



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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION MANAGEMENT BOARD

MEETING NOTICE AND AGENDA

Wednesday, October 14, 2020 – 10:00 a.m.

**This meeting will be held via AMWUA Zoom
Access this [Link](#) to join. Meeting ID: 836 1547 3965**

(Option to join by phone: 1-346-248-7799, same Meeting ID as above)

A. Call to Order

B. General Business—Items for Discussion and Possible Action

1. Approval of the Minutes from the August 12, 2020 Meeting
2. Schedule Next Meeting Date: Thursday, November 12, 2020, 10:00 a.m.
3. Proposal on Reaching Safe-Yield in the Phoenix AMA
4. CAWCD Strategic Planning Framework
5. AMWUA Redesignation Efforts - Physical Availability of Groundwater
6. Verde River Sedimentation Mitigation Study
7. AMWUA Annual Financial Audit Report for Fiscal Year 2020

C. Member Reports

D. Executive Director's Report

E. Future Agenda Items

F. Adjournment

*The order of the agenda may be altered or changed by the AMWUA Management Board. Members of the AMWUA Management Board will attend by internet conferencing.

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

Arizona Municipal Water Users Association



MANAGEMENT BOARD

MEETING MINUTES

August 12, 2020

WEBEX TELECONFERENCE

VOTING MEMBERS PRESENT

Javier Setovich, Goodyear, Chairman
Jessica Marlow, Gilbert, Vice Chair
Cindy Blackmore, Avondale
Tara Ford, Tempe
Chris Hassert for Jake West, Mesa
Craig Johnson, Glendale
John Knudson, Chandler
Karen Peters, Phoenix
Cape Powers, Peoria
Kevin Rose for Brian Biesemeyer, Scottsdale

OTHERS PRESENT

Patrick J. Adams, AMWUA	Gregg Capps, Chandler	James Markham, SWEFC
Michelle Barclay, AMWUA	Ricky Dodge, AMWUA	Dawn Nall, SWEFC
Anthony Beckham, SRP	Sam Draper, AMWUA	Diana Pina, AMWUA
Jessica Blazina, Avondale	Gretchen Erwin, Goodyear	Martin Stiles, CAP
Ned Blum, CliftonLarsonAllen	Paulette Fenderson, Phoenix	Drew Swieczkowski, Glendale
Craig Caggiano, Tempe	Kathy Ferris, AMWUA	Warren Tenney, AMWUA
Cynthia Campbell, Phoenix	Heather Himmelberger, SWEFC	Sheri Trapp, AMWUA
		Carol Ward, ADWR

A. Call to Order

Mr. Setovich called the meeting to order at 10:03 a.m.

B. General Business – Items for Discussion and Possible Action

1. Approval of the Minutes from the June 10, 2020 Meeting

Upon a motion made by Mr. Powers and a second by Mr. Johnson, the AMWUA Management Board unanimously approved the June 10, 2020 meeting minutes.

2. Next meeting scheduled: Wednesday, September 9, 2020, 10:00 a.m.

Arizona Municipal Water Users Association

3. Water Loss Control Training and Technical Assistance Program

Mr. Tenney gave an update to the members about the Water Loss Control Training and Technical Assistance Program. Last year, AMWUA was able to secure a \$300,000 grant from the Arizona Department of Water Resources (ADWR) to create the Water Loss Control Program. Mr. Tenney introduced the consultant hired to create the Water Loss Control Program, the Southwest Environmental Finance Group (SWEFC).

Ms. Himmelberger, the director of SWEFC, gave a presentation on the status of the AMWUA Water Loss Control Program. Ms. Himmelberger reported that the participants are progressing through Stage 1, which involves completing an audit. Once the audits have been completed, AMWUA will know how to move forward into Stage 2 and use the information gathered from Stage 1 to then take action to reduce water loss. Ms. Himmelberger encouraged each AMWUA member to continue having an internal team to work on water loss control. She highlighted that SWEFC is available to help individual members.

Mr. Setovich asked about the actual leaks in the system as compared to the perceived leaks and wanted further clarification on the discrepancy between these two metrics.

Ms. Himmelberger said that they are going to look more into this in Stage 2 and will find out exactly what the real water loss is by looking at the data and cost activities and will have more information in Stage 2.

Mr. Tenney thanked Ms. Himmelberger and the SWEFC for presenting on the Water Loss Control Program and its updates to the AMWUA members. Mr. Tenney stated that the data is showing that the AMWUA cities are doing a good job with Water Loss Control compared to the national cities. He also emphasized that the AMWUA members continue to do a good job in regards to Water Loss Control and to use the data gathered. He emphasized how fortunate AMWUA is to have this large investment from the state of Arizona, and how this is another opportunity for the AMWUA cities to be on the leading edge of best practices here in Arizona.

4. 5th Management Plan and Non-Per Capita Conservation Program

Mr. Tenney outlined that the Fifth Management Plan (5MP) process allows stakeholders to provide input to ADWR on conservation regulatory programs. He said it is important that AMWUA take advantage of this opportunity because the 5MP could in place for a long time. He gave context on why AMWUA is focusing more on the policy side of water conservation, and why AMWUA is drafting a proposal on how to restructure the Non-Per Capita Conservation Program (NPCCP).

Ms. Draper gave an overview of the AMWUA 5MP NPCCP proposal. She gave a brief explanation of the two conservation programs that AMWUA members are regulated by: the Total Gallons Per Capita Per Day (GPCD) Program and the NPCCP.

Ms. Draper then described AMWUA's proposed NPCCP restructure. In the proposal, the structure is recategorized and renamed to include two sections: the Public Engagement Program and the Best Management Practices (BMPs). The Public Engagement Program section focuses on why we conserve and includes a required portion and a supplemental portion. The Best Management Practices section focuses on quantitative reductions in demand and includes four categories: Outreach Services and Rebates/Incentives, Physical System Evaluation and Improvement, Sustainable Water Governance, and Research and Innovation in Demand Management. She explained the focus of each category and provided examples of how the AMWUA members are currently administering these BMPs.

Ms. Draper stated that AMWUA's proposal also redefines the service connection tiers that NPCCP utilities are regulated by. She said AMWUA's intent was to make the tier levels more granular in order to more appropriately group providers by similar characteristics and sophistication levels. This is important because the tier that a provider is in determines how many BMPs the provider is required to implement.

Ms. Draper presented the final component of AMWUA's NPCCP proposal: beyond compliance. AMWUA is seeking to create voluntary "beyond compliance" opportunities to recognize utilities that go above and beyond the minimum requirements while at the same time incentivizing other utilities to expand their conservation efforts.

Ms. Draper presented this proposal to the ADWR 5MP Municipal Subgroup and ADWR is currently reviewing feedback received. AMWUA's next step will be to respond to ADWR plans for moving forward, which will be presented at the next Subgroup meeting. Lastly, she noted that AMWUA is laying the groundwork to begin focusing on the Total GPCD Program in order to provide input to ADWR.

Ms. Peters, Mr. Tenney, and Ms. Draper discussed the process a utility would follow to elect out of the Total GPCD Program and into the NPCCP.

