



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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION BOARD OF DIRECTORS

MEETING NOTICE AND AGENDA

Thursday, December 5, 2019 – 10:00 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 24, 2019 Meeting
2. Schedule Next Meeting Date: Thursday, January 30, 2020, 11:00 a.m.
3. 2020 Legislative Session
4. Pinal AMA Groundwater Issues
5. Update on the Governor's Water Council and ADWR Management Plans
6. Presentation of New Plants for Arizona Desert Microsite
7. Recommendation for 2020 AMWUA Board Officers
8. AMWUA's Quarterly Financial Statement – First Quarter
9. AMWUA Annual Financial Audit Report for Fiscal Year 2019

C. Executive Director's Report

D. Future Agenda Items

E. Adjournment

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

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



AGENDA ITEM #1

BOARD OF DIRECTORS

MEETING MINUTES

October 24, 2019

VOTING MEMBERS PRESENT

Mayor Cathy Carlat, Secretary-Treasurer, Peoria
Vice Mayor Eddie Cook, Vice President, Gilbert (teleconference)
Vice Mayor Lauren Kuby, Tempe
Councilmember Sheri Lauritano, Goodyear
Councilmember René Lopez, Chandler
Councilmember Curtis Nielson, Avondale
Councilmember Kevin Thompson, Mesa
Councilmember Bart Turner, Glendale
Councilwoman Thelda Williams, Phoenix

VOTING MEMBERS NOT PRESENT

Mayor Jim Lane, President, Scottsdale

OTHERS PRESENT

Barry Aarons, The Aarons Co.	Brian Draper, Mesa	John Raeder, Goodyear
Patrick J. Adams, AMWUA	Gretchen Erwin, Goodyear	Sarah Saenz, AMWUA
Anthony Alejandro, Peoria	Kathy Ferris, AMWUA	Richard Siegel, SRP
Erin Andres, Phoenix	Brett Fleck, AMWUA	Drew Swieczkowski, Glendale
Michelle Barclay, AMWUA	Lacey James, Avondale	Warren Tenney, AMWUA
Cindy Blackmore, Avondale	Sam Jaskolski, AMWUA	Sheri Trapp, AMWUA
Jessica Blazina, Avondale	Kathy Macdonald, Mesa	Tammi Watson, CAP
Ned Blum, CLA	Diana Piña, AMWUA	Solange Whitehead, Scottsdale
Greg Capps, Chandler	Cape Powers, Peoria	

A. Call to Order

Mayor Carlat called the meeting to order at 11:03 a.m.

B. General Business – Items for Discussion and Possible Action

1. Approval of the Minutes from the September 26, 2019 Meeting

Upon a motion by Councilwoman Williams and a second by Councilmember Thompson, the AMWUA Board of Directors unanimously approved the September 26, 2019 meeting minutes.

Arizona Municipal Water Users Association

2. Next meeting scheduled: Thursday, December 5, 2019, 10:00 a.m., in the AMWUA office
3. 2020 Legislative Agenda

Mr. Tenney stated that prior legislative agendas benefitted AMWUA staff and its legislative contractor, creating a focused direction for advocating with one voice at the Legislature. He reported that AMWUA's proposed 2020 legislative agenda outlines the principles and priorities to guide AMWUA in the upcoming session and is consistent with the AMWUA Board's existing Legislative Policies & Procedures and the approved Annual & Strategic Plans, which focus on five key areas:

- *Arizona Water Management* covers one of AMWUA's key tasks to ensure legislation strengthens the Groundwater Management Code and the Assured & Adequate Water Supply regulations.
- *Colorado River Resiliency* ensures legislation protects the Colorado River water supplies.
- *State Regulatory Agencies* promotes legislation that makes the Arizona Department of Water Resources and the Arizona Department of Environmental Quality more efficient in carrying forward their statutory responsibilities.
- *Water Efficiency and Conservation* will continue to support efforts that encourage practical, effective water efficiency and conservation measures.
- *Water Quality* will support legislation that protects and improves water quality, supporting legislation that funds the Water Quality Assurance Revolving Fund and monitoring legislation that seeks to address emerging contaminants.

Mr. Tenney reported that the AMWUA Management Board recommended that the AMWUA Board of Directors adopt the legislative agenda and asked for additional feedback.

Councilmember Lopez expressed his concern about staffing at ADWR and if they were still affected by major cuts following the recession. Mr. Aarons stated that appropriations were made and there has been an increase in staffing levels but still well below pre-recession levels. Mr. Tenney stated that the retaining of staff should be more emphasized than hiring staff and noted the importance in hiring key positions that are comparable with the market.

Mr. Aarons noted that because there will be no meeting from December 5th until January 30th, policy states that Mr. Aarons and AMWUA will be advocates in taking temporary positions on emerging legislative issues and will confirm any actions taken at the following meeting.

Upon a motion by Councilmember Turner and a second by Councilmember Lopez, the AMWUA Board of Directors unanimously approved and adopted the proposed agenda for the 2020 legislative session.

4. Potential Water Efficient Plumbing Legislation

Mr. Tenney stated that because Legislators want to take action on water conservation, AMWUA is going to be proactive on discussing a legislative concept that could help achieve water conservation in a practical way.

Mr. Adams stated that AMWUA wanted to be responsive to statewide concern for water with an approach to potential water efficient plumbing legislation. He reported that a bill was introduced

last session that proposed updating Arizona's water efficiency standards for indoor plumbing fixtures. The AZ statutory standards are nearly 30 years old and behind today's technology. AMWUA would like to discuss aligning these outdated standards to the WaterSense program, an implementation administered by the EPA.

Mr. Adams reported that WaterSense is a public-private partnership that identifies and certifies water saving technology with a guaranteed performance criteria. WaterSense is driven by industry manufacturers, plumbers, builders and utilities making for an easy transition because the fixtures are already being sold at commercial retailers and will have no impact to municipal codes or ordinance adoption. Mr. Adams stated that products currently on the market today are meeting or exceeding WaterSense standards. He noted that WaterSense has been effectively adopted around the country with positive results. Mr. Adams stated that this proposal would streamline the existing statutory framework; an update to the system that is already in place.

Mr. Adams summarized his presentation by explaining that the legislative approach to potential water efficient plumbing will be proactive by implementing WaterSense, a practical and effective program because it promotes conservation without harmful regulation and demonstrates the municipal commitment to conservation.

Councilmember Nielson asked if the proposed AZ standards with WaterSense would provide sufficient sewer line flow in comparison to existing standards. Mr. Aarons stated WaterSense standards are federally opted and will meet the requirements.

Councilmember Turner asked about the Management Board's opinion on the program's standards. Mr. Adams stated that the Management Board would prefer if the WaterSense standards are used that they are set as of where they are this year. Mr. Tenney stated that WaterSense products have been on the market for a decade and the Management Board already knows that these standards are working.

Councilmember Thompson questioned the timeframe for adopting this legislative agenda and the best way to approach legislation that updates current standards rather than continuing with standards that could possibly become inadequate. He also addressed concern about new appliances using less flow causing an increase in cost for treatment. Mr. Aarons stated that by adopting this program or successor programs, it would not pre-empt cities from exceeding this program.

Councilmember Turner asked about areas of Arizona that WaterSense would not be the best fit. Mr. Adams stated that other states have made state-wide changes to adopt WaterSense as the standard and have had no issues with rural areas. AMWUA is aware of the effects of inventory and understands how crucial it is to account for it, so the proposal allows for implementation in 2022 so that smaller stores could sell current inventory.

