



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

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

MEETING NOTICE AND AGENDA

Thursday, November 30, 2017 – 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 October 26, 2017 Meeting
2. Schedule Next Meeting Date: Thursday, December 21, 2017, 11:00 a.m.
3. Governor’s Water Solutions Conversation
4. CAWCD Rate Setting Policy
5. Municipal Contributions for Shortage Prevention
6. Recommendation for 2018 Board Officers
7. AMWUA Annual Financial Audit Report for Fiscal Year 2017
8. AMWUA Quarterly Financial Statements – First Quarter

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.

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

October 26, 2017

VOTING MEMBERS PRESENT

Mayor Cathy Carlat, Vice President, Peoria
Councilmember Pat Dennis, Avondale
Councilmember Lauren Kuby, Tempe
Councilmember René Lopez, Chandler
Councilmember Joanne Osborne, Goodyear
Councilmember Kevin Thompson, Mesa
Councilmember Bart Turner, Glendale

VOTING MEMBERS NOT PRESENT – EXCUSED

Councilwoman Thelda Williams, President, Phoenix
Councilmember Eddie Cook, Gilbert
Mayor Jim Lane, Scottsdale

OTHERS PRESENT

Barry Aarons, The Aarons Co.	Alan Dulaney, Peoria	Brian Payne, AMWUA
Anthony Alejandro, Peoria	Kathy Ferris, AMWUA, via phone	Stuart Peckham, SRP
Michelle Barclay, AMWUA	John Wayne Gonzales, Phoenix	Jessica Perry, Goodyear
Gretchen Baumgardner, Tempe	Mark Holmes, Goodyear	Ryan Peters, Chandler
Jessica Blazina, Avondale	David Iwanski, AZ Water	Diana Piña, AMWUA
Eric Braun, Gilbert	Lacey James, Avondale	Kathy Rall, Scottsdale
Rob Bohr, Goodyear	Sam Jaskolski, AMWUA	Don Sehorn, DPS CPA
Tom Buschatzke, ADWR	Pat Kossan, AMWUA	Javier Setovich, Goodyear
Gregg Capps, Chandler	Elise Kulik, The Aarons Co.	Tony Staffaroni, CAP
GINNA CARILLO, Peoria	Ryan Lee, Glendale	Drew Swieczkowski, Glendale
Clint Chandler, ADWR	Brad Lundahl, Scottsdale	Warren Tenney, AMWUA
Keith DeVore, Mesa	Frank Milam, Phoenix	Thalia Williams, AMWUA

A. Call to Order

Mayor Carlat called the meeting to order at 11:06 a.m.

B. General Business – Items for Discussion and Possible Action

1. Approval of the Minutes from the September 28, 2017 Meeting

Upon a motion by Councilmember Kuby and a second by Councilmember Thompson, the AMWUA Board of Directors unanimously approved the minutes from the September 28, 2017 meeting.

2. Next meeting scheduled: Thursday, November 30, 2017, 11:00 a.m., at the AMWUA office

The order of the agenda was altered.

On behalf of the AMWUA Board, Mayor Carlat congratulated Thalia Williams, AMWUA's Sub-Regional Operating Group (SROG) Program Coordinator, on her retirement and thanked Ms. Williams for her service at AMWUA.

Mr. Tenney introduced Michelle Barclay, AMWUA's new SROG Program Coordinator.

4. CAWCD Excess Water Task Force

Mr. Tenney stated that two weeks ago, AMWUA staff reviewed a proposal with the Management Board that requests a more complete and clear accounting of Central Arizona Water Conservation District (CAWCD) excess water. He said AMWUA's proposal recommends that CAWCD excess water accounting be reviewed twice a year with the CAWCD Board to better allow the Board to oversee all excess water. With support from the Management Board, AMWUA presented this proposal to the CAWCD Excess Water Task Force.

Brian Payne gave a presentation reviewing excess water, the accounting proposal submitted by AMWUA, and the Environmental Defense Fund's excess water proposal to CAWCD, and why excess water is a key issue.

Councilmember Osborne asked if the water that cities do not use becomes excess water for CAWCD, removing the cities rights to the water. Mr. Tenney said any water under a subcontractor's allocation that the subcontractor does not use becomes excess water for that year, which is overseen by the Central Arizona Project (CAP).

Councilmember Lopez asked if there is any cost to a city for water that is part of its allocation, but not ordered. Mr. Tenney said the city pays the capital charge for that water, but would not be assessed the water delivery rate.

In response to a comment from Mayor Carlat about on-river excess water, Mr. Payne stated that CAWCD is accounting for on-river excess water, but city staffs had not yet received this operational detail.

Councilmember Dennis asked if there was no excess water available, would the Central Arizona Groundwater Replenishment District (CAGR) users no longer have water available to them. Mr. Tenney explained that the CAGR currently meets its annual replenishment obligation using different sources of water including excess water and previously accrued storage credits. He went on to say that CAGR staff has been working hard on a strategy to transition away from reliance on excess water availability because it will not be consistently available in the future.

Councilmember Osborne asked why the Ag Pool is stepping down to zero in the year 2030. Mr. Payne stated that the Ag Pool exists due to the Arizona Water Settlement Act of 2004 and at its inception, it was agreed that the Ag Pool would step down over time until 2030, when it would reach zero.

Upon a motion by Councilmember Dennis and a second by Councilmember Osborne, the AMWUA Board of Directors unanimously approved formally supporting the excess water accounting concept.

3. Governor's Water Discussion

Mr. Tenney stated that AMWUA is closely watching the Governor's Water Discussion to see what legislative package will be put together to improve water management in Arizona. He said AMWUA has made a concerted effort to keep its members informed about the various meetings and issues related to the Governor's Water Discussion, including hosting a meeting two weeks ago with its members' InterGos to ensure they understand the issues.

Tom Buschatzke, Arizona Department of Water Resources (ADWR) Director, spoke to the AMWUA Board about the past, present, and future of the Governor's Water Solutions Conversation; what the State is wanting to achieve through this process; and what challenges the State has been facing. Mr. Buschatzke highlighted the importance of Arizona avoiding a shortage declaration upon Lake Mead falling below 1,075 feet elevation and the importance of the State of Arizona leading with one voice on Colorado River issues. He said the Governor's Office and ADWR are reaching out to Legislators to explain these issues and the State is working on developing a legislative package for the 2018 Legislative Session.

