

Pima County, Arizona

*Regional Wastewater Reclamation
Enterprise Fund*

2011



For the Fiscal Year Ended June 30, 2011

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
June 30, 2011

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BEACHFLEISCHMAN

Independent Auditors' Report

Board of Supervisors
Pima County, Arizona

We have audited the accompanying financial statements of the Regional Wastewater Reclamation Enterprise Fund, an enterprise fund of Pima County, Arizona, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of management. 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 the 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 present only the Regional Wastewater Reclamation Enterprise Fund and do not purport to, and do not, present fairly the financial position of Pima County, Arizona, as of June 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Regional Wastewater Reclamation Enterprise Fund, an enterprise fund of Pima County, Arizona, as of June 30, 2011, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of the Regional Wastewater Reclamation 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 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.

October 26, 2011

BeachFleischman PC
1985 E River Road, Suite 201
Tucson, AZ 85718-7176

Mailing Address
PO Box 64130
Tucson, AZ 85728-4130

T 520.321.4600
F 520.321.4040
beachfleischman.com

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Net Assets
June 30, 2011

Assets

Current assets:

Cash and cash equivalents	\$ 32,806,111
Restricted cash and cash equivalents	82,804,457
Interest receivable	35,981
Accounts receivable, net	17,679,341
Due from other Pima County funds	2,718
Inventory of materials and supplies	3,832,467
Prepaid expenses	36,052
Total current assets	137,197,127

Noncurrent assets:

Restricted cash and cash equivalents:

Restricted for debt service	11,177,359
Emergency reserve fund	20,000,000
Held in escrow as construction contract retentions	603,000
Total restricted assets	31,780,359

Capital assets, net of accumulated depreciation where applicable:

Land and other improvements	11,273,564
Intangibles - easements	2,366,925
Conveyance systems, net	435,232,513
Treatment facilities, net	202,679,156
Equipment, net	82,121,270
Construction in progress	165,481,186
Total capital assets, net	899,154,614

Deferred financing costs

4,525,649

Total noncurrent assets

935,460,622

Total assets

\$ 1,072,657,749

(continued)

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Net Assets
June 30, 2011

(continued)

Liabilities

Current liabilities:

Accounts payable	\$ 24,117,030
Accrued payroll and employee benefits	4,039,757
Due to other Pima County funds	323,949
Interest payable	427,775
Current portion of sewer revenue bonds payable	13,120,000
Current portion of wastewater loans payable	3,684,558
Deferred revenue	1,485,892
Total current liabilities	47,198,961

Noncurrent liabilities:

Construction contract retentions payable	4,657,058
Sewer revenue bonds and obligations payable, less current portion	334,310,000
Wastewater loans payable, less current portion	23,719,257
Deferred interest expense and bond discount	14,186,612
Total noncurrent liabilities	376,872,927

Total liabilities	424,071,888
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Net Assets

Invested in capital assets, net of related debt	568,969,849
Restricted for:	
Debt service	12,567,214
Capital Projects	24,235,415
Operation and maintenance	17,161,380
Unrestricted	25,652,003
Total net assets	\$ 648,585,861

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2011

Operating revenues:

Sewer utility service	\$ 128,240,863
Engineering review and inspection fees	114,602
Permits and fines	30,131
Other income	1,883,333
Total operating revenues	130,268,929

Operating expenses:

Employee compensation	34,597,824
Operating supplies	8,200,393
Utilities	5,176,078
Sludge and refuse disposal	1,438,103
Repairs and maintenance	7,201,534
General and administrative	8,675,893
Consultants and professional services	6,277,635
Depreciation	31,540,041
Total operating expenses	103,107,501
Operating income	27,161,428

Nonoperating revenues (expenses):

Interest income	621,760
Sewer connection revenue	19,624,015
Loss on disposal of equipment	(599,931)
Interest expense	(9,516,722)
Amortization of deferred charges	(750,173)
Total nonoperating revenues (expenses)	9,378,949
Income before capital contributions and transfers	36,540,377
Capital contributions	4,027,186
Transfers in	172,036
Transfers out	(805,445)
Increase in net assets	39,934,154
Net assets, July 1, 2010	608,651,707
Net assets, June 30, 2011	\$ 648,585,861

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Cash Flows
Year ended June 30, 2011

Cash flows from operating activities:

Receipts from customers	\$ 126,893,689
Miscellaneous receipts	1,883,333
Payments to suppliers for goods and services	(27,177,142)
Payments to other Pima County funds for goods and services	(10,043,947)
Payments to employees	(34,509,466)
Net cash provided by operating activities	57,046,467

Cash flows from noncapital financing activities:

Repayment of interfund borrowings	(498,169)
Net cash used for noncapital financing activities	(498,169)

Cash flows from capital and related financing activities:

Sewer connection receipts from customers	19,209,464
Intergovernmental contract receipts	280,155
Purchase and construction of capital assets	(117,291,884)
Proceeds from issuance of sewer revenue bonds	43,625,000
Principal payments on revenue bonds and loans	(67,184,165)
Interest payments on revenue bonds and loans	(9,585,596)
Net cash used for capital and related financing activities	(130,947,026)

Cash flows from investing activities:

Interest received on investments	645,204
Net cash provided by investing activities	645,204

Net increase in cash and cash equivalents (73,753,524)

Cash and cash equivalents, July 1, 2010 221,144,451

Cash and cash equivalents, June 30, 2011 **\$ 147,390,927**

(continued)

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Statement of Cash Flows
Year ended June 30, 2011

(continued)

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

Operating income	\$	27,161,428
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		31,540,041
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable		(1,491,907)
Inventory of materials and supplies		(129,590)
Prepaid expenses		114,373
Increase (decrease) in liabilities:		
Accounts payable		471,914
Due to other governments		(708,150)
Accrued payroll and employee benefits		88,358
Net cash provided by operating activities	\$	57,046,467

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2011:

Developers conveyed capital assets with an estimated fair value of \$4,038,154. This transaction was recorded as capital contributions.

Pima County Board of Supervisors approved Connection Fee Flow-Through Sewer Credit Agreements totaling \$93,193. This transaction was recorded as an increase to deferred revenue and a decrease in capital contributions.

The Fund retired expired Sewer Credit Agreements totaling \$82,225. 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 \$599,931.

The Fund received capital assets with a net book value of \$77,708 from the County's general government.

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

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, 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.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (continued)

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. 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 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, deposit with fiscal agent and deposits held in escrow accounts. All 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 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.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (continued)

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 systems, buildings and improvements, infrastructure and intangibles 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 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. 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 a limited number of sick leave (1,920) hours. 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.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

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 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.

Note 2 – Cash and Investments

Cash and cash equivalents consisted of the following amounts:

Current	
Cash on hand	\$ 2,500
Cash and cash equivalents	32,803,611
Restricted cash and cash equivalents:	
Construction	58,835,662
Debt service	6,807,415
Operation and maintenance	<u>17,161,380</u>
Total restricted cash	82,804,457
Noncurrent	
Restricted cash and cash equivalents:	
Debt service	11,177,359
Emergency reserve fund	20,000,000
Deposits held in escrow	<u>603,000</u>
Total restricted cash	<u>31,780,359</u>
Total cash and cash equivalents	<u><u>\$ 147,390,927</u></u>

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.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

Note 2 – Cash and Investments (continued)

Noncurrent restricted cash and cash equivalents consisted of deposits with fiscal agent for the reserve requirement which is equal to one-half of maximum annual debt service on the 2010 Obligations, emergency reserve funds to cover potential emergency and unplanned projects and deposits held in escrow pending completion of construction 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 had a weighted average maturity of 198 days at June 30, 2011.

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.