Mr. Powers thanked Ms. Draper and the rest of AMWUA for the presentation and for staying proactive in the proposal process.

5. CAWCD Board Strategic Planning Process

Mr. Tenney gave an update about the CAWCD Strategic Plan and provided a brief background of why the plan is important. He also said the CAWCD Board is still on schedule for adopting a new strategic plan by the end of this year.

Mr. Tenney highlighted how CAWCD developed eight key result areas, which were the focus of the last stakeholder forum. He focused on two key result areas – water supply and stewardship & sustainability – that generated the most feedback from AMWUA municipalities, AMWUA staff, and other stakeholders. Mr. Tenney described the feedback included the meaning of the word "sufficient", who speaks for Arizona on Colorado River issues, how augmentation projects are funded, who benefits and how this impacts CAWCD's mission to manage the CAP canal and ensure cost-effective delivery of Colorado River

supplies. He also mentioned the importance of including recovery as an action item. Mr. Tenney emphasized that the feedback was on the need for CAWCD to focus on its mission of delivering Colorado River water to its customers.

Mr. Tenney said AMWUA is waiting to see how CAWCD incorporates stakeholder comments. The CAWCD Board is going to continue to work on the plan, then it will formally present and discuss it at the November CAWCD Board meeting, with the goal to approve it at the December meeting.

Mr. Tenney mentioned AMWUA appreciates being included in seeking input from stakeholders and hopes that AMWUA's feedback will be considered and incorporated, and anticipates AMWUA members' comments once the overall strategic plan is available for public review.

Mr. Setovich agreed that we will need to wait to see how the CAWCD Board responds to the feedback.

6. Landscaping with Style Website

Ms. Trapp gave a brief background of the previous AMWUA websites, and how Landscaping with Style (LWS) was the last website to receive an update. She then discussed the objectives of the website and showed a comparison of the old website and the new one to showcase the improvements and differences.

Ms. Trapp then went through the LWS website, demonstrating the improvements that have been made. She showcased the various pages of the new website and how they meet the objectives set out. Ms. Trapp also showed the Places page of the website, to show how AMWUA is highlighting its members and other regional demonstration gardens.

Ms. Trapp mentioned the AMWUA WHENTOWATER text service that sends out monthly messages to subscribers to educate them more on outdoor water efficiency and to also redirect them to AMWUA's websites.

Ms. Blazina and Ms. Blackmore both commented on how the new website looks fantastic.

7. AMWUA Quarterly Financial Statements – Fourth Quarter

Mr. Tenney said that in the Board meeting packet is the AMWUA Statement of Revenues and Expenses for the period July 1, 2019 through June 30, 2020, and the Statement of Net Position dated June 30, 2020. The Statements show that AMWUA is operating within its resources, is in good cash position, and completed the fiscal year \$141,533 under budget through June 30, 2020.

Upon a motion made by Mr. Johnson and a second by Ms. Marlow, the AMWUA Management Board unanimously approved the AMWUA Quarterly Financial Statements - Fourth Quarter.

C. Member Reports

Ms. Peters of Phoenix highlighted that Phoenix wants to make sure their essential water workers are showcased in their Water Heroes Program. This program includes signage and social media and other things to recognize these workers. She suggested that other cities partner with Phoenix to recognize their essential water workers. The City of Phoenix also unveiled two new different podcasts. The first one is the City Manager Weekly Podcast to broadcast to all employees. This podcast highlights the good things the employees are doing. The other podcast is done by Water Services and highlights individuals within the department. Ms. Peters also mentioned that they are highlighting their remote workers as well.

Mr. Setovich of Goodyear talked about the challenges of working from home compared to the office. He mentioned that Goodyear is reviewing its water rates and working with their citizens through a committee in this process. Mr. Setovich mentioned that they are also looking at wastewater rates and solid waste rates, along with creating a utility for their stormwater. He closed out his update by asking other members to reach out if they need help with the remote public meeting process.

D. Executive Director's Report

Mr. Tenney gave an update on how AMWUA is working with its lobbyists, Barry Aarons and Theresa Ulmer, to develop a Water 101 briefing for the legislative candidates at the end of this month. AMWUA is partnering with the Southern Arizona Water Users Association (SAWUA) and the Northern Arizona Municipal Water Users Association (NAMWUA) to give the candidates an overview about Arizona water and how AMWUA and the other associations ensure water sustainability for the state, its people and its businesses. Mr. Tenney added that AMWUA is continuing to work with the Agribusiness Council, again doing the Vetting Forum for Water this fall.

Mr. Tenney closed up his report by highlighting AMWUA's newest Program Assistant, Ricky Dodge. Mr. Dodge recently graduated from Arizona State University, and he will mostly focus on helping Ms. Draper with the Conservation and Efficiency Program. Mr. Tenney emphasized that AMWUA staff is glad he is a part of the team.

E. Future Agenda Items

No future agenda items were identified.

F. Adjournment

Upon unanimous approval, Mr. Setovich adjourned the meeting at 11:27 a.m.

MANAGEMENT BOARD

INFORMATION SUMMARY

October 14, 2020

Proposal on Reaching Safe-Yield in the Phoenix AMA

ANNUAL PLAN REFERENCE

Sustainable Water Management

Evaluate and pursue our members' contribution towards efforts and policies that will sustain and safeguard our water resources 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 including in leading the Post-2025 AMAs Committee discussions.

Demand Management & Efficiency

Continue to excel as a leader in water conservation by assisting our members to strategize demand management and to raise awareness about ongoing conservation efforts in order to enhance water resource supply sustainability

- Engage in efforts to pursue demand management best practices and policies in the 4th and 5th Management Plans, Post 2025 Committee, and with commercial, industrial and institution efficiencies.

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

At the June 10, 2020 AMWUA Management Board meeting, a presentation was given regarding AMWUA's analysis of the Arizona Department of Water Resources' (ADWR) safe-yield calculation to consider its effectiveness as a goal over the last 40 years. Safe-yield is the management goal that the Phoenix, Tucson and Prescott Active Management Areas (AMAs) aim to achieve and thereafter maintain by the end of the 5th Management Plan period.

Safe-yield means that the amount of groundwater withdrawn in an AMA should balance the amount of groundwater naturally and artificially recharged. Arizona had a long history of

pumping more groundwater in its most populated areas than the amount of water that was being recharged, which led to the passage of the Groundwater Management Act.

AMWUA's safe-yield analysis is intended to add to the ongoing conversations about safe-yield as ADWR develops the 5th Management Plan and also as the Governor's Water Augmentation, Innovation and Conservation Council is looking at groundwater management in the AMAs after 2025. The Post-2025 AMAs Committee is to consider whether safe-yield should continue to guide the AMAs in the future or if a different goal should be developed.

To further the conversation about reaching safe-yield, AMWUA has put together a proposal to encourage ADWR to explore a number of concepts that could bring the Phoenix AMA closer to safe-yield. We want to encourage ADWR to evaluate and consider the annual groundwater savings potential of each concept, and to explore which strategies could be incorporated in the Phoenix AMA's 5th Management Plan and which would require broader local stakeholder and legislative support. This proposal is primarily meant to induce an overall discussion about reducing the overdraft and to determine how willing we are collectively to take action to reduce groundwater use in the Phoenix AMA.