Councilmember Kuby asked Mr. Buschatzke how he views the role of the CAWCD Board. Mr. Buschatzke stated that the CAWCD Board should be taking actions to benefit their customers and service area, but not at the detriment of other parts of the State. He said in those situations, the State needs to be able to step in and have some say in the outcome of those actions so everyone benefits.

In response to a question from Mayor Carlat, Mr. Buschatzke said of the 13 items that the Plenary Group has come to a consensus on, eight items are related to Colorado

River issues and CAWCD, and five items are related to groundwater issues. He noted that there is still discussion and they are not ready to say exactly which items will move forward into a legislative package.

Councilmember Thompson asked how Nevada and California are taking on the Drought Contingency Plan and what measures those states are taking on water conservation. Mr. Buschatzke stated that Nevada has left unused water in Lake Mead and has agreed to take voluntary reductions at a higher elevation. He said California was willing to take voluntary reductions at 1,040 feet elevation in Lake Mead, but would like to see additional reductions by Arizona and Nevada first, beyond what was agreed upon in 2007.

The AMWUA Board members, Ms. Ferris, and Mr. Tenney thanked Mr. Buschatzke for his work. Mr. Buschatzke noted appreciation for AMWUA's efforts and the importance those efforts have had on the Governor's Water Solutions Conversation.

5. CAWCD Rate Setting Policy

Mr. Tenney reported that the CAWCD Finance, Audit, and Power (FAP) Committee met on Tuesday to discuss updating its CAWCD Rate Setting Policy, which was last revised in 2010. He said this effort stems from Chairman Jim Holway wanting to have the Committee consider making the policy more current as well as provide guidance in annual rates setting, particularly with regard to capital charges and incentives for agricultural users.

Mr. Tenney said the primary message he conveyed at the previous FAP meeting was that property taxes should continue to be used in federal debt repayment rather than solely using capital charges, per the AMWUA Board's position. He reported that at that meeting, the FAP Committee was asked to consider including the following language in CAP policy, "The general rate setting policy of the Board is to set capital charges to fully recover the cash make-up payment on an annual basis. However, during the annual rate setting process the Board may choose to use other available funds to reduce M&I rates." In response, Mr. Tenney said he explained that setting capital charges should not be done solely as a rate setting activity, but should be looked at within the context of how CAWCD is paying its federal debt repayment. He noted that the debt is for the construction of the CAP canal, which benefits all citizens and businesses within CAWCD's three-county service area regardless of whether they physically receive water from the canal. He also said there are three sources of revenue to pay the federal debt (capital charges, taxes, and the Basin Development Fund).

Mr. Tenney stated that based on the position that the AMWUA Board has taken, he suggested potential alternative language for CAWCD's rate setting policy that reads,

"Capital charges paid by M&I subcontractors is one revenue source for the federal repayment. Capital charges under the long-term M&I subcontracts will be set in

conjunction with determination of how taxes and the Basin Development Fund will be used to meet the annual federal repayment.”

He reported that the FAP Committee did not take action on the rate setting policy and said it would continue the discussion next month, so AMWUA will continue to advocate its Board’s position that taxes should continue to be used for federal repayment.

Mayor Carlat stressed the importance of this CAWCD rate setting policy issue and thanked Mr. Tenney for advocating the AMWUA Board’s position and for keeping the Board apprised on the issue.

6. Water Quality Standards for Non-Project Water under the System Use Agreement

Mr. Tenney stated that the Water Quality Group that AMWUA has been facilitating will meet with CAWCD and Reclamation staff next Tuesday to review the Group’s proposal for water quality standards for non-project water in the CAP canal. He said they will be answering CAWCD’s and Reclamation’s questions about the proposal.

Councilmembers Kuby, Thompson, Turner, and Mr. Tenney discussed the importance of tracking emerging contaminants in water, including plastics and medication.

7. Nominating Committee for Officers

On behalf of Councilwoman Williams, Mayor Carlat stated that according to the AMWUA Bylaws, the AMWUA Board President is to appoint a three-member nominating committee to recommend a slate of officers to serve in 2018. Councilwoman Williams appointed herself to chair, and also appointed Councilmembers Kuby and Osborne to be on the nominating committee. Councilwoman Williams also noted that if any eligible Board members were interested in serving as an officer, they should send a letter expressing so immediately to the Executive Director, who will then forward the letter to the nominating committee. The nominating committee will consider such letters and will recommend officers for the Board to consider at the November meeting.

8. IRS Form 990 for Fiscal Year 2017 for AMWUA

Mr. Tenney stated that the IRS requires AMWUA to file the IRS Form 990 annually, no later than November 15th, because AMWUA is exempt from paying income tax. He noted that aside from the dollar amount changes, the current year’s Form 990 is essentially the same as the previous year’s form.

Upon a motion by Councilmember Turner and a second by Councilmember Osborne, the AMWUA Board of Directors unanimously approved the IRS Form 990 as presented.

C. Executive Director's Report

Mr. Tenney stated that AMWUA has been a long-time supporter of the Water – Use It Wisely campaign and each Board member was given a copy of the campaign's annual summary.

Mr. Tenney reported that Brian Payne of AMWUA, along with AMWUA members' staffs, participated on a tour of the Verde Valley, which was organized by The Nature Conservancy. He said the tour showed how private and public sectors are developing projects to improve the quantity and quality of water in the Salt and Verde Rivers.

Mr. Tenney noted that on Saturday, he and two other AMWUA staff members joined a few Water Resources Advisory Group (WRAG) members on a kayak trip on the Verde River. He said Mayor Doug Van Gausig of Clarkdale led the trip and attendees learned about the history, ecosystem, hydrology, and economic benefits of the Verde River.

D. Future Agenda Items

There were no requests for future agenda items.

E. Adjournment

With no further items to discuss, Mayor Carlat adjourned the meeting at 12:32 p.m.