Councilmember Lauritano asked about the newer WaterSense products in comparison to the products that are in use and asked about outdoor products being available through WaterSense. Mr. Adams stated that the WaterSense program has a lengthy process for evaluating the efficiency and performance of new products. He also noted that this concept is specific to indoor plumbing fixtures.

Mr. Aarons reiterated that the legislative concept being presented was a policy position to enable AMWUA to move forward the concept with Legislators prior to the 2020 session.

Councilmember Lopez addressed his concerns with the possibility that the flow could get too low and allowing WaterSense to dictate the conservation numbers for the cities. Mr. Aarons stated that those standards would be taken into consideration when drafting legislation.

Vice Mayor Kuby stated that the process to create standards is a long and thoughtful one and encouraged AMWUA to support the proposal in order to get in front of possible issues.

Mr. Tenney stated that the Management Board had expressed similar concerns and that it is important to note this would update standards that exist today.

Vice Mayor Kuby and Mr. Aarons discussed updates to the standards and making sure to put in place subsequent standards if necessary.

Councilmember Turner suggested considering providing leadership on standards for outdoor fixtures. Mr. Tenney stated the proposed concept focuses on indoor but that AMWUA would look at how we could pursue something for outdoor fixtures.

Upon a motion by Councilmember Thompson and a second by Councilmember Lauritano, the AMWUA Board of Directors unanimously approved to support the proposed concept for water efficient plumbing legislation.

5. Update on Governor's Water Council and ADWR Management Plans

Mr. Tenney stated that AMWUA is closely following the activities of the Governor's Water Council and of ADWR working on the 4th and 5th Management Plans as well as meetings for the Desalination Committee, the Non-AMA Groundwater Committee, and the Post 2025 AMAs Committee, all part of the Governor's Water Council. Mr. Tenney stated that AMWUA's Conservation & Efficiency Advisory Group continues to work on comments regarding the proposed best management practices in the 4th Management Plan.

Mr. Tenney reported that the Post 2025 AMAs Committee had its first meeting on October 10th to review challenges and shortcomings that needed to be addressed within the AMAs beyond 2025. Mr. Tenney gave a summary of the meeting and reported that the Groundwater Management Act will remain in effect post 2025. The objective at these meetings is to reach an agreement on specific challenges in order to begin to develop solutions. Mr. Tenney stated that the next meeting is scheduled for December 9th.

6. AMWUA IRS Form 990

Mr. Tenney presented the draft 2019 IRS Form 990 to the Board for approval. Assuming there are no substantive changes, AMWUA will file the IRS Form 990 on November 15th.

Upon a motion by Vice Mayor Kuby and a second by Councilmember Nielson, the AMWUA Board of Directors unanimously accepted the draft IRS Form 990 as presented and authorized the AMWUA Executive Director to execute the final IRS Form 990 if there are no changes.

7. Nominating Committee for AMWUA Board Officers

Mayor Carlat spoke on behalf of Mayor Lane to appoint himself, Councilwoman Thelda Williams, and Councilmember Curtis Nielson as the nominating committee to recommend a 2020 slate for the AMWUA Board Officers.

C. Executive Director's Report

Mr. Tenney asked Mr. Aarons to give an update regarding the recent Vetting Forum for Water.

Mr. Aarons reported that the most recent Vetting Forum was very well attended and there were substantive discussions regarding adjudication and land management. He reminded the board that if they have proposals they are considering, that he would bring those to the forum for discussion. Mr. Aarons and Mayor Carlat agreed that to-date the Vetting Forum for Water has been successful.

Mr. Tenney stated that numerous committees are meeting around the subject of groundwater management issues. He noted the positive development in management of water resources and groundwater on the Colorado River. Mr. Tenney reported that an Ad Hoc Legislative House Committee has started to look at the Pinal AMA Groundwater issues. With the recent updated model from ADWR for the Pinal AMA showing the deficit of 8 million acre-feet not meeting the demand over the next 100 years, there are concerns about the response having implications for the Assured Water Supply Rules. Mr. Tenney reported that AMWUA will be monitoring this situation.

Mr. Tenney reported that the paper on the CAGRD has generated positive media attention with ongoing conversations relating to groundwater issues and improving water management.

Mr. Tenney expressed appreciation to the AMWUA staff for their efforts to research, attend, summarize and track all of these issues and meetings. He also expressed appreciation to the cities' water resources advisors for their insight and productive discussions and collaboration with AMWUA.

Mr. Tenney presented the annual report for the Alliance for Water Efficiency to the Board to provide additional information on AMWUA's collaboration with the Alliance.

D. Future Agenda Items

There were no requests for future agenda items.

E. Adjournment

Mayor Carlat adjourned the meeting at 11:59 a.m.

BOARD OF DIRECTORS
INFORMATION SUMMARY
December 5, 2019

2020 Legislative Session

ANNUAL PLAN REFERENCE

Legislation

Effectively advocate with one voice at the Legislature.

- Monitor, analyze and clarify state and federal legislation of interest to our members.
- Engage with Legislators to inform them about the issues important to AMWUA including identifying and working with Legislators to champion water issues.

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

SUMMARY

At the October 24, 2019 meeting, the AMWUA Board of Directors approved the AMWUA legislative agenda for 2020, which is attached to this report.

Staff will provide an update regarding potential legislation for the 2020 session including a report on the November 12th Vetting Forum for Water.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and discuss the update on potential legislation for the 2020 legislative session.



2020 LEGISLATIVE AGENDA

Arizona Water Management

Uphold and enhance the Groundwater Management Code and the Assured & Adequate Water Supply regulations to protect our members' ability to serve their communities with assured, safe, and sustainable water supplies.

Colorado River Resiliency

Protect the existing priorities, rights, contracts, and Colorado River water supplies of our members. Support efficient and effective recovery of stored Colorado River supplies.

State Regulatory Agencies

Promote the efficient performance of statutory responsibilities by the Arizona Department of Water Resources and Arizona Department of Environmental Quality. Support funding levels for ADWR that are necessary to hire and retain staff needed for the General Stream Adjudication, data collection, groundwater modeling, and other key agency functions.

Water Efficiency and Conservation

Support legislation that encourages practical, effective water efficiency and conservation measures. Continue to support updating Arizona's water-efficiency standards for plumbing fixtures.

Water Quality

Support legislative efforts to protect and improve the quality of AMWUA members' water supplies, including proposals to improve forest and watershed management. Support a sustainable funding mechanism for the Arizona Water Quality Assurance Revolving Fund (WQARF). Monitor legislation that would modify existing water quality standards, including the regulation of per- and polyfluoroalkyl substances (PFAS).

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BOARD OF DIRECTORS
INFORMATION SUMMARY
December 5, 2019

Pinal AMA Groundwater Issues

ANNUAL PLAN REFERENCE

Prepare for Redesignations

Begin strategizing how best to prepare our members to renew their assured water supply designations

- Identify issues that our members will need to address.

Strategic Plan: Objectives – Advocate for Solutions; Safeguard Water Supplies, Initiate Post-2025 Water Policy

Achieving Safe-Yield

Evaluate and pursue our members' contribution towards achieving and maintaining safe-yield and prepare for the critical water management issues beyond 2025.

