



# Wastewater Management Enterprise Fund

*For the Fiscal Year Ended June 30, 2007*

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Pima County, Arizona

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Report on Audit of Financial Statements  
June 30, 2007

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## INDEPENDENT AUDITORS' REPORT

The Board of Supervisors  
of Pima County, Arizona

We have audited the accompanying financial statements of the Wastewater Management Enterprise Fund, an enterprise fund of Pima County, Arizona, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of the Wastewater Management Enterprise Fund. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Wastewater Management Enterprise Fund are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities and the major fund of Pima County, Arizona that is attributable to the Wastewater Management Enterprise Fund, an enterprise fund of Pima County, Arizona. They do not purport to, and do not, present fairly the financial position of Pima County, Arizona, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Management Enterprise Fund, an enterprise fund of Pima County, Arizona, as of June 30, 2007, and the respective changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007 on our consideration of the Wastewater Management Enterprise 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.  
Certified Public Accountants

October 19, 2007

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Statement of Net Assets  
June 30, 2007

**Assets**

Current assets:

Cash and cash equivalents	\$	35,691,775
Restricted cash and cash equivalents		49,352,866
Interest receivable		407,754
Accounts receivable, net		9,210,124
Due from other Pima County funds		164
Due from other governments		2,164,773
Inventory of materials and supplies		3,111,823
Prepaid expenses		188,818
Total current assets		100,128,097

Noncurrent assets:

Restricted cash and cash equivalents:		
Held in escrow as construction contract retentions		654,175

Capital assets, net of accumulated depreciation where applicable:

Land and other improvements		7,833,896
Conveyance systems, net		349,455,284
Treatment facilities, net		234,108,819
Equipment, net		10,688,489
Construction in progress		35,618,504
Total capital assets, net		637,704,992

Deferred financing costs		1,108,526
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Total noncurrent assets		639,467,693
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Total assets	\$	739,595,790
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(Continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Statement of Net Assets  
June 30, 2007

(continued)

**Liabilities**

Current liabilities:

Accounts payable	\$	14,937,382
Accrued payroll and employee benefits		3,189,483
Due to other Pima County funds		204,764
Due to other governments		81,502
Interest payable		1,358,689
Current portion of sewer revenue bonds payable		7,350,000
Current portion of wastewater loans payable		5,721,589
Deferred revenue		1,048,665
Total current liabilities		33,892,074

Noncurrent liabilities:

Construction contract retentions payable		5,279,895
Sewer revenue bonds payable, less current portion		89,940,000
Wastewater loans payable, less current portion		70,571,713
Deferred interest expense and bond discount		(3,115,647)
Total noncurrent liabilities		162,675,961

Total liabilities

196,568,035

**Net Assets**

Invested in capital assets, net of related debt		468,345,862
Restricted for:		
Debt service		573,519
Capital Projects		35,479,933
Operation and maintenance		5,110,382
Unrestricted		33,518,059
Total net assets	\$	543,027,755

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Year Ended June 30, 2007

**Operating revenues:**

Sewer utility service	\$ 69,294,198
Engineering review and inspection fees	80,912
Permits and fines	77,979
Other income	330,201
Total operating revenues	69,783,290

**Operating expenses:**

Employee compensation	29,681,294
Operating supplies	8,579,373
Utilities	6,519,653
Sludge and refuse disposal	1,649,131
Repairs and maintenance	5,610,100
General and administrative	8,477,579
Consultants and professional services	7,144,575
Depreciation	22,989,712
Total operating expenses	90,651,417
Operating loss	(20,868,127)

**Nonoperating revenues (expenses):**

Intergovernmental revenue	7,290,545
Interest income	3,683,552
Sewer connection revenue	30,756,891
Loss on disposal of equipment	(1,453,933)
Interest expense	(6,498,914)
Amortization of deferred charges	(108,751)
Total nonoperating revenues (expenses)	33,669,390

Income before capital contributions and transfers	12,801,263
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Capital contributions	25,216,806
Transfers out	(653,646)

Increase in net assets	37,364,423
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Net assets, July 1, 2006	505,663,332
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<b>Net assets, June 30, 2007</b>	<b>\$ 543,027,755</b>
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See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Statement of Cash Flows  
Year Ended June 30, 2007