BOARD OF DIRECTORS
INFORMATION SUMMARY
November 30, 2017

Governor's Water Solutions Conversation

STRATEGIC PLAN REFERENCE

Objectives – Safeguard Water Supplies; Reinforce Groundwater Management; Prepare for Impacts of Drought & Shortage; Augment Supplies; Elevate the Benefit of Water Reuse; Minimize Financial Impacts

Collaboration – Legislature; Arizona Department of Water Resources; Salt River Project; Central Arizona Project; Water Community

SUMMARY

The Governor's Office and the Arizona Department of Water Resources (ADWR) are working to develop a legislative package based on most of the proposals that have been discussed in the Governor's Water Solutions Conversation. The primary motivation remains the importance of Arizona avoiding a shortage declaration at 1,075 feet elevation in Lake Mead and the importance of the State of Arizona leading with one voice on Colorado River issues. The Governor's Office and ADWR are making an effort to reach out to Legislators to explain the issues, including the importance of protecting Lake Mead. The challenge for the State is explaining a large number of complex issues that parochial and special interests can easily sow confusion about. The other large challenge for the State is that Arizona is not facing a pending crisis, such as during the 1980 Groundwater Management Act effort when the Carter Administration threatened to stop the construction of the Central Arizona Project (CAP). Today, we are enjoying the successes of managing our water resources, yet it remains imperative for Arizona to build on that success and make improvements to ensure Arizona can sustain economic growth and we do not lose our positive reputation for water management.

At its November 8th meeting, the AMWUA Management Board received an update of the current status of the Governor's Water Solutions Conversation and reviewed the key issues related to the Drought Contingency Plan (DCP) and DCP Plus.

The Central Arizona Water Conservation District (CAWCD) Board Vice-President, Jim Holway, is scheduled to attend the November 30th AMWUA Board meeting. He will discuss his perspectives on the Governor's Water Solutions Conversation and other CAWCD issues.

AMWUA staff will provide an update on new developments regarding the Governor's Water Solutions Conversation.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and discuss the Governor's Water Solutions Conversation.

BOARD OF DIRECTORS
INFORMATION SUMMARY
November 30, 2017

CAWCD Rate Setting Policy

STRATEGIC PLAN REFERENCE

Objectives – Advocate for Solutions; Minimize Financial Impacts
Collaboration – Central Arizona Project (CAP)

SUMMARY

The Central Arizona Water Conservation District (CAWCD) Finance, Audit & Power (FAP) Committee has discussed updating CAWCD’s rate setting policy. At the October FAP meeting, language was proposed to have capital charges fully recover the cash make-up payment on an annual basis. AMWUA has sought to have that language in the policy changed to indicate that capital charges and property taxes are both revenue sources that should be considered and used for the annual federal debt repayment.

The FAP Committee was scheduled to meet November 16th to continue its discussion about updating the rate setting policy; however, the meeting had to be cancelled due to lack of a quorum.

The AMWUA Management Board discussed this issue at its November 8th meeting.

The CAWCD Board Vice-President, Jim Holway, is scheduled to attend the November 30th AMWUA Board meeting. He may share his perspective on CAWCD’s rate setting policy.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and provide feedback regarding the discussion of the CAWCD rate setting policy.

BOARD OF DIRECTORS
INFORMATION SUMMARY
November 30, 2017

Municipal Contributions for Shortage Prevention

STRATEGIC PLAN REFERENCE

Objectives – Safeguard Water Supplies; Prepare for Impacts of Drought & Shortage
Collaboration – Central Arizona Project (CAP)

SUMMARY

Arizona continues efforts to keep Lake Mead’s elevation above 1,075 feet and thereby prevent a shortage declaration. Recent forbearance and conservation efforts led by the Central Arizona Water Conservation District (CAWCD) have been touted as important contributions for keeping Arizona out of a shortage declaration. AMWUA reviewed those efforts and recognized that shortage prevention has been a team effort. The role of municipalities has often been overlooked. AMWUA believes the cities’ financial support for shortage prevention is important to recognize.

AMWUA staff will present an overview of municipal contributions for shortage prevention.

The AMWUA Management Board reviewed this presentation their November 8th meeting.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and provide feedback regarding the discussion of municipal contributions for shortage prevention.

BOARD OF DIRECTORS
INFORMATION SUMMARY
November 30, 2017

Recommendation for 2018 Board Officers

STRATEGIC PLAN REFERENCE

Operational Principles – Facilitate our Strength in Numbers

SUMMARY

Pursuant to the AMWUA Bylaws, President Thelda Williams appointed herself, Councilmember Lauren Kuby, Tempe, and Councilmember Joanne Osborne, Goodyear, to serve as members of a Nominating Committee to recommend a President, Vice President, and Secretary-Treasurer for the AMWUA Board of Directors for calendar year 2018.

According to the AMWUA Bylaws, the Officers are to each have served on the current Board of Directors at least from January 1, 2017 through December 31, 2017. Each officer is to be able to serve for a one-year period. Specifically for the position of President, the President must have been Vice President or Secretary-Treasurer of the Association for at least twelve months. Each officer may serve a minimum of one year and a maximum of two consecutive years in the same position.

The Nominating Committee is in agreement to recommend Mayor Jim Lane, Scottsdale, as President, Councilmember Eddie Cook, Gilbert, as Vice President, and Mayor Cathy Carlat, Peoria, as Secretary-Treasurer to the AMWUA Board of Directors for 2018, in accordance with the AMWUA Bylaws.

The Nominating Committee will formally make its recommendation for the officer positions at the November 30th AMWUA Board meeting, at which time the Board may decide to act on that recommendation.

RECOMMENDATION

The AMWUA Board of Directors should consider approving the Nominating Committee's recommendation for President, Vice President, and Secretary-Treasurer for the AMWUA Board of Directors for calendar year 2018.

BOARD OF DIRECTORS
INFORMATION SUMMARY
November 30, 2017

AMWUA Annual Financial Audit Report for Fiscal Year 2017

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, 2017 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, 2017.

Also provided is the required SAS 114 communication letter 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.

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 2017 under budget and continues to be on a fiscally sound footing to meet the future needs of the Association.

At its November 8th meeting, the AMWUA Management Board reviewed the Fiscal Year 2017 financial audit and unanimously recommended that the AMWUA Board of Directors accept the audit report as presented.

