

2017

Regional Wastewater Reclamation Enterprise Fund



Pima County, Arizona
For the Fiscal Year Ended June 30, 2017

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Pima County
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the Pima County, Regional Wastewater Reclamation Enterprise Fund (the Fund), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pima County, Regional Wastewater Reclamation Enterprise Fund as of June 30, 2017, and the 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.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the omission of this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Fund'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 Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Tucson, Arizona
October 30, 2017



PIMA COUNTY

Basic Financial Statements

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Net Position
June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$	89,315,783
Restricted cash and cash equivalents		30,522,902
Interest receivable		107,057
Accounts receivable, net		17,412,071
Due from other Pima County funds		11,628
Due from other governments		2,632
Inventory of materials and supplies		2,612,997
Prepaid expenses		178,607
		140,163,677
Total current assets		140,163,677

Noncurrent assets:

Restricted cash and cash equivalents:		
Restricted for debt service		31,186,643
Emergency reserve fund		20,000,000
		51,186,643
Total restricted assets		51,186,643

Capital assets, net of accumulated depreciation where applicable:

Land		10,405,373
Intangibles - Easements		2,825,571
Sewage conveyance system, net		477,211,387
Treatment facilities, net		560,555,281
Equipment, net		88,865,432
Construction in progress		70,705,377
		1,210,568,421
Total capital assets, net		1,210,568,421
Total noncurrent assets		1,261,755,064
Total assets		1,401,918,741

Deferred outflows of resources:

Pension		6,845,047
Deferred charge on refunding		19,130,820
		25,975,867
Total deferred outflows of resources		25,975,867

(Continued)

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Net Position
June 30, 2017
(Continued)

Liabilities

Current liabilities:

Accounts payable	\$	8,361,167
Payroll and employee benefits		614,332
Interest payable		57,030
Due to other Pima County funds		37,250
Due to other governments		2,605
Unearned revenue - effluent and connection fee credits		987,745
Current portion of:		
Compensated absences payable		1,435,807
Sewer obligations payable		42,565,000
Sewer revenue bonds payable		9,285,000
Wastewater loans payable		530,554
Sewer obligations and revenue bonds premium		11,515,538
		75,392,028
Total current liabilities		75,392,028

Noncurrent liabilities:

Compensated absences payable		1,414,532
Construction contract retentions payable		1,563,652
Sewer obligations payable		470,865,000
Sewer revenue bonds payable		11,220,000
Wastewater loans payable		4,098,518
Sewer obligations and revenue bonds premium		49,571,448
Net pension liability		38,003,215
		576,736,365
Total noncurrent liabilities		576,736,365

Total liabilities

652,128,393

Deferred inflows of resources:

Deferred inflows related to pensions		5,770,114
Total deferred inflows of resources		5,770,114

Net position

Net investment in capital assets		633,842,651
Restricted for:		
Debt service		38,246,910
Capital projects		1,666,858
Operation and maintenance		19,668,167
Unrestricted		76,571,515
		769,996,101
Total net position	\$	769,996,101