AMWUA staff will present an overview of the proposal to solicit feedback from the AMWUA Management Board.

RECOMMENDATION

The AMWUA Management Board is encouraged to ask questions and to discuss the proposal regarding safe-yield and consider recommending to the AMWUA Board for AMWUA to formally submit the proposal to ADWR.

MANAGEMENT BOARD

INFORMATION SUMMARY

October 14, 2020

CAWCD Strategic Planning Framework

ANNUAL PLAN REFERENCE

Finances & Water

Strategic Plan: Objectives – Minimize Financial Impacts, Prepare for Impacts of Drought & Shortage, Interconnect Disciplines; Collaboration – Central Arizona Project

Colorado River Management

Strategic Plan: Objectives – Safeguard Water Supplies; Prepare for Impacts of Drought & Shortage, Minimize Financial Impacts; Collaboration – Central Arizona Project

Achieving Safe-Yield

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 – Central Arizona Project

SUMMARY

The Central Arizona Water Conservation District (CAWCD) Board of Directors has been developing its new strategic plan throughout this year. The completed strategic plan is available now for review and will be formally presented and discussed at the November 5, 2020 CAWCD Board meeting with it most likely to be approved at the December meeting. The plan is being described as the Strategic Planning Framework, which will be in place for six years starting in 2022.

The CAWCD Board has updated its vision and mission and identified eight key result areas to focus on. These key result areas are Water Supply; Project Reliability; Power; Finance; Public Trust, Partnerships & Leadership; Groundwater Replenishment; Stewardship & Sustainability, Groundwater Replenishment; and Workforce.

AMWUA has been following the CAWCD Board Strategic Planning effort since the new strategic plan will have a direct implication for CAWCD's relationship with its municipal subcontractors.

AMWUA staff will present an overview of CAWCD's Strategic Planning Framework.

RECOMMENDATION

The AMWUA Management Board is encouraged to discuss the CAWCD Strategic Planning Framework and consider what comments, if any, should be provided regarding the document.

ATTACHMENT

- CAWCD Strategic Planning Framework

Strategic Planning Framework

> VISION

CAP serves as a collaborative partner and innovative leader in sustainable management and reliable delivery of water for Central Arizona

> MISSION

CAP's dedicated team reliably manages and delivers Colorado River water to Maricopa, Pinal, and Pima Counties

> VALUES

- **Teamwork:** Working together to reach consensus and achieve common goals
- **Safety:** Keeping coworkers and the workplace safe
- **Integrity:** Doing the right thing with consistency and dedication
- **Service:** Caring for the needs of stakeholders, coworkers, and our community
- **Professionalism:** Delivering superior results

> KEY RESULTS AREAS (KRAs)



KRA: Water Supply

Providing a reliable CAP water supply for the short- and long-term

Strategic Issues:

- Address impacts from Colorado River drought and overallocation
- Actively participate in plans and support relationships to maintain a healthy Colorado River system
- Facilitate deliveries of non-Project water through the CAP system, pursuant to the System Use Agreement
- Collaborate in the development of new water supplies and other water augmentation efforts
- Work collaboratively in the recovery of water stored by the Arizona Water Banking Authority



KRA: Project Reliability

Providing reliable and cost-effective operations, maintenance, and replacement of CAP infrastructure and technology assets

Strategic Issues:

- Implement and improve CAP's strategic asset management program to ensure long-term infrastructure viability
- Maintain and improve the security and reliability of information technology systems
- Advance focused plans to support business continuity



KRA: Power

Building a reliable, diversified, and sustainable energy portfolio

Strategic Issues:

- Address dynamic energy markets as they affect CAP power acquisitions
- Actively engage in the transmission market to ensure access to diversified, low-cost energy resources
- Take advantage of developments in energy efficiency and renewable resources, including storage
- Minimize CAP's carbon footprint, consistent with CAP's mission



KRA: Finance

Maintaining long-term financial strength to achieve CAP's goals and being prepared to address opportunities or challenges

Strategic Issues:

- Generate sufficient revenue to repay the Federal Government
- Manage capital and operations and maintenance budgets, debt, revenues, tax rates, water rates, and reserves effectively and transparently
- Solicit and incorporate input from constituents, customers, and stakeholders on rate setting, capital charges, and taxes
- Develop risk management and procurement practices to minimize financial exposure and maximize value



KRA: Public Trust, Partnerships, and Leadership

Earning and preserving public trust, building and maintaining partnerships, and providing informed water management leadership

Strategic Issues:

- Recognize the role of the elected CAP Board in balancing the competing needs among customers, taxpayers, and stakeholders
- Increase awareness of CAP and engage the general public on CAP's role in the management of Arizona's water
- Seek feedback and identify opportunities to collaborate and improve customer service
- Continue active Board and staff engagement with constituents, stakeholders, and other water entities



KRA: Groundwater Replenishment

Fulfilling CAP's groundwater replenishment responsibilities in accordance with statutory requirements

Strategic Issues:

- Responsibly meet CAP's statutory replenishment obligation
- Participate actively in dialogues regarding the resilience and long-term role of the Central Arizona Groundwater Replenishment District (CAGRDR)
- Consider the hydrologic relationship between member pumping and CAGRDR replenishment
- Ensure continued effective management, reasonable pricing, and financial viability of CAGRDR
- Enhance public outreach and education regarding the importance of water conservation and groundwater replenishment



KRA: Stewardship and Sustainability

Serving as proactive leaders in sustainability and responsible, collaborative stewards of CAP's Colorado River supply

Strategic Issues:

- Implement plans for climate change adaptation and mitigation and develop plans to address climate-related impacts
- Explore opportunities to support sound water management within CAP's jurisdiction and through partnerships
- Support the Multi-Species Conservation Plan (MSCP) and explore future opportunities related to species and habitat conservation
- Evaluate and consider the relevant environmental impacts of moving non-Project water



KRA: Workforce

Being a premier employer that attracts and retains an exceptional and diverse workforce

Strategic Issues:

- Develop recruitment strategies to best support CAP's hiring needs
- Implement programs to support building a diverse, inclusive, and representative workforce, emphasizing programs to attract Tribal candidates
- Engage in innovative professional development opportunities to enhance CAP's workforce
- Monitor CAP's workforce climate, employee well-being, and engagement and act upon identified areas needing improvement
- Review and update policies and procedures to protect CAP employees

MANAGEMENT BOARD

INFORMATION SUMMARY

October 14, 2020

AMWUA Redesignation Efforts – Physical Availability of Groundwater

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

SUMMARY

By the end of 2023, nearly every AMWUA member is required to submit an application to ADWR to renew their Designation of having a 100-year Assured Water Supply (AWS). This “Redesignation” effort is a complex regulatory process involving many of the water providers within the Phoenix metropolitan area that will likely take multiple years to complete.

Water providers seeking to renew their Designation must meet numerous criteria pursuant to the AWS regulations. One such criterion is the requirement to demonstrate the *physical availability* of each water source in the Provider’s portfolio. Applicants who seek to demonstrate the physical availability of groundwater and recovered water (including the AMWUA cities) must have their current and future pumping demands evaluated using a numerical groundwater model. AMWUA anticipates that ADWR will administer a regional groundwater modelling effort as part of the Redesignation process.