RECOMMENDATION

The AMWUA Management Board recommends that the AMWUA Board of Directors accept the audit report as presented.

ATTACHMENTS

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

November 1, 2017

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, 2017 and 2016. 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.
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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.

In addition, as part of the professional services we provided to the Organization we assisted with the preparation of the notes to financial statements. In providing this service we prepared adjusting journal entries necessary to convert the accounting records to the basis of accounting required by generally accepted accounting principles. Those adjusting journal entries have been provided to management who reviewed and approved those entries and accepted responsibility for them.

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 will also issue the following documents related to this audit. These reports are typically issued within 30 days of the date of this letter.

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

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
Phoenix, Arizona
Financial Statements
June 30, 2017 and 2016

Arizona Municipal Water Users Association
Phoenix, Arizona

Financial Statements
June 30, 2017 and June 30, 2016

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
JUNE 30, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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 October 27, 2017, 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
October 27, 2017

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

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017 AND 2016**

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, 2017 and 2016.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Total net position for AMWUA equaled a negative \$239,794 at June 30, 2017, and a negative \$347,058 at June 30, 2016 increasing by \$107,264 for fiscal year 2017 and increasing by \$125,495 for fiscal year 2016. 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 2017 revenues assessed to the member cities totaled \$1,294,925 which represents a \$14,688 increase from fiscal year 2016. For fiscal year 2016 revenues assessed to the member cities totaled \$1,280,238 which represents a \$99,886 decrease from fiscal year 2015. The assessment amount for City of Phoenix decreased 14 percent due to a new allocation formula approved by the Board of Directors during fiscal year 2017. 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 2017 Assessments by City

<u>City</u>	<u>Assessment</u>	<u>Percentage</u>
Phoenix	\$ 407,627	31.48
Mesa	156,591	12.09
Scottsdale	111,297	8.59
Glendale	105,010	8.11
Tempe	110,411	8.53
Chandler	94,495	7.30
Gilbert	93,468	7.22
Peoria	81,476	6.29
Avondale	67,364	5.20
Goodyear	67,187	5.19
Total	\$ 1,294,925	100.00

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017 AND 2016**

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	\$ 629,972	\$ 623,497	\$ 473,799
Employee Benefits	123,810	119,736	119,736
Professional Services	265,180	285,997	285,997
Occupancy	189,274	186,323	189,473
Travel and Training	15,000	12,697	12,697
Capital Outlay	9,200	8,436	5,970
Office Operating Expenses	31,700	20,913	20,965
Water Conservation	90,000	31,565	31,906
	<u>\$ 1,354,136</u>	<u>\$ 1,289,164</u>	<u>\$ 1,140,543</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 under budget by \$6,475. Employee Benefits, which includes payroll taxes, payroll processing, medical, dental, and disability insurance; and cell phone allowance was under budget by \$4,074. AMWUA experienced an employee change during fiscal year 2017. There was a gap between the departure and replacement of the employee which accounts for the decrease.

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 over budget by \$20,817 due to encumbered unspent funds from Fiscal Year 2016 spent in Fiscal Year 2017.

Occupancy costs include building lease, building operating expenses; and telephone and internet charges. The actual was under budget by \$2,951. AMWUA's share of the building's operating costs and telephone charges were less than anticipated.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017 AND 2016**

OVERVIEW OF OPERATING EXPENSES

The actual for Travel and Training was under budget by \$2,303.

Capital Outlay includes the copier lease and money spent on computer software and hardware upgrades. The expenditures for this line item was under budget by \$764.

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 \$10,787.

Water Conservation had total expenditures of \$31,565 of a total budget of \$90,000. The difference is attributable to unspent funds encumbered 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		
	2017	2016	2015
Current assets	\$ 960,933	\$ 955,120	\$ 927,173
Noncurrent assets			1,203
Net capital assets	11,234	22,671	35,784
Deferred outflows	164,450	82,235	127,232
Total assets and deferred outflows of resources	<u>1,136,617</u>	<u>1,060,026</u>	<u>1,091,392</u>
Current liabilities	202,309	156,840	155,848
Net pension liability	873,228	924,728	1,198,514
Deferred inflow	300,874	325,516	209,583
Net investment in capital assets	11,234	22,671	35,784
Unrestricted	<u>(251,028)</u>	<u>(369,729)</u>	<u>(508,337)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,136,617</u>	<u>\$ 1,060,026</u>	<u>\$ 1,091,392</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017 AND 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

- Current assets increased \$5,813 in 2017 and increased \$27,947 in 2016. 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.
- Noncurrent assets were unchanged in 2017 and decreased \$1,203 in 2016.
- Net Capital assets decreased by \$11,437 during fiscal year 2017 and decreased by \$13,113 during fiscal year 2016. Capital assets consist of office furniture, equipment, and certain leasehold improvements. AMWUA capitalized a \$3,062 expense for two new laptop computers. AMWUA's threshold for capitalization is \$1,000. AMWUA had no capital asset disposals in fiscal year 2017. For fiscal year 2016 old and fully depreciated equipment was disposed of in the amount of \$11,275.
- Current Liabilities increased by \$45,468 in 2017 and increased by \$992 in 2016. 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 2015 to satisfy the requirements of GASB 68.
- Total Net Position increased by \$107,264 to a negative \$239,794 in Fiscal Year 2017 and increased by \$125,495 to a negative \$347,058 in Fiscal Year 2016. This was primarily due to a reduction in AMWUA's proportionate share of the net pension liability of ASRS.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017 AND 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

Summary of Changes in Net Position

	Years ended June 30		
	2017	2016	2015
Operating revenues			
Annual assessments	\$1,236,925	\$ 1,280,238	\$ 1,396,630
Other	4,992	4,992	11,023
Total operating revenues	<u>1,241,917</u>	<u>1,285,230</u>	<u>1,407,653</u>
Operating expenses	<u>1,140,543</u>	<u>1,162,613</u>	<u>1,261,519</u>
Nonoperating revenues			
Interest on investments	5,543	2,483	2,165
LGIP asset impairment recovery	347	395	1,008
Total nonoperating revenues	<u>5,890</u>	<u>2,878</u>	<u>3,173</u>
Increase in net position	107,264	125,495	149,307
Net position, July 1, as restated	<u>(347,058)</u>	<u>(472,553)</u>	<u>(621,860)</u>
Net position, June 30	<u>\$ (239,794)</u>	<u>\$ (347,058)</u>	<u>\$ (472,553)</u>