<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 66,689,074
Miscellaneous receipts	330,201
Payments to suppliers for goods and services	(28,832,456)
Payments to other Pima County Funds for goods and services	(7,741,334)
Payments to employees	(29,482,485)
Net cash provided by operating activities	<u>963,000</u>
 <b>Cash flows from noncapital financing activities:</b>	
Intergovernmental receipts	556,407
Repayment of interfund borrowings	28,818
Net cash provided by noncapital financing activities	<u>585,225</u>
 <b>Cash flows from capital and related financing activities:</b>	
Sewer connection receipts from customers	30,650,001
Proceeds from the sale of capital assets	128,290
Intergovernmental contract receipts	4,820,374
Purchase and construction of capital assets	(43,720,263)
Proceeds from issuance of sewer loans	51,429,022
Principal payments on revenue bonds and loans	(13,737,957)
Interest payments on revenue bonds and loans	(6,119,878)
Net cash provided by capital and related financing activities	<u>23,449,589</u>
 <b>Cash flows from investing activities:</b>	
Interest received on investments	3,275,798
Net cash provided by investing activities	<u>3,275,798</u>
<b>Net increase in cash and cash equivalents</b>	28,273,612
Cash and cash equivalents, July 1, 2006	<u>57,425,204</u>
<b>Cash and cash equivalents, June 30, 2007</b>	<u>\$ 85,698,816</u>
	(Continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Statement of Cash Flows  
Year Ended June 30, 2007

(continued)

**Reconciliation of operating loss to net cash provided by operating activities:**

Operating loss	\$ (20,868,127)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	22,989,712
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	(892,295)
Due from other governments	(1,871,720)
Inventory of materials and supplies	(80,149)
Prepaid expenses	(95,929)
Increase (decrease) in liabilities:	
Accounts payable	1,525,494
Due to other governments	57,205
Accrued payroll and employee benefits	198,809
Net cash provided by operating activities	\$ 963,000

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2007:

Developers conveyed capital assets with an estimated fair value of \$25,421,367 and other capital assets totaling \$36,000 was received from other governments. These transactions were recorded as capital contributions.

Pima County Board of Supervisors approved Connection Fee Flow-Through Sewer Credit Agreements totaling \$282,311. This transaction was recorded as an increase to deferred revenue and a decrease in capital contributions.

The Fund retired expired Sewer Credit Agreements totaling \$41,750. This transaction was recorded as a decrease to deferred revenue and an increase in capital contributions.

The Fund disposed of capital assets with a net book value of \$1,582,224.

The Fund transferred to the County's general government the capital assets with a net book value of \$653,646.

The Fund received fully-depreciated capital assets from the County's general government, \$79,638 and from Other Enterprise Funds \$7,527.

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Pima County (County) and its Wastewater Management Enterprise Fund (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, and 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 Wastewater Management Enterprise Fund as one of the enterprise funds of Pima County and are not intended to present the balances and activity of Pima County and 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, liabilities, net assets, 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 assets 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 the consolidated financial statement presentation.

Unless in conflict with GASB pronouncements, the Fund follows Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research bulletins. The Fund has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

**D. Basis of Presentation**

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

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 1 - Summary of Significant Accounting Policies (continued)**

Invested in capital assets net of related debt represents the cost of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, 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 assets 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 assets are reported, including capital contributions and transfers. Generally charges for services and fees generated from providing waste 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, 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, and deposits held in escrow accounts. All investments are stated at fair value.

**F. Accounts Receivable**

Accounts receivable consist primarily of amount 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 valuations 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.

**H. Capital Assets**

Purchased capital assets are reported at actual cost. Donated assets are reported at estimated fair market value at the time received. The Fund capitalizes all land and developer contributions regardless of cost, sewage conveyance system, buildings and improvements, and infrastructure costing \$100,000 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

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 1 - Summary of Significant Accounting Policies (continued)**

expense against operations. All assets other than land 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. Compensated Absences**

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

Employees may accumulate up to 240 hours of vacation depending upon years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation 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 are forfeited upon termination of employment. Sick leave benefits do not vest with employees; however employees who are eligible to retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability.

**J. 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.

**K. Deferred Interest Expense**

For advance refundings resulting in defeasance of debt, the difference between the reacquisition price and net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the refunded debt or the refunding debt, whichever is shorter. This deferred amount is reported as a deduction from the new debt liability on the statement of net assets.

**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 estimated fair value. 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 deferred 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.

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 2 - Cash and Investments**

Cash and cash equivalents consisted of the following amounts:

<u>Current</u>	
Cash on hand	\$ 2,700
Cash and cash equivalents	35,689,075
Restricted cash and cash equivalents;	
Construction	35,479,933
Debt service	8,762,551
Operation and maintenance	<u>5,110,382</u>
Total restricted cash	49,352,866
Total current cash and cash equivalents	<u>85,044,641</u>
<u>Noncurrent</u>	
Restricted cash and cash equivalents;	
Deposits held in escrow accounts	<u>654,175</u>
Total cash and cash equivalents	<u>\$85,698,816</u>

Current restricted cash and cash equivalents represents cash received for capital projects, anticipated debt service payments, and an estimated one-twelfth 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 are deposits held in escrow pending completion of capital 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. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Fund's portion in the pool is not identified with specific investments and is not subject to custodial credit risk.

