



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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION BOARD OF DIRECTORS

MEETING NOTICE AND AGENDA

Thursday, December 2, 2021 – 1:00 p.m.

***This meeting will be held as a Hybrid meeting.
Only AMWUA Board members may attend in person; Others are to join via Zoom.***

Access this [Link](#) to join. Meeting ID: 892 5803 0664
(Option to join by phone: 602-753-0140, 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 October 28, 2021 Meeting
2. Schedule Next Meeting Date: Thursday, January 27, 2022, 11:00 a.m.
3. Colorado River Shortage Update
4. Outdoor Water Initiatives
5. Governor's Water Augmentation Innovation & Conservation Council
6. Update on CAWCD's Finance, Audit and Power Committee
7. AMWUA Annual Financial Audit Report for Fiscal Year 2021
8. AMWUA Fiscal Year 2022 Quarterly Financial Statements – First Quarter
9. Recommendation for 2022 AMWUA Board Officers

C. Executive Director's Report

D. Future Agenda Items

E. Adjournment

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



**BOARD OF DIRECTORS
MEETING MINUTES
October 28, 2021
HYBRID – IN PERSON & ZOOM TELECONFERENCE**

VOTING MEMBERS PRESENT

Councilmember Kevin Thompson, Mesa, President
Councilmember Bart Turner, Glendale, Vice President
Councilmember René Lopez, Chandler, Secretary-Treasurer
Councilmember Scott Anderson, Gilbert
Councilmember Bridget Binsbacher, Peoria
Councilmember Doreen Garlid, Tempe
Councilmember Sheri Lauritano, Goodyear
Councilmember Curtis Nielson, Avondale
Councilwoman Ann O'Brien, Phoenix
Mayor David Ortega, Scottsdale

OTHERS PRESENT

| | | |
|----------------------------------|-------------------------------|-----------------------------|
| Barry Aarons, The Aarons Co. | Sam Draper, AMWUA | Terry, Piekarz, Tempe |
| Patrick J. Adams, AMWUA | Gretchen Erwin, Goodyear | Marshall Pimentel, Avondale |
| Alexis Apodaca, Chandler | Paulette Fenderson, Phoenix | Diana Pina, AMWUA |
| Amy Arguilez, Gilbert | Kathy Ferris, AMWUA | Cape Powers, Peoria |
| Michelle Barclay, AMWUA | Brett Fleck, Peoria | Richard Siegel, SRP |
| Gretchen Baumgardner, Scottsdale | Lisa Gray, CliftonLarsonAllen | Warren Tenney, AMWUA |
| Kirk Beaty, Avondale | Lauren Hixson, Gilbert | Thomas Throssell, CAP |
| Anthony Beckham, SRP | Simone Kjolsrud, Chandler | Sheri Trapp, AMWUA |
| Craig Caggiano, Tempe | Kathy Macdonald, Mesa | Theresa Ulmer, AMWUA |
| Cynthia Campbell, Phoenix | Jessica Newland, CAP | Austin Walker, AMWUA |
| Gregg Capps, Chandler | Penny Parrella, Peoria | Tammi Watson, CAP |
| Ray Diaz, Goodyear | Jacob Perez Laurent, AMWUA | |

A. Call to Order

Councilmember Thompson called the meeting to order at 11:00 a.m. He noted that the majority of the Board was meeting in person at the AMWUA office with everyone else attending via Zoom.

B. General Business – Items for Discussion and Possible Action

1. Approval of the Minutes from the September 23, 2021 Meeting

Upon a motion made by Councilmember Garlid and a second from Mayor Ortega, the AMWUA Board of Directors unanimously approved the September 23rd meeting minutes.

2. Schedule Next Meeting Date: Thursday, December 2, 2021, 1:00 p.m.

3. Colorado River Shortage Update

Patrick Adams, Water Policy Advisor, reported that Lakes Powell and Mead sit around 1/3 full entering into Water Year 2022. Last month, the Bureau of Reclamation released updated hydrologic forecasts for Colorado River system conditions over the next 5 years, projecting a high likelihood of consistent shortage conditions over this period. These new forecasts from Reclamation utilize more conservative hydrologic assumptions in their modeling that acknowledges drier climate impacts observed over the past few decades. These results project that it is almost certain there will be shortage conditions each year through 2026, with the continually increasing probability of a declared Tier 3 shortage in 2025.

The latest 24-month study shows that if runoff into Lake Powell next spring is less than 5 MAF, or half of average, elevations will dip below critical thresholds including the minimum elevation where power can be generated. These runoff volumes drive Lake Powell's elevation, which in turn determine what volume of water will be released into Lake Mead over the course of the year. These projected scenarios depict that a runoff inflow 1.5x the average into Lake Powell would still leave Lake Mead in a Tier 1 shortage after release. An average runoff scenario would likely drop Lake Mead elevations into a Tier 2 condition in 2023, and worst-case scenarios of less than half the average runoff could see a Tier 3 condition in 2023.

The Lower Basin has worked extensively to develop Colorado River system conservation programs and water use reductions to help stabilize Lake Mead. Since 2014, Arizona water users alone have conserved over 1.4 MAF of water in Lake Mead. In 2022, Arizona water users will leave over 20% of the entire state's Colorado River apportionment to sustain Lake Mead, including DCP contributions, system conservation, and the Tier 1 shortage cutback. Regional efforts have also been enacted, including a project to conserve 160,000 AF of water at Palo Verde Irrigation District over three years – jointly funded by CAWCD, California stakeholders, and Reclamation. However, more is needed to prevent the increasing likelihood of deeper shortage conditions in the near future, and it must be addressed Basin-wide. Lower Basin stakeholders are meeting to identify what actions can be taken to slow down declines in Lake Mead, and Upper Basin stakeholders are having similar discussions. AMWUA anticipates that more details about these projects will be announced before the end of the year.

Councilmember Garlid asked when implementations would be taken into effect by municipalities if a proposal is introduced in December. Mr. Adams reported that system conservation contribution increases could take place from 2022 to 2026, and the desire is to implement any additional proposals quickly.

Councilmember Turner commented that significant work has been put into storing water into underground basins and members may have an immediate need for infrastructure that can recover that stored water. Councilmember Lopez added that this process would also need to include treatment of the recovered water. Councilmember Lauritano added that if augmentation projects are long-term projects, they will require planning to begin very soon if the projects will see any benefits when needed in the future. Mr. Tenney responded that the Lower Basin States and Mexico are having continued discussions surrounding augmentation projects.

4. 2022 AMWUA Legislative Agenda

Mr. Tenney reported that the 2022 Legislative Session will begin shortly and he provided information regarding the AMWUA legislative process for this upcoming session. AMWUA's legislative policy follows key principles, including supporting the 1980 Groundwater Management Act and Safe-yield, opposing groundwater mining, and protecting local government's management of their own water resources. AMWUA staff can take positions and advocate on legislation that remains consistent with these policies, pending formal action by the Board of Directors.

The AMWUA 2022 Legislative Agenda highlights the focus areas for the upcoming sessions and lays out AMWUA's positions on different water-related subjects. AMWUA members can also reference this agenda when approaching their own legislative efforts. AMWUA staff reports legislative updates and provides recommended positions to both the Management Board and Board of Directors that are consistent with the 2015 Board Policy. Another part of the process is utilizing the input of both the WRAG and InterGovs on breaking developments. In addition, AMWUA staff produces analysis and presentations for relevant legislative proposals throughout the entire legislative process.

For the upcoming 2022 legislative session, AMWUA's Agenda will focus on five areas: Arizona Water Management, Arizona State Agencies, Colorado River Water, Water Efficiency & Conservation, and Water Quality. All areas of focus align with AMWUA's Legislative Policy and aim to protect and support the water management of all members. Regarding Arizona State Agencies, one key proposal recommended for 2022 is changing or removing the population threshold needed for a municipality to access WIFA funds. Removing the threshold would make WIFA a more accessible financing tool for municipal water providers, especially with anticipated federal infrastructure spending. Mayor Ortega voiced his support for this legislative action regarding WIFA.

Upon a motion made by Mayor Ortega and a second from Councilmember Lopez, the AMWUA Board of Directors approved of the 2022 AMWUA Legislative Agenda.

Mr. Tenney reported that the CAP staff will be recommending to its Board an extension of the 4-cent water storage tax. The water storage tax was scheduled to be reduced from 4-cents to 3-cents in 2025 to then expire in 2030. CAP would like to extend the tax to 4-cents until 2044, the year CAP federal repayment is completed. This extension of the tax has raised questions among water resources advisors, such as the specifics of how the 4-cent tax will be used when there is \$85 million currently unused from this tax. Since the water storage tax has been used to store water with the Water Banking Authority, there are suggestions that the legislation should clarify

that this tax be used for water recovery as well. The WRAG has met and will continue to meet with CAP staff for discussions regarding this tax.

Councilmember Lopez asked if CAP has addressed the use of the accrued monies from the 4-cent tax, since the purpose of using it to buy and store excess water may not be possible during projected times of shortage. Mr. Tenney responded that the statutes dictate this tax may be used for federal repayment and operations & maintenance as well as supplying the AWBA with funds to store water. The inquiries being posed to CAP are how exactly will these funds be used in federal repayment or operations & maintenance to directly benefit taxpayers and that if these funds are allocated for storing water, then these funds should also be used for recovery of water. At the moment, the statute does not require CAP to allocate funds for recovery. While CAP states that portions of the 10-cent ad valorem tax may be used for recovery, water managers would like it clarified that the 4-cent tax can be used for recovery. Both of these taxes give the CAP flexibility in their financing options.

Councilmember Turner asked if the structure of the federal repayment loan prevents finishing the repayment process early. Mr. Tenney believed that it would be impossible to repay the CAP loan earlier than 2044.

Mr. Aarons reported that there are a large number of Legislators that are leaving the Legislature, which will be reflected in both 2022 and 2023. Mr. Aarons reiterated the need to remove the population requirements for WIFA and it is being worked on within the Legislature. Mr. Aarons also reported that the first Vetting Forum for Water for the upcoming legislative session occurred with over 100 participants attending, among them a dozen legislators. Several legislators spoke about several possible legislative actions they are considering for the coming year, as well as multiple InterGov presentations.

Councilmember Binsbacher voiced her support in the Legislative Agenda and prompted all members to continue advocating for additional funding for water projects to prepare for the future.