- Strategic Aquifer Protection - Work with ADWR and relevant stakeholders to build support for Strategic Aquifer Protection ideas to be incorporated.
- Governor's Water Augmentation, Innovation and Conservation Council – Actively participate to protect and promote our members' perspectives.

Strategic Plan: Objectives – Advocate for Solutions; Safeguard Water Supplies, Reinforce Groundwater Management, Prepare for Impacts of Drought & Shortage, Augment Supplies, Initiate Post-2025 Water Policy; Collaboration – Arizona Department of Water Resources, Salt River Project, Central Arizona Project, Water Community, Business Community

SUMMARY

Groundwater supply issues in the Pinal Active Management Area (AMA) have been the subject of significant public discussion with meetings of the House Ad Hoc Committee on Pinal Groundwater issues and the release of a new update to the Arizona Department of Water Resources' (ADWR) Pinal AMA hydrologic model. The 2019 update to ADWR's model shows a groundwater supply deficit of 8 million acre-feet when compared to the Pinal AMA's projected demands over the next 100 years. These supply and demand calculations are conducted as part of the regulatory planning process for the Assured Water Supply Program.

A working group comprised of stakeholders from the Pinal AMA is being formed to develop local solutions. AMWUA is monitoring developments in the Pinal AMA stakeholder process, as any regulatory or policy changes would likely impact the same Assured Water Supply regulations that affect AMWUA members and the Phoenix AMA.

AMWUA is also seeking to understand the situation in Pinal AMA since the Phoenix AMA potentially will experience similar challenges in the future, which could affect the AMWUA cities' 100-year assured water supply redesignations and the Phoenix AMA's regulatory goal to reach safe-yield.

AMWUA staff will give a presentation to outline the groundwater issue in Pinal AMA, how it is currently being addressed, and its implications for the Phoenix AMA. A similar presentation was given to the AMWUA Management Board on November 13, 2019.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and discuss the groundwater water issues in Pinal AMA.



AGENDA ITEM #5

BOARD OF DIRECTORS

INFORMATION SUMMARY

December 5, 2019

Update on the Governor's Water Council and ADWR Management Plans

ANNUAL PLAN REFERENCE

Achieving Safe-Yield

Evaluate and pursue our members' contribution towards achieving and maintaining safe-yield and prepare for the critical water management issues beyond 2025.

- Governor's Water Augmentation, Innovation and Conservation Council – Actively participate to protect and promote our members' perspectives.
- Strategic Aquifer Protection – Work with ADWR and relevant stakeholders to build support for Strategic Aquifer Protection ideas to be incorporated into the Management Plan for the Phoenix AMA.

Strategic Plan: Objectives – Advocate for Solutions; Safeguard Water Supplies, Reinforce Groundwater Management, Prepare for Impacts of Drought & Shortage, Augment Supplies, Initiate Post-2025 Water Policy; Collaboration – Arizona Department of Water Resources, Salt River Project, Central Arizona Project, Water Community, Business Community

SUMMARY

The purpose of this agenda is to provide an opportunity for discussion if there are significant developments with the Governor's Water Council and/or the ADWR's Fourth and Fifth Management Plans. Staff will give a summary of the December 3rd meeting of the Governor's Water Council.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and discuss any updates presented regarding the Governor's Water Council and ADWR's management plan efforts.



AGENDA ITEM #6

BOARD OF DIRECTORS

INFORMATION SUMMARY

December 5, 2019

Presentation of New Plants for the Arizona Desert Microsite

ANNUAL PLAN REFERENCE

Demand Management & Sustainability

Continue to identify, develop, and promote policies, programs, research, and practices that assist our members to manage demand to enhance water resource supply reliability and sustainability.

- Increase awareness of and build upon AMWUA and member accomplishments in conservation and efficiency.
- Expand promotion and visibility of existing and new AMWUA and member materials and programs, including the new Smartscape website and the AMWUA sites *Landscape Plants for the Arizona Desert* and *Landscaping with Style in the Arizona Desert*.

Strategic Plan: Objectives – Prepare for Impacts of Drought & Shortage, Augment Supplies, Interconnect Disciplines; Collaboration – Arizona Department of Water Resources, Salt River Project, Central Arizona Project, Water Community, Business Community

SUMMARY

AMWUA's flagship publication, *Landscape Plants for the Arizona Desert*, features 224 plants from the Arizona Department of Water Resources Low-Water-Use/Drought Tolerant Plant List for the Phoenix Active Management Area. The booklet has been inspiring and educating residents on the beauty and benefits of landscaping with sustainable, desert-adapted plants for nearly two decades. AMWUA first launched the *Landscape Plants for the Arizona Desert* microsite on its website in the fall of 2008 to expand the publication's reach. With the development of AMWUA's new website in 2018, our goal has been to update the *Plants for the Arizona Desert* microsite.

AMWUA is proud to announce the launch of the reimagined, redeveloped *Plants for the Arizona Desert* microsite featuring all new photographs, updated botanical names, mobile adaptation, and user-friendly functions. The new website was presented to the AMWUA Management Board at the November 13, 2019 meeting.

RECOMMENDATION

The AMWUA Board of Directors is requested to ask questions and provide feedback during the presentation of the new *Plants for the Arizona Desert* microsite.

Arizona Municipal Water Users Association

BOARD OF DIRECTORS INFORMATION SUMMARY

December 5, 2019

Recommendation for 2020 AMWUA Board Officers

STRATEGIC PLAN REFERENCE

Operational Principles – Facilitate our Strength in Numbers

SUMMARY

Pursuant to the AMWUA Bylaws, President of the Board, Mayor Jim Lane, Scottsdale, appointed himself, Councilwoman Thelda Williams, Phoenix, and Councilmember Curtis Nielson, Avondale, 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 2020.

According to the AMWUA Bylaws, the Officers are to each have served on the current Board of Directors at least from January 1, 2019 through December 31, 2019. 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 Vice Mayor Eddie Cook, Gilbert, for President; Mayor Cathy Carlat, Peoria, for Vice President; and Councilmember Kevin Thompson, Mesa, for Secretary-Treasurer to the AMWUA Board of Directors for 2020, in accordance with the AMWUA Bylaws.

The Nominating Committee will formally make its recommendation for the officer positions at the December 5th 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 2020.

Arizona Municipal Water Users Association



AGENDA ITEM #8

BOARD OF DIRECTORS INFORMATION SUMMARY

December 5, 2019

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, 2019 through September 30, 2019, and the Balance Sheet dated September 30, 2019 are presented for your information.

At the end of the first quarter, AMWUA is showing a year-to-date actual of \$8,044 less than the year-to-date budget. This is primarily due to the timing of when the actual expenditures will occur as not all expenditures are made evenly throughout the fiscal year but are expected to be spent by fiscal year-end.

Many of the personnel related lines are under budget due to a change in staffing early in the fiscal year after the budget was finalized. We should continue to see savings throughout the year in those lines. Other lines are over budget year-to-date but that is due to timing as mentioned above and we expect to be on budget by the end of the fiscal year.

AMWUA anticipates that it will complete this fiscal year at budget.

RECOMMENDATION

At the November 13, 2019 meeting, the AMWUA Management Board recommended that the AMWUA Board of Directors accept the quarterly financial statements as presented.

Suggested Motion: I move that the AMWUA Board of Directors accept the Fiscal Year 2020's first quarterly financial statements as presented.