See accompanying notes to financial statements

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PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues:	
Sewer utility service	\$ 157,000,508
Engineering review and inspection fees	118,529
Permits and fines	19,534
Other income	1,324,286
	<hr/>
Total operating revenues	158,462,857
	<hr/>
Operating expenses:	
Employee compensation	29,162,440
Operating supplies	7,270,818
Utilities	6,180,175
Sludge and refuse disposal	1,703,220
Repairs and maintenance	7,975,602
General and administrative	15,312,262
Consultants and professional services	11,354,174
Depreciation	52,537,490
	<hr/>
Total operating expenses	131,496,181
	<hr/>
Operating income	26,966,676
	<hr/>
Nonoperating revenues (expenses):	
Interest income	1,478,450
Sewer connection revenues	13,116,322
Loss on disposal of equipment	(4,070,684)
Interest expense	(17,746,423)
Debt issuance costs	(1,944,425)
	<hr/>
Total nonoperating revenues (expenses)	(9,166,760)
	<hr/>
Income before capital contributions and transfers	17,799,916
	<hr/>
Capital contributions	5,118,304
Transfers in	7,061,903
Transfers out	(26,050,510)
	<hr/>
Increase in net position	3,929,613
Net position - July 1, 2016	<u>766,066,488</u>
	<hr/>
Net position - June 30, 2017	<u>\$ 769,996,101</u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Receipts from customers	\$ 157,482,491
Miscellaneous receipts	1,324,286
Payments to suppliers for goods and services	(34,169,569)
Payments to other Pima County funds for goods and services	(15,886,448)
Payments to employees	(31,191,279)
Net cash provided by operating activities	77,559,481
 Cash flows from noncapital financing activities:	
Cash transfers in from other funds	7,061,903
Cash transfers out to other funds	(25,766,965)
Loans with other funds	3,355,070
Net cash used for noncapital financing activities	(15,349,992)
 Cash flows from capital and related financing activities:	
Sewer connection receipts from customers	12,923,430
Purchase and construction of capital assets	(51,772,522)
Proceeds from issuance of sewer revenue obligations, including premium	303,780,471
Principal payments on revenue bonds, obligations and loans	(288,239,644)
Interest payments on revenue bonds, obligations and loans	(56,649,834)
Proceeds from sale of capital assets	977,912
Net cash used for capital and related financing activities	(78,980,187)
 Cash flows from investing activities:	
Interest received on investments	1,456,618
Net cash provided by investing activities	1,456,618
Net decrease in cash and cash equivalents	(15,314,080)
Cash and cash equivalents, July 1, 2016	186,339,408
Cash and cash equivalents, June 30, 2017	\$ 171,025,328
	(continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Cash Flows
For the Year Ended June 30, 2017
(Continued)

Reconciliation of operating income to net cash provided
by operating activities:

Operating income	\$	26,966,676
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		52,537,490
Changes in assets and deferred outflows of resources:		
Decrease (increase) in assets:		
Accounts receivable		(480,786)
Due from other governments		824,706
Inventory of materials and supplies		8,005
Prepaid expenses		94,144
Increase in deferred outflows of resources:		
Pension plan		(3,072,494)
Changes in liabilities and deferred inflows of resources:		
Increase (decrease) in liabilities:		
Accounts payable		(362,032)
Due to other governments		117
Accrued payroll and employee benefits		434,615
Net pension liability		(1,283,492)
Increase in deferred inflows of resources:		
Pension plan		1,892,532
Net cash provided by operating activities	\$	77,559,481

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2017:

The Fund disposed of capital assets with a net book value of \$5,048,596.

The County Board of Supervisors approved Connection Flow-Through Sewer Credit Agreements in the amount of \$22,836. This transaction was recorded as an increase to unearned revenue and a decrease in capital contributions.

Developers conveyed capital assets with an estimated fair value of \$5,141,140. These transactions were recorded as an increase in capital assets and capital contributions.

The Fund issued Sewer System Revenue Refunding Obligations Series 2016 for \$211,595,000 to refund portions of sewer revenue bonds and obligations for \$72,390,000 and \$156,495,000, respectively.

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Regional Wastewater Reclamation Enterprise Fund (Fund), formerly known as the Wastewater Management Enterprise Fund, conform to U.S. generally accepted accounting principles (GAAP) applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB) and the regulatory requirements of the State of Arizona. A summary of the County's significant accounting policies affecting the Fund follows.

A. Reporting Entity

The Fund is accounted for as an enterprise fund of Pima County, Arizona, however, the ultimate financial accountability for the Fund remains with Pima County. The Fund's management is responsible for operating all wastewater conveyance and treatment systems and water pollution control programs throughout Pima County.

The financial statements present only the Regional Wastewater Reclamation Enterprise Fund as one of the enterprise funds of Pima County and are not intended to present the balances and activity of Pima County in its entirety.

B. Fund Accounting

The Fund's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Fund's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

The Fund's financial transactions are recorded and reported as an enterprise fund because its operations are financed and operated in a manner similar to private business enterprises. It is the intent of the Board of Supervisors that the costs (expenses, including depreciation) of goods or services provided by the Fund on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. When both restricted and unrestricted net position are available to finance Fund expenses, restricted resources are used before unrestricted resources. Interfund transactions that would be treated as revenues or expenses if they involved parties external to the County are recorded in the appropriate revenue or expense accounts. Intrafund transactions within the fund are eliminated for financial statement presentation.