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, 2011

Note 3— Capital Asset Activity

Capital asset activity for the year ended June 30, 2011, is presented in the following schedule:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land and other improvements	\$ 11,252,984	\$ 20,580		\$ 11,273,564
Intangibles - easements	2,157,511	209,414		2,366,925
Construction in progress	92,178,507	115,927,106	\$ 42,624,427	165,481,186
Total capital assets not being depreciated	<u>105,589,002</u>	<u>116,157,100</u>	<u>42,624,427</u>	<u>179,121,675</u>
Capital assets being depreciated:				
Conveyance systems	632,632,690	49,109,136	21,593	681,720,233
Treatment facilities	354,252,551	4,062,890	2,798,773	355,516,668
Equipment	103,428,529	4,281,245	232,988	107,476,786
Total capital assets being depreciated	<u>1,090,313,770</u>	<u>57,453,271</u>	<u>3,053,354</u>	<u>1,144,713,687</u>
Less accumulated depreciation for:				
Conveyance systems	234,137,758	12,367,249	17,287	246,487,720
Treatment facilities	141,558,739	11,842,291	563,518	152,837,512
Equipment	18,253,816	7,330,501	228,801	25,355,516
Total accumulated depreciation	<u>393,950,313</u>	<u>31,540,041</u>	<u>809,606</u>	<u>424,680,748</u>
Total capital assets being depreciated, net	<u>696,363,457</u>	<u>25,913,230</u>	<u>2,243,748</u>	<u>720,032,939</u>
Capital assets, net	<u>\$ 801,952,459</u>	<u>\$ 142,070,330</u>	<u>\$ 44,868,175</u>	<u>\$ 899,154,614</u>

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, 2011, there were no material lawsuits related to contractual breaches.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

Note 5 – Long-Term Liabilities

The following schedule details the Fund's long-term liability and obligation activity for the year ended June 30, 2011:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>	<u>1 year</u>
Sewer revenue bonds	\$ 167,110,000	\$ 43,625,000	\$ 28,305,000	\$ 182,430,000	\$ 13,120,000
Sewer revenue obligations	165,000,000			165,000,000	
Plus unamortized deferred amounts	<u>12,962,738</u>	<u>2,044,495</u>	<u>(805,876)</u>	<u>14,201,357</u>	
Total sewer revenue bonds payable	<u>345,072,738</u>			<u>361,631,357</u>	<u>13,120,000</u>
Wastewater loans payable	66,282,980		38,879,165	27,403,815	3,684,558
Less unamortized deferred amounts	<u>(72,865)</u>		<u>(58,120)</u>	<u>(14,745)</u>	
Total wastewater loans payable	<u>66,210,115</u>			<u>27,389,070</u>	<u>3,684,558</u>
Construction contract retention payable	<u>6,305,044</u>	<u>4,720,869</u>	<u>6,368,855</u>	<u>4,657,058</u>	
Total long-term liabilities	<u>\$ 417,587,897</u>	<u>\$ 50,390,364</u>	<u>\$ 74,300,776</u>	<u>\$ 393,677,485</u>	<u>\$ 16,804,558</u>

Sewer Revenue Bonds Payable—The Fund has issued several series of sewer revenue bonds (Refunding 2004, Series 2007, Series 2008, Series 2009, and Refunding 2011A) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a sewage treatment 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. The entire authorized amounts from the May 20, 1997 and May 18, 2004 bond elections have been issued in full by the end of fiscal year 2010.

Sewer Revenue Obligations Payable—The Fund issued 2010 Series of the Sewer System Revenue Obligations 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.

Wastewater Loans Payable—The Fund has entered into four loan agreements/amendments with the Water Infrastructure Financing Authority of Arizona (1996, 1997, 2004, and 2009 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.

In March 2011, the County issued for the Fund \$43,625,000 in Sewer Revenue Refunding Bonds, Series 2011A. The net proceeds of the refunding bonds were used to advance refund \$6,115,000 of the Sewer Revenue Bonds, (Series 1998); \$8,765,000 of the Sewer Revenue Bonds (Series 2001); and \$30,827,217 of the Wastewater Loans payable (Series 2000). Accordingly, the refunded sewer revenue bonds and the wastewater loans payable are considered defeased and the related liabilities are not included in the financial statements.

As a result of the Sewer Revenue Refunding Bonds Series 2011A issue, the Fund decreased its total debt service payment by \$1,870,813. This resulted in an economic gain of \$1,745,406.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

Note 5 – Long-Term Liabilities (continued)