AMWUA staff has been undertaking extensive research on the regulatory requirements surrounding physical availability of groundwater so that our members have a clear understanding of what to expect in the upcoming Redesignation process. AMWUA staff will present an overview on key aspects relating to the physical availability of groundwater component of the AWS Program.

RECOMMENDATION

The AMWUA Management Board is encouraged to ask questions and discuss physical availability and its role within the Assured Water Supply Program.

MANAGEMENT BOARD
INFORMATION SUMMARY
October 14, 2020

Verde River Sedimentation Mitigation Study

ANNUAL PLAN REFERENCE

Sustainable Water Management

Evaluate and pursue our members' contribution towards efforts and policies that will sustain and safeguard our water resources and prepare for the critical water management issues beyond 2025.

- Watershed Management – Work with SRP, the Nature Conservancy and others on improving and sustaining a healthy watershed.

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 U.S. Bureau of Reclamation (Bureau) has launched an initiative in conjunction with Salt River Project (SRP) to examine opportunities to address sedimentation at Horseshoe Dam on the Verde River. SRP estimates that more than 46,000 acre-feet of the storage capacity behind Horseshoe Dam has already been lost due to sediment accumulation, with anticipated capacity losses to continue. SRP and the Bureau are concerned about the impact ongoing sediment accumulation will have on the effective management of Verde River surface water supplies.

The Verde River Sedimentation Mitigation Study (VRSMS) is a preliminary appraisal that will define the problem, consider opportunities and benefits for addressing the problem, and consider alternatives that could resolve the problem. The Bureau may pursue a feasibility study after the appraisal if any mitigation opportunities appear favorable. AMWUA staff will provide an overview on the VRSMS initiative.

RECOMMENDATION

The AMWUA Management Board is encouraged to ask questions regarding the Verde River Sedimentation Mitigation Study.

MANAGEMENT BOARD
INFORMATION SUMMARY
October 14, 2020

AMWUA Annual Financial Audit Report for Fiscal Year 2020

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, 2020 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, 2020.

Also provided is the letter addressed to the AMWUA Board of Directors, which is required to communicate various items to those charged with governance on the Association. There were no significant findings with respect to the audit.

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 2020 under budget and continues to be on a fiscally sound footing to meet the future needs of the Association.

RECOMMENDATION

Staff proposes that the AMWUA Management Board recommend that the AMWUA Board of Directors accept the audit report as presented.

ATTACHMENTS

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

October 2, 2020

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, 2020 and 2019. 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. All significant transactions have been recognized in the financial statements in the proper period.

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.
- The assumptions used in the actuarial valuations of the pension 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 financial statements taken as a whole.

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes the misstatements that we identified as a result of our audit procedures that were brought to the attention of, and corrected by management.

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

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 have also issued the following document related to this audit.

- 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
 ADJUSTING JOURNAL ENTRIES
 JUNE 30, 2020

W/P Reference	AJE #	Description	Account Code	DR	CR
1650	AJE #1	To recognize revenue related to the budget carryover applied to member assessments in FY21.	Unearned revenue	120,533	
			Member assessment revenue		120,533

April 28, 2020

Board of Directors and Management
Arizona Municipal Water Users Association
3003 N. Central Ave. Suite 1550
Phoenix, AZ 85012-2901

We are pleased to confirm our understanding of the services we are to provide for Arizona Municipal Water Users Association (Association) for the year ended June 30, 2020. We encourage you to read this letter carefully as it includes important information regarding the services we will be providing to the Association. If there are any questions on the content of the letter, or the services we will be providing, we would welcome the opportunity to meet with you to discuss this information further.

We will audit the financial statements including the related notes to the financial statements, of Arizona Municipal Water Users Association as of and for the year ended June 30, 2020.

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI) to supplement the Association's financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Association's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements.

We will 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. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis
2. GASB-required pension schedules

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We will also report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements taken as a whole. Our responsibility in the expression of opinions is to plan and perform the audit to obtain reasonable assurance, but not absolute assurance, that the financial statements are free from material misstatements.

An important aspect to our expression of an opinion on the financial statements is understanding the concept of materiality. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. In this context, it is reasonable for us to assume that users –

1. have a reasonable knowledge of business and economic activities and accounting principles, and a willingness to study the information in the financial statements with reasonable diligence;
2. understand that financial statements are prepared, presented, and audited to levels of materiality;
3. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
4. make reasonable economic decisions on the basis of the information in the financial statements.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the Association and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of the Association's financial statements. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance will include a paragraph that states (1) the purpose of the report is solely to describe the scope of 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 on compliance and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that the Association is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all of the Association's transactions for the period. 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 will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Association or to acts by management or employees acting on behalf of the Association.

Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in the financial statements nor do they expect auditors provide reasonable assurance of detecting waste or abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts. Our procedures will also include, as deemed necessary, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

At the conclusion of our audit, we will require certain written representations from you about the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the Association and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Association's compliance with applicable laws, regulations, contracts, agreements, and grants. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Management Responsibilities

Management is responsible for the financial statements and all accompanying information as well as all representations contained therein. Management is responsible for (1) designing, implementing, establishing and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; and (3) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information for which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under *Government Auditing Standards*, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the Association from whom we determine it necessary to obtain audit evidence.

Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements of each opinion unit taken as a whole.

Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the Association involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from employees, former employees, grantors, regulators, or others.

Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we report. In addition, you are responsible for identifying and ensuring that the Association complies with applicable laws, regulations, contracts, agreements and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements that we may report.

Management is also responsible for the preparation of the supplementary information, which we have been engaged to report on, in conformity with accounting principles generally accepted in the United States of America. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Your responsibilities include acknowledging to us in a written representation letter that (1) you are responsible for presentation of supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all transactions for the period.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit in May 2020 and conclude audit procedures and date our report in November 2020.

Use of Third-Party Service Providers

We maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. We may, depending on the circumstances, use third-party service providers in providing our professional services. The following service providers may be utilized in the completion of our engagement:

- Capital Confirmation, Inc. – electronic bank and account balance confirmation service
- Wolters Kluwer – web-based application service to transfer files
- Harvest Investments, Ltd. – investment portfolio valuation service

You hereby consent and authorize us to use the above service providers, if deemed necessary, to complete the professional services outlined in this letter.

Engagement Administration, Fees and Other

Brittney Williams is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

We will provide copies of our reports to the Association; however, management is responsible for distribution of the reports and the financial statements.

The audit documentation for this engagement is the property of Heinfeld, Meech & Co., P.C. and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation will be made available upon request to governmental agencies pursuant to authority given to them by law or regulation. We will notify you of any such request. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five (5) years after the report release date, or for any additional period requested by a regulator, cognizant agency, oversight agency for audit, or pass-through entity. Upon expiration of the five year period, or any additional period, we will commence the process of destroying the contents of our engagement files.

In the event we are required to respond to a subpoena, court order or other legal process for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this engagement, you agree to compensate us at our hourly rates, for the time we expend in connection with such response, and to reimburse us for all of our out-of-pocket costs incurred in that regard.