ATTACHMENTS

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

Arizona Municipal Water Users Association

Attachment A

ARIZONA MUNICIPAL WATER USERS ASSOCIATION

Statement of Revenues and Expenses

(Actual to Budget Comparison)

For Period July 1, 2019 through September 30, 2019

	Year-To-Date	Year-To-Date	Over(Under)	Approved	Over(Under)
	Actual	Budget	Year-To-Date Variance	Annual Budget	Budget Variance
Funding Sources					
Assessment - Water	941,336.00	941,336.00	0.00	1,252,240.00	(310,904.00)
Assessment - Wastewater	166,495.00	166,495.00	0.00	214,613.00	(48,118.00)
2017 Carryover Applied to Reduce Member Assessments	0.00	0.00	0.00	0.00	-
Interest Revenues	4,942.74	0.00	4,942.74	0.00	4,942.74
Other Revenues	30,000.00	0.00	30,000.00	0.00	30,000.00
Net Revenues	1,142,773.74	1,107,832.00	34,942.74	1,466,853.00	(324,079.26)
Operating Expenses					
Payroll (Salaries)	169,702.67	174,183.50	(4,480.83)	696,734.00	(527,031.33)
Deferred Compensation (ASRS Payments)	19,071.68	21,079.75	(2,008.07)	84,319.00	(65,247.32)
Payroll Processing, Taxes and Insurance	15,100.65	15,250.00	(149.35)	61,000.00	(45,899.35)
Medical and Disability Insurance	22,180.93	21,750.00	430.93	87,000.00	(64,819.07)
Cell Phone Allowance	1,665.00	1,675.00	(10.00)	6,700.00	(5,035.00)
Temporary Services/Receptionist	0.00	0.00	0.00	0.00	-
Legal/Consulting Services (Ferris Contract)	15,000.00	15,000.00	0.00	60,000.00	(45,000.00)
Legislative Services (Aarons Company-Contract)	11,874.99	11,875.00	(0.01)	47,500.00	(35,625.01)
Audit - Water	0.00	0.00	0.00	9,300.00	(9,300.00)
Audit - Waste Water	0.00	0.00	0.00	21,700.00	(21,700.00)
Website Services	0.00	0.00	0.00	5,000.00	(5,000.00)
Communication Services (Kossan Contract)	0.00	0.00	0.00	0.00	-
Consultant-Finance/Accounting	8,000.01	8,000.00	0.01	32,000.00	(23,999.99)
Audio/Visual Development	0.00	0.00	0.00	2,000.00	(2,000.00)
IT Services	1,200.00	1,250.00	(50.00)	5,000.00	(3,800.00)
Office Space - Lease	44,573.31	44,750.00	(176.69)	179,000.00	(134,426.69)
Common Area Maintenance	1,330.50	2,412.50	(1,082.00)	9,650.00	(8,319.50)
Telephone	1,429.39	1,200.00	229.39	4,800.00	(3,370.61)
E-Mail/Webpage/Internet	906.32	1,500.00	(593.68)	6,000.00	(5,093.68)
Travel/Conferences	225.00	2,250.00	(2,025.00)	9,000.00	(8,775.00)
Milage Reimbursement	648.90	812.50	(163.60)	3,250.00	(2,601.10)
Continuing Professional Ed	0.00	0.00	0.00	0.00	-
Staff Development	1,830.00	250.00	1,580.00	1,000.00	830.00
Copy Machine - Lease	1,192.51	1,300.00	(107.49)	5,200.00	(4,007.49)
Computer Hardware/Software	2,282.28	1,437.50	844.78	5,750.00	(3,467.72)
Office Supplies	180.93	1,083.33	(902.40)	6,500.00	(6,319.07)
Meetings	1,302.39	1,250.00	52.39	5,000.00	(3,697.81)
Outreach Efforts	3,000.00	3,000.00	0.00	10,000.00	(7,000.00)
Printing	249.45	575.00	(325.55)	2,300.00	(2,050.55)
Postage & Deliveries	620.38	500.00	120.38	2,000.00	(1,379.62)
Subscription & Reference	911.24	325.00	586.24	1,300.00	(388.76)
Dues & Memberships	624.51	437.50	187.01	1,750.00	(1,125.49)
Insurance	162.72	162.72	0.00	4,100.00	(3,937.28)
Equipment Maintenance	0.00	0.00	0.00	2,000.00	(2,000.00)
Water Conservation	52,201.93	52,201.93	0.00	90,000.00	(37,798.07)
Total Operating Expenses	377,467.69	385,511.23	(8,043.54)	1,466,853.00	(1,089,385.31)
Reserve and Contingency Funds Summary:					
Contingency Fund Balance on 9/30/19	\$600,000				
Reserve Fund Balance on 9/30/19	<u>242,372</u>				
Total Contingency and Reserve Funds	<u>\$842,372</u>				

Arizona Municipal Water Users Association
Balance Sheet
As of September 30, 2019

ASSETS		
Current Assets		
1000 Petty Cash	500.00	
1015 Compass Checking 25 287 52333	68,211.91	
1025 Compass Money Market 25 100 20769	797,078.38	
1030 Investment Account (LGIP)	<u>842,371.54</u>	
Total Bank Accounts	\$ 1,708,161.83	
 Accounts Receivable		
1041 Other Receivables	0.00	
Total Accounts Receivable	\$ -	
 Other Current Assets		
1050 Prepaid Expenses	<u>17,391.59</u>	
Total Other Current Assets	\$ 17,391.59	
 Total Current Assets	 \$ 1,725,553.42	
 Fixed Assets		
1100 Furniture & Equipment	181,344.29	
1150 Leasehold Improvements	52,665.08	
1200 Accum Depreciation Furniture	-165,662.80	
1250 Accum Depreciation Leasehold	<u>-51,416.82</u>	
Total Fixed Assets	\$ 16,929.75	
 Other Assets		
1450 Deferred Outflow - Pension Resources	179,980.23	
Total Other Assets	\$ 179,980.23	
 TOTAL ASSETS	 \$ 1,922,463.40	

Arizona Municipal Water Users Association
Balance Sheet
As of September 30, 2019

LIABILITIES AND EQUITY

Liabilities		
Current Liabilities		
Credit Cards		
2005 BBVA Compass Credit Card	3,760.21	
Total Credit Cards	\$ 3,760.21	
Other Current Liabilities		
2010 FICA Withheld and Accrued	0.00	
2050 Accrued Expenses	107,233.12	
2110 Retirees Excess Benefit Clearance	3,556.91	
Total Other Current Liabilities	\$ 110,790.03	
Total Current Liabilities	\$ 114,550.24	
Long-Term Liabilities		
2200 Deferred Revenues	31,138.78	
2210 Net Pension Liability	874,444.00	
2220 Deferred Inflow-Pension Resources	108,801.00	
Total Long-Term Liabilities	\$ 1,014,383.78	
Total Liabilities	\$ 1,128,934.02	
Equity		
3000 Fund Balance	28,223.33	
Opening Balance Equity	0.00	
Net Income	765,306.05	
Total Equity	\$ 793,529.38	
TOTAL LIABILITIES AND EQUITY	\$ 1,922,463.40	

BOARD OF DIRECTORS INFORMATION SUMMARY

December 5, 2019

AMWUA Annual Financial Audit Report for Fiscal Year 2019

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, 2019 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, 2019. Also provided is the required Management Letter (SAS 114) from the auditors to the AMWUA Board of Directors containing information about significant findings related to the audit. There were no significant findings with respect to the audit; however, the audit cited two opportunities to strengthen internal controls, which are referenced in the attached Management Letter.