5. AMI Presentation

Mr. Adams gave a brief overview on Advanced Metering Infrastructure, or AMI, and the current steps being taken by AMWUA members to implement this infrastructure into their water utility service area. He then introduced Tarja Nummela, Customer Service Manager, and Steve White, Municipal Utilities Business Manager, of the City of Tempe to give more details regarding Tempe's AMI implementation and data findings from the last two years.

Ms. Nummela reported that there were multiple drivers for the City of Tempe to convert to AMI, such as improving existing utility infrastructure, connecting water utility data directly to customers, and enabling future water utility management strategies from the collected AMI data. These were only a few drivers that prompted the City of Tempe to begin project implementation in 2015, with final infrastructure installation being completed in 2019. For the last two years, the City of Tempe has optimized and maintained the AMI system with 100% of all billable reads coming from this fixed network. Mr. White reported that the City of Tempe had spent \$15 million over the five years of project implementation, with 89% of the costs being reflected in infrastructure replacements of hardware that is already routine in the utility's maintenance.

Ms. Nummela reported that with AMI, utility customers are able to access their water usage data being measured. In addition, the technology can notify customers of leaks or irregular events in their water usage. For the municipality, the conversion from manual meter reading to the AMI network has increased monitoring and maintenance efficiencies for utility employees while reducing in-field reading times and travel costs. Mr. White expanded on municipal benefits of AMI, notably the transparency of data that influences water rate development. The City of Tempe receives hourly readings from the AMI network and the data provides much stronger accurate insight on water usage, expanding the annual number of data points from 12 to 8,760 for each customer. This data can drive management strategies surrounding the revenue requirements for specific customer classifications and for establishing rate structures and tier pricing.

Councilmember Turner asked if part of implementation requires physically replacing every existing water meter toward AMI. Ms. Nummela responded that some replacements made for AMI implementation were only for the register of system and not the entire meter itself, depending on the condition of the existing infrastructure. Councilmember Lopez asked if the AMI hardware within Tempe is flow-powered or battery-powered. Ms. Nummela responded that they are flow-powered, but the hardware always contains a backup battery.

6. Nominating Committee for AMWUA Board Officers

Councilmember Thompson announced that Councilwoman O'Brien, Councilmember Binsbacher and himself would be the Nominating Committee to consider the AMWUA Board Officers in 2022. Any interested councilmembers will submit a letter to AMWUA Executive Director, Warren Tenney, who will then pass the nomination to the Committee.

C. Executive Director's Report

Mr. Tenney reported that the AMWUA Board Officers have recently met with CAP Board Officers as an opportunity to increase CAP Board understanding of municipalities' water responsibilities. Councilmember Thompson added that the conversations with CAP were positive and AMWUA members were able to provide municipal perspectives towards water management.

Mr. Tenney reported the City of Scottsdale Water has recently celebrated 50 years as a utility.

D. Future Agenda Items

E. Adjournment

Councilmember Thompson adjourned the meeting at 12:58 p.m.

BOARD OF DIRECTORS
INFORMATION SUMMARY
December 2, 2021

Colorado River Shortage Update

ANNUAL PLAN REFERENCE

Colorado River Management & Shortage Preparation

Assist, monitor and coordinate on the impacts of shortage declarations on the Colorado River along with the Reconsultation of the 2007 Colorado River Interim Guidelines to ensure our members' interests are forefront.

- Ongoing Coordination – Pursue opportunities to assist and synchronize continuing preparation efforts such as identifying ways to strengthen members' drought (shortage) preparedness plans.
- Risks – Analyze long-term risks of shortages to our members
Strategic Plan: Facilitate our Strength in Numbers, Collaborate and Advocate for Solutions, Safeguard Water Supplies, Prepare for Impacts of Drought & Shortage, Minimize Financial Impacts

SUMMARY

AMWUA staff will give an update regarding current Colorado River conditions and shortage-related developments including the Lower Basin States' plan to keep Lake Mead from falling below elevation 1,020 feet between now and 2026.

RECOMMENDATION

AMWUA staff is requesting that the AMWUA Board of Directors ask questions and discuss the Colorado River conditions and shortage.

BOARD OF DIRECTORS
INFORMATION SUMMARY
December 2, 2021

Outdoor Water Initiatives

ANNUAL PLAN REFERENCE

Demand Management & Efficiency

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

- Increase outdoor water efficiency including efforts to research and develop outdoor water efficiency standards.

Strategic Plan: Facilitate our Strength in Numbers, Collaborate and Advocate for Solutions, Safeguard Water Supplies, Strengthen Groundwater Management, Prepare for Impacts of Post-2025 Water Policy, Minimize Financial Impact, Interconnect Disciplines

SUMMARY

At the September 23rd AMWUA Board of Directors meeting, AMWUA staff gave a presentation about opportunities to build upon our outdoor water conservation efforts through model ordinance concepts. AMWUA has since worked with the Conservation & Efficiency Advisory Group (CEAG) and the Water Resources Advisory Group (WRAG) to draft a package of six model ordinance concepts. These concepts include WaterSense® smart irrigation controller requirements, non-functional grass limitations, consistent conservation requirements for new water features, pressure-regulating sprinkler heads and pressure-compensating drip emitters, separate landscape metering, and alignment of water waste definitions. AMWUA staff will give a presentation detailing the proposed water conservation ordinance concepts.

The objective of this effort is for each AMWUA member to individually pursue these concepts, which will make a positive regional impact. It is understood that implementing ordinances is not easy and each AMWUA municipality has its own process for development, adoption, and implementation. It is hoped that members of the AMWUA Board of Directors would champion these initiatives, which could generate positive momentum, knowing that other cities are also considering them.

RECOMMENDATION

The AMWUA Management Board recommends that the AMWUA Board of Directors approve having these water conservation ordinance concepts forwarded to each AMWUA municipality for consideration.

SUGGESTED MOTION

I move that the AMWUA Board of Directors approve forwarding these water conservation ordinance concepts to each AMWUA municipality for implementation consideration.

ATTACHMENT

- AMWUA Water Conservation Ordinance Concept Papers



Water Conservation Ordinance Concept: WaterSense® Smart Irrigation Controller

December 2, 2021

CONCEPT

Require the installation and maintenance of U.S. Environmental Protection Agency (EPA) WaterSense®, or equivalent, labeled weather-based smart irrigation controllers in permanent irrigation systems for new commercial, industrial, and institutional developments, and common areas of residential developments.

This requirement can be incorporated into existing municipal plan review processes.

Individual municipalities may decide to expand this requirement to also target new model homes, as well as existing commercial, industrial, and institutional developments, and common areas of residential developments at the point of resale, and/or during renovations exceeding a predetermined threshold by the municipality.

WATER SAVINGS

- The Town of Gilbert's Water Efficient Technology Incentive (WETI) Program ran a Homeowners Association (HOA) Smart Controller Pilot Program. Across the Pilot Program's 19 sites with one year pre-installation consumption data and one-year post-installation consumption data, Gilbert found a savings of 4,169,000 gallons of water or 18%.ⁱ
- Tests by the Irrigation Association and the International Center for Water Technology at California State University in Fresno have shown smart irrigation controllers save up to 20% more water than traditional irrigation controllers.ⁱⁱ
- Smart irrigation controllers are an established water conservation technology. Seven out of ten AMWUA members currently offer rebates, incentives, or programs for smart irrigation controllers for residential and non-residential customers.

COMPARABLE ORDINANCES AND EXAMPLES

- Ordinances requiring an EPA WaterSense® Controller are an established water conservation measure. On August 3, 2021, the Town of Gilbert adopted ordinances requiring EPA WaterSense® controllers for new single-family and multi-family development common areas, model homes, and non-residential developments.ⁱⁱⁱ

- Municipalities in California^{iv} and Texas^v have also established ordinances with smart irrigation controller requirements. Further, the 2021 International Green Construction Code^{vi} prescribes qualifying EPA WaterSense® weather-based irrigation controllers be installed where any irrigation system for a project site uses an automatic controller.

ⁱ “Water Efficient Technology Program: A Targeted Approach,” presented by Town of Gilbert, Arizona at WaterSmart Innovations 2019, <https://ceregportal.com/wsi/documents/sessions/2019/T-1920.pdf>

ⁱⁱ “Smart Irrigation Controllers,” Salt River Project (SRP), <https://www.srpnet.com/water/smartirrigation.aspx>.

ⁱⁱⁱ Town of Gilbert, Arizona, Ordinance No. 2807,

https://library.municode.com/az/gilbert/ordinances/code_of_ordinances?nodeId=1100347

^{iv} Santa Cruz, California, Municipal Code Section 16.16.070(f)

<https://www.codepublishing.com/CA/SantaCruz/html/SantaCruz16/SantaCruz1616.html>

^v Little Elm, Texas, Municipal Code Sec. 102-319.,

https://library.municode.com/tx/little_elm/codes/code_of_ordinances?nodeId=PTIICOOR_CH102UT_ARTVIWACO_S102-319ENWACOST

^{vi} 2021 International Green Construction Code, Section 601.3.1.2.2,

<https://codes.iccsafe.org/content/IGCC2021P1/chapter-6-water-use-efficiency>



Water Conservation Ordinance Concept: Non-functional Grass Limitations

December 2, 2021

CONCEPT

Prohibit the installation of non-functional turfgrass areas in new commercial, industrial, and institutional developments, and common areas of residential developments.

Non-functional turfgrass shall be defined as:

- Grass areas with any single dimension of eight (8) feet or less.
- Grass areas exceeding a 4:1, or twenty-five percent (25%), slope.
- Grass areas that are not accessible by paved pathways and/or are restricted by physical barriers that prohibit accessibility.
- Grass areas installed closer than ten (10) feet to a street and/or in front entryways to residential neighborhoods or subdivisions where other recreational amenities do not exist.
- Grass areas that are not utilized for active or programmed recreational purposes and/or for drainage conveyances, storm basins, or erosion control.

This requirement can be incorporated into existing municipal landscape plan review processes.

WATER SAVINGS

- The average conversion to a xeriscape can save 50% or more on outdoor water use.ⁱ Limiting grass from the point of installation rather than retrofitting landscapes in the future saves water and money for customers from the beginning.
- These non-functional grass areas should be prohibited because due to their size, they cannot be irrigated properly without creating run-off and water waste, and they cannot be utilized as recreation areas. Additionally, overspray is common with narrow strips wasting water with off target irrigation.