Any disagreement, controversy, or claim (“dispute”) that may arise from any aspect of our services, including this engagement or any prior engagement, will be submitted to mediation. The parties will engage in the mediation process in good faith once a written request to mediate has been given by any party. Any mediation initiated as a result of this engagement shall be administered by The American Arbitration Association, according to its mediation rules before resorting to litigation. The results of any such mediation shall be binding only upon agreement of each party to be bound. Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally.

The nature of our services makes it difficult, with the passage of time, to gather and present evidence that fully and fairly establishes the facts underlying any dispute that may arise between us. The parties agree that, notwithstanding any statute or law of limitations that might otherwise apply to a dispute, including one arising out of this agreement or the services performed under this agreement, for breach of contract or fiduciary duty, tort, fraud, misrepresentation or any other cause of action or remedy, any action or legal proceeding by you against us must be commenced within twenty-four (24) months (“limitation period”) after the date when we deliver our final audit report under this agreement to you, regardless of whether we do other services for you relating to the audit report, or you shall be forever barred from commencing a lawsuit or obtaining any legal or equitable relief or recovery. The limitation period applies and begins to run even if you have not suffered any damage or loss, or have not become aware of the existence or possible existence of a dispute.

Professional standards prohibit auditors from agreeing to indemnify attest clients for damages, losses or costs arising from lawsuits, claims or settlements that relate, directly or indirectly, to the client’s acts. As such, professional standards will prevail for indemnification clauses included in audit contracts. In addition, we are unable to obtain waivers on our professional liability insurance policy for certain provisions, including indemnification provisions, provisions requiring the firm to name the Association as an additional insured party, and a waiver of subrogation rights.

Professional standards require us to be independent with respect to you in the performance of these services. Any discussion that you have with our personnel regarding potential employment with you could impair our independence with respect to this engagement. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence and objectivity. Further, any employment offers to any staff members working on this engagement without our prior knowledge may require substantial additional procedures to ensure our independence. You will be responsible for any additional costs incurred to perform these procedures.

Our fee for these services will be at the amount outlined in our proposal. We exercised care in estimating the fee and believe it accurately indicates the scope of the work. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

The above fees are based on anticipated cooperation from your personnel, timely receipt of information, and the assumption that unexpected circumstances will not be encountered during the audit, including factors beyond our control, such as new accounting pronouncements or legal requirements, additional consultation, and assistance in correcting errors in your financial records. We will plan the engagement based on the assumption that your personnel will prepare and provide us with the items listed in our request for audit information, including preparing requested schedules, retrieving supporting documents, and preparing confirmations. If, for whatever reason, your personnel are unavailable to provide the necessary assistance in a timely manner, it may substantially increase the work we have to do to complete the engagement within the established deadlines, resulting in an increase in fees over our original fee estimate. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Additional fees incurred will be billed at the following hourly rates: Partner - \$257; Manager - \$190; Senior - \$154; Staff - \$108.

If any term or provision of this agreement is determined to be invalid or unenforceable, such term or provision will be deemed stricken, and all other terms and provisions will remain in full force and effect.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2018 peer review report accompanies this letter.

We appreciate the opportunity to be of service to Arizona Municipal Water Users Association and believe that this letter accurately summarizes the significant terms of our engagement. Please feel free to contact us at any time if you have questions or concerns. If you have any questions regarding this letter, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Heinfeld Meech & Co. PC

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

cc: Warren Tenney, Executive Director

RESPONSE

This letter correctly sets forth the understanding of Arizona Municipal Water Users Association.

Printed Name: Warren Tenney

Title: Executive Director

Signature: *Warren Tenney*
Warren Tenney (Apr 29, 2020)

Date: Apr 29, 2020

Grant Bennett Associates

A PROFESSIONAL CORPORATION

Report on the Firm's System of Quality Control

August 16, 2018

To the Shareholders of Heinfeld, Meech & Co., P. C. and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. (the firm) in effect for the year ended May 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

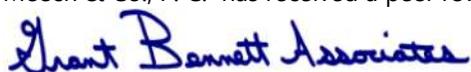
Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. in effect for the year ended May 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Heinfeld, Meech & Co., P. C. has received a peer review rating of *pass*.



GRANT BENNETT ASSOCIATES
A PROFESSIONAL CORPORATION
Certified Public Accountants



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Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of Arizona Municipal Water Users Association (AMWUA), which comprise the respective financial positions as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows for the periods then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

Arizona Municipal Water Users Association

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and responses.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which AMWUA is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within AMWUA from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects AMWUA and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting AMWUA's financial statements communicated by employees, former employees, grantors, regulators, or others.
15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of AMWUA's related parties and all the related party relationships and transactions of which we are aware.

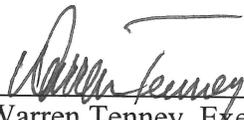
Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. AMWUA has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. AMWUA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. AMWUA has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. All funds that meet the quantitative criteria for presentation as a major fund are identified and presented as such and all other funds that are presented as a major fund are particularly important to financial statement users.
35. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
36. Investments are properly valued.
37. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
38. All payroll information and the individual employment data have been properly submitted to the state retirement system, and the employer contributions have been properly submitted to the retirement system.
39. Revenues and expenses have been appropriately classified in or allocated to functions and programs on the statement of revenues, expenses and changes in net position, and allocations have been made on a reasonable basis.

40. Internal and intra-entity activity and balances have been appropriately classified and reported.
41. Special and extraordinary items, if any, are appropriately classified and reported.
42. Deposits and investment securities are properly classified as to risk and are properly disclosed.
43. Capital assets and intangible assets are properly capitalized, reported, and, if applicable, depreciated or amortized.
44. We have appropriately disclosed AMWUA's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
45. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
46. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
47. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

We understand that at the conclusion of the audit Heinfeld, Meech & Co, P.C. will submit to the Board of Directors a communication to those charged with governance that will include a copy of this representation letter and a copy of the engagement letter.



Warren Tenney, Executive Director
Arizona Municipal Water Users Association

9/30/20

Date



Ned Blum, Consultant
Arizona Municipal Water Users Association

9/30/20

Date



Arizona Municipal Water Users Association
Phoenix, Arizona
Financial Statements
June 30, 2020 and 2019

Arizona Municipal Water Users Association
Phoenix, Arizona

Financial Statements
June 30, 2020 and June 30, 2019

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
JUNE 30, 2020 AND 2019**

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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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the AMWUA's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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, 2020 and 2019, 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, 2019. Our report dated October 21, 2019 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, 2019, 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 September 30, 2020, 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

September 30, 2020

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2020 AND 2019**

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, 2020 and 2019.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Total net position for AMWUA equaled \$177,202 at June 30, 2020, and \$28,223 at June 30, 2019 increasing by \$148,979 for fiscal year 2020 and increasing by \$106,487 for fiscal year 2019. 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 2020 revenues assessed to the member cities totaled \$1,466,853 which represents a \$67,838 increase from fiscal year 2019. For fiscal year 2019 revenues assessed to the member cities totaled \$1,399,015 which represents a \$62,619 increase from fiscal year 2018. 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 2020 ASSESSMENTS BY CITY