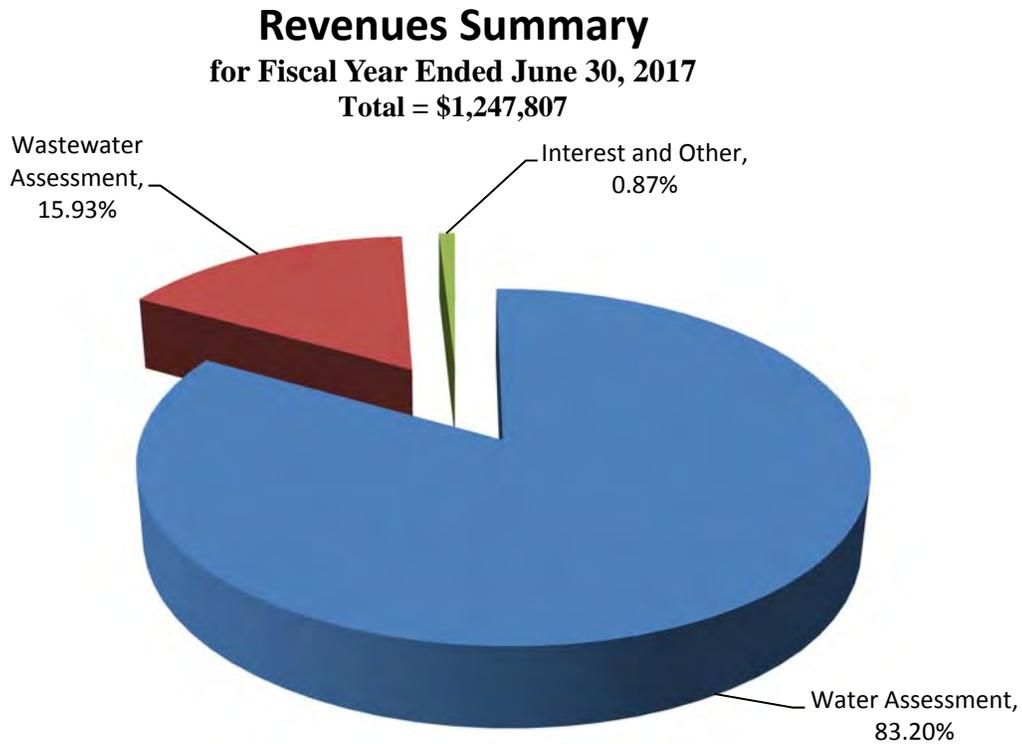
- Actual annual assessments billed to the cities decreased by \$43,313 in 2017 and increased by \$14,688 in 2016. The summary of changes in net position shown above reflects different changes in assessments for fiscal year 2017 due to funds encumbered in 2017 to be spent in fiscal year 2018.
- Other revenues remained the same in 2017 and decreased by \$6,031 in 2016. Other revenues include race registration fees and sponsorships secured to support the Fix-a-Leak campaign (Fiscal Year 2015), and deferred income recognized related to the lease moving allowance.
- Total operating expenses decreased by \$22,070 in 2017 and decreased by \$98,906 in 2016.
- Nonoperating revenues increased by \$3,012 in 2017 and decreased by \$295 in 2016. 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, 2017 AND 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

Operating Revenues

AMWUA's revenue is primarily (99.1percent) generated by water and wastewater assessments from member cities. For fiscal year 2017, of the \$1,236,925 in revenue recognized from annual assessments, \$1,038,119 represents water assessments, with the remaining \$198,806 representing wastewater assessments. The following chart shows the sources and the percentage of all revenue by category for the fiscal year ended June 30, 2017.

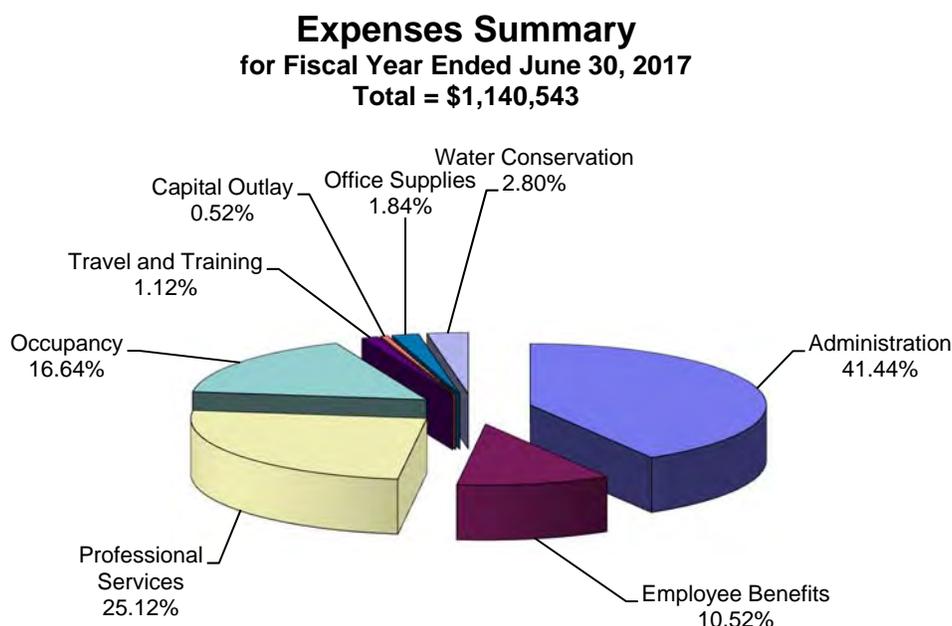


**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017 AND 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

Operating Expenses

The following chart shows AMWUA's operating expenses by category for the year ended June 30, 2017.