AMWUA takes 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 2019 under budget and continues to be on a fiscally sound footing to meet the future needs of the Association.

RECOMMENDATION

At the November 13, 2019 meeting, the AMWUA Management Board recommended that the AMWUA Board of Directors accept the Fiscal Year 2019 audit report as presented.

Suggested Motion: I move that the AMWUA Board of Directors accept the Fiscal Year 2019 audit report as presented.

ATTACHMENTS

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

Arizona Municipal Water Users Association



Arizona Municipal Water Users Association
Management Letter
Year Ended June 30, 2019

Board of Directors
Arizona Municipal Water Users Association

Members of the Board:

In planning and conducting our audit of the financial statements of Arizona Municipal Water Users Association (AMWUA) for the year ended June 30, 2019, we performed the following as required by *Government Auditing Standards* (GAS):

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

Any audit findings that are required to be reported by GAS have been included in AMWUA's Financial Statements and Report on Internal Control and on Compliance for the year ended June 30, 2019. However, during our audit, we noted certain immaterial matters that are opportunities for strengthening internal controls. Management should address these items to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with financial reporting requirements. Those items and our related recommendations are briefly described in the accompanying summary. The items discussed in the accompanying summary are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified.

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

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

Sincerely,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 21, 2019

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2019**

Journal Entries

1. Adjusting journal entries are not reviewed for propriety.

It is recommended that a second person review adjusting journal entries to ensure transactions are accurately recorded.

Management Response: Monthly journal entries are prepared by a CLA staff member and reviewed by the CLA Outsourcing CFO. This includes monthly journal entries for payroll, bank deposits, LGIP interest income, prepaid rent, etc. This year, the year-end adjusting journal entries were prepared by the CLA Outsourcing CFO and entered into the general ledger without an additional reviewer. We will continue to have journal entries reviewed on a monthly basis by the CLA Outsourcing CFO, including at year-end. If the CLA Outsourcing CFO prepares the journal entries, we will designate someone within management to review and approve those entries.

Financial Reporting

1. AMWUA incorrectly recognized a reduction in prior year unearned revenue as expense rather than revenue, resulting in revenues and expenses being understated by \$17,263. Management made an adjustment to correct this error in the final financial statements.

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

Management Response: The journal entry in question is in regards to the year over year activity of the water conservation program and was done as part of the year-end adjusting entries to provide a year-end trial balance. There were no financial statements issued or reviewed that included that entry and was entered into the trial balance given to the auditor for their review.

Management will continue to look at the conservation program to determine an adequate annual budget amount so there are little to no end of year adjustments.

October 25, 2019

To the Board of Directors
Arizona Municipal Water Users Association

We have audited the financial statements of Arizona Municipal Water Users Association (AMWUA) for the year ended June 30, 2019 and 2018. 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 AMWUA's 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.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

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

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

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

In addition, as part of the professional services we provided to AMWUA, we assisted with the preparation of the financial statements and 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 AMWUA'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.

Other Matters

A paragraph has been included in the Auditor's Report to draw attention to the comparative information contained in the report.

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 AMWUA'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. PC

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, 2019 and 2018

Arizona Municipal Water Users Association
Phoenix, Arizona

Financial Statements
June 30, 2019 and June 30, 2018

Issued by:
Finance Department

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
JUNE 30, 2019 AND 2018

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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 the Arizona Municipal Water Users Association (AMWUA) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the AMWUA's basic 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 audit. We conducted our audit 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 positions of Arizona Municipal Water Users Association, as of June 30, 2019 and 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

We have previously audited the Arizona Municipal Water Users Association's financial statements for the fiscal year ended June 30, 2018. Our report dated December 21, 2018 expressed an unmodified opinion on those audited financial statements. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, on our consideration of the 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 solely 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 effectiveness of the Arizona Municipal Water Users Association's 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 the Arizona Municipal Water Users Association's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 21, 2019

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019 AND 2018**

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, 2019 and 2018.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Total net assets for AMWUA equaled \$28,223 at June 30, 2019, and a negative \$78,264 at June 30, 2018 increasing by \$106,487 for fiscal year 2019 and increasing by \$161,530 for fiscal year 2018. 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 2019 revenues assessed to the member cities totaled \$1,399,015 which represents a \$62,619 increase from fiscal year 2018. For fiscal year 2018 revenues assessed to the member cities totaled \$1,336,396 which represents a \$41,471 increase from 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 2019 ASSESSMENTS BY CITY

<u>CITY</u>	<u>ASSESSMENT</u>	<u>PERCENTAGE</u>
Phoenix	\$440,426	31.47
Mesa	169,928	12.15
Scottsdale	120,812	8.64
Glendale	112,936	8.07
Tempe	119,639	8.55
Chandler	102,032	7.29
Gilbert	100,117	7.16
Peoria	87,682	6.27
Avondale	72,736	5.20
Goodyear	<u>72,707</u>	<u>5.20</u>
	<u>\$1,399,015</u>	<u>100.00</u>

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

	<u>Approved Budget</u>	<u>Actual Expenditures</u>	<u>Actual GAAP</u>
Administration	\$688,315	\$698,433	\$651,474
Employee Benefits	141,400	142,880	144,825
Professional Services	223,400	199,225	199,225
Occupancy	189,600	198,087	180,693
Travel and Training	14,500	10,353	10,353
Capital Outlay	11,200	9,001	9,001
Office Operating Expenses	40,600	33,354	33,727
Water Conservation	<u>90,000</u>	<u>185,047</u>	<u>183,102</u>
	<u>\$1,399,015</u>	<u>\$1,476,380</u>	<u>\$1,412,400</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019 AND 2018**

OVERVIEW OF OPERATING EXPENDITURES

Expenditures for Administration include salaries and pension-funding payments to the Arizona State Retirement System. The actual for Administration was under budget by \$36,841. Employee Benefits, which includes payroll taxes, payroll processing, medical, dental, and disability insurance; and cell phone allowance was over budget by \$3,425. AMWUA experienced an employee change during Fiscal Year 2019. 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 under budget by \$24,175. During Fiscal Year 2019, AMWUA ceased the contract for Communication Services and hired an employee to do the work mid-way through the year.

Occupancy costs include building lease, building operating expenses; and telephone and internet charges. The actual was under budget by \$8,907.

The actual for Travel and Training was under budget by \$4,147.

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 \$2,199.

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 under budget by \$6,873.

Water Conservation had total expenditures of \$183,102 of a total budget of \$90,000. The difference is attributable to unspent funds encumbered from the prior year to be spent in Fiscal Year 2019 and expenses incurred for reimbursable publications.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019 AND 2018**

Overview of the Financial Statements

AMWUA's basic 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		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Assets	\$964,272	\$952,297	\$960,933
Net capital assets	13,816	8,621	11,234
Deferred outflows	<u>179,980</u>	<u>184,285</u>	<u>164,450</u>
Total assets and deferred outflows of resources	\$1,158,068	\$1,145,203	\$1,136,617
Current Liabilities	\$146,600	\$174,482	\$202,309
Net Pension Liability	874,444	937,799	873,228
Deferred Inflow	108,801	111,186	300,874
Net investment in capital assets	13,816	8,621	11,234
Unrestricted	<u>14,407</u>	<u>(86,885)</u>	<u>(251,028)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,158,068</u>	<u>\$1,145,203</u>	<u>\$1,136,617</u>

- ◆ Current assets increased by \$11,975 in 2019 and decreased \$8,636 in 2018. 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 expenditures compared to the approved budget.
- ◆ Net Capital assets increased by \$5,195 during fiscal year 2019 and decreased by \$2,613 during fiscal year 2018. Capital assets consist of office furniture, equipment, and certain leasehold improvements. AMWUA capitalized a \$2,821 expenditure for the purchase of two laptops and \$5,117 for a new projector. AMWUA's threshold for capitalization is \$1,000 with a useful life of greater than one year. The Association had no capital asset disposals in fiscal year 2019. For fiscal year 2018, old and fully depreciated equipment was disposed of in the amount of \$6,493.
- ◆ Current Liabilities decreased by \$27,882 in 2019 and decreased by \$27,827 in 2018. 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).