<u>CITY</u>	<u>ASSESSMENT</u>	<u>PERCENTAGE</u>
Phoenix	\$457,491	31.19
Mesa	177,890	12.13
Scottsdale	126,335	8.61
Glendale	118,318	8.07
Tempe	125,146	8.53
Chandler	108,009	7.36
Gilbert	106,402	7.25
Peoria	93,091	6.35
Avondale	76,908	5.24
Goodyear	<u>77,263</u>	<u>5.27</u>
	\$1,466,853	100.00

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	\$781,053	\$744,506	\$717,956
Employee Benefits	154,700	92,103	149,469
Professional Services	182,500	174,300	174,300
Occupancy	199,450	195,706	178,312
Travel and Training	13,250	5,879	5,560
Capital Outlay	10,950	11,314	11,314
Office Operating Expenses	34,950	33,677	32,440
Water Conservation	<u>90,000</u>	<u>192,059</u>	<u>192,059</u>
	\$1,466,853	\$1,449,544	\$1,461,410

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2020 AND 2019

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 \$63,097. Employee Benefits, which includes payroll taxes, payroll processing, medical, dental, and disability insurance; and cell phone allowance was under budget by \$5,231. AMWUA experienced an employee change early in Fiscal Year 2020. 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 \$8,200.

Occupancy costs include building lease, building operating expenses; and telephone and internet charges. The actual was under budget by \$21,138. The building had an adjustment to the CAM charges that accounted for the savings

The actual for Travel and Training was under budget by \$7,690, mostly due to Covid-19 restrictions on travel and gatherings.

Capital Outlay includes the copier lease and money spent on computer software and hardware upgrades. The expenditures for this line item was over budget by \$364.

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 \$2,510.

Water Conservation had total expenditures of \$152,059 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 2020 and expenses incurred for reimbursable publications.

There was also \$40,000 incurred in regards to the Water Loss Training Program which began in Fiscal Year 2020, a contract between AMWUA and ADWR.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2020 AND 2019

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>2020</u>	<u>2019</u>	<u>2018</u>
Current Assets	\$1,120,607	\$964,272	\$952,297
Net capital assets	16,815	13,816	8,621
Deferred outflows	<u>105,458</u>	<u>179,980</u>	<u>184,285</u>
Total assets and deferred outflows of resources	\$1,242,880	\$1,158,068	\$1,145,203
Current Liabilities	\$118,067	\$146,600	\$174,482
Net Pension Liability	857,064	874,444	937,799
Deferred Inflow	90,547	108,801	111,186
Net investment in capital assets	16,815	13,816	8,621
Unrestricted	<u>160,387</u>	<u>14,407</u>	<u>(86,885)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,242,880</u>	<u>\$1,158,068</u>	<u>\$1,145,203</u>

- ◆ Current assets increased by \$156,335 in 2020 and increased \$11,975 in 2019. 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 \$2,999 during fiscal year 2020 and increased by \$5,195 during fiscal year 2019. Capital assets consist of office furniture, equipment, and certain leasehold improvements. AMWUA capitalized \$7,707 expenditure for the purchase of laptops and monitors. 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 2020.
- ◆ Current Liabilities decreased by \$28,533 in 2020 and decreased by \$27,882 in 2019. 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, 2020 AND 2019

- ◆ 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 \$148,979 to \$177,202 in Fiscal Year 2020 and increased by \$106,487 to \$28,223 in Fiscal Year 2019. The current year change was primarily due to savings in personnel and benefits due to position vacancies.

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, 2020, the balance of the Reserve Fund is \$251,140. 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, 2020 AND 2019

Summary of Changes in Net Position

	Years ended June 30		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues			
Annual assessments	\$1,481,174	\$1,416,278	\$1,354,313
Other	<u>115,017</u>	<u>82,775</u>	<u>51,001</u>
Total operating revenues	<u>1,596,191</u>	<u>1,499,053</u>	<u>1,405,314</u>
Operating expenses	<u>1,461,410</u>	<u>1,412,400</u>	<u>1,255,200</u>
Nonoperating revenues/(expenses)			
Interest on investments	<u>14,197</u>	<u>19,834</u>	<u>11,416</u>
Total nonoperating revenues	14,197	19,834	11,416
Increase in net position	148,979	106,487	161,530
Net position, July 1	<u>28,223</u>	<u>(78,264)</u>	<u>(239,794)</u>
Net position, June 30	<u>\$177,202</u>	<u>\$28,223</u>	<u>\$(78,264)</u>

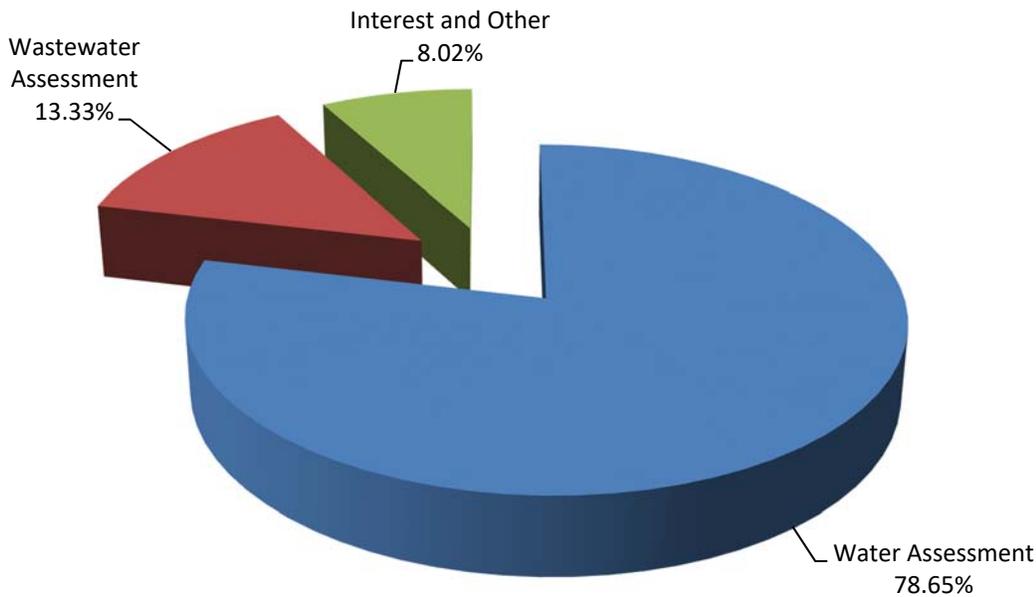
- ◆ Actual annual assessments billed to the cities increased by \$64,896 in 2020 and increased by \$61,965 in 2019. The Summary of Changes in Net Position shown above reflects different changes in assessments for fiscal year 2019 due to funds encumbered in 2019 to be spent in fiscal year 2020.
- ◆ Other revenues increased \$32,242 in 2020. Other revenues include deferred income recognized related to the lease moving allowance, the reimbursement of Conservation Brochures printed on behalf of member municipalities and ADWR revenue in regards to the Water Loss Training Program.
- ◆ Total operating expenses increased by \$49,010 in 2020 and increased by \$157,200 in 2019.
- ◆ Nonoperating revenues decreased by \$5,637 in 2020 and increased by \$8,418 in 2019. Non operating revenues consist of interest on investments.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2020 AND 2019

Operating Revenues

AMWUA's revenue is primarily (91.98%) generated by water and wastewater assessments from member cities. For fiscal year 2020, of the \$1,481,174 in revenue recognized from annual assessments, \$1,266,561 represents water assessments, with the remaining \$214,613 representing wastewater assessments. The following chart shows the sources and the percentage of all revenue by category for the fiscal year ended June 30, 2020.