COMPARABLE ORDINANCES AND EXAMPLES

- Nevada Assembly Bill No. 356, prohibits (with exceptions) Colorado River water distributed by Southern Nevada Water Authority (SNWA) to be used to irrigate non-functional turf on any property that is not zoned exclusively for Single-Family Residential (SFR) on and after January 1, 2027 and requires the SNWA Board of Directors to define non-functional and functional turf and develop a plan to identify and facilitate the

removal of non-functional turf within SNWA's service area on non-SFR property before December 31, 2026.ⁱⁱ

- The City of North Las Vegas, Nevada has clear restrictions for installing new turf that limit the size, location and slope of the area as well as requiring water-efficient turf species be utilized.ⁱⁱⁱ
- In Arizona, landscaping in irrigated public medians and rights-of-way has been restricted to low-water-use plants identified in Regulatory Plant Lists specific to each Active Management Area (AMA), effectively banning the installation of grass in public medians and rights-of-ways since the 1980s.^{iv} These Regulatory Plant Lists have largely been incorporated into AMWUA municipalities' ordinances and design standards to provide guidance on appropriate, low-water-use plant materials.
- The 2021 International Green Construction Code prohibits the installation of irrigation sprinklers for prescribed, narrow landscape dimensions.^v
- The Seven Principles of Xeriscaping, which AMWUA and its members have been promoting for over 20 years, specifically reference the use of appropriate turf areas.^{vi}

ⁱ"Good Reasons to Take Out Your Grass," AMWUA, https://www.amwua.org/resource_documents/turf_removal-english.pdf

ⁱⁱState of Nevada, Assembly Bill No. 356, https://www.leg.state.nv.us/Session/81st2021/Bills/AB/AB356_R1.pdf

ⁱⁱⁱCity of North Las Vegas, Nevada, Municipal Code Section 13.08.060, https://library.municode.com/nv/north_las_vegas/codes/code_of_ordinances?nodeId=TIT13PUSE_CH13.08WACO

^{iv}"First Management Plan for the Phoenix Active Management Area," Arizona Department of Water Resources, <http://infoshare.azwater.gov/docushare/dsweb/Get/Document-10006/1MP%201980-1990%20Dec.1984.pdf>

^v2021 International Green Construction Code, Section 601.3.1.2.1.(f), <https://codes.iccsafe.org/content/IGCC2021P1/chapter-6-water-use-efficiency>

^{vi}"Landscaping with Style," AMWUA, <https://www.amwua.org/landscaping-with-style>



Water Conservation Ordinance Concept: Conservation Requirements on New Water Features

December 2, 2021

CONCEPT

Prescribe conservation requirements on new ornamental water features for commercial, institutional, and industrial users, and for common areas of residential developments.

Individual municipalities may decide to adopt any or all the following conservation requirements. Further, individual municipalities may decide to exempt certain water features and customers based on their community. This ordinance concept could also be expanded to target existing ornamental water features at commercial, industrial, and institutional developments, and common areas of residential developments at the point of resale, and/or during renovations exceeding a predetermined threshold by the municipality.

Potential conservation requirements:

- The spray from a water feature shall be limited to six (6) feet in height from the base of the water column.
- The water feature's location must:
 - Allow for significant environmental enhancement to on-site users, by cooling the surrounding area and/or by masking objectionable noises. (Allowable examples: courtyards, restaurant seating areas, and oasis areas.)
 - Not be visible from the street and be outside of city rights-of-way.
- The water feature must be:
 - Designed and installed with hardware and materials that will minimize leakage throughout the life of the water feature.
 - Designed and installed with catch basins that will maximize the amount of water recycled and minimize make up water.
 - Designed and installed with a reduced pressure principle backflow prevention assembly as per the current standard detail adopted by the individual municipality.
 - Designed to reuse filtered backwash in a manner beneficial to surrounding plant material and landscaped areas.
 - Equipped with wind shut-off valves to reduce over-spray.
 - Equipped with a recirculating pump.
 - Installed with a separate billing meter from the provider, if using more than five hundred (500) gallons of water per day.
 - Equipped with an automatic shut-off timer.
 - Regularly maintained and checked for leaks.

- Water features shall only be operated during normal business hours.
- The total surface area of the water feature(s) shall not exceed 1% of the net site area of the development.

This requirement can be incorporated into existing municipal plan review processes.

WATER SAVINGS

- The majority of AMWUA members have municipal codes that contain some limitation on water features to increase conservation. This is an opportunity to enhance all AMWUA members' ordinances while creating consistency across the service areas which is helpful in communication with customers, especially businesses that have locations in multiple cities.
- The Arizona Department of Water Resources' (ADWR) Non-Per Capita Conservation Program's Appendix of Best Management Practices has specified ordinances limiting water features or requiring conservation measures for water features in the Third Management Planⁱ, Fourth Management Planⁱⁱ, and draft Fifth Management Planⁱⁱⁱ.

COMPARABLE ORDINANCES AND EXAMPLES

- The City of Scottsdale, Arizona^{iv} and the Town of Gilbert, Arizona^v have comprehensive and conservation-oriented water feature ordinances.
- The City of Las Vegas, Nevada has an ordinance prohibiting fountains and water features on properties serviced by Southern Nevada Water Authority and lists exceptions to the exclusion.^{vi}
- The Town of Payson, Arizona prohibits new water features larger than five hundred (500) gallons capacity.^{vii}
- The City of Tucson, Arizona restricts the total surface area of water features to a percentage of the net site area.^{viii}

ⁱ "Third Management Plan for the Phoenix Active Management Area, Second Order of Modifications," ADWR, <http://infoshare.azwater.gov/docushare/dsweb/Get/Document-10040/MOD%202000-2010.May%202008.pdf>

ⁱⁱ "Fourth Management Plan for the Phoenix Active Management Area," ADWR, https://new.azwater.gov/sites/default/files/media/FULL%20FINAL%20PHX%204MP_1.pdf

ⁱⁱⁱ "Fifth Management Plan for the Phoenix Active Management Area, Draft Appendix 5C," ADWR, https://new.azwater.gov/sites/default/files/media/2021-04-02_DRAFT5MP_Municipal_Appendix5C.pdf

^{iv}City of Scottsdale, Arizona, Municipal Code Sec. 49-242.,
https://library.municode.com/az/scottsdale/codes/code_of_ordinances?nodeId=VOLII_CH49WASESEDI_ARTVIIWA_CO_DIV1WACO_S49-242LIWAFECOUSNEINUSCOARREDE

^vTown of Gilbert, Arizona, Municipal Code Sec. 66-355.,
https://library.municode.com/az/gilbert/codes/code_of_ordinances?nodeId=CO_CH66UTOP_ARTVIIIWACO_DIV1_GE_S66-355LINEWAFE

^{vi}City of Las Vegas, Nevada, Municipal Code Section 14.11.190,
https://library.municode.com/nv/las_vegas/codes/code_of_ordinances?nodeId=TIT14PUSE_CH14.11DRPL_14.11.190PONTAWAUTROXC

^{vii}Town of Payson, Arizona, Municipal Code Section §50.63,
https://codelibrary.amlegal.com/codes/payson/latest/payson_az/0-0-0-31097

^{viii}City of Tucson, Arizona, Municipal Code Section 7.6.6.(D)(1)(c),
https://codelibrary.amlegal.com/codes/tucson/latest/tucson_az_udc/0-0-0-6086



Water Conservation Ordinance Concept: Pressure-Regulating Sprinkler Heads & Pressure-Compensating Drip Emitters

December 2, 2021

CONCEPT

Require the installation and maintenance of the following irrigation system components in permanent irrigation systems for new commercial, industrial, and institutional developments, and common areas of residential developments:

- Sprinkler heads must contain an integral pressure regulator
- Drip irrigation emitters must contain built-in pressure compensation

This requirement can be incorporated into existing municipal plan review processes.

WATER SAVINGS

- The Irrigation Association includes pressure-compensated emission devices as a best management practice to manage landscape water resources.ⁱ
- Pressure-regulating sprinkler heads and pressure-compensating drip irrigation emitters aid in proper landscape watering by creating more even water distribution which lends to a healthier landscape while reducing water waste caused by high-pressure misting.ⁱⁱ

COMPARABLE ORDINANCES AND EXAMPLES

- All AMWUA members have ordinances in place that prohibit the waste of water; many include the overspray or run-off water from permanent irrigation systems as a specified violation. Many AMWUA members also have ordinances and guidelines in place that require efficient irrigation systems. Requiring the installation and maintenance of sprinkler heads with an integral pressure regulator and drip irrigation emitters with built-in pressure compensation aligns with existing policies as they reduce water waste and increase irrigation efficiency.
- Several states have taken the approach to enforce pressure-regulating sprinkler heads at the point of sale rather than at the point of installation.
 - Colorado House Bill 19-1231 includes a provision that, “applies to spray sprinkler bodies sold as new in Colorado, stating that they ‘must include an integral

pressure regulator and meet EPA WaterSense® specifications—unless they are specifically excluded from the scope of WaterSense specification.”ⁱⁱⁱ

- Several other states have laws prohibiting spray sprinkler bodies from the point of sale if they do not meet WaterSense®, or equivalent program, standards. For example, the California State law prescribes, “spray sprinkler bodies sold or offered for sale in California are required to use the WaterSense test procedure (Version 1.0, September 21, 2017) and must meet state standards (California Code of Regulations, Title 20, section 1605.3(x)(1)(A)).”^{iv}

ⁱ “Landscape Irrigation Best Management Practices,” Irrigation Association, May 2014, <https://www.irrigation.org/IA/FileUploads/IA/Advocacy/Landscape-Irrigation-BMP.pdf>

ⁱⁱ “WaterSense® Specification for Spray Sprinkler Bodies Supporting Statement,” U.S. EPA WaterSense®, September 21, 2017, <https://www.epa.gov/sites/default/files/2017-09/documents/ws-products-support-statement-ssb.pdf>

ⁱⁱⁱ “New State Law Requires Water-Efficient Sprinklers,” Southwest Metropolitan Water and Sanitation District, July 23, 2019, <https://swmetrowater.org/new-state-law-requires-water-efficient-sprinklers/>

^{iv} “Spray Sprinkler Bodies Frequently Asked Questions,” California Energy Commission, <https://www.energy.ca.gov/programs-and-topics/programs/appliance-efficiency-program-outreach-and-education/spray-sprinkler>



Water Conservation Ordinance Concept: Separate Landscape Metering

December 2, 2021

CONCEPT

Require the installation of separate landscape/irrigation water meters in new commercial, industrial, and institutional developments, as well as common areas of new residential developments with irrigated landscape areas greater than 10,000 square feet.