D. Basis of Presentation

The financial statements include a statement of net position, a statement of revenues, expenses, and changes in fund net position, and a statement of cash flows. A statement of net position provides information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Fund at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external restrictions or availability of assets to satisfy the Fund's obligations.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

D. Basis of Presentation (continued)

Net investment in capital assets represents the cost of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net position represents grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net position includes all other net position, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in fund net position provides information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net position are reported, including capital contributions and transfers. Generally, charges for services and fees generated from providing wastewater treatment services and sewer utility service fees are considered to be operating. Other revenues, such as sewer connection revenues and interest income, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the costs of providing sewer services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

A statement of cash flows provides information about the Fund's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital and related financing, or investing.

E. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer, investments with the State Treasurer, deposits with fiscal agent and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool, deposits with fiscal agent and deposits held in escrow accounts.

For purposes of its statement of cash flows, the County considers cash on hand, demand deposits, cash on deposit with the County Treasurer, and only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

F. Accounts Receivable

Accounts receivable consist primarily of amounts due from customers for services provided. These balances are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through charge to earnings and credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

G. Inventory

Inventories consist of operating supplies and are recorded as assets when purchased and expensed when consumed. These inventories are stated at the lower of cost or market. Cost is determined using the moving average method.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

H. Capital Assets

Purchased capital assets are reported at actual cost. Donated assets are reported at acquisition value at the time received. The Fund capitalizes all land regardless of cost; sewage conveyance systems, buildings and improvements, infrastructure and intangibles costing \$100,000 or more, with the exception of software projects which cost \$5,000,000 or more, and equipment costing \$5,000 or more. Costs for internally constructed capital assets include material, direct labor, engineering, interest, and allocated portions of other indirect costs related to the construction projects. Depreciation of such assets is charged as an expense against operations. All assets other than land and construction in progress are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Treatment facilities and equipment	4 to 30 years
Conveyance systems	50 years

I. Deferred Outflows and Inflows of Resources

The statement of net position include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods. Deferred charge on refunding represents the difference between the reacquisition price and the net carrying amount of the refunded debts.

J. Compensated Absences

Compensated absences payable consist of annual leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of annual leave depending upon years of service, but they forfeit any annual leave hours in excess of the maximum amount that are unused at year-end. Upon termination of employment, all unused and unforfeited annual leave benefits are paid to employees. Accordingly, annual leave benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,920 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but most employees forfeit them upon terminating employment. However, employees who have accumulated greater than 240 hours of sick leave and are eligible to retire will receive some benefits. Employees who are eligible to retire from County service into the Arizona State Retirement System may request sick leave to be converted to annual leave on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability in the Fund's financial statements. A liability for these amounts is reported in the Fund's financial statements under Employee Compensation only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

K. Construction Contract Retentions

The Fund has numerous construction projects in process. The Fund retains a percentage of each progress payment until the project's successful completion. In some instances, contract retentions are deposited in escrow accounts so contractors may earn interest during the construction period.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

L. Revenues

Sewer utility billings are based on the content and volume of wastewater discharged and a minimum service charge.

Land developers contribute capital and aid in the construction of certain portions of the conveyance systems. Contributions are recorded as contributed capital at their acquisition cost. In those instances when a developer makes enhancements that exceed the requirements for the conveyance systems, the Fund establishes reduced fees and credits that can be used to offset future fees charged to developers for each new connection to the conveyance systems. These credits are recorded as unearned sewer connection revenue and recognized as income when connection permits are issued.

Sewer connection fees are assessed to land developers based on the type and number of fixtures attached to the conveyance systems. Fees are established at a level to provide for the recovery of the Fund’s operating expenses that are not recovered by the sewer utility service fees. Accordingly, fees collected are classified as nonoperating revenues.

M. 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 plans. 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.

Note 2 – Cash and Investments

Cash and cash equivalents consisted of the following amounts:

Current	
Cash on hand	\$ 2,250
Cash and cash equivalents	89,313,533
Total current cash and cash equivalents	89,315,783
Restricted cash and cash equivalents:	
Construction	3,794,469
Debt service	7,060,266
Operation and maintenance	19,668,167
Total current restricted cash and cash equivalents	30,522,902
Noncurrent	
Restricted cash and cash equivalents:	
Debt service	31,186,643
Emergency reserve fund	20,000,000
Total noncurrent restricted cash and cash equivalents	51,186,643
Total cash and cash equivalents	\$ 171,025,328

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 2 – Cash and Investments (continued)

Current restricted cash and cash equivalents represents cash received for capital projects, anticipated debt service payments, and an estimated one-fourth of annual operating expenses. In prior years, only one-twelfth of the annual debt principal and interest was restricted. However, because the Water Infrastructure Finance Authority debt payment is paid July 1, the entire amount of the payment is now included as restricted cash for debt service.