AMWUA's Capital Assets

	Years ended June 30		
	2017	2016	2015
Property and equipment	\$ 173,125	\$ 170,062	\$ 179,925
Leasehold improvements	52,665	52,665	52,665
Less accumulated depreciation and amortization	(214,556)	(200,056)	(196,806)
Net property and equipment	\$ 11,234	\$ 22,671	\$ 35,784

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 \$11,437 during fiscal year 2017 and decreased by \$13,113 during fiscal year 2016.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017 AND 2016**

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. During fiscal year 2016 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 2017, the AMWUA Board of Directors approved the fiscal year 2018 Budget. The fiscal year 2018 Budget decreased by 0.29 percent under the fiscal year 2017 budget.

AMWUA is in the seventh 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, 2017 AND 2016**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 117,555	\$ 251,459
Investments	807,025	671,798
Prepaid expenses and other assets	<u>36,353</u>	<u>31,863</u>
Total current assets	960,933	955,120
CAPITAL ASSETS, NET	11,234	22,671
TOTAL ASSETS	<u>972,167</u>	<u>977,791</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan items	<u>164,450</u>	<u>82,235</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,136,617</u>	<u>\$ 1,060,026</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 4,236	\$ 9,085
Accrued expenses	59,749	71,099
Compensated absences payable	62,023	53,364
Unearned revenue	<u>76,301</u>	<u>23,292</u>
Total current liabilities	<u>202,309</u>	<u>156,840</u>
NONCURRENT LIABILITIES		
Net Pension Liability	<u>873,228</u>	<u>924,728</u>
TOTAL LIABILITIES	<u>1,075,537</u>	<u>1,081,568</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan items	<u>300,874</u>	<u>325,516</u>
NET POSITION		
Net investment in capital assets	11,234	22,671
Unrestricted	<u>(251,028)</u>	<u>(369,729)</u>
Total net position	<u>(239,794)</u>	<u>(347,058)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 1,136,617</u>	<u>\$ 1,060,026</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Annual assessments	\$ 1,236,925	\$ 1,280,238
Other	4,992	4,992
Total operating revenues	1,241,917	1,285,230
OPERATING EXPENSES		
Salaries	524,872	505,387
Benefits	68,663	60,683
Occupancy costs	234,998	210,349
Legal and accounting	123,900	172,450
Temporary services	97,682	64,500
Water conservation	31,906	90,000
Printing and duplicating	5,846	8,260
Consulting services	10,060	5,606
Depreciation and amortization	14,499	14,525
Travel and meetings	6,928	9,614
Office supplies	4,679	4,891
Subscription and reference materials	985	1,202
Postage and shipping	1,435	2,058
General business insurance	3,908	3,858
Dues	851	1,544
Conferences	8,636	5,868
Training	695	1,818
Total operating expenses	1,140,543	1,162,613
Operating income	101,374	122,617
NON-OPERATING REVENUES		
Interest on investments	5,543	2,483
LGIP asset impairment recovery	347	395
Total non-operating revenues	5,890	2,878
CHANGE IN NET POSITION	107,264	125,495
NET POSITION, BEGINNING OF YEAR	(347,058)	(472,553)
NET POSITION, END OF YEAR	\$ (239,794)	\$ (347,058)

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
Cash received from members and customers	\$ 1,294,926	\$ 1,280,238
Cash paid to employees	(753,992)	(673,202)
Cash paid to suppliers and vendors	(542,439)	(563,659)
	(1,505)	43,377
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(3,062)	(1,412)
	(3,062)	(1,412)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
Net purchases of investments	(135,227)	(2,203)
Interest on investments	5,543	2,483
Loss recovery on investments	347	395
	(129,337)	675
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(133,904)	42,640
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	251,459	208,819
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 117,555	\$ 251,459
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income	\$ 101,374	\$ 122,617
Adjustments:		
Depreciation and amortization	14,499	14,525
(Increase) decrease in assets		
Prepaid expenses and other current assets	(4,490)	18,100
Increase (decrease) in liabilities		
Accounts payable	(4,849)	4,876
Accrued expenses	(2,692)	1,107
Pension plan items	(158,356)	(112,857)
Unearned revenue	53,009	(4,991)
	(1,505)	43,377
Net cash provided by/(used for) operating activities	\$ (1,505)	\$ 43,377

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

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, 2017 AND 2016

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 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 entirely of a cash lease incentive received at the beginning of the lease and is being amortized to revenue over the life of the lease.

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.

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.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2017, the balance of the Reserve Fund is \$207,025. 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.

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.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017, all bank balances were under the limit. At June 30, 2016, \$64,401 was uninsured and uncollateralized. AMWUA also had petty cash of \$500 at June 30, 2017 and 2016.

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 5 percent of the total investments as of June 30, 2017 and 2016.

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 AA Af/S1+ by Standard and Poor’s and had a weighted average maturity of 22 days and 22 days at June 30, 2017 and 2016, respectively. The maximum weighted average maturity permitted for the LGIP is 90 days.

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

	<u>2017</u>	<u>2016</u>
Cash in bank	\$ 117,555	\$ 251,459
Investments in LGIP	807,025	671,798
Total cash and investments	<u>\$ 924,580</u>	<u>\$ 923,257</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 – CAPITAL ASSETS

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>

Capital assets at June 30, 2016, consist of the following:

<u>Capital Assets</u>	Beginning Balance July 1, 2015	Increase	Decrease	Ending Balance June 30, 2016
Capital assets:				
Furniture and equipment	\$ 179,925	\$ 1,412	\$ 11,275	\$ 170,062
Leasehold improvements	52,665			52,665
Total depreciable assets	<u>232,590</u>	<u>1,412</u>	<u>11,275</u>	<u>222,727</u>
Less accumulated depreciation:				
Furniture and equipment	148,230	13,815	11,275	150,770
Leasehold improvements	48,576	710		49,286
Total accumulated depreciation and amortization	<u>196,806</u>	<u>14,525</u>	<u>11,275</u>	<u>200,056</u>
Capital assets, net of accumulated depreciation and amortization	<u>\$ 35,784</u>	<u>\$ 13,113</u>	<u>\$</u>	<u>\$ 22,671</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016, is \$18,301 and \$23,292, 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, 2017 and 2016 is \$59,749 and \$71,099, respectively in deferred rent related to the lease.