This requirement can be incorporated into existing municipal plan review processes.

WATER SAVINGS

- Separate landscape/water irrigation meters provide accurate measurements of outdoor water use. These measurements allow for leaks to be more easily identified and for more targeted conservation strategies to be implemented to maximize water savings.
- Separate landscape/water irrigation meters empower customers with information about their outdoor water use so they can make behavioral changes. This information also empowers utilities to manage outdoor water use more effectively by greatly assisting in administering targeted conservation programs and other demand management strategies.
- Example: The Town of Gilbert administers a Landscape Water Budgeting Program for Homeowners Associations (HOAs), and commercial and multifamily customers that utilizes actual outdoor water use data and site-specific landscape information to create customized landscape water budgets for each participating customer. According to the Town, “in 2019, 290 participants partnered with Gilbert Water Conservation and saved over 188 million gallons of water. This equates to \$381,000 in avoided excess water costs for these sites.”ⁱ

COMPARABLE ORDINANCES AND EXAMPLES

- The City of Scottsdale, Arizona requires a separate meter for, “the watering of any landscaped area or areas of a development which, in total, are over five (5) acres in size...”ⁱⁱ
- The City of Phoenix, Arizona requires a separate meter for, “landscape watering of all landscape areas greater than 10,000 square feet.”ⁱⁱⁱ

- AMWUA members that utilize reclaimed water in their portfolios have ordinances that require separate metering for reclaimed water which is utilized for landscape purposes. For example, the Town of Gilbert requires a separate meter for reclaimed water which is utilized for landscape purposes. “All premises using reclaimed water obtained from the town must be equipped with an adequate meter installed and paid for by the consumer. A meter shall be installed in a location that will be of easy access and have an accuracy of plus or minus five percent. All meters shall register actual flow and totalize all flows.”^{iv}
- The City of Rio Vista, California requires landscape separate meters without landscapeable area parameters. “In all new commercial development subject to the provisions of this chapter, a separate water meter shall be required for the purpose of landscaping. A separate water meter shall also be required for common areas associated with new residential condominiums and planned unit developments.”^v

ⁱ “Landscape Water Budgeting Program,” Town of Gilbert, Arizona, <https://www.gilbertaz.gov/departments/public-works/water-conservation/commercial/homeowner-associations>

ⁱⁱ City of Scottsdale, Arizona, Municipal Code Sec. 49-32., https://library.municode.com/az/scottsdale/codes/code_of_ordinances?nodeId=VOLII_CH49WASESEDI_ARTIIMU_WASY_DIV1GE_S49-32SEME

ⁱⁱⁱ City of Phoenix, Arizona, Municipal Code Sec. 37-53., <https://phoenix.municipal.codes/CC/37-53>

^{iv} Town of Gilbert, Arizona, Municipal Code Sec. 66-144., https://library.municode.com/az/gilbert/codes/code_of_ordinances?nodeId=CO_CH66UTOP_ARTVREWASE_S66-144MEINRETE

^v City of Rio Vista, California, Ordinance No. 643, Sec. 17.68.090., <https://verderiver.org/wp-content/uploads/2017/06/rio-vista-water-conservation-landscape-ordinance.pdf>



Water Conservation Ordinance Concept: Alignment of Water Waste Definitions

December 2, 2021

CONCEPT

Align and enhance water waste definitions across AMWUA membership.

Water waste specifically includes but is not limited to the following:

- Water not put to beneficial use;
- Any use of water in excess of that reasonably necessary to accomplish the intended task;
- Willfully or negligently permitting or causing the escape or flow of water, such as into the public right of way in such quantity as to cause flooding, to impede vehicular or pedestrian traffic, to create a hazardous condition for such traffic, or to cause damage to the public streets or alleys of the Municipality through the failure or neglect to operate or maintain properly any water facility or device, including, but not limited to, swimming pools, architectural pools, spas, water features, sprinklers, hoses, pipes, ditches, standpipes, berms, valves and gates.

WATER SAVINGS

- All AMWUA members have municipal codes that prohibit water waste. This is an opportunity to strengthen all AMWUA members' ordinances while creating consistency across the service areas which is helpful in communication with customers, especially businesses that have locations in multiple cities. Further, water waste enforcement is included in Drought Preparedness Plans. More consistent definitions could assist with Drought Preparedness Plan implementation.
- AMWUA members utilize water waste occurrences as an outreach opportunity that has additional indirect water savings beyond resolving the water waste. For example, if a property manager contacts a municipality about water waste, staff will inform them of other programs available to help save water that the property manager may decide to leverage across all their properties.
- The Arizona Department of Water Resources' (ADWR) Non-Per Capita Conservation Program's Appendix of Best Management Practices has specified water waste prohibition ordinances for residential or non-residential properties in the Third Management Planⁱ, Fourth Management Planⁱⁱ, and draft Fifth Management Planⁱⁱⁱ.

COMPARABLE ORDINANCES AND EXAMPLES

- All AMWUA members have municipal codes that prohibit water waste.
- ADWR published a document, “Developing Ordinances to Prohibit Outdoor Water Waste,” which provides further guidance and validation.^{iv}

ⁱ “Third Management Plan for the Phoenix Active Management Area, Second Order of Modifications,” ADWR, <http://infoshare.azwater.gov/docushare/dsweb/Get/Document-10040/MOD%202000-2010.May%202008.pdf>

ⁱⁱ “Fourth Management Plan for the Phoenix Active Management Area,” ADWR, https://new.azwater.gov/sites/default/files/media/FULL%20FINAL%20PHX%204MP_1.pdf

ⁱⁱⁱ “Fifth Management Plan for the Phoenix Active Management Area, Draft Appendix 5C,” ADWR, https://new.azwater.gov/sites/default/files/media/2021-04-02_DRAFT5MP_Municipal_Appendix5C.pdf

^{iv} “Developing Ordinances to Prohibit Outdoor Water Waste,” ADWR, https://new.azwater.gov/sites/default/files/media/Waste_Ordinance_2018_1.pdf



BOARD OF DIRECTORS
INFORMATION SUMMARY
December 2, 2021

Governor's Water Augmentation Innovation & Conservation Council

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.
- Post-2025 – Lead discussions in the Post-2025 AMAs Committee toward developing strategies and solutions to address issues associated with the AMA management structure, unreplenished groundwater withdrawals, the hydrologic disconnect, Assured Water Supply Program, the CAGR, and exempt wells.

Strategic Plan: Facilitate our Strength in Numbers, Educate – Excel as an Expert and Resource, Collaborate and Advocate for Solutions, Safeguard Water Supplies, Strengthen Groundwater Management, Prepare for Impacts of Drought & Shortage, Pursue Post-2025 Water Policy, Interconnect Disciplines

SUMMARY

The purpose of this agenda item is to provide an update regarding activities related to the Governor's Water Council and its committees, particularly the Post-2025 AMAs Committee.

RECOMMENDATION

The AMWUA Board of Directors is encouraged to ask questions and discuss the update presented regarding the Governor's Water Council.

BOARD OF DIRECTORS
INFORMATION SUMMARY
December 2, 2021

Update on CAWCD's Finance, Audit and Power Committee

ANNUAL PLAN REFERENCE

Finances & Water

Examine, analyze and influence water positions and policies that impact our members' finances.

- CAWCD – Decisions regarding the use of property tax revenue, use of rate stabilization funds, recovery infrastructure financing, costs of System Use Agreement water quality requirements, and costs of shortage-related programs.

Strategic Plan: Collaborate and Advocate for Solutions, Safeguard Water Supplies, Prepare for Impacts of Drought & Shortage, Minimize Financial Impacts

SUMMARY

Over the past four months, the Central Arizona Water Conservation District (CAWCD) Finance, Audit, and Power (FAP) Committee has conducted a series of informational presentations to review CAWCD's financial authorities and policies. This initiative arose after several Board debates on the use of CAWCD's taxing authority that included a minority opinion seeking to reduce the District's annual tax levy.

Starting in August, the FAP Committee began reviewing CAWCD's authorities and requirements for its tax levy and rate setting. CAWCD staff also hired an external consultant to conduct a review on CAWCD's taxing authority and the statewide economic impact of the CAP. In September, the FAP Committee reviewed a list prepared by staff of major investments needed for the CAP system and augmentation initiatives. CAP Staff recommended that the Board establish a \$274 million Extraordinary Cost Reserve target to fund these projects using tax receipts instead of solely relying on water delivery rates. For the final discussion in November, the FAP Committee reviewed CAP's water delivery rate components and rate setting process. Representatives from AMWUA, Scottsdale, Peoria, Tucson and Surprise were also invited to present to the Committee about the impact of CAP costs on the finances of municipal utilities.

AMWUA staff will present a high-level overview of the discussions and outcomes of these recent FAP Committee meetings.

RECOMMENDATION

The AMWUA Board of Directors is requested to discuss and ask questions regarding CAWCD's finances.

BOARD OF DIRECTORS
INFORMATION SUMMARY
December 2, 2021

AMWUA Annual Financial Audit Report for Fiscal Year 2021

ANNUAL PLAN REFERENCE

Day-to-Day Operations

Maintain the daily operations of an effective organization and the services members rely on.

- AMWUA will continue to wisely manage its financial resources and effectively develop its personnel as an agile team with organizational depth.

Strategic Plan: Facilitate our Strength in Numbers, Educate - Excel as an Expert and Resource

SUMMARY

The AMWUA Annual Financial Audit Report for the fiscal year ending June 30, 2021 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, 2021.

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, which means AMWUA's finances are in good standing.

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 2021 under budget and continues to be on a fiscally sound footing to meet the future needs of the Association.

RECOMMENDATION

The AMWUA Management Board recommends to the AMWUA Board of Directors acceptance of the audit report as presented.

SUGGESTED MOTION

I move that the AMWUA Board of Directors accept the AMWUA Annual Financial Audit Report for Fiscal Year 2021.

ATTACHMENTS

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

October 15, 2021

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, 2021 and 2020. 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 new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by AMWUA during the year 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 those expected.

The most sensitive estimates affecting the financial statements were:

- 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 plan are based on historical trends and industry standards.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

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

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

Disagreements with Management

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

Management Representations

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

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to 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.