Noncurrent restricted cash and cash equivalents consists of deposits with fiscal agents for the reserve requirement which is equal to one-half of maximum annual debt service on the 2010, 2011B, 2012A, 2014 and 2017 Obligations, emergency reserve funds to cover potential emergency and unplanned projects.

The Fund's cash and investments in the Pima County Treasurer's investment pool represent a portion of the County Treasurer's investment pool portfolio.

Fair Value Measurements – The Fund 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

The Fund has \$31,186,643 invested in money market mutual funds categorized as Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those investments.

The State Treasurer's pools are external investment pools, the LGIP (Pool 5), LGIP-Government (Pool 7) and LGIP (Pool 500), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission (SEC). The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

The County Treasurer's pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the SEC. The fair value of each participant's position in the County Treasurer investment pool 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.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. The Pima County Treasurer's investment pool is unrated.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal investment policy with respect to interest rate risk. The Pima County Treasurer's investment had a weighted average maturity of 556 days at June 30, 2017.

Legal Provisions – Arizona Revised Statutes authorize counties to invest public monies in the State Treasurer's investment pool: obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 2 – Cash and Investments (continued)

and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk - Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's Investors Service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors' service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors' service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk - Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk - Statutes do not include any requirements for concentration of credit risk.

Interest rate risk - Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk - Statutes do not allow foreign investments.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2017, is presented in the following schedule:

	Balance <u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 9,864,406	\$ 595,107	\$ (54,140)	\$ 10,405,373
Intangibles - easements	2,366,925	458,646		2,825,571
Construction in progress	39,007,034	46,875,493	(15,177,150)	70,705,377
Total capital assets not being depreciated	<u>51,238,365</u>	<u>47,929,246</u>	<u>(15,231,290)</u>	<u>83,936,321</u>
Capital assets being depreciated:				
Sewage conveyance systems	791,058,018	9,777,726	(2,386,050)	798,449,694
Treatment facilities	745,587,018	3,276,019	(7,627,335)	741,235,702
Equipment	148,423,112	5,726,145	(6,616,762)	147,532,495
Total capital assets being depreciated	<u>1,685,068,148</u>	<u>18,779,890</u>	<u>(16,630,147)</u>	<u>1,687,217,891</u>
Less accumulated depreciation for:				
Sewage conveyance systems	306,015,156	15,506,563	(283,412)	321,238,307
Treatment facilities	160,357,207	27,011,538	(6,688,324)	180,680,421
Equipment	53,028,085	10,019,389	(4,380,411)	58,667,063
Total accumulated depreciation	<u>519,400,448</u>	<u>52,537,490</u>	<u>(11,352,147)</u>	<u>560,585,791</u>
Total capital assets being depreciated, net	<u>1,165,667,700</u>	<u>(33,757,600)</u>	<u>(5,278,000)</u>	<u>1,126,632,100</u>
Capital assets, net	<u>\$ 1,216,906,065</u>	<u>\$ 14,171,646</u>	<u>\$ (20,509,290)</u>	<u>\$1,210,568,421</u>

For the fiscal year 2017, the total amount of interest cost incurred was \$26,752,303, of which \$518,863 was capitalized as part of construction in progress.

Note 4 – Claims, Judgments, and Risk Management

The Fund is a participant in Pima County's self-insurance program. The County's self-insurance program covers the Fund for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In the opinion of the Fund's management, any unfavorable outcomes from these types of risks would be covered by that self-insurance program. Accordingly, the Fund has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. All estimated losses for unsettled claims and actions of Pima County are determined on an actuarial basis and are included in the *Pima County Comprehensive Annual Financial Report*.