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, 2011, 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, 2011, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Principal</u>
*Refunding 2004	4.6-5.5%	2011-15	\$ 12,455,000
*Series 2007	3.75-5.0%	2011-26	40,655,000
*Series 2008	4.0-5.0%	2011-23	73,580,000
Series 2009	3.25-4.25%	2011-24	17,115,000
Series 2010	2.5-5.0%	2014-2025	165,000,000
Refunding 2011A	2.0-5.0%	2011-2016	<u>38,625,000</u>
Total sewer revenue bonds payable			<u>\$ 347,430,000</u>
1996 loan payable	3.19%	2011-12	\$ 2,729,141
1997 loan payable	2.95%	2011	656,940
2004 loan payable	1.81%	2011-24	16,462,786
2009 loan payable	0.96%	2011-24	<u>7,554,948</u>
Total wastewater loans payable			<u>\$ 27,403,815</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,				
2012	\$ 13,120,000	\$ 15,949,031	\$ 3,684,558	\$ 791,772
2013	14,895,000	15,373,344	2,550,111	686,930
2014	18,765,000	14,686,781	1,489,449	622,022
2015	19,555,000	13,828,706	1,534,678	576,095
2016	17,950,000	12,947,519	1,581,303	528,749
2017-2021	141,940,000	48,830,013	8,657,925	1,880,719
2022-2026	<u>121,205,000</u>	<u>13,975,706</u>	<u>7,905,791</u>	<u>490,557</u>
Total	<u>\$347,430,000</u>	<u>\$135,591,100</u>	<u>\$ 27,403,815</u>	<u>\$ 5,576,844</u>

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

Note 5 – Long-Term Liabilities (continued)

The Fund has pledged future user charges, net of specified operating expenses, to repay \$347,430,000 in sewer revenue bonds issued between 2004 and 2011, and \$27,403,815 in sewer revenue loans issued between 1996 and 2009. Proceeds from the bonds and loans provided financing for construction of various treatment facilities and sewer infrastructure within Pima County. The bonds and loans are payable from net sewer revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require approximately 37 percent of net revenues. The annual principal and interest payments on the loans are expected to require approximately 14 percent of net revenues. Total principal and interest remaining to be paid on the bonds is \$483,021,100. Total principal and interest to be paid on the loans is \$32,980,659. Principal and interest paid for bonds and loans in the current year and total customer net revenues were \$20,942,853, 10,473,173, and \$84,005,275, 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 Other Pima County Funds

Due to other Pima County funds represents payables to other County funds for goods or services. At June 30, 2011, the payables included \$117,811 due to the General Fund, \$266 due to Transportation, \$44,436 due to Solid Waste, \$1,173 due to Planning and Development, \$442 due to Parking Garages, \$22,550 due to Communications and \$137,271 due to Fleet Services.

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 \$3,544,644 for the allocation of overhead; \$1,068,941 for self-insurance premiums; \$3,282,586 for interdepartmental supplies and services charges; \$1,129,807 for motor pool charges; \$689,061 for repair and maintenance charges; and \$19,007 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. The Fund's rent totaled \$309,901 for the year ended June 30, 2011.

Note 8 – Construction and Other Significant Commitments

At June 30, 2011, the Fund had construction contractual commitments of \$17,647,621 and other contractual commitments related to service contracts of \$6,301,238. Funding for these expenditures will be primarily from Sewer Revenue Bonds and related fees.

PIMA COUNTY, ARIZONA
Regional Wastewater Reclamation Enterprise Fund
Notes to Financial Statements
June 30, 2011

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, 2011, the Fund paid fees totaling \$2,231,122, \$160,647, \$37,853, and \$155,533, 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.

Note 10 – Retirement Plan

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 plan; and a cost-sharing, multiple-employer defined benefit long-term disability 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 spouse. 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, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and health insurance benefit, and 0.25 percent long-term disability) of the members’ annual covered payroll, and the Fund was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members’ annual covered payroll.

<u>Year ended</u> <u>June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit</u> <u>Supplemental Fund</u>	<u>Long-Term</u> <u>Disability Fund</u>
2011	\$2,139,527	\$140,102	\$59,366
2010	2,077,442	164,402	99,637
2009	2,074,550	249,257	129,822



BEACHFLEISCHMAN

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, Arizona

We have audited the financial statements of the Regional Wastewater Reclamation Enterprise Fund, an enterprise fund of Pima County, Arizona, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board 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 the Regional Wastewater Reclamation Enterprise Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Regional Wastewater Reclamation Enterprise Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the Regional Wastewater Reclamation 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 management, the Board of Supervisors, others within the entity, governmental agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 26, 2011

BeachFleischman PC
1985 E River Road, Suite 201
Tucson, AZ 85718-7176

Mailing Address
PO Box 64130
Tucson, AZ 85728-4130

T 520.321.4600
F 520.321.4040
beachfleischman.com