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.

Other Matters

A paragraph has been included in the Auditor's Report to draw attention to the comparative presentation of the financial statements.

Compliance with Ethics Requirements Regarding Independence

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

Responsibility for Fraud

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

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

Additional Reports Issued

In addition to the auditor’s report on the financial statements we will also issue the following documents related to this audit. These reports are typically issued within 60 days of the date of this letter.

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

Other Important Communications Related to the Audit

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

Restriction on Use

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

Very truly yours,

Heinfeld Meech & Co. PC

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

Fraud Prevention Checklist

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

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

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

2. Is an effective fraud reporting mechanism in place?

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

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

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

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



Arizona Municipal Water Users Association
Phoenix, Arizona
Financial Statements
June 30, 2021 and 2020

Arizona Municipal Water Users Association
Phoenix, Arizona

Financial Statements
June 30, 2021 and June 30, 2020

Issued by:
Finance Department

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
JUNE 30, 2021 AND 2020**

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Independent Auditor's Report

Board of Directors
Arizona Municipal Water Users Association

Report on Audit of Financial Statements

Opinions

We have audited the accompanying financial statements of the Arizona Municipal Water Users Association, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise of AMWUA's financial statements as listed in the table of contents.

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, 2021 and 2020, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Arizona Municipal Water Users Association, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Municipal Water Users Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arizona Municipal Water Users Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Municipal Water Users Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Comparative Information

We have previously audited the Arizona Municipal Water Users Association's financial statements for the fiscal year ended June 30, 2020. Our report dated September 30, 2020 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, 2020, 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2021, on our consideration of the Arizona Municipal Water Users Association 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.
Scottsdale, Arizona
October 12, 2021

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2021 AND 2020**

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, 2021 and 2020.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Total net position for AMWUA equaled \$203,466 at June 30, 2021, and \$177,202 at June 30, 2020 increasing by \$26,264 for fiscal year 2021 and increasing by \$148,979 for fiscal year 2020. 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 2021 revenues assessed to the member cities totaled \$1,324,803 which represents a \$142,050 decrease from fiscal year 2020, including a carryover credit of \$121,533. For fiscal year 2020 revenues assessed to the member cities totaled \$1,466,853 which represents a \$67,838 increase from fiscal year 2019. 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 2021 ASSESSMENTS BY CITY

| <u>CITY</u> | <u>ASSESSMENT</u> | <u>PERCENTAGE</u> |
|-------------|-------------------|-------------------|
| Phoenix | \$416,537 | 31.44 |
| Mesa | 161,172 | 12.17 |
| Scottsdale | 114,126 | 8.61 |
| Glendale | 106,222 | 8.02 |
| Tempe | 114,072 | 8.61 |
| Chandler | 96,332 | 7.27 |
| Gilbert | 95,205 | 7.19 |
| Peoria | 83,172 | 6.28 |
| Avondale | 68,658 | 5.18 |
| Goodyear | <u>69,307</u> | <u>5.23</u> |
| | \$1,324,803 | 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 | \$755,087 | \$745,807 | \$790,149 |
| Employee Benefits | 178,000 | 158,415 | 99,845 |
| Professional Services | 189,000 | 180,800 | 180,800 |
| Occupancy | 191,500 | 113,690 | 145,985 |
| Travel and Training | 14,000 | 857 | 2,457 |
| Capital Outlay | 14,000 | 9,236 | 9,236 |
| Office Operating Expenses | 34,750 | 20,272 | 21,678 |
| Water Conservation | <u>255,000</u> | <u>263,244</u> | <u>256,945</u> |
| | \$1,631,337 | \$1,492,321 | \$1,507,095 |

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, 2021 AND 2020

OVERVIEW OF OPERATING EXPENDITURES

Expenditures for Administration include salaries and pension-funding payments to the Arizona State Retirement System. The actual for Administration and Benefits was under budget by \$43,093. The savings was due to timing of staff compensation and health benefit plan participation changes. Employee Benefits, includes payroll taxes, payroll processing, medical, dental, and disability insurance, and cell phone allowance.

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 \$45,515. The savings was primarily due to a credit given AMWUA during the leasehold improvement phase of construction.

Travel and Training was under budget, 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 under budget by \$4,764.

Office operating expenses includes all expenses related to office operations. This includes supplies, meetings (lunch and snacks provided to attendees of the Management and Board meetings), printing costs, postage and deliveries, subscription and reference, dues and memberships, office liability insurance, and equipment maintenance costs. The actual was under budget by \$13,072.

Water Conservation and the Water Loss Control and Training Program had total expenditures of \$1,945 over budget.. The Water Loss Training Program, over two fiscal years, had revenue from ADWR of \$240,000 and expenses to the University of New Mexico of \$225,000.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2021 AND 2020

Overview of the Financial Statements

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

Summary of Net Position

| | Years ended June 30 | | |
|---|---------------------|--------------------|--------------------|
| | 2021 | 2020 | 2019 |
| Current Assets | \$1,126,227 | \$1,120,607 | \$964,272 |
| Net capital assets | 39,379 | 16,815 | 13,816 |
| Deferred outflows | <u>175,261</u> | <u>105,458</u> | <u>179,980</u> |
| Total assets and deferred outflows of resources | \$1,340,868 | \$1,242,880 | \$1,158,068 |
| Current Liabilities | \$132,569 | \$118,067 | \$146,600 |
| Net Pension Liability | 942,563 | 857,064 | 874,444 |
| Deferred Inflow | 62,270 | 90,547 | 108,801 |
| Net investment in capital assets | 39,379 | 16,815 | 13,816 |
| Unrestricted | <u>164,087</u> | <u>160,387</u> | <u>14,407</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$1,340,868</u> | <u>\$1,242,880</u> | <u>\$1,158,068</u> |

- ◆ Current assets increased by \$5,620 in 2021 and by \$156,335 in 2020. 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 \$22,564 during fiscal year 2021 and increased by \$2,999 during fiscal year 2020. Capital assets consist of office furniture, equipment, and certain leasehold improvements. AMWUA capitalized \$15,353 expenditure for the purchase of A/V equipment for the boardroom. AMWUA's threshold for capitalization is \$1,000 with a useful life of greater than one year. The Association disposed of \$85,870 of furniture and equipment in fiscal year 2021. This was done during the leasehold improvement construction phase when new furniture and equipment was purchased.
- ◆ Current Liabilities increased by \$14,502 in 2021 and decreased by \$28,533 in 2020. 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, 2021 AND 2020

- ◆ 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 \$37,362 to \$203,466 in Fiscal Year 2021 and increased by \$137,571 to \$165,794 in Fiscal Year 2020.

Contingency Reserve and Lease 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, 2021, the balance of the Reserve Fund is \$252,179. Pursuant to the policy these funds are held in the Local Government Investment Pool with the Arizona State Treasurer.

In June 2020, the Board of Directors approved the Office Lease Stabilization Fund Policy to smooth the effect of rent increases in future years. AMWUA received six months of free rent overlapping Fiscal Year 2021 and Fiscal Year 2022. Rather than reduce budget and assessments, AMWUA kept these consistent and designated \$90,000 (\$45,000 in each fiscal year) to be held in the Office Lease Stabilization Fund. Beginning in Fiscal Year 2022 \$10,000 will be utilized each year to reduce the office space line item in future budgets.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2021 AND 2020

Summary of Changes in Net Position

| | Years ended June 30 | | |
|----------------------------------|---------------------|------------------|------------------|
| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
| Operating revenues | | | |
| Annual assessments | \$1,333,303 | \$1,481,174 | \$1,416,278 |
| Other | <u>198,589</u> | <u>115,017</u> | <u>82,775</u> |
| Total operating revenues | <u>1,531,892</u> | <u>1,596,191</u> | <u>1,499,053</u> |
| Operating expenses | <u>1,507,095</u> | <u>1,461,410</u> | <u>1,412,400</u> |
| Nonoperating revenues/(expenses) | | | |
| Interest on investments | 1,468 | 14,197 | 19,834 |
| Total nonoperating revenues | <u>1,468</u> | <u>14,197</u> | <u>19,834</u> |
| Increase in net position | 26,264 | 148,978 | 106,487 |
| Net position, July 1 | <u>177,202</u> | <u>28,223</u> | <u>(78,264)</u> |
| Net position, June 30 | <u>\$203,466</u> | <u>\$177,202</u> | <u>\$28,223</u> |

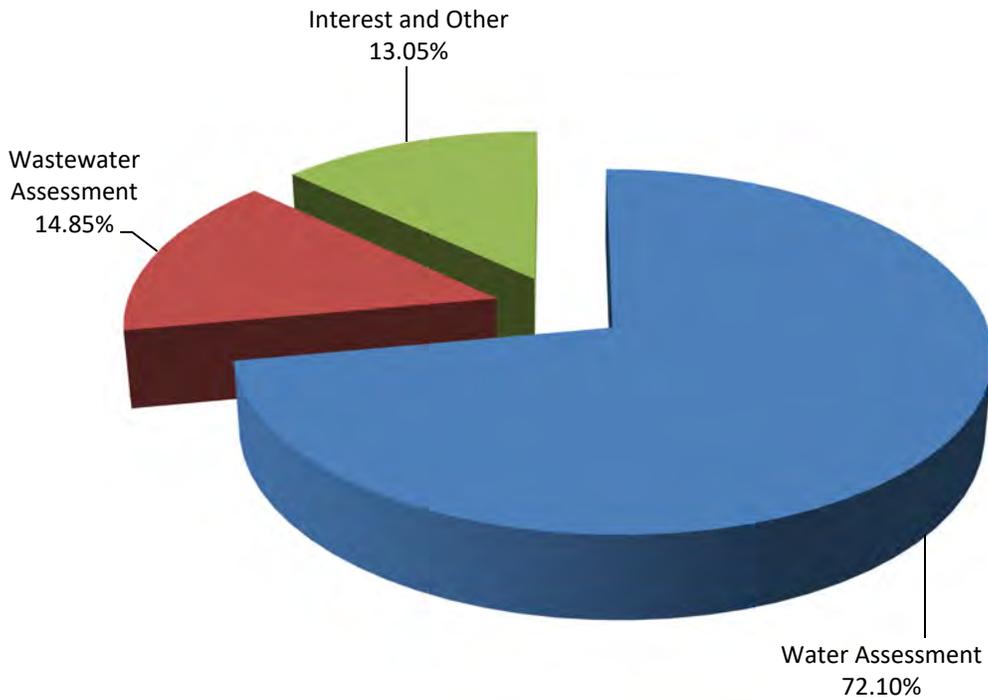
- ◆ Actual annual assessments billed to the cities decreased by \$147,871 in 2021 and increased by \$64,896 in 2020. Most of the June 30, 2021 decrease in assessment can be attributed to a carryover credit given to the member in the amount of \$121,533
- ◆ Other revenues increased \$83,572 in 2021. Other revenues include deferred income recognized related to the lease moving allowance, expense reimbursement from the landlord per the new lease agreement and ADWR revenue in regards to the Water Loss Training Program.
- ◆ Total operating expenses increased by \$45,686 in 2021 and increased by \$49,010 in 2020.
- ◆ Nonoperating revenues decreased by \$12,729 in 2021 and increased by \$5,637 in 2020. Non operating revenues consist of interest on investments.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2021 AND 2020

Operating Revenues

AMWUA's revenue is primarily (86.95%) generated by water and wastewater assessments from member cities. For fiscal year 2021, of the \$1,324,803 in revenue recognized from annual assessments, \$1,227,066 represents water assessments, \$227,770 representing wastewater assessments with the remaining credit of \$121,533 applied to overall assessments due. The following chart shows the sources and the percentage of all revenue by category for the fiscal year ended June 30, 2021.

