

The Contingency Fund was established in the amount of \$600,000 that may only be used as authorized by the Board of Directors for unanticipated emergency or extraordinary expenses. Pursuant to the policy these funds are held in the Local Government Investment Pool with the Arizona State Treasurer.

The Reserve Fund was established with a balance equal to the difference between AMWUA's excess cash and the Contingency Fund. Monies in the Reserve Fund may only be used as authorized by the Board of Directors. In accordance with the policy this fund may not be used for on-going operational expenses, but may be used for capital expenditures (such as office equipment and furniture), to offset the cost of relocating the office, or for professional services that fall outside of the normal operations of AMWUA. At June 30, 2018, the balance of the Reserve Fund is \$102,218. Pursuant to the policy these funds are held in the Local Government Investment Pool with the Arizona State Treasurer.

L. 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 benefit terms. Investments are reported at fair value.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Net Position Flow Assumption

In the financial statements, AMWUA applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

NOTE 2 – CASH AND INVESTMENTS

AMWUA places its cash with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$250,000. At June 30, 2018, \$37,277 was uninsured and uncollateralized. At June 30, 2017, all bank balances were under the limit. AMWUA also had petty cash of \$500 at June 30, 2018 and 2017.

AMWUA 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, AMWUA has no individual investments in excess of five percent of the total investments as of June 30, 2018 and 2017.

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools as an investment company are not registered with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

The LGIP is primarily invested in commercial paper and government agency notes, with lesser investments in repurchase agreements and corporate notes. AMWUA’s funds are invested in Pool 5 with the LGIP which is rated AAAsf/S1+ by Standard and Poor’s and had a weighted average maturity of 33 days and 22 days at June 30, 2018 and 2017, respectively. The maximum weighted average maturity permitted for the LGIP is 90 days.

The following is a summary of AMWUA’s cash and investments:

	2018	2017
Cash and cash equivalents	\$ 189,902	\$ 117,555
Investments in LGIP	702,218	807,025
Total cash and investments	\$ 892,120	\$ 924,580

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 – CAPITAL ASSETS

Capital assets at June 30, 2018, consist of the following:

<u>Capital Assets</u>	Beginning Balance July 1, 2017	Increase	Decrease	Ending Balance June 30, 2018
Capital assets:				
Furniture and equipment	\$ 173,124	\$ 3,661	\$ 6,493	\$ 170,292
Leasehold improvements	52,665			52,665
Total depreciable assets	<u>225,789</u>	<u>3,661</u>	<u>6,493</u>	<u>222,957</u>
Less accumulated depreciation:				
Furniture and equipment	164,559	5,563	6,493	163,629
Leasehold improvements	49,996	711		50,707
Total accumulated depreciation and amortization	<u>214,555</u>	<u>6,274</u>	<u>6,493</u>	<u>214,336</u>
Capital assets, net of accumulated depreciation and amortization	<u>\$ 11,234</u>	<u>\$ 2,613</u>	<u>\$</u>	<u>\$ 8,621</u>

Capital assets at June 30, 2017, consist of the following:

<u>Capital Assets</u>	Beginning Balance July 1, 2016	Increase	Decrease	Ending Balance June 30, 2017
Capital assets:				
Furniture and equipment	\$ 170,062	\$ 3,062	\$	\$ 173,124
Leasehold improvements	52,665			52,665
Total depreciable assets	<u>222,727</u>	<u>3,062</u>		<u>225,789</u>
Less accumulated depreciation:				
Furniture and equipment	150,770	13,789		164,559
Leasehold improvements	49,286	710		49,996
Total accumulated depreciation and amortization	<u>200,056</u>	<u>14,499</u>		<u>214,555</u>
Capital assets, net of accumulated depreciation and amortization	<u>\$ 22,671</u>	<u>\$ 11,437</u>	<u>\$</u>	<u>\$ 11,234</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 – OPERATING LEASES

AMWUA leases a copier under a non-cancelable operating lease that expires in 2019 and telephone and internet services under a non-cancelable operating lease that expires in 2020.

Effective March 2011, AMWUA entered into a new facility lease which expires March 2021. The new lease provided incentives in the form of reimbursements for moving costs and prior lease rental payments. The prior lease rental reimbursements are recorded on a straight-line basis over the term of the new lease while the moving expenses were recognized as incurred. Included in unearned revenue at June 30, 2018 and 2017, is \$13,310 and \$18,301, respectively, in deferred lease incentives related to the new lease. AMWUA's lease calls for varied and uneven scheduled rent increases through the respective terms. As such, rent expense is recorded on a straight-line basis over the term of the lease. Included in accrued expenses at June 30, 2018 and 2017 is \$46,384 and \$59,749, respectively in deferred rent related to the lease.