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019 AND 2018**

- ◆ Net Pension Liability represents AMWUA's proportionate share of the net pension liability of the Arizona State Retirement System. This reporting requirement was implemented in Fiscal Year 2015 to satisfy the requirements of GASB 68.
- ◆ Total Net Position increased by \$106,487 to a \$28,223 in Fiscal Year 2019 and increased by \$161,530 to a negative \$78,264 in Fiscal Year 2018. This was primarily due to a reduction in AMWUA's proportionate share of the net pension liability of ASRS.

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. If the balance of the Reserve Fund falls below \$50,000, the Board of Directors shall determine how to restore the balance to at least \$50,000. 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, 2019, the balance of the Reserve Fund is \$237,529. Pursuant to the policy these funds are held in the Local Government Investment Pool with the Arizona State Treasurer.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019 AND 2018**

Summary of Changes in Net Position

	Years ended June 30		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues			
Annual assessments	\$1,416,278	\$1,354,313	\$1,236,925
Other	<u>82,775</u>	<u>51,001</u>	<u>4,992</u>
Total operating revenues	<u><u>1,499,053</u></u>	<u><u>1,405,314</u></u>	<u><u>1,241,917</u></u>
Operating expenses	<u><u>1,412,400</u></u>	<u><u>1,255,200</u></u>	<u><u>1,140,543</u></u>
Nonoperating revenues/(expenses)			
Interest on investments	19,834	11,416	5,543
LGIP asset impairment recovery	<u> </u>	<u> </u>	<u>347</u>
Total nonoperating revenues	<u>19,834</u>	<u>11,416</u>	<u>5,890</u>
Increase in net position	106,487	161,530	107,264
Net position, July 1	<u>(78,264)</u>	<u>(239,794)</u>	<u>(347,058)</u>
Net position, June 30	<u><u>\$28,223</u></u>	<u><u>\$(78,264)</u></u>	<u><u>\$(239,794)</u></u>

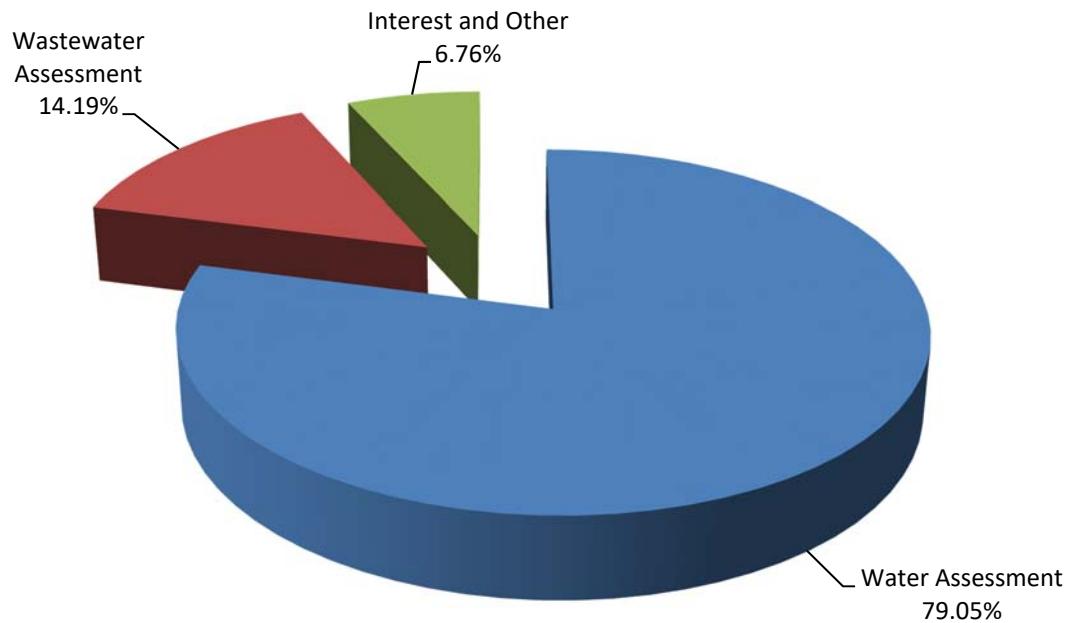
- ◆ Actual annual assessments billed to the cities increased by \$61,965 in 2019 and increased by \$117,388 in 2018. The Summary of Changes in Net Position shown above reflects different changes in assessments for fiscal year 2018 due to funds encumbered in 2018 to be spent in fiscal year 2019.
- ◆ Other revenues increased \$31,774 in 2019. Other revenues include deferred income recognized related to the lease moving allowance and the reimbursement of Conservation Brochures printed on behalf of member municipalities.
- ◆ Total operating expenses increased by \$157,200 in 2019 and increased by \$114,657 in 2018.
- ◆ Nonoperating revenues increased by \$8,418 in 2019 and increased by \$5,873 in 2018. Non operating 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, 2019 AND 2018**

Operating Revenues

AMWUA's revenue is primarily (93.24%) generated by water and wastewater assessments from member cities. For fiscal year 2019, of the \$1,416,278 in revenue recognized from annual assessments, \$1,200,773 represents water assessments, with the remaining \$215,505 representing wastewater assessments. The following chart shows the sources and the percentage of all revenue by category for the fiscal year ended June 30, 2019.

Revenues Summary
for Fiscal Year Ended June 30, 2019
Total = \$1,518,887

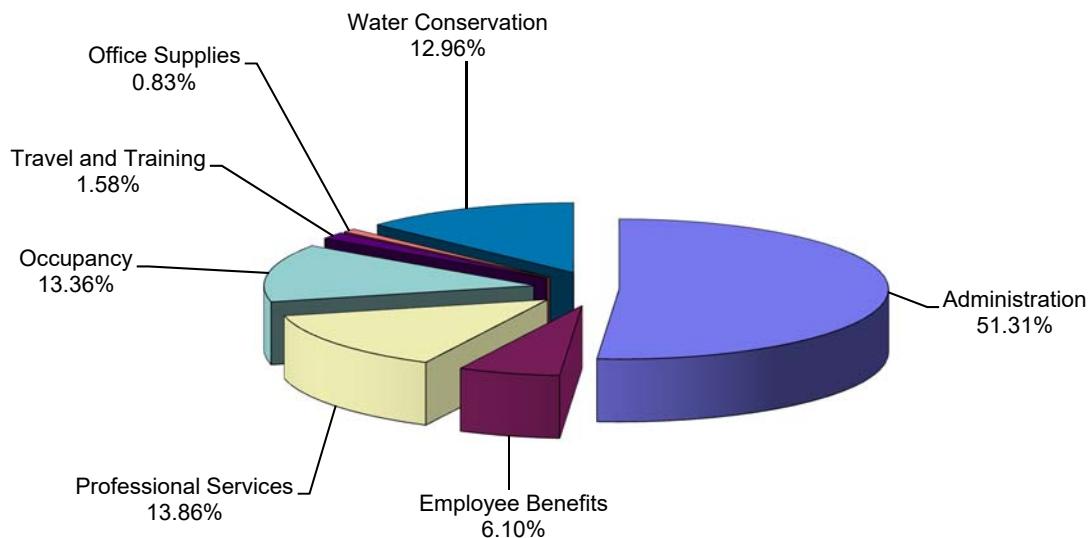


**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019 AND 2018**

Operating Expenses

The following chart shows AMWUA's operating expenses by category for the year ended June 30, 2019.