Revenues Summary
for Fiscal Year Ended June 30, 2021
Total = \$1,533,359

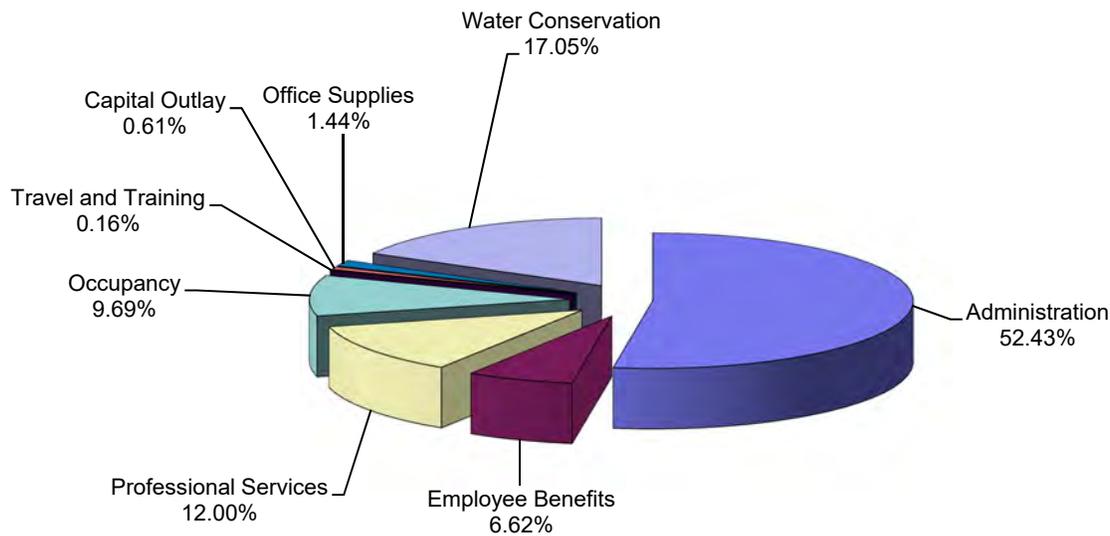


ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2021 AND 2020

Operating Expenses

The following chart shows AMWUA's operating expenses by category for the year ended June 30, 2021.

Expenses Summary
for Fiscal Year Ended June 30, 2021
Total = \$1,507,096



AMWUA's Capital Assets

| | Years ended June 30 | | |
|--|---------------------|------------------|------------------|
| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
| Property and Equipment | \$127,762 | \$185,937 | \$178,230 |
| Leasehold improvements | 7,102 | 52,665 | 52,665 |
| Less accumulated depreciation and amortization | <u>(95,485)</u> | <u>(221,787)</u> | <u>(217,080)</u> |
| Net property and equipment | <u>\$ 39,379</u> | <u>\$ 16,815</u> | <u>\$ 13,815</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 \$22,564 during fiscal year 2021 and increased by \$3,000 during fiscal year 2020.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2021 AND 2020

Long-Term Debt

AMWUA has no long-term debt.

Economic Factors and Next Year's Budget

In mid-March 2020, AMWUA employees began working remotely full-time due to the Covid-19 situation. This new work schedule reduced expenses in certain categories such as travel, conferences, office supplies, and in-office meetings. These savings allowed for a credit issued to the AMWUA members on their FY 22 dues assessments.

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 2021, the AMWUA Board of Directors approved the Fiscal Year 2022 Budget. The Fiscal Year 2022 Budget increased by 1.74% over the Fiscal Year 2021 budget. The actual assessments to the members are being reduced proportionately by \$75,000, due to savings recognized during Fiscal Year 2021. Comparing the Fiscal Year 2022 budget to Fiscal Year 2021 budget after the carryovers, there is a 5.4% increase.

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, 2021 AND 2020**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 243,244 | \$ 250,796 |
| Investments | 852,179 | 851,140 |
| Prepaid expenses and other assets | <u>30,804</u> | <u>18,671</u> |
| Total current assets | 1,126,227 | 1,120,607 |
| CAPITAL ASSETS, NET | 39,379 | 16,815 |
| TOTAL ASSETS | <u>1,165,607</u> | <u>1,137,422</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension plan items | 175,261 | 105,458 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u><u>\$ 1,340,868</u></u> | <u><u>\$ 1,242,880</u></u> |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

| | | |
|--|----------------------------|----------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 3,526 | \$ 3,178 |
| Accrued expenses | 62,175 | 34,546 |
| Compensated absences payable | 66,868 | 68,515 |
| Unearned revenue | <u>-</u> | <u>11,828</u> |
| Total current liabilities | <u>132,569</u> | <u>118,067</u> |
| NONCURRENT LIABILITIES | | |
| Net Pension Liability | <u>942,563</u> | <u>857,064</u> |
| TOTAL LIABILITIES | <u>1,075,132</u> | <u>975,131</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension plan items | <u>62,270</u> | <u>90,547</u> |
| NET POSITION | | |
| Net investment in capital assets | 39,379 | 16,815 |
| Restricted for lease payments | 46,843 | - |
| Unrestricted | <u>117,244</u> | <u>160,387</u> |
| Total net position | <u>203,466</u> | <u>177,202</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u><u>\$ 1,340,868</u></u> | <u><u>\$ 1,242,880</u></u> |

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

| | <u>2021</u> | <u>2020</u> |
|--|--------------|--------------|
| OPERATING REVENUES | | |
| Annual assessments | \$ 1,333,303 | \$ 1,481,174 |
| Other | 198,589 | 115,017 |
| | 1,531,892 | 1,596,191 |
| Total operating revenues | | |
| OPERATING EXPENSES | | |
| Salaries | 790,149 | 773,666 |
| Benefits | 99,845 | 93,759 |
| Occupancy costs | 145,985 | 178,387 |
| Legal and accounting | 125,600 | 122,000 |
| Temporary services | 50,400 | 47,500 |
| Water conservation | 256,946 | 192,059 |
| Printing and duplicating | 6,236 | 6,664 |
| Consulting services | 4,800 | 4,800 |
| Depreciation and amortization | 4,930 | 4,707 |
| Travel and meetings | 399 | 6,210 |
| Office supplies | 9,703 | 14,049 |
| Subscription and reference materials | 3,106 | 2,618 |
| Postage and shipping | 1,709 | 1,749 |
| General business insurance | 4,274 | 1,110 |
| Dues | 954 | 835 |
| Conferences | 2,058 | 9,465 |
| Training | - | 1,830 |
| | 1,507,095 | 1,461,410 |
| Total operating expenses | | |
| Operating income | 24,796 | 134,781 |
| NON-OPERATING REVENUES | | |
| Interest on investments | 1,468 | 14,197 |
| | 1,468 | 14,197 |
| Total non-operating revenues | | |
| CHANGE IN NET POSITION | 26,264 | 148,979 |
| NET POSITION, BEGINNING OF YEAR | 177,202 | 28,223 |
| NET POSITION, END OF YEAR | \$ 203,466 | \$ 177,202 |

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

| | <u>2021</u> | <u>2020</u> |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM/(USED FOR) OPERATING ACTIVITIES | | |
| Cash received from members and customers | \$ 1,520,064 | \$ 1,579,380 |
| Cash paid to employees | (876,593) | (838,265) |
| Cash paid to suppliers and vendors | <u>(623,957)</u> | <u>(589,995)</u> |
| Net cash provided by/(used for) operating activities | <u>19,514</u> | <u>151,120</u> |
| CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchases of capital assets | <u>(27,495)</u> | <u>(7,707)</u> |
| CASH FLOWS FROM/(USED FOR) INVESTING ACTIVITIES | | |
| Purchases of investments | | - |
| Interest on investments | 429 | 586 |
| Net cash provided by/(used for) investing activities | <u>429</u> | <u>586</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (7,552) | 143,999 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>250,796</u> | <u>106,797</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 243,244</u></u> | <u><u>\$ 250,796</u></u> |
| Reconciliation of operating income to net cash provided by/(used for) operating activities: | | |
| Operating income | \$ 24,796 | \$ 134,781 |
| Adjustments: | | |
| Depreciation and amortization | 4,930 | 4,708 |
| (Increase) decrease in assets | | |
| Prepaid expenses and other current assets | (12,133) | 1,277 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 348 | 1 |
| Accrued expenses | 25,982 | (9,224) |
| Pension plan items | (12,581) | 38,888 |
| Unearned revenue | <u>(11,828)</u> | <u>(19,311)</u> |
| Net cash provided by/(used for) operating activities | <u><u>\$ 19,515</u></u> | <u><u>\$ 151,120</u></u> |

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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. Investment income is included in non-operating revenue in the proprietary fund financial statements.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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.

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

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2021, the balance of the Reserve Fund is \$252,179. Pursuant to the policy these funds are held in the Local Government Investment Pool with the Arizona State Treasurer.