Total lease expense was \$160,724 and \$160,451 for the years ended June 30, 2017 and 2016, 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:		
	2018	\$ 183,962
	2019	186,797
	2020	182,577
	2021	<u>118,518</u>
	Total future minimum lease payments	<u>\$ 671,854</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5 – ANNUAL ASSESSMENTS

AMWUA assesses membership dues based upon operating costs for the year. During fiscal year 2017, 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 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Voting members:		
City of Chandler*	\$ 94,495	\$ 73,982
City of Glendale	105,010	84,805
City of Mesa	156,591	170,078
City of Peoria*	81,476	48,595
City of Phoenix	407,627	581,753
City of Scottsdale*	111,297	91,167
City of Tempe	110,411	85,008
Town of Gilbert*	93,467	69,850
City of Goodyear	67,187	35,000
City of Avondale*	67,364	40,000
Total annual assessments	<u>\$ 1,294,925</u>	<u>\$ 1,280,238</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, 2017 and 2016, were for:

	<u>2017</u>	<u>2016</u>
Water conservation	\$ 31,906	\$ 90,000
Water policy:		
Water	775,265	717,625
Wastewater	150,756	154,868
Management and general	182,616	200,120
Total	<u>\$ 1,140,543</u>	<u>\$ 1,162,613</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 11.35 percent of the participants' annual salaries in 2017 and 2016, respectively. AMWUA still maintains the Plan 457, in that each employee who wishes to participate has an individual account to which the employee may make voluntary contributions.

AMWUA's contributions related to the ASRS were \$64,408 and \$55,518 for the years ended June 30, 2017 and 2016, respectively. AMWUA funded 100 percent of its annual required contribution to the ASRS for the years ended June 30, 2017 and 2016. The most recent actuarial valuation report for the ASRS was completed as of June 30, 2015. Each year, the ASRS issues a Comprehensive Annual Financial Report, which can be obtained on the ASRS website.

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 99 percent of total revenues in the form of annual assessments during fiscal years 2017 and 2016. 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, 2017 AND 2016**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members’ annual covered payroll. AMWUA’s contributions to the pension plan for the year ended June 30, 2017 were \$64,048.

In addition, AMWUA was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to ASRS.

AMWUA’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

		Health Benefit Supplement Fund		Long-Term Disability Fund
Year ending June 30:				
2017	\$	3,284	\$	780
2016		2,446		587
2015		3,191		649

Pension Liability. At June 30, 2017, AMWUA reported a liability of \$873,228 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2016. The total pension liability 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, 2015, to the measurement date of June 30, 2016. AMWUA’s proportion of the net pension liability was based on a projection of AMWUA’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, AMWUA’s proportion was .01 percent, which was the same as its proportion measured as of June 30, 2016.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Expense and Deferred Outflows/Inflows of Resources. AMWUA has deferred outflows and inflows of resources related to the net pension liability of retirement benefits. 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, 2017, AMWUA recognized pension expense of \$94,309 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,307	\$ 60,072
Changes of assumptions or other inputs		46,201
Net difference between projected and actual earnings on pension plan investments	94,629	
Changes in proportion and differences between contributions and proportionate share of contributions	466	194,601
Contributions subsequent to the measurement date	64,048	
Total	<u>\$ 164,450</u>	<u>\$ 300,874</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:	
2018	\$ (180,200)
2019	(79,942)
2020	33,136
2021	26,534

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Projected salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The actuarial assumptions used in the June 30, 2015 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 pension plan investments was determined to be 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<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>	

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 8.75 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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	\$ 1,113,432	\$ 873,228	\$ 680,637

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 THREE FISCAL YEARS**

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 63,218	\$ 54,980	\$ 62,744
Contributions in relation to the actuarially determined contribution	<u>63,218</u>	<u>54,980</u>	<u>62,744</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
AMWUA's covered payroll	\$ 586,438	\$ 506,728	\$ 534,483
Contributions as a percentage of covered payroll	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, 2017 AND 2016**

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, 2015, 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, 2017**

	<u>Budget</u>	<u>Actual</u> <i>(Budget Basis)</i>	<u>Variance</u>
Revenues:			
Water assessments	\$ 1,096,119	\$ 1,096,119	\$
Wastewater assessment	198,806	198,806	
Carryover	59,211	59,211	
Total revenues	<u>1,354,136</u>	<u>1,354,136</u>	
Expenses:			
Administration	629,972	623,497	6,475
Employee benefits	123,810	119,736	4,074
Professional services	265,180	285,997	(20,817)
Occupancy	189,274	186,323	2,951
Travel and training	15,000	12,697	2,303
Capital outlay	9,200	8,436	764
Office operating expenses	31,700	20,913	10,787
Water conservation	90,000	31,565	58,435
Total expenses	<u>1,354,136</u>	<u>1,289,164</u>	<u>64,972</u>
Excess of revenues over expenses	<u>\$</u>	<u>\$ 64,972</u>	<u>\$ (64,972)</u>

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, 2017, is as follows:

Excess of revenues over expenses – actual – budget basis	<u>\$64,972</u>
Items not requiring (providing) cash:	
Depreciation and amortization	\$ (14,499)
Recognition of rent expense on a straight-line basis for GAAP	11,350
Increase in vacation accrual	(8,659)
Pension adjustment	158,356
Accrued expense for GAAP	2,073
Unearned revenues	(58,000)
Carryover for budget basis	(59,211)
Non-budgeted revenues	<u>10,882</u>
Increase in net position – GAAP basis	<u>\$ 107,264</u>

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, 2017, and the related notes to the financial statements, which collectively comprise Arizona Municipal Water Users Association's financial statements, and have issued our report thereon dated October 27, 2017.

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
October 27, 2017

BOARD OF DIRECTORS
INFORMATION SUMMARY
November 30, 2017

AMWUA Quarterly Financial Statements – First Quarter

STRATEGIC PLAN REFERENCE

Operational Principles – Manage an Efficient and Effective Association

SUMMARY

The AMWUA Statement of Revenues and Expenses for the period July 1, 2017 through September 30, 2017, and the Balance Sheet dated September 30, 2017 are presented for your information.