Total lease expense was \$160,264 and \$160,724 for the years ended June 30, 2018 and 2017, respectively, and is included in occupancy costs on the statements of revenues, expenses and changes in net position.

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

Year Ending June 30:		
	2019	\$ 186,797
	2020	182,577
	2021	<u>118,518</u>
Total future minimum lease payments		<u>\$ 487,892</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5 – ANNUAL ASSESSMENTS

AMWUA assesses membership dues based upon operating costs for the year. During fiscal year 2018, the members paid 50 percent of the AMWUA water portion of the budget equally and the remaining 50 percent was allocated based on member population. The wastewater portion of the budget is paid only by the five members who own an interest in the 91st Avenue Wastewater Treatment Plant. Wastewater assessments are based on percentage of ownership in the 204.50 million gallons per day plant. The following summarizes the dues assessed for fiscal years 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Voting members:		
City of Chandler*	\$ 95,657	\$ 94,495
City of Glendale	107,948	105,010
City of Mesa	161,982	156,591
City of Peoria*	82,232	81,476
City of Phoenix	426,914	407,627
City of Scottsdale	115,644	111,297
City of Tempe	115,393	110,411
Town of Gilbert*	93,965	93,467
City of Goodyear*	68,180	67,187
City of Avondale*	68,481	67,364
Total annual assessments	<u>\$ 1,336,396</u>	<u>\$1,294,925</u>

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

NOTE 6 – FUNCTIONAL EXPENSES

Expenses incurred during the years ended June 30, 2018 and 2017, were for:

	<u>2018</u>	<u>2017</u>
Water conservation	\$ 108,312	\$ 31,906
Water policy:		
Water	813,275	775,265
Wastewater	158,148	150,756
Management and general	175,465	182,616
Total	<u>\$ 1,255,200</u>	<u>\$ 1,140,543</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 (OPEB) plan and sponsors medical and dental coverage for retired members. AMWUA made monthly retirement contributions into the ASRS at the rate of 11.34 percent and 11.34 percent of the participants' annual salaries in 2018 and 2017, 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.

NOTE 8 – RISK MANAGEMENT

AMWUA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. AMWUA carries commercial insurance for risks of loss, including property, and liability and workers' compensation and director and officers. There were no claims in any of the past three fiscal years.

Employee healthcare benefits are insured through United Healthcare, Delta Dental and Lincoln National Life which is administered by the Employee Benefit Exchange Corp. AMWUA pays a monthly premium for benefits, which is determined by these insurance companies.

NOTE 9 – RELATED PARTY TRANSACTIONS

AMWUA's governing board is comprised of individuals from each member city. The member cities contributed nearly all revenues in the form of annual assessments during fiscal years 2018 and 2017. Annual assessments are based upon the Board adopted budget. For additional information on annual assessments see Note 5.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 – PENSIONS

Plan Description. AMWUA employees participate 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. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at www.azasrs.gov.

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

	Retirement Initial Membership Date:	
	Before July 1, 2011	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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 – PENSIONS

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.

Retired and disabled members, with at least five years of credited service, are eligible to receive health insurance premium benefits. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with five to nine years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a long-term disability benefit in the event they become unable to perform their work. The monthly benefit is equal to two-thirds of their monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999 are limited to 30 years of service or the service on record as of the effective disability date, if their service is greater than 30 years.

Contributions. In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and AMWUA was required by statute to contribute at the actuarially determined rate of 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

AMWUA's contributions related to the ASRS were \$68,727 and \$64,048 for the years ended June 30, 2018 and 2017, respectively. AMWUA funded 100 percent of its annual required contribution to the ASRS for the years ended June 30, 2018 and 2017.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 – PENSIONS

Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. AMWUA was required by statute to contribute at the actuarially determined rate of 9.49 percent (9.26 for retirement, 0.10 percent for health insurance premium benefit, and 0.13 percent for long-term disability). ACR contributions are included in employer contributions presented above.

Pension Liability. The net pension liability was measured as of June 30, 2017. The total pension liability of \$937,799 used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. AMWUA’s proportion of the net pension liability was based on AMWUA’s actual contributions to the plan relative to the total of all participating employers’ contributions to the plan for the year ended June 30, 2017.