Expenses Summary
for Fiscal Year Ended June 30, 2019
Total = \$1,412,400



AMWUA's Capital Assets

	Years ended June 30		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Property and Equipment	\$178,230	\$170,292	\$173,125
Leasehold improvements	52,665	52,665	52,665
Less accumulated depreciation and amortization	(217,080)	(214,336)	(214,556)
Net property and equipment	<u>\$ 13,815</u>	<u>\$ 8,621</u>	<u>\$ 11,234</u>

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 increased \$5,194 during fiscal year 2019 and decreased by \$2,613 during fiscal year 2018.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2019 AND 2018**

Economic Factors and Next Year's Budget

Starting in Fiscal Year 2017 all AMWUA members are voting members and each member pays 50% of the AMWUA water portion of the budget equally and the remaining 50% 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% 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 mgd.

In May 2019, the AMWUA Board of Directors approved the Fiscal Year 2020 Budget. The fiscal year 2020 Budget increased by 4.9% over the fiscal year 2019 budget.

The Association is in the ninth 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.

FINANCIAL STATEMENTS

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 106,797	\$ 189,902
Investments	837,529	702,218
Prepaid expenses and other assets	<u>19,946</u>	<u>60,177</u>
Total current assets	964,272	952,297
CAPITAL ASSETS, NET	13,816	8,621
TOTAL ASSETS	<u>978,088</u>	<u>960,918</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan items	<u>179,980</u>	<u>184,285</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,158,068</u>	<u>\$ 1,145,203</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable	\$ 3,177	\$ 3,212
Accrued expenses	34,041	54,111
Compensated absences payable	78,243	63,766
Unearned revenue	<u>31,139</u>	<u>53,393</u>
Total current liabilities	<u>146,600</u>	<u>174,482</u>
NONCURRENT LIABILITIES		
Net Pension Liability	<u>874,444</u>	<u>937,799</u>
TOTAL LIABILITIES	<u>1,021,044</u>	<u>1,112,281</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan items	<u>108,801</u>	<u>111,186</u>
NET POSITION		
Net investment in capital assets	13,816	8,621
Unrestricted	<u>14,407</u>	<u>(86,885)</u>
Total net position	<u>28,223</u>	<u>(78,264)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 1,158,068</u>	<u>\$ 1,145,203</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Annual assessments	\$ 1,416,278	\$ 1,354,313
Other	<u>82,775</u>	<u>51,001</u>
Total operating revenues	<u>1,499,053</u>	<u>1,405,314</u>
OPERATING EXPENSES		
Salaries	710,136	586,054
Benefits	86,164	71,637
Occupancy costs	188,637	181,283
Legal and accounting	123,400	123,400
Temporary services	67,500	82,711
Water conservation	183,102	108,312
Printing and duplicating	6,473	51,099
Consulting services	4,800	4,800
Depreciation and amortization	2,744	6,273
Travel and meetings	11,760	12,230
Office supplies	8,955	9,021
Subscription and reference materials	1,247	1,183
Postage and shipping	1,557	1,513
General business insurance	4,056	4,032
Dues	1,373	1,565
Conferences	10,266	9,915
Training	<u>230</u>	<u>172</u>
Total operating expenses	<u>1,412,400</u>	<u>1,255,200</u>
Operating income	86,653	150,114
NON-OPERATING REVENUES		
Interest on investments	19,834	11,416
Total non-operating revenues	<u>19,834</u>	<u>11,416</u>
CHANGE IN NET POSITION	<u>106,487</u>	<u>161,530</u>
NET POSITION, BEGINNING OF YEAR	<u>(78,264)</u>	<u>(239,794)</u>
NET POSITION, END OF YEAR	<u>\$ 28,223</u>	<u>\$ (78,264)</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM/(USED FOR) OPERATING ACTIVITIES		
Cash received from members and customers	\$ 1,517,231	\$ 1,352,550
Cash paid to employees	(843,258)	(800,900)
Cash paid to suppliers and vendors	<u>(633,663)</u>	<u>(591,866)</u>
Net cash provided by/(used for) operating activities	<u>40,310</u>	<u>(40,216)</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	<u>(7,938)</u>	<u>(3,661)</u>
CASH FLOWS FROM/(USED FOR) INVESTING ACTIVITIES		
Purchases of investments	(116,000)	
Sale of investments		116,000
Interest on investments	525	224
Net cash provided by/(used for) investing activities	<u>(115,477)</u>	<u>116,224</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(83,105)</u>	<u>72,347</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>189,902</u>	<u>117,555</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 106,797</u>	<u>\$ 189,902</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income	\$ 86,653	\$ 150,114
Adjustments:		
Depreciation and amortization	2,743	6,273
(Increase) decrease in assets		
Prepaid expenses and other current assets	40,231	(23,824)
Increase (decrease) in liabilities		
Accounts payable	(35)	(1,024)
Accrued expenses	(5,593)	(3,895)
Pension plan items	(61,435)	(144,952)
Unearned revenue	<u>(22,254)</u>	<u>(22,908)</u>
Net cash provided by/(used for) operating activities	<u>\$ 40,310</u>	<u>\$ (40,216)</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Basis of Presentation

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

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

B. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, AMWUA evaluates its estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that its estimates and assumptions are reasonable in the circumstances; however, actual results may differ from those estimates.

C. Investments

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 with a useful life greater than one year. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the associated lease.

E. Operating Revenues

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

F. Unearned Revenue

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

G. Tax-Exempt Status

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

H. Cash and Cash Equivalents

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

I. Deferred Outflows/Inflows of Resources

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

J. Compensated Absences

AMWUA's personnel regulations generally provide for granting paid time off in varying amounts. Benefits are accrued when earned by employees.

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, 2019, the balance of the Reserve Fund is \$237,529. Pursuant to the policy these funds are held in the Local Government Investment Pool with the Arizona State Treasurer.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Net Position Flow Assumption

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

NOTE 2 – CASH AND INVESTMENTS

AMWUA places its cash with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$250,000. At June 30, 2019, all bank balances were under the limit. At June 30, 2018, \$37,277 was uninsured and uncollateralized. AMWUA also had petty cash of \$500 at June 30, 2019 and 2018.

AMWUA places all of its investments within the Arizona Local Government Investment Pool (LGIP). The Arizona State Treasurer's Office operates this pool to provide professional short-term investment services to a wide array of public entities. By investing in the LGIP, participants are able to benefit from the substantial aggregate buying power of the state portfolio as well as a pool of monies from other participants. Therefore, AMWUA has no individual investments in excess of five percent of the total investments as of June 30, 2019 and 2018.