In June 2020, the Board of Directors approved the Office Lease Stabilization Fund Policy to smooth the effect of rent increases in future years. AMWUA received six months of free rent overlapping Fiscal Year 2021 and Fiscal Year 2022. Rather than reduce budget and assessments, AMWUA kept these consistent and designated \$90,000 (\$45,000 in each fiscal year) to be held in the Office Lease Stabilization Fund. Beginning in Fiscal Year 2022 \$10,000 will be utilized each year to reduce the office space line item in future budgets.

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, 2021 AND 2020**

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, 2021, the bank balance was \$263,201 and \$13,201 was uninsured and uncollateralized. AMWUA also had petty cash of \$500 at June 30, 2021 and 2020.

Fair Value Measurements. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- ◆ Level 1 inputs are quoted prices in active markets for identical assets
- ◆ Level 2 inputs are significant other observable inputs
- ◆ Level 3 inputs are significant unobservable inputs

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, 2021 and 2020.

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.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 – CASH AND INVESTMENTS

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 AAA by Moody’s and had a weighted average maturity of 66 days and 47 days at June 30, 2021 and 2020, respectively. The maximum weighted average maturity permitted for the LGIP is 90 days.

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

| | 2021 | 2020 |
|-----------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 243,244 | \$ 250,796 |
| Investments in LGIP | 852,179 | 851,140 |
| Total cash and investments | \$ 1,095,423 | \$ 1,101,936 |

Interest Rate Risk. AMWUA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments. AMWUA’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, AMWUA’s portion is not identified with specific investments and is not subject to custodial credit risk.

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 3 – CAPITAL ASSETS

Capital assets at June 30, 2021, consist of the following:

| <u>Capital Assets</u> | Beginning Balance July 1, 2020 | Increase | Decrease | Ending Balance June 30, 2021 |
|---|---|------------------|-----------------|---|
| Capital assets: | | | | |
| Furniture and equipment | \$ 185,937 | \$ 30,053 | \$ 88,228 | \$ 127,762 |
| Leasehold improvements | 52,665 | | 45,563 | 7,102 |
| Total depreciable assets | <u>238,602</u> | <u>30,053</u> | <u>133,791</u> | <u>134,864</u> |
| Less accumulated depreciation: | | | | |
| Furniture and equipment | (169,659) | (4,392) | (85,667) | (88,384) |
| Leasehold improvements | (52,127) | (538) | (45,564) | (7,101) |
| Total accumulated depreciation and amortization | <u>(221,786)</u> | <u>4,930</u> | <u>131,231</u> | <u>(95,485)</u> |
| Capital assets, net of accumulated depreciation and amortization | <u>\$ 16,815</u> | <u>\$ 25,123</u> | <u>\$ 2,560</u> | <u>\$ 39,379</u> |

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>(221,786)</u> |
| Capital assets, net of accumulated depreciation and amortization | <u>\$ 13,816</u> | <u>\$ 2,999</u> | <u>\$</u> | <u>\$ 16,815</u> |

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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 2023.

Effective March 2011, AMWUA entered into a new facility lease which expired March 2021. The 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, 2021 and 2020, is \$0 and \$3,327, respectively, in deferred lease incentives related to the 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, 2021 and 2020 is \$0 and \$11,596, respectively in deferred rent related to the lease.

Total lease expense was \$134,198 and \$159,938 for the years ended June 30, 2021 and 2020, 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, the Landlord will refurbish the space. This lease included 6 months of free rent which were used to offset the budget and rent increases in future years. As such, the rent expense is recorded on a straight-line basis over the term of the lease. Included in accrued expenses at June 30, 2021 is \$49,169 related to the lease.

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

| <u>Year Ending June 30:</u> | |
|--|-----------------------------------|
| 2022 | \$ 151,653 |
| 2023 | 198,540 |
| 2024 | 195,431 |
| 2025 | 199,460 |
| 2026 | 203,490 |
| 2027-2031 | 1,077,891 |
| 2032 | <u>56,917</u> |
| Total future minimum lease payments | <u><u>\$ 2,083,382</u></u> |

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 5 – ANNUAL ASSESSMENTS

AMWUA assesses membership dues based upon operating costs for the year. During fiscal year 2021, 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 2021 and 2020. The 2021 assessments are net of a \$121,533 credit given to members.

| | 2021 | 2020 |
|---------------------------------|---------------------|---------------------|
| Voting members: | | |
| City of Chandler* | \$ 96,332 | \$ 108,009 |
| City of Glendale | 106,222 | 118,318 |
| City of Mesa | 161,172 | 177,890 |
| City of Peoria* | 83,172 | 93,091 |
| City of Phoenix | 416,537 | 457,493 |
| City of Scottsdale | 114,126 | 126,335 |
| City of Tempe | 114,072 | 125,146 |
| Town of Gilbert* | 95,205 | 106,402 |
| City of Goodyear* | 69,307 | 77,263 |
| City of Avondale* | 68,658 | 76,908 |
| Total annual assessments | \$ 1,324,803 | \$ 1,466,853 |

*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, 2021 AND 2020

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 12.04 percent and 11.94 percent of the participants' annual salaries in 2021 and 2020, 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, workers' compensation, and insurance for 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 2021 and 2020. 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, 2021 AND 2020**

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.

The ASRS OPEB plans are not further disclosed because of their relative insignificance to AMWUA’s financial statements.

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, 2021 AND 2020

NOTE 9 – PENSIONS

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

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 12.22 percent (12.04 percent for retirement and 0.18 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 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 percent for long-term disability) of the active members' annual covered payroll.

AMWUA's contributions related to the ASRS were \$75,823 and \$67,109 for the years ended June 30, 2021 and 2020, respectively. AMWUA funded 100 percent of its annual required contribution to the ASRS for the years ended June 30, 2021 and 2020.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 – PENSIONS

Pension Liability. The net pension liability was measured as of June 30, 2020. The total pension liability of \$942,563 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, 2019, to the measurement date of June 30, 2020. The total liability as of June 30, 2020 was \$857,064 which was measured at 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, 2021.

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, 2021, AMWUA recognized pension expense of \$64,197 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 8,527 | \$ |
| Changes of assumptions or other inputs | | |
| Net difference between projected and actual earnings on pension plan investments | 90,911 | |
| Changes in proportion and differences between contributions and proportionate share of contributions | | 62,270 |
| Contributions subsequent to the measurement date | 75,823 | |
| Total | <u>\$ 175,261</u> | <u>\$ 62,270</u> |

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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, 2022. 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 | \$ (30,516) |
| 2022 | 6,682 |
| 2023 | 32,884 |
| 2024 | 28,118 |

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

| | Pension |
|-----------------------------|---------------------|
| Actuarial valuation date | June 30, 2019 |
| Actuarial roll forward date | June 30, 2020 |
| 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 |

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017, actuarial valuation.

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

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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% | 6.39% |
| Credit | 20% | 5.44% |
| Interest Rate Sensitive Bonds | 10% | .22% |
| 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%) |
|-----------------------|--------------------------|------------------------------------|--------------------------|
| Net pension liability | \$1,288,942 | \$ 942,563 | \$ 653,008 |

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 SEVEN FISCAL YEARS**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Measurement date | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| AMWUA's proportion of the net pension liability (asset) | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| AMWUA's proportionate share of the net pension liability (asset) | \$ 942,563 | \$ 857,064 | \$ 874,444 | \$ 937,799 | \$ 873,228 | \$ 924,728 | \$ 1,198,514 |
| AMWUA's covered payroll | \$ 600,259 | \$ 621,646 | \$ 630,523 | \$ 586,438 | \$ 506,728 | \$ 576,162 | \$ 735,857 |
| AMWUA's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 157.03% | 137.87% | 138.69% | 159.91% | 172.33% | 160.50% | 162.87% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.33% | 73.24% | 73.40% | 69.92% | 67.06% | 68.35% | 69.49% |

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

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | \$ 75,823 | \$ 67,109 | \$ 69,500 | \$ 68,727 | \$ 63,218 | \$ 54,980 | \$ 62,744 |
| Contributions in relation to the actuarially determined contribution | <u>75,823</u> | <u>67,109</u> | <u>69,500</u> | <u>68,727</u> | <u>63,218</u> | <u>54,980</u> | <u>62,744</u> |
| Contribution deficiency (excess) | <u>\$</u> |
| AMWUA's covered payroll | \$ 656,240 | \$ 586,096 | \$ 621,646 | \$ 630,523 | \$ 586,438 | \$ 506,728 | \$ 576,161 |
| Contributions as a percentage of covered payroll | 11.55% | 11.45% | 11.18% | 10.90% | 10.78% | 10.85% | 10.89% |

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

**ARIZONA MUNICIPAL WATER USERS ASSOCIATION
NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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, 2019, 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

Governing Board
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, 2021, and the related notes to the financial statements, which collectively comprise Arizona Municipal Water Users Association's financial statements, and have issued our report thereon dated October 12, 2021.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

Report on 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 financial statements. 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.
Scottsdale, Arizona
October 12, 2021

BOARD OF DIRECTORS
INFORMATION SUMMARY
December 2, 2021

AMWUA Fiscal Year 2022 Quarterly Financial Statements – First Quarter

ANNUAL PLAN REFERENCE

Day-to-Day Operations

Maintain the daily operations of an effective organization and the services members rely on.

- AMWUA will continue to wisely manage its financial resources and effectively develop its personnel as an agile team with organizational depth.

Strategic Plan: Facilitate our Strength in Numbers, Educate - Excel as an Expert and Resource

SUMMARY

The AMWUA Statement of Revenues and Expenses for the period July 1, 2021 through September 30, 2021, and the Balance Sheet dated September 30, 2021 are presented for your information.

At the end of the first quarter, AMWUA is showing a year-to-date actual of \$72,076 under the year-to-date budget. The variance is primarily due to the savings in occupancy costs due to the credit received under the new lease agreement. There were also savings in payroll salaries, payroll taxes and personnel due to changes in staff. The water conservation line item appears over budget due to timing of expenses, which will be resolved by second quarter.

RECOMMENDATION

The AMWUA Management Board recommends to the AMWUA Board of Directors acceptance of the AMWUA quarterly financial statements for the first quarter as presented.

SUGGESTED MOTION

I move that the AMWUA Board of Directors accept the AMWUA quarterly financial statements for the first quarter as presented.