Risks of loss arising from contractual breaches are not covered by the County's self-insurance program or commercial insurance. The Fund's management does not believe that these types of losses would be material to the financial statements; therefore, no accrual of losses has been reported in the financial statements. At June 30, 2017, there were no material lawsuits related to contractual breaches.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 5 – Long-Term Liabilities

The following schedule details the Fund’s long-term liability and obligation activity for the year ended June 30, 2017:

	Balance			Balance	Due Within
	June 30, 2016	Additions	Reductions	June 30, 2017	1 Year
Sewer revenue bonds	\$ 104,145,000		\$ (83,640,000)	\$ 20,505,000	\$ 9,285,000
Unamortized premium/discount	7,510		23,144	30,654	24,676
Total sewer revenue bonds payable	<u>104,152,510</u>		<u>(83,616,856)</u>	<u>20,535,654</u>	<u>9,309,676</u>
Sewer revenue obligations	449,500,000	\$ 256,595,000	(192,665,000)	513,430,000	42,565,000
Unamortized premium/discount	31,526,843	49,129,896	(19,600,407)	61,056,332	11,490,862
Total sewer revenue obligations payable	<u>481,026,843</u>	<u>305,724,896</u>	<u>(212,265,407)</u>	<u>574,486,332</u>	<u>54,055,862</u>
Wastewater loan payable	16,563,716		(11,934,644)	4,629,072	530,554
Total wastewater loan payable	<u>16,563,716</u>		<u>(11,934,644)</u>	<u>4,629,072</u>	<u>530,554</u>
Construction contract retention payable	1,577,551	1,407,679	(1,421,578)	1,563,652	
Compensated absences payable	2,338,155	512,184		2,850,339	1,435,807
Net pension liabilities	39,286,707		(1,283,492)	38,003,215	
Total long-term liabilities	<u>\$ 644,945,482</u>	<u>\$ 307,644,759</u>	<u>\$ (310,521,977)</u>	<u>\$ 642,068,264</u>	<u>\$ 65,331,899</u>

Sewer Revenue Bonds Payable—The Fund has issued several series of sewer revenue bonds (Series 2008 and Series 2009) to provide funds for the construction of a sewage treatment plant and the construction of improvements to the sewer system. The bonds are callable at par value on the date of call. Interest on the bonds is payable semiannually.

Sewer Revenue Obligations Payable—The Fund issued 2010, 2011B, 2012A, 2014, 2016 Refunding and 2017 Series of the Sewer System Revenue Obligations for the defeasance of prior years sewer revenue bonds and obligations, and for the purpose of financing capital improvement programs constituting improvements and extensions to the entire sewer system of the County. These are subordinated debts secured solely by pledged revenues and require no voter authorization.

During fiscal year 2016-17, the Fund defeased Sewer Revenue Bonds of \$27,840,000 (Series 2007), \$37,825,000 (Series 2008) and \$6,725,000 (Series 2009), and Sewer Revenue Obligations of \$85,495,000 (Series 2010) and \$71,000,000 (Series 2011B) by issuing \$211,595,000 of Sewer Revenue Refunding Obligations Series 2016 with an average life of 7.263 years and an average interest rate of 5.0%. This refunding transaction resulted in an economic gain of \$17,943,137 and a reduction in debt service between the refunding debt and the refunded debt of \$19,812,111. The proceeds of the new obligations were placed in an irrevocable trust to provide for future debt service payments of the refunded debts. Accordingly, the trust account assets and liability for the defeased bonds and obligations are not included in the Fund’s financial statements.

In February 2017, the County issued for the Fund \$45,000,000 in Sewer Revenue Obligations Series 2017. The net proceeds of the issuance were used primarily to provide funds for the acquisition, construction and improvement of sewer treatment facilities and conveyance systems.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 5 – Long-Term Liabilities (continued)

Wastewater Loan Payable—The Fund entered into loan agreement/amendment with the Water Infrastructure Financing Authority of Arizona (2009 loan payable) to provide funds for the construction and improvement of wastewater treatment facilities. Interest on the loan is payable semiannually. The Water Infrastructure Financing Authority of Arizona 2004 loan was repaid during fiscal year 2017.

Debt Covenants—All revenue bonds were issued and the loan agreements were executed with a first lien on the pledge of the Fund’s net revenues and have restrictive covenants, primarily related to minimum utility rates and limitations on future bond issues. The bond covenants also require the Fund to either maintain a surety bond guaranteeing the payment of annual debt service or to maintain in the Bond Reserve Account monies equal to the average annual debt service payment. At June 30, 2017, the Fund had a surety bond to meet the requirements of the debt covenants. The County is also authorized to issue for the Fund additional parity bonds if certain conditions are met, primarily that net revenues for the fiscal year immediately preceding issuance of the parity bonds exceed 120 percent of the maximum annual debt service requirements immediately after such issuance.