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 AAAf/S1+ by Standard and Poor's and had a weighted average maturity of 37 days and 33 days at June 30, 2019 and 2018, respectively. The maximum weighted average maturity permitted for the LGIP is 90 days.

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

	2019	2018
Cash and cash equivalents	\$ 106,797	\$ 189,902
Investments in LGIP	837,529	702,218
Total cash and investments	\$ 944,326	\$ 892,120

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 – CAPITAL ASSETS

Capital assets at June 30, 2019, consist of the following:

	Beginning Balance	Increase	Decrease	Ending Balance
	July 1, 2018			June 30, 2019
Capital Assets				
Capital assets:				
Furniture and equipment	\$ 170,292	\$ 7,938		\$ 178,230
Leasehold improvements	52,665			52,665
Total depreciable assets	<u>222,957</u>	<u>7,938</u>		<u>230,895</u>
Less accumulated depreciation:				
Furniture and equipment	(163,629)	(2,033)		(165,662)
Leasehold improvements	(50,707)	(710)		(51,417)
Total accumulated depreciation and amortization	<u>(214,336)</u>	<u>(2,743)</u>		<u>(217,079)</u>
Capital assets, net of accumulated depreciation and amortization	<u>\$ 8,621</u>	<u>\$ 5,195</u>	<u>\$</u>	<u>\$ 13,816</u>

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

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – OPERATING LEASES

AMWUA leases a copier under a non-cancelable operating lease that expires in 2023 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, 2019 and 2018, is \$8,318 and \$13,310, 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, 2019 and 2018 is \$28,990 and \$46,384, respectively in deferred rent related to the lease.

Total lease expense was \$161,147 and \$160,264 for the years ended June 30, 2019 and 2018, 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:

<u>Year Ending June 30:</u>	
2020	\$ 185,901
2021	121,842
2022	3,324
2023	1,939
Total future minimum lease payments	<u>\$ 313,006</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 – ANNUAL ASSESSMENTS

AMWUA assesses membership dues based upon operating costs for the year. During fiscal year 2019, 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 2019 and 2018.

	2019	2018
Voting members:		
City of Chandler*	\$ 102,032	\$ 95,657
City of Glendale	112,936	107,948
City of Mesa	169,928	161,982
City of Peoria*	87,682	82,232
City of Phoenix	440,426	426,914
City of Scottsdale	120,812	115,644
City of Tempe	119,639	115,393
Town of Gilbert*	100,117	93,965
City of Goodyear*	72,707	68,180
City of Avondale*	<u>72,736</u>	<u>68,481</u>
Total annual assessments	<u>\$ 1,399,015</u>	<u>\$1,336,396</u>

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 – 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. AMWUA made monthly retirement contributions into the ASRS at the rate of 11.34 percent and 11.34 percent of the participants' annual salaries in 2019 and 2018, respectively. AMWUA still maintains the Plan 457, in that each employee who wishes to participate has an individual account to which the employee may make voluntary contributions.

NOTE 7 – 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 8 – RELATED PARTY TRANSACTIONS

AMWUA's governing board is comprised of individuals from each member city. The member cities contributed nearly all revenues in the form of annual assessments during fiscal years 2019 and 2018. 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, 2019 AND 2018

NOTE 9 – PENSIONS

Plan Description. AMWUA employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. 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, 2019 AND 2018

NOTE 9 – PENSIONS

Retired and disabled members, with at least five years of credited service, are eligible to receive health insurance premium benefits. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with five to nine years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

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

Contributions. In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.58 percent (11.64 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and AMWUA was required by statute to contribute at the actuarially determined rate of 11.80 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

AMWUA's contributions related to the ASRS were \$69,500 and \$68,727 for the years ended June 30, 2019 and 2018, respectively. AMWUA funded 100 percent of its annual required contribution to the ASRS for the years ended June 30, 2019 and 2018.

Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. AMWUA was required by statute to contribute at the actuarially determined rate of 10.53 percent (10.41 for retirement, .06 percent for health insurance premium benefit, and .06 percent for long-term disability). ACR contributions are included in employer contributions presented above.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 – PENSIONS

Pension Liability. The net pension liability was measured as of June 30, 2017. The total pension liability of \$937,799 used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total liability as of June 30, 2018 reflects changes in actuarial assumptions based on the results of an actuarial experience study for the five-year period ended June 30, 2016, including decreasing the discount rate from 8.0 percent to 7.5 percent, changing the projected salary increases from 3.6-7.5 percent to 2.7-7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates. AMWUA's proportion of the net pension liability was based on AMWUA's actual contributions to the plan relative to the total of all participating employers' contributions to the plan for the year ended June 30, 2018.

Pension Expense and Deferred Outflows/Inflows of Resources. AMWUA has deferred outflows and inflows of resources related to the net pension liability. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. For the year ended June 30, 2019, AMWUA recognized pension expense of \$8,065 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,821	
Changes of assumptions or other inputs	23,139	77,531
Net difference between projected and actual earnings on pension plan investments	24,090	21,028
Changes in proportion and differences between contributions and proportionate share of contributions	63,251	5,421
Contributions subsequent to the measurement date	69,500	
Total	\$ 179,980	\$ 108,801

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension liability in the year ended June 30, 2020. 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:	
2020	\$ 45,513
2021	(2,506)
2022	(31,898)
2023	(9,430)

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 – PENSIONS

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

	Pension
Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Salary increases	2.7 – 7.2%
Inflation	2.3%
Permanent base increases	Included
Mortality rates	2017 SRA Scale U-MP
Healthcare Cost Trend Rate	Not applicable

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. 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, 2017, actuarial valuation.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage excluding any expected inflation. On June 29, 2018, the ASRS Board approved updated strategic asset allocation targets, to be effective July 2018.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	5.50%
Fixed income	30	3.83%
Real estate	20	3.84%
Total	<hr/> <hr/>	<hr/> <hr/>
	100%	

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 – PENSIONS

Discount Rate. The discount rate used to measure the ASRS total pension liability was 7.5 percent, which was a decrease of 0.5 percent from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents AMWUA's proportionate share of the net pension liability calculated using the discount rate of 7.5 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 <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Proportionate share of the net pension liability	\$1,246,541	\$ 874,444	\$ 563,564

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
AMWUA's proportion of the net pension liability (asset)	0.01%	0.01%	0.01%	0.01%
AMWUA's proportionate share of the net pension liability (asset)	\$ 874,444	\$ 937,799	\$ 873,228	\$ 924,728
AMWUA's covered payroll	\$ 630,523	\$ 586,438	\$ 506,728	\$ 576,162
AMWUA's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	138.69%	159.91%	172.33%	160.50%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	69.92%	67.06%	68.35%

SCHEDULE OF CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 69,500	\$ 68,727	\$ 63,218	\$ 54,980
Contributions in relation to the actuarially determined contribution	<u>69,500</u>	<u>68,727</u>	<u>63,218</u>	<u>54,980</u>
Contribution deficiency (excess)	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
AMWUA's covered payroll	\$ 621,646	\$ 630,523	\$ 586,438	\$ 506,728
Contributions as a percentage of covered payroll	11.18%	10.90%	10.78%	10.85%

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.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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, 2017, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. 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, 2017, actuarial valuation.

**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, 2019, and the related notes to the financial statements, which collectively comprise Arizona Municipal Water Users Association's basic financial statements, and have issued our report thereon dated October 21, 2019.

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. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 21, 2019