**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 pool had a weighted average maturity of 119 days at June 30, 2007.

**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 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.

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 2 - Cash and Investments (continued)**

**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.

**Note 3 - Capital Asset Activity**

Capital asset activity for the year ended June 30, 2007, is presented in the following schedule:

	Balance <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land and other improvements	\$ 6,844,999	\$ 1,610,002	\$ 621,105	\$ 7,833,896
Construction in progress	<u>14,841,706</u>	<u>28,891,862</u>	<u>8,115,064</u>	<u>35,618,504</u>
Total capital assets not being depreciated	<u>21,686,705</u>	<u>30,501,864</u>	<u>8,736,169</u>	<u>43,452,400</u>
Capital assets being depreciated:				
Conveyance systems	490,599,824	33,064,717	869,164	522,795,377
Treatment facilities	340,259,985	12,876,640	11,498,023	341,638,602
Equipment	<u>12,974,411</u>	<u>6,713,299</u>	<u>2,220,743</u>	<u>17,466,967</u>
Total capital assets being depreciated	<u>843,834,220</u>	<u>52,654,656</u>	<u>14,587,930</u>	<u>881,900,946</u>
Less accumulated depreciation for:				
Conveyance systems	163,265,111	10,695,327	620,345	173,340,093
Treatment facilities	106,360,626	11,374,525	10,205,368	107,529,783
Equipment	<u>7,941,475</u>	<u>1,007,025</u>	<u>2,170,022</u>	<u>6,778,478</u>
Total accumulated depreciation	<u>277,567,212</u>	<u>23,076,877</u>	<u>12,995,735</u>	<u>287,648,354</u>
Total capital assets being depreciated, net	<u>566,267,008</u>	<u>29,577,779</u>	<u>1,592,195</u>	<u>594,252,592</u>
Capital assets, net	<u>\$ 587,953,713</u>	<u>\$ 60,079,643</u>	<u>\$ 10,328,364</u>	<u>\$ 637,704,992</u>

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 3 - Capital Asset Activity (continued)**

Depreciation expense was charged as follows;

Conveyance systems	\$ 10,695,327
Treatment facilities	11,374,525
Equipment	<u>919,860</u>
Total	<u>\$ 22,989,712</u>

**Note 4- Long-Term Liabilities**

The following schedule details the Fund's long-term liability and obligation activity for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>1 year</u>
Sewer revenue bonds	\$ 55,525,000	\$50,000,000	\$ 8,235,000	\$ 97,290,000	\$ 7,350,000
Less unamortized deferred amounts	<u>3,815,477</u>	<u>442,844</u>	<u>439,148</u>	<u>2,933,485</u>	<u>                    </u>
Total sewer revenue bonds payable	<u>51,709,523</u>			<u>94,356,515</u>	<u>7,350,000</u>
Wastewater loans payable	80,367,237	1,429,022	5,502,957	76,293,302	5,721,589
Less unamortized deferred amounts	<u>218,594</u>		<u>36,432</u>	<u>182,162</u>	<u>                    </u>
Total wastewater loans payable	<u>80,148,643</u>			<u>76,111,140</u>	<u>5,721,589</u>
Construction contract retention payable	<u>4,562,235</u>	<u>787,327</u>	<u>69,667</u>	<u>5,279,895</u>	<u>                    </u>
Total long-term liabilities	<u>\$136,420,401</u>	<u>\$52,659,193</u>	<u>\$13,332,044</u>	<u>\$175,747,550</u>	<u>\$13,071,589</u>

**Sewer Revenue Bonds Payable**—The Fund has issued several series of sewer revenue bonds (Series 1998, Refunding 2001, Refunding 2004, and Series 2007) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a utility plant, and the construction of improvements to the sewer system. The bonds are callable at various prices depending on the date of call. Interest on the bonds is payable semiannually. Of the total amount originally authorized, \$3,666,000 from the May 20, 1997, bond election, and \$100,277,000 from the May 18, 2004, bond election remain unissued.

**Wastewater Loans Payable**—The Fund has entered into four loan agreements with the Water Infrastructure Financing Authority of Arizona (1996, 1997, 2000, and 2004 loans payable) to provide funds for the defeasance of prior sewer revenue bonds and the construction and improvement of wastewater treatment facilities. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding.

At June 30, 2007, the Fund has drawn down the total authorized loan amount of \$19,967,331 for the 2004 Water Infrastructure Financing Authority of Arizona (WIFA) loan. Payments of principal, which are subject to change, are based on the total amounts drawn.

In January 2007, the County issued for the Fund \$50,000,000 in Sewer Revenue Bonds Series 2007. The net proceeds of the issuance were used to provide monies for the construction and improvements of the County's wastewater conveyance systems and treatment facilities.