Revenues Summary
for Fiscal Year Ended June 30, 2020
Total = \$1,610,388

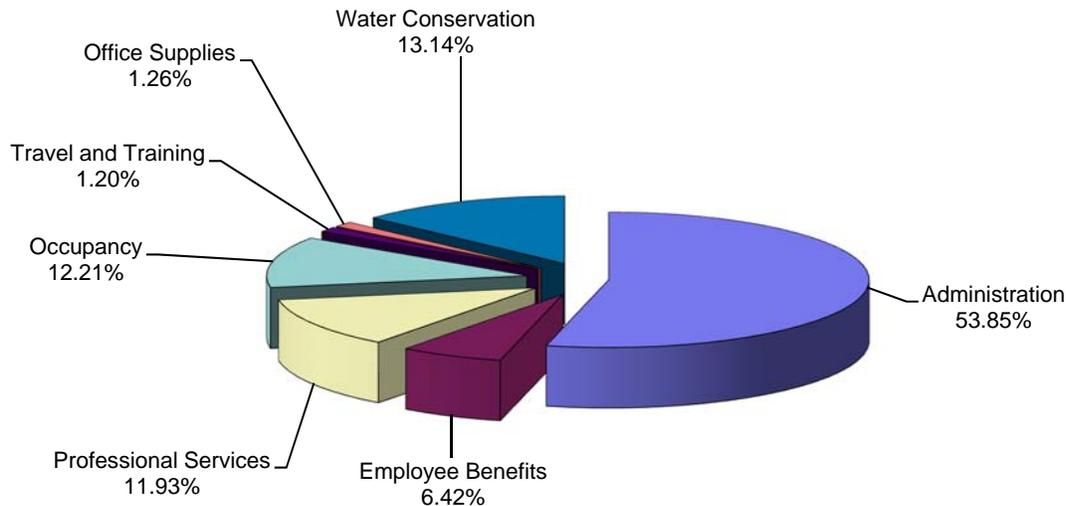


ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2020 AND 2019

Operating Expenses

The following chart shows AMWUA's operating expenses by category for the year ended June 30, 2020.

Expenses Summary
for Fiscal Year Ended June 30, 2020
Total = \$1,461,410



AMWUA's Capital Assets

	Years ended June 30		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Property and Equipment	\$185,937	\$178,230	\$170,292
Leasehold improvements	52,665	52,665	52,665
Less accumulated depreciation and amortization	<u>(221,787)</u>	<u>(217,080)</u>	<u>(214,336)</u>
Net property and equipment	<u>\$ 16,815</u>	<u>\$ 13,815</u>	<u>\$ 8,621</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 \$3,000 during fiscal year 2020 and increased by \$5,194 during fiscal year 2019.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2020 AND 2019

Long-term Debt

AMWUA has no long-term debt.

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 June 2020, the AMWUA Board of Directors approved the Fiscal Year 2021 Budget. The fiscal year 2021 Budget decreased by 1.4% over the fiscal year 2020 budget. The actual assessments to the members are being reduced proportionately by \$120,533, due to savings recognized during FY 20. After thoughtful consideration, the Fiscal Year 2021 Budget does not have any reductions due to the Covid-19 Pandemic. There is no reduction of headcount or benefits, and normal operating expenses remained mostly flat to FY 2020 budget with the expectation that Pre-Covid normal operations may return. If that is not the case, AMWUA should see savings in some operational lines items next year.

The Association is in the ninth year of a 10-year lease, which will expire in March 2021. AMWUA has entered into a new 10 year lease, to remain in the current space they occupy.

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, 2020 AND 2019**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 250,796	\$ 106,797
Investments	851,140	837,529
Prepaid expenses and other assets	18,671	19,946
	1,120,607	964,272
Total current assets	1,120,607	964,272
CAPITAL ASSETS, NET	16,815	13,816
TOTAL ASSETS	1,137,422	978,088
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan items	105,458	179,980
	105,458	179,980
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,242,880	\$ 1,158,068

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 3,178	\$ 3,177
Accrued expenses	34,546	34,041
Compensated absences payable	68,515	78,243
Unearned revenue	11,828	31,139
	118,067	146,600
Total current liabilities	118,067	146,600
NONCURRENT LIABILITIES		
Net Pension Liability	857,064	874,444
	857,064	874,444
TOTAL LIABILITIES	975,131	1,021,044
DEFERRED INFLOWS OF RESOURCES		
Pension plan items	90,547	108,801
	90,547	108,801
NET POSITION		
Net investment in capital assets	16,815	13,816
Unrestricted	160,387	14,407
	177,202	28,223
Total net position	177,202	28,223
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,242,880	\$ 1,158,068

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Annual assessments	\$ 1,481,174	\$ 1,416,278
Other	115,017	82,775
Total operating revenues	1,596,191	1,499,053
 OPERATING EXPENSES		
Salaries	773,666	710,136
Benefits	93,759	86,164
Occupancy costs	178,387	188,637
Legal and accounting	122,000	123,400
Temporary services	47,500	67,500
Water conservation	192,059	183,102
Printing and duplicating	6,664	6,473
Consulting services	4,800	4,800
Depreciation and amortization	4,707	2,744
Travel and meetings	6,210	11,760
Office supplies	14,049	8,955
Subscription and reference materials	2,618	1,247
Postage and shipping	1,749	1,557
General business insurance	1,110	4,056
Dues	835	1,373
Conferences	9,465	10,266
Training	1,830	230
Total operating expenses	1,461,410	1,412,400
Operating income	134,781	86,653
 NON-OPERATING REVENUES		
Interest on investments	14,197	19,834
Total non-operating revenues	14,197	19,834
 CHANGE IN NET POSITION	148,979	106,488
 NET POSITION, BEGINNING OF YEAR	28,223	(78,264)
 NET POSITION, END OF YEAR	\$ 177,202	\$ 28,224

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM/(USED FOR) OPERATING ACTIVITIES		
Cash received from members and customers	\$ 1,579,380	\$ 1,517,231
Cash paid to employees	(838,265)	(843,258)
Cash paid to suppliers and vendors	(589,995)	(633,663)
	<u>151,120</u>	<u>40,310</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(7,707)	(7,938)
	<u>(7,707)</u>	<u>(7,938)</u>
CASH FLOWS FROM/(USED FOR) INVESTING ACTIVITIES		
Purchases of investments		(116,000)
Interest on investments	586	523
	<u>586</u>	<u>(115,477)</u>
Net cash provided by/(used for) investing activities	<u>586</u>	<u>(115,477)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	143,999	(83,105)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>106,797</u>	<u>189,902</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 250,796</u>	<u>\$ 106,797</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income	\$ 134,781	\$ 86,653
Adjustments:		
Depreciation and amortization	4,707	2,743
(Increase) decrease in assets		
Prepaid expenses and other current assets	1,276	40,231
Increase (decrease) in liabilities		
Accounts payable	1	(35)
Accrued expenses	(9,224)	(5,593)
Pension plan items	38,888	(61,435)
Unearned revenue	(19,311)	(22,254)
	<u>(19,311)</u>	<u>(22,254)</u>
Net cash provided by/(used for) operating activities	<u>\$ 151,120</u>	<u>\$ 40,310</u>

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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, 2020 AND 2019

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, 2020, the balance of the Reserve Fund is \$251,140. 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, 2020 AND 2019**

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, 2020, \$97,477 was uninsured and uncollateralized. AMWUA also had petty cash of \$500 at June 30, 2020 and 2019.