Bonds, obligations and loan outstanding at June 30, 2017, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Call Dates</u>	<u>Outstanding Principal</u>
Series 2008	4.00%	2018-19	July 1, 2018	\$ 16,320,000
Series 2009	3.75%	2018-20	July 1, 2019	4,185,000
Total sewer revenue bonds payable				<u>\$ 20,505,000</u>
Series 2010	3.5-5.0%	2018-21	July 1, 2020	\$ 58,980,000
Series 2011B	5.0%	2018-22	July 1, 2021	60,880,000
Series 2012A	2.0-5.0%	2018-27	July 1, 2022	96,375,000
Series 2014	5.00%	2018-28	July 1, 2023	40,600,000
Series 2016 Refunding	5.00%	2018-26		211,595,000
Series 2017	2.77%	2018-31		45,000,000
Total sewer revenue obligations payable				<u>\$ 513,430,000</u>
2009 loan payable	0.96%	2018-24		\$ 4,629,072
Total wastewater loan payable				<u>\$ 4,629,072</u>

Revenue bond, obligation debt service and loan payment requirements to maturity are as follows:

Year ending June 30,	<u>Revenue Bond Debt Service</u>		<u>Sewer Obligation Debt Service</u>		<u>Loan Payment Requirements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 9,285,000	\$ 809,738	\$ 42,565,000	\$ 24,367,850	\$ 530,554	\$ 107,524
2019	9,755,000	441,650	44,585,000	22,370,878	543,626	94,290
2020	1,465,000	54,937	54,565,000	20,206,078	557,021	80,730
2021			57,600,000	17,606,225	570,746	66,836
2022			59,840,000	14,871,007	584,810	52,599
2023-2027			234,965,000	32,154,256	1,842,315	68,829
2028-2031			19,310,000	1,261,390		
Total	<u>\$ 20,505,000</u>	<u>\$ 1,306,325</u>	<u>\$ 513,430,000</u>	<u>\$ 132,837,684</u>	<u>\$ 4,629,072</u>	<u>\$ 470,808</u>

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 5 – Long-Term Liabilities (continued)

The Fund has pledged future user charges, net of specified operating expenses, to repay \$20,505,000 in sewer revenue bonds and \$513,430,000 in sewer obligations issued between 2008 and 2017, and \$4,629,072 in sewer revenue loans issued in 2009. Proceeds from the bonds, obligations and loans provided financing for construction of various treatment facilities and sewer infrastructure within Pima County. The bonds, obligations and loans are payable from net sewer revenues and are payable through 2031. It is expected that approximately 77 percent of net revenues will be used to pay annual principal and interest payments on the bonds and obligations and approximately 2 percent of net revenues will be used to pay annual principal and interest on the loans. Total principal and interest remaining to be paid on the bonds, obligations and loans are \$21,811,325, \$646,267,684, and \$5,099,880, respectively. Principal and interest paid in the current year on the bonds and obligations, and on loans, and total customer net revenues were \$73,756,934, \$12,545,342 and \$91,458,734, respectively.

Construction Contract Retentions Payable—State laws and regulations require the Fund to withhold a portion of progress payments made on construction contracts until the successful completion of the construction project.

Note 6 – Due To/From Other Pima County Funds

Due to other Pima County funds represents payables to other County funds for goods or services. At June 30, 2017, the payables included \$9,147 due to General Fund, \$9,296 due to Flood Control, \$6,846 due to Stadium District and \$11,961 due to Development Services. At June 30, 2017 the receivables included \$1,137 due from Transportation and \$10,491 due from Other Special Revenue.

Note 7 – Related Party Transactions

Administrative and Fiscal Services—The Fund incurred expenses from Pima County for a variety of administrative and fiscal services, including \$6,601,046 for the allocation of overhead; \$1,301,708 for self-insurance premiums; \$4,893,313 for interdepartmental supplies and services charges; \$2,084,427 for motor pool charges; \$609,345 for repair and maintenance charges; and \$88,454 for other miscellaneous charges.