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 4- Long-Term Liabilities (continued)**

**Debt Covenants**—All revenue bonds were issued and the loan agreements were executed with a first lien on the first 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, 2007, 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 and loans outstanding at June 30, 2007, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Principal</u>
Series 1998	4.5-5.5%	2008-15	\$ 15,555,000
Refunding 2001	4.0-5.4%	2008-15	13,845,000
Refunding 2004	2.63-5.5%	2008-15	20,555,000
Series 2007	4.0-5.0%	2008-26	47,335,000
Total sewer revenue bonds payable			<u>\$ 97,290,000</u>
1996 loan payable	3.19%	2007-12	\$ 7,132,382
1997 loan payable	2.95%	2007-11	3,101,892
2000 loan payable	2.20%	2007-16	46,091,697
2004 loan payable	1.81%	2007-24	19,967,331
Total wastewater loans payable			<u>\$ 76,293,302</u>

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

	<u>Revenue Bond Debt Service</u>		<u>Loan Payment Requirements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30,				
2008	\$ 7,350,000	\$ 4,352,038	\$ 5,721,589	\$ 2,623,786
2009	7,650,000	4,048,614	5,955,046	2,422,506
2010	6,990,000	3,705,676	6,316,650	2,200,458
2011	7,310,000	3,408,976	7,604,514	1,948,065
2012	8,395,000	3,078,139	7,891,095	1,666,783
2013-2017	31,755,000	9,618,938	32,479,713	4,665,205
2018-2022	13,955,000	4,744,619	6,134,737	1,214,306
2023-2026	13,885,000	1,438,500	4,189,958	211,042
Total	<u>\$ 97,290,000</u>	<u>\$ 34,395,500</u>	<u>\$ 76,293,302</u>	<u>\$ 16,952,151</u>

**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.

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 5 - Due To Other Pima County Funds**

Due to other Pima County funds represents payables for goods or services. At June 30, 2007, the payables included \$10,097 due to the General Fund, \$16,861 due to the Environmental Quality Fund-Solid Waste Management, and \$177,806 due to the Capital Projects Fund.

**Note 6 - Related Party Transactions**

**Administrative and Fiscal Services**—The Fund incurred expenses from Pima County for a variety of administrative and fiscal services, including \$2,368,937 for the allocation of overhead; \$1,679,928 for self-insurance premiums; \$380,665 for interdepartmental supplies and services charges; \$1,481,629 for motor pool charges; \$178,791 for professional charges; \$1,020,429 for repair and maintenance charges; \$126,241 for printing charges; and \$296,058 for miscellaneous other 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 incurred by the Pima County Facilities Management department. The Fund's rent totaled \$208,656 for the year ended June 30, 2007.

**Note 7 - Significant Commitments**

Commitments under construction contracts at June 30, 2007 totaled \$22,401,837.

**Note 8 - 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, 2007, there were no material lawsuits related to contractual breaches.

**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, 2007, the Fund paid fees totaling \$2,199,154, \$136,348, \$22,529, and \$112,789, 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, and therefore, MDWID, Town of Marana Water, and Oro Valley Water do not remit interest to the Fund.

PIMA COUNTY, ARIZONA  
Wastewater Management Enterprise Fund  
Notes to Financial Statements  
June 30, 2007

**Note 10 - Retirement Plan**

**Plan Description**—The Fund contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS) that covers general employees of the Fund. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. 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.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, by calling (602) 240-2000 or on-line at <http://www.ASRS.state.az.us/web/Aboutus.do>.

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the Fund's contribution rates. For the year ended June 30, 2007, active plan members and the Fund were each required by statute to contribute at the actuarially determined rate of 9.10 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Fund's contributions to the ASRS for the years ended June 30, 2007, 2006, and 2005, were 2,024,877, \$1,528,578, and \$1,172,625, respectively, which were equal to the required contributions for the year.

**Note 11 – Subsequent Event**

On October 17, 2007, the town of Marana, Arizona filed a lawsuit against Pima County after negotiations over the transfer of the sewer treatment facilities and the conveyance system, failed to produce an agreement. The town of Marana rescinded the 1979 agreement with Pima County to operate and supply sewer services to the town. The liability and future outcome of this litigation is unknown at this time.



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**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**

The Board of Supervisors  
of Pima County, Arizona

Members of the Board:

We have audited the financial statements of the Wastewater Management Enterprise Fund, an enterprise fund of Pima County, Arizona as of and for the year ended June 30, 2007, and have issued our report thereon dated October 19, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wastewater Management Enterprise Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 Wastewater Management Enterprise Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wastewater Management Enterprise Fund's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wastewater Management Enterprise Fund's financial statements are free of 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*.

This report is intended solely for the information and use of the management, Board of Supervisors, others within the entity and governmental agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
Certified Public Accountants

October 19, 2007