ATTACHMENTS

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

ARIZONA MUNICIPAL WATER USERS ASSOCIATION
Statement of Revenues and Expenses
(Actual to Budget Comparison)
ARIZONA MUNICIPAL WATER USERS ASSOCIATION

| | Year-To-Date Actual | Year-To-Date Budget | Over(Under) Year-To-Date Variance | Approved Annual Budget | Over(Under) Budget Variance |
|---|-------------------------|------------------------|---|------------------------------|-----------------------------------|
| Funding Sources | | | | | |
| Assessment - Water | 907,134.00 | 907,134.00 | 0.00 | 1,241,619.00 | (334,485.00) |
| Assessment - Wastewater | 103,074.00 | 103,074.00 | 0.00 | 229,864.00 | (126,790.00) |
| Water Loss Control Training Program Income | 0.00 | 0.00 | 0.00 | 0.00 | - |
| 2021 Carryover Applied to Reduce Member Assessments | (42,091.00) | (42,091.00) | 0.00 | (75,000.00) | 32,909.00 |
| Interest Revenues | 153.94 | 0.00 | 153.94 | 0.00 | 153.94 |
| Other Revenues | 0.00 | 0.00 | 0.00 | 0.00 | - |
| Net Revenues | 968,270.94 | 968,117.00 | 153.94 | 1,396,483.00 | (428,212.06) |
| Operating Expenses | | | | | |
| Payroll (Salaries) | 150,462.58 | 173,017.50 | (22,554.92) | 692,070.00 | (541,607.42) |
| Deferred Compensation (ASRS Payments) | 18,569.82 | 21,039.50 | (2,469.68) | 84,158.00 | (65,588.18) |
| Payroll Processing, Taxes and Insurance | 13,394.55 | 14,500.00 | (1,105.45) | 58,000.00 | (44,605.45) |
| Medical and Disability Insurance | 18,739.17 | 26,250.00 | (7,510.83) | 105,000.00 | (86,260.83) |
| Cell Phone Allowance | 1,785.32 | 2,000.00 | (214.68) | 8,000.00 | (6,214.68) |
| Temporary Services/Receptionist | 0.00 | 0.00 | 0.00 | 0.00 | - |
| Legal/Consulting Services (Ferris Contract) | 15,000.00 | 15,000.00 | 0.00 | 60,000.00 | (45,000.00) |
| Legislative Services (Aarons Company-Contract) | 12,600.00 | 12,600.00 | 0.00 | 50,400.00 | (37,800.00) |
| Audit - Water | 4,800.00 | 4,800.00 | 0.00 | 9,900.00 | (5,100.00) |
| Audit - Waste Water | 0.00 | 0.00 | 0.00 | 23,100.00 | (23,100.00) |
| Website Services | 0.00 | 1,250.00 | (1,250.00) | 5,000.00 | (5,000.00) |
| Communication Services (Kossan Contract) | 0.00 | 0.00 | 0.00 | 0.00 | - |
| Consultant-Finance/Accounting | 8,649.99 | 8,650.00 | (0.01) | 34,600.00 | (25,950.01) |
| Audio/Visual Development | 0.00 | 0.00 | 0.00 | 0.00 | - |
| IT Services | 1,200.00 | 1,500.00 | (300.00) | 6,000.00 | (4,800.00) |
| Office Space - Lease | 307.11 | 48,201.25 | (47,894.14) | 192,805.00 | (192,497.89) |
| Common Area Maintenance | 1,330.74 | 1,500.00 | (169.26) | 6,000.00 | (4,669.26) |
| Telephone | 1,887.85 | 1,250.00 | 637.85 | 5,000.00 | (3,112.15) |
| E-Mail/Webpage/Internet | 1,280.29 | 1,750.00 | (469.71) | 7,000.00 | (5,719.71) |
| Travel/Conferences | 2,508.80 | 1,437.50 | 1,071.30 | 5,750.00 | (3,241.20) |
| Milage Reimbursement | 197.41 | 687.50 | (490.09) | 2,750.00 | (2,552.59) |
| Continuing Professional Ed | 0.00 | 0.00 | 0.00 | 0.00 | - |
| Staff Development | 0.00 | 500.00 | (500.00) | 2,000.00 | (2,000.00) |
| Copy Machine - Lease | 1,006.34 | 1,300.00 | (293.66) | 5,200.00 | (4,193.66) |
| Computer Hardware/Software | 1,074.85 | 1,500.00 | (425.15) | 6,000.00 | (4,925.15) |
| Office Supplies | 485.43 | 1,250.00 | (764.57) | 5,000.00 | (4,514.57) |
| Meetings | 76.73 | 1,000.00 | (923.27) | 4,000.00 | (3,923.27) |
| Outreach Efforts | 0.00 | 1,500.00 | (1,500.00) | 6,000.00 | (6,000.00) |
| Printing | 243.84 | 575.00 | (331.16) | 2,300.00 | (2,056.16) |
| Postage & Deliveries | 186.99 | 500.00 | (313.01) | 2,000.00 | (1,813.01) |
| Subscription & Reference | 1,747.46 | 800.00 | 947.46 | 3,200.00 | (1,452.54) |
| Dues & Memberships | 210.49 | 812.50 | (602.01) | 3,250.00 | (3,039.51) |
| Insurance | 1,664.47 | 1,250.00 | 414.47 | 5,000.00 | (3,335.53) |
| Equipment Maintenance | 382.80 | 500.00 | (117.20) | 2,000.00 | (1,617.20) |
| Water Loss Control Program | 0.00 | 0.00 | 0.00 | 0.00 | - |
| Water Conservation | 32,551.92 | 17,500.00 | 15,051.92 | 70,000.00 | (37,448.08) |
| Total Operating Expenses | 292,344.95 | 364,420.75 | (72,075.80) | 1,471,483.00 | (1,179,138.05) |
| Reserve and Contingency Funds Summary: | | | | | |
| Contingency Fund Balance on 09/30/20 | \$600,000 | | | | |
| Reserve Fund Balance on 09/30/20 | <u>252,224</u> | | | | |
| Total Contingency and Reserve Funds | <u>\$852,224</u> | | | | |

Arizona Municipal Water Users Association
Statement of Net Position
As of September 30, 2021

| ASSETS | | |
|---|-------------------|----------------------------|
| Current Assets | | |
| Bank Accounts | | |
| 1000 Petty Cash | 500.00 | |
| 1015 Compass Checking 25 287 52333 | 83,986.94 | |
| 1025 Compass Money Market 25 100 20769 | 827,066.66 | |
| 1030 Investment Account (LGIP) | <u>852,302.64</u> | |
| Total Bank Accounts | | \$ 1,763,856.24 |
| Other Current Assets | | |
| 1044 AR - Other | 15,000.00 | |
| 1050 Prepaid Expenses | <u>3,536.22</u> | |
| Total Other Current Assets | | \$ 18,536.22 |
| Total Current Assets | | \$ 1,782,392.46 |
| Fixed Assets | | |
| 1100 Furniture & Equipment | 127,026.26 | |
| 1150 Leasehold Improvements | 7,101.50 | |
| 1200 Accum Depreciation Furniture | -88,382.70 | |
| 1250 Accum Depreciation Leasehold | <u>-7,101.50</u> | |
| Total Fixed Assets | | \$ 38,643.56 |
| Other Assets | | |
| 1450 Deferred Outflow - Pension Resources | 175,261.23 | |
| Total Other Assets | | \$ 175,261.23 |
| TOTAL ASSETS | | \$ 1,996,297.25 |

Arizona Municipal Water Users Association
Statement of Net Position
As of September 30, 2021

LIABILITIES AND EQUITY

| | | |
|--|-------------------|------------------------|
| Liabilities | | |
| Current Liabilities | | |
| Credit Cards | | |
| 2005 BBVA Compass Credit Card | 638.65 | |
| Total Credit Cards | | \$ 638.65 |
| Other Current Liabilities | | |
| 2050 Accrued Expenses | 107,907.66 | |
| 2110 Retirees Excess Benefit Clearance | <u>3,178.00</u> | |
| Total Other Current Liabilities | | \$ 111,085.66 |
| Total Current Liabilities | | \$ 111,724.31 |
| Long-Term Liabilities | | |
| 2210 Net Pension Liability | 942,563.00 | |
| 2220 Deferred Inflow-Pension Resources | <u>62,270.00</u> | |
| Total Long-Term Liabilities | | \$ 1,004,833.00 |
| Total Liabilities | | \$ 1,116,557.31 |
| Equity | | |
| 3000 Fund Balance | 203,813.95 | |
| Net Income | <u>675,925.99</u> | |
| Total Equity | | \$ 879,739.94 |
| TOTAL LIABILITIES AND EQUITY | | \$ 1,996,297.25 |

BOARD OF DIRECTORS
INFORMATION SUMMARY
December 2, 2021

Recommendation for 2022 AMWUA Board Officers

ANNUAL PLAN REFERENCE

Day-to-Day Operations

Maintain the daily operations of an effective organization and the services members rely on.

- AMWUA will continue to serve its members through collaborating on issues and advocating for the agreed-upon positions. Regular meetings of the AMWUA Board of Directors will be used to facilitate such collaboration.

Strategic Plan: Facilitate our Strength in Numbers, Educate - Excel as an Expert and Resource

SUMMARY

Pursuant to the AMWUA Bylaws, the Board President, Councilmember Kevin Thompson, Mesa, appointed himself, Councilmember Bridget Binsbacher, Peoria, and Councilwoman Ann O'Brien, Phoenix, to serve as members of a Nominating Committee to recommend a President, Vice President, and Secretary-Treasurer for the AMWUA Board of Directors for calendar year 2022.

According to the AMWUA Bylaws, the officers are to each have served on the current Board of Directors at least from January 2021 through December 2021. Each officer is to be able to serve for a one-year period, and may serve a minimum of one year and a maximum of two consecutive years in the same position.

The Nominating Committee is recommending Councilmember Bart Turner of Glendale for President; Councilmember Sheri Lauritano of Goodyear for Vice President; and Councilmember Scott Anderson of Gilbert for Secretary-Treasurer to the AMWUA Board of Directors for 2022, in accordance with the AMWUA Bylaws.

The Nominating Committee will formally make its recommendation for the officer positions at the December 2nd AMWUA Board meeting, at which time the Board may decide to act on that recommendation.

RECOMMENDATION

The AMWUA Board of Directors is to consider approving the Nominating Committee's recommendation for President, Vice President, and Secretary-Treasurer for the AMWUA Board of Directors for calendar year 2022.