Public Works Center- The Fund occupies a portion of the Public Works Center and pays rent based on a pro rata share of the building expenses. The Fund's rent totaled \$308,155 for the year ended June 30, 2017.

Note 8 – Construction and Other Significant Commitments

At June 30, 2017, the Fund had construction contractual commitments of \$11,785,552 and other contractual commitments related to service contracts of \$1,217,566. Funding for these expenses will be primarily from Sewer Revenue Obligations and related fees.

Note 9 – Intergovernmental Agreement

The City of Tucson, Metropolitan Domestic Water Improvement District (MDWID), Town of Marana Water, and Oro Valley Water provide sewer utility billing and collection services, certain computer services, accounting information, and statistical data to the Fund. During the year ended June 30, 2017, the Fund paid fees totaling \$3,207,727, \$272,628, \$37,233 and \$211,160, respectively, for such services. As part of its agreement, the City of Tucson invests cash collected from utility customers and held for remittance to the Fund. Interest earnings on such investments are remitted to the Fund. The MDWID, Town of Marana Water and Oro Valley Water submit cash receipts to the Fund regularly. However, cash collections are not invested, therefore, MDWID, Town of Marana Water, and Oro Valley Water do not remit interest to the Fund.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 10 – Pension and Other Postemployment Benefits

Plan Description—The Fund contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing multiple-employer defined benefit health insurance premium (OPEB) plan; and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB) plan administered by the Arizona State Retirement System (ASRS) that covers employees of the State of Arizona and employees of participating subdivisions and school districts. Benefits are established by state statute and generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage based on years of service, of the retiree’s average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee’s monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree’s health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2. and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

At June 30, 2017 the Fund reported the following amounts related to pensions for which it contributes:

Net pension liability	\$ 38,003,215
Deferred outflows of resources	6,845,047
Deferred inflows of resources	5,770,114
Pension expense	(15,808)

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

	Retirement	
	Initial membership date	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
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 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. 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.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 10 – Pension and Other Postemployment Benefits (continued)

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 year ended June 30, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and the County was required by statute to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members’ annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of the annual covered payroll of retired members who worked for the County in positions that would typically be filled by an employee who contributes to the ASRS. The Fund’s contributions to the pension plan for the year ended June 30, 2017, were \$2,447,645. The Fund’s contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

<u>Year ended June 30,</u>	<u>Health Benefit Supplemental Fund</u>	<u>Long-Term Disability Fund</u>
2017	\$126,972	\$31,756
2016	\$111,116	\$26,664
2015	\$117,840	\$28,777

Pension Liability – At June 30, 2017, the Fund reported a liability of \$38,003,215 for its proportionate share of Pima County’s ASRS net pension liability. The net pension liability was measured at June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The Fund’s proportion of the net pension liability was based on the Fund’s actual contributions to the plan relative to the total of the County’s contributions. The County’s contributions for the year ended June 30, 2016 was 2.42% of the total of all participating employers’ contributions. The Fund’s proportion measured as of June 30, 2017, was 9.71 percent of the total County contribution which did not significantly change from that measured as of June 30, 2016.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the Fund recognized pension expense of (\$15,808). At June 30, 2017 the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 230,943	\$ 2,614,343
Net difference between projected and actual earnings on pension plan investments	4,118,283	2,010,674
Changes in proportion and difference between County contributions and proportionate share of contributions	48,176	1,145,097
County contributions subsequent to the measurement date	2,447,645	
Total	\$ 6,845,047	\$ 5,770,114

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 10 – Pension and Other Postemployment Benefits (continued)

The \$2,447,645 reported as deferred outflows of resources related to ASRS pensions resulting from Fund’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2018	\$ (2,371,976)
2019	(1,756,160)
2020	1,600,669
2021	1,154,755

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

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

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

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2017

Note 10 – Pension and Other Postemployment Benefits (continued)

Discount Rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Fund's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate - The following table presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Fund's proportionate share of the net pension liability	\$48,456,985	\$38,003,215	\$29,621,577

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

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**INDEPENDENT AUDITORS' 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**

Board of Supervisors
Pima County
Tucson, Arizona

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pima County, Regional Wastewater Reclamation Enterprise Fund (the Fund), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.



CliftonLarsonAllen LLP

Tucson, Arizona
October 30, 2017