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, 2020 and 2019.

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

The LGIP is primarily invested in commercial paper and government agency notes, with lesser investments in repurchase agreements and corporate notes. AMWUA’s funds are invested in Pool 5 with the LGIP which is rated AA Af/S1+ by Standard and Poor’s and had a weighted average maturity of 47 days and 37 days at June 30, 2020 and 2019, respectively. The maximum weighted average maturity permitted for the LGIP is 90 days.

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

	2020	2019
Cash and cash equivalents	\$ 250,796	\$ 106,797
Investments in LGIP	851,140	837,529
Total cash and investments	\$ 1,101,936	\$ 944,326

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 – CAPITAL ASSETS

Capital assets at June 30, 2020, consist of the following:

<u>Capital Assets</u>	Beginning Balance July 1, 2019	Increase	Decrease	Ending Balance June 30, 2020
Capital assets:				
Furniture and equipment	\$ 178,230	\$ 7,707	\$	\$ 185,937
Leasehold improvements	52,665			52,665
Total depreciable assets	<u>230,895</u>	<u>7,707</u>		<u>238,602</u>
Less accumulated depreciation:				
Furniture and equipment	(165,662)	(3,997)		(169,659)
Leasehold improvements	(51,417)	(710)		(52,127)
Total accumulated depreciation and amortization	<u>(217,079)</u>	<u>(4,707)</u>		<u>(221,787)</u>
Capital assets, net of accumulated depreciation and amortization	<u>\$ 13,816</u>	<u>\$ 2,999</u>	<u>\$</u>	<u>\$ 16,815</u>

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

<u>Capital Assets</u>	Beginning Balance July 1, 2018	Increase	Decrease	Ending Balance June 30, 2019
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>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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, 2020 and 2019, is \$3,327 and \$8,318, 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, 2020 and 2019 is \$11,596 and \$28,990, respectively in deferred rent related to the lease.

Total lease expense was \$159,938 and \$161,147 for the years ended June 30, 2020 and 2019, respectively, and is included in occupancy costs on the statements of revenues, expenses and changes in net position.

Effective March 2020, AMWUA entered into a new lease for the same location which expires September 2031. The new lease provides for an abatement of rent from April 1, 2021 through September 30, 2021 during the Work Construction period where the Landlord will be refurbishing the space.

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

<u>Year Ending June 30:</u>	
2021	\$ 129,642
2022	151,653
2023	198,540
2024	195,431
2025	199,460
2026-2030	1,057,744
2031-2032	<u>280,554</u>
Total future minimum lease payments	<u>\$ 2,213,024</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 5 – ANNUAL ASSESSMENTS

AMWUA assesses membership dues based upon operating costs for the year. During fiscal year 2020, 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 2020 and 2019.

	2020	2019
Voting members:		
City of Chandler*	\$ 108,009	\$ 102,032
City of Glendale	118,318	112,936
City of Mesa	177,890	169,928
City of Peoria*	93,091	87,682
City of Phoenix	457,493	440,426
City of Scottsdale	126,335	120,811
City of Tempe	125,146	119,639
Town of Gilbert*	106,402	100,117
City of Goodyear*	77,263	72,707
City of Avondale*	76,908	72,736
Total annual assessments	\$ 1,466,855	\$ 1,399,015

*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, 2020 AND 2019

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. Additionally, the ASRS provides a health insurance premium benefit (OPEB) plan and sponsors medical and dental coverage for retired members. AMWUA made monthly retirement contributions into the ASRS at the rate of 11.94 percent and 11.34 percent of the participants' annual salaries in 2020 and 2019, 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 2020 and 2019. 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, 2020 AND 2019**

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, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at www.azasrs.gov.

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

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%
	*With actuarially reduced benefits	

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 9 – PENSIONS

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 12.11 percent (11.94 percent for retirement and 0.17 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 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members' annual covered payroll.

AMWUA's contributions related to the ASRS were \$67,109 and \$69,500 for the years ended June 30, 2020 and 2019, respectively. AMWUA funded 100 percent of its annual required contribution to the ASRS for the years ended June 30, 2020 and 2019.

Pension Liability. The net pension liability was measured as of June 30, 2019. The total pension liability of \$857,064 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, 2018, to the measurement date of June 30, 2019. 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, 2019. AMWUA's proportionate share remained the same as the prior year.

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, 2020, AMWUA recognized pension expense of \$105,993 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	\$	\$ 161
Changes of assumptions or other inputs	3,623	34,130
Net difference between projected and actual earnings on pension plan investments	15,483	19,264
Changes in proportion and differences between contributions and proportionate share of contributions	19,243	36,992
Contributions subsequent to the measurement date	67,109	
Total	<u>\$ 105,458</u>	<u>\$ 90,547</u>

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 9 – PENSIONS

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, 2021. 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:	
2021	\$ (13,305)
2022	(40,353)
2023	(3,699)
2024	5,159

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

	Pension
Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected 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, 2018 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.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 9 – PENSIONS

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%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	20%	5.85%
Total	100%	

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents AMWUA’s proportionate share of the net pension liability calculated using the discount rate of 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability	\$1,219,800	\$ 857,064	\$ 553,909

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 FIVE FISCAL YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Measurement date	June 30, 2019	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%	0.01%
AMWUA's proportionate share of the net pension liability (asset)	\$ 857,064	\$ 874,444	\$ 937,799	\$ 873,228	\$ 924,728
AMWUA's covered payroll	\$ 621,646	\$ 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	137.87%	138.69%	159.91%	172.33%	160.50%
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.00%	69.92%	67.06%	68.35%

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 67,109	\$ 69,500	\$ 68,727	\$ 63,218	\$ 54,980
Contributions in relation to the actuarially determined contribution	<u>67,109</u>	<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>
AMWUA's covered payroll	\$ 586,096	\$ 621,646	\$ 630,523	\$ 586,438	\$ 506,728
Contributions as a percentage of covered payroll	11.45%	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.

See accompanying notes to the schedules

**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, 2018, 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, 2020, and the related notes to the financial statements, which collectively comprise Arizona Municipal Water Users Association's financial statements, and have issued our report thereon dated September 30, 2020.

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
September 30, 2020