After the first quarter of Fiscal Year 2018, AMWUA is operating under budget by about \$11,700. The few line items that are slightly over budget are due to timing differences and should even out by year-end. The only exception is the Temporary Services/Receptionist line item which reflects an overage of \$710.50. There is no budget for this line item because AMWUA intended to hire the temporary receptionist full-time at the beginning of the new fiscal year. However, AMWUA had an obligation to fulfill the remainder of the temporary services contract, which did not expire until mid-July.

At its November 8th meeting, the AMWUA Management Board reviewed AMWUA's first quarter financial statements and unanimously recommended that the AMWUA Board of Directors accept the quarterly financial statements as presented.

RECOMMENDATION

The AMWUA Management Board recommends that the AMWUA Board of Directors accept the quarterly financial statements as presented.

ATTACHMENTS

- **Attachment A:** Statement of Revenues and Expenses
- **Attachment B:** Balance Sheet

ARIZONA MUNICIPAL WATER USERS ASSOCIATION

Statement of Revenues and Expenses
(Actual to Budget Comparison)

For Period July 1, 2017 through September 30, 2017

	<u>Year-To-Date</u> Actual	<u>Year-To-Date</u> Budget	<u>Over(Under)</u> Year-To-Date Variance	<u>Approved</u> Annual Budget
Funding Sources				
Assessment - Water	533,999.00	533,999.00	0.00	1,114,309.00
Assessment - Wastewater	49,793.50	49,793.50	0.00	222,088.00
2017 Carryover Applied to Reduce Member Assessments		0.00		13,871.00
Interest Revenues	2,192.38	0.00	2,192.38	0.00
Other Revenues	0.00	0.00	0.00	0.00
Net Revenues	585,984.88	583,793.50	2,192.38	1,350,268.00
Operating Expenses				
Payroll (Salaries)	147,944.62	150,035.75	(2,091.13)	600,143.00
Deferred Compensation (ASRS Payments)	17,529.69	17,976.25	(446.56)	71,905.00
Payroll Processing, Taxes and Insurance	13,159.03	14,000.00	(840.97)	56,000.00
Medical and Disability Insurance	16,295.08	17,250.00	(954.92)	69,000.00
Cell Phone Allowance	780.00	780.00	0.00	3,120.00
Temporary Services/Receptionist	710.50	0.00	710.50	0.00
Legal/Consulting Services (Ferris Contract)	15,000.00	15,000.00	0.00	60,000.00
Legislative Services (Aarons Company-Contract)	10,500.00	10,500.00	0.00	42,000.00
Audit - Water	7,605.00	7,605.00	0.00	8,450.00
Audit - Waste Water	0.00	0.00	0.00	21,950.00
Website Services	0.00	1,250.00	(1,250.00)	5,000.00
Communication Services (Kossan Contract)	9,999.99	10,000.00	(0.01)	40,000.00
Consultant-Finance/Accounting	6,999.99	7,000.00	(0.01)	28,000.00
Audio/Visual Development	300.00	625.00	(325.00)	2,500.00
IT Services	1,200.00	1,250.00	(50.00)	5,000.00
Office Space - Lease	43,018.44	43,550.00	(531.56)	174,200.00
Common Area Maintenance	1,362.11	875.00	487.11	3,500.00
Telephone	1,674.53	2,250.00	(575.47)	9,000.00
E-Mail/Webpage/Internet	937.19	1,050.00	(112.81)	4,200.00
Travel/Conferences	2,427.10	2,250.00	177.10	9,000.00
Milage Reimbursement	410.75	750.00	(339.25)	3,000.00
Continuing Professional Ed	0.00	250.00	(250.00)	1,000.00
Staff Development	0.00	375.00	(375.00)	1,500.00
Copy Machine - Lease	1,340.93	1,300.00	40.93	5,200.00
Computer Hardware/Software	2,066.24	2,066.24	0.00	6,000.00
Office Supplies	317.27	1,750.00	(1,432.73)	7,000.00
Meetings	1,762.41	1,762.41	0.00	5,000.00
Outreach Efforts	0.00	1,250.00	(1,250.00)	5,000.00
Printing	0.00	575.00	(575.00)	2,300.00
Postage & Deliveries	443.71	500.00	(56.29)	2,000.00
Subscription & Reference	120.43	325.00	(204.57)	1,300.00
Dues & Memberships	646.00	646.00	0.00	2,000.00
Insurance	0.00	1,000.00	(1,000.00)	4,000.00
Equipment Maintenance	0.00	500.00	(500.00)	2,000.00
Water Conservation	46,380.20	46,380.20	0.00	90,000.00
Total Operating Expenses	350,931.21	362,676.85	(11,745.64)	1,350,268.00
Reserve and Contingency Funds Summary:				
Contingency Fund Balance on 9/30/17	\$600,000			
Reserve Fund Balance on 9/30/17	<u>202,000</u>			
Total Contingency and Reserve Funds	<u>\$802,000</u>			

ARIZONA MUNICIPAL WATER USERS ASSOCIATION

Balance Sheet

As of 9/30/2017

Assets

Current Assets

Petty Cash	\$500.00	
Compass Checking	32,205.08	
Compass Money Market	363,822.59	
Investment Account (LGIP)	809,173.61	
Accounts Receivable	(13,700.00)	
Prepaid Expenses	22,996.83	
Total Current Assets		\$1,214,998.11

Property, Plant & Equipment

Furniture & Equipment	\$173,124.62	
Leasehold Improvements	52,665.08	
Accum Depreciation Furniture	(164,559.11)	
Accum Depreciation Leasehold	(49,996.54)	
Total Property, Plant & Equipment		11,234.05

Other Assets

Deferred Outflow-Pension Resources		\$164,449.72
Total Assets		\$1,390,681.88

Liabilities and Equity

Current Liabilities

Retirees Excess Benefit Clearance	3,246.35	
Accrued Expenses	141,771.68	
Total Current Liabilities		\$145,018.03

Long Term Liabilities

Net Pension Liability	\$873,228.00	
Deferred Inflow-Pension Resources	300,874.00	
Deferred Revenues	76,301.12	
Total Long Term Liabilities		1,250,403.12

Total Liabilities

\$1,395,421.15

Equity

Fund Balance		(4,739.27)
Total Liabilities and Equity		\$1,390,681.88