Pension Expense and Deferred Outflows/Inflows of Resources. AMWUA has deferred outflows and inflows of resources related to the net pension liability. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. For the year ended June 30, 2018, AMWUA recognized pension expense of (\$76,225) and 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
Differences between expected and actual experience	\$	\$ 28,120
Changes of assumptions or other inputs	40,731	28,042
Net difference between projected and actual earnings on pension plan investments	6,733	
Changes in proportion and differences between contributions and proportionate share of contributions	68,094	55,024
Contributions subsequent to the measurement date	68,727	
Total	\$ 184,285	\$ 111,186

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2019	\$ (56,291)
2020	64,555
2021	17,679
2022	(21,572)

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 – PENSIONS

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

	<u>Pension</u>
Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB
Healthcare Cost Trend Rate	Not applicable

The 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. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The long-term expected rate of return on ASRS plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.84
Total	<u>100%</u>	

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 – PENSIONS

Discount Rate. The discount rate used to measure the ASRS total pension liability was 8.0 percent, which is less than the long-term expected rate of return of 8.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents AMWUA’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Proportionate share of the net pension liability	\$1,203,681	\$ 937,799	\$ 715,631

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

REQUIRED SUPPLEMENTARY INFORMATION

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
AMWUA's proportion of the net pension liability (asset)	0.01%	0.01%	0.01%	0.01%
AMWUA's proportionate share of the net pension liability (asset)	\$ 937,799	\$ 873,228	\$ 924,728	\$ 1,198,514
AMWUA's covered payroll	\$ 586,438	\$ 506,728	\$ 576,162	\$ 735,857
AMWUA's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	159.91%	172.33%	160.50%	162.87%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%

**SCHEDULE OF CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 68,727	\$ 63,218	\$ 54,980	\$ 62,744
Contributions in relation to the actuarially determined contribution	<u>68,727</u>	<u>63,218</u>	<u>54,980</u>	<u>62,744</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
AMWUA's covered payroll	\$ 630,523	\$ 586,438	\$ 506,728	\$ 534,483
Contributions as a percentage of covered payroll	10.90%	10.78%	10.85%	11.74%

NOTE: 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.

See accompanying notes to the schedules

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018 AND 2017**

NOTE 1 – PENSION PLAN SCHEDULES

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Factors that Affect Trends. The 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. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

SUPPLEMENTARY INFORMATION

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
SCHEDULE OF COMPARISON OF REVENUES AND
EXPENSES TO BUDGETED AMOUNTS
(BUDGET BASIS)
YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance
		<i>(Budget Basis)</i>	
Revenues:			
Water assessment	\$ 1,114,309	\$ 1,167,306	\$ 52,997
Wastewater assessment	222,088	222,088	
Carryover	13,871	13,871	
Total revenues	1,350,268	1,403,265	52,997
Expenses:			
Administration	672,048	673,701	(1,653)
Employee benefits	128,120	127,199	921
Professional services	212,900	210,911	1,989
Occupancy	190,900	194,648	(3,748)
Travel and training	14,500	17,826	(3,326)
Capital outlay	11,200	14,001	(2,801)
Office operating expenses	30,600	16,554	14,046
Water conservation	90,000	108,312	(18,312)
Total expenses	1,350,268	1,363,152	(12,884)
Excess of revenues over expenses	\$	\$ 40,113	\$ 65,881

AMWUA's budget is adopted on a basis other than generally accepted accounting principles (GAAP). The reconciliation of the actual excess of revenues over expenses shown on the budget basis to the change in net position shown in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2018, is as follows:

Excess of revenues over expenses – actual – budget basis	<u>\$40,113</u>
 Items not requiring (providing) cash:	
Depreciation and amortization	\$ (6,273)
Recognition of rent expense on a straight-line basis for GAAP	13,365
Increase in vacation accrual	(1,743)
Pension adjustment	144,952
Accrued expense for GAAP	3,661
Unearned revenues	(35,081)
Carryover for budget basis	(13,871)
Non-budgeted revenues	16,407
Increase in net position – GAAP basis	\$ 161,530

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

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

Independent Auditor's Report

Board of Directors
Arizona Municipal Water Users Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Arizona Municipal Water Users Association, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Arizona Municipal Water Users Association's basic financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arizona Municipal Water Users Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arizona Municipal Water Users Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Arizona Municipal Water Users Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arizona Municipal Water Users Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 21, 2018