

# 2019

Regional Wastewater  
Reclamation Enterprise Fund  
**ANNUAL FINANCIAL REPORT**



**PIMA COUNTY**

For the Fiscal Year Ended June 30, 2019 • Pima County, Arizona

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
June 30, 2019

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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, 2019, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the Pima County, Regional Wastewater Reclamation Enterprise Fund as of June 30, 2019, and the changes in financial position and 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 and the Supplemental schedules related to the Funds portion of the County’s pension and other post-employment benefit plans 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 no 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, 2019, 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 results of that testing, and not to provide an opinion on the effectiveness of the 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, 2019



## **Basic Financial Statements**

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PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Statement of Net Position  
June 30, 2019

**Assets**

**Current assets:**

Cash and cash equivalents	\$	66,723,819
Restricted cash and cash equivalents		31,225,373
Interest receivable		207,868
Accounts receivable, net		18,508,777
Due from other governments		6,816
Inventory of materials and supplies		3,018,082
Prepaid expenses		491,669
		120,182,404
Total current assets		120,182,404

**Noncurrent assets:**

Restricted cash and cash equivalents:		
Restricted for debt service		35,907,379
Emergency reserve fund		20,000,000
		55,907,379
Total restricted assets		55,907,379

Net other postemployment benefits asset		80,975
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Capital assets, net of accumulated depreciation where applicable:

Land		10,509,288
Intangibles - Easements		3,700,665
Sewage conveyance system, net		552,458,260
Treatment facilities, net		510,697,906
Equipment, net		84,981,821
Construction in progress		47,539,435
		1,209,887,375
Total capital assets, net		1,209,887,375
Total noncurrent assets		1,265,875,729
Total assets		1,386,058,133

**Deferred outflows of resources:**

Pension and other postemployment benefits		4,541,654
Deferred charge on debt refunding		12,070,944
Asset retirement obligations		4,508,370
		21,120,968
Total deferred outflows of resources		21,120,968

(Continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Statement of Net Position  
June 30, 2019  
(Continued)

**Liabilities**

**Current liabilities:**

Accounts payable	\$	12,558,965
Payroll and employee benefits		563,809
Due to other Pima County funds		14,712
Due to other governments		11,613
Unearned revenue - connection fee credits		647,892
Current portion of:		
Compensated absences payable		1,873,168
Sewer revenue obligations payable		46,885,000
Wastewater loan payable		570,746
Sewer revenue obligations premium		10,752,072
Total current liabilities		73,877,977

**Noncurrent liabilities:**

Compensated absences payable		657,317
Construction contract retentions payable		886,986
Sewer revenue obligations payable		429,845,000
Wastewater loan payable		2,427,125
Sewer revenue obligations premium		38,549,348
Net pension and other postemployment benefits liability		31,169,328
Asset retirement obligations		6,159,271
Total noncurrent liabilities		509,694,375
Total liabilities		583,572,352

**Deferred inflows of resources:**

Pension and other postemployment benefits		4,643,180
Total deferred inflows of resources		4,643,180

**Net position**

Net investment in capital assets		699,142,021
Restricted for:		
Debt service		41,762,228
Capital projects		6,447,003
Operation and maintenance		19,157,531
Unrestricted		52,454,786
Total net position	\$	818,963,569

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2019

**Operating revenues:**

Sewer utility service	\$ 165,279,059
Engineering review and inspection fees	119,708
Permits and fines	18,143
Other income	<u>1,010,494</u>
Total operating revenues	<u>166,427,404</u>

**Operating expenses:**

Employee compensation	26,154,632
General and administrative	14,490,438
Consultants and professional services	12,168,812
Operating supplies	7,387,212
Repairs and maintenance	7,653,479
Utilities	6,505,006
Sludge and refuse disposal	1,730,637
Depreciation	<u>55,576,193</u>
Total operating expenses	<u>131,666,409</u>

Operating income	<u>34,760,995</u>
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**Nonoperating revenues (expenses):**

Interest income	4,014,362
Sewer connection revenues	14,701,202
Loss on disposal of capital assets	(722,059)
Gain / (Loss) on debt defeasance	(265,497)
Interest expense	(16,598,750)
Debt issuance cost	<u>(325,115)</u>
Total nonoperating revenues (expenses)	<u>804,143</u>

Income before capital contributions and transfers	35,565,138
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Capital contributions	10,967,486
Transfers in	19,511,946
Transfers out	<u>(29,461,573)</u>
Increase in net position	36,582,997
<b>Net position - July 1, 2018, as restated</b>	<u>782,380,572</u>
<b>Net position - June 30, 2019</b>	<u><u>\$ 818,963,569</u></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, 2019

**Cash flows from operating activities:**

Receipts from customers	\$ 164,165,742
Miscellaneous receipts	1,010,494
Payments to suppliers for goods and services	(38,818,493)
Payments to other Pima County funds for goods and services	(14,494,245)
Payments to employees	(29,913,894)
Net cash provided by operating activities	81,949,604

**Cash flows from noncapital financing activities:**

Cash transfers in from other funds	19,433,310
Cash transfers out to other funds	(29,386,532)
Loans with other funds	(95,669)
Net cash used for noncapital financing activities	(10,048,891)

**Cash flows from capital and related financing activities:**

Sewer connection receipts from customers	14,698,817
Purchase and construction of capital assets	(47,899,862)
Proceeds from issuance of sewer revenue obligations, including premium	24,973,630
Principal payments on revenue bonds, obligations and loan	(57,002,021)
Interest payments on revenue bonds, obligations and loan	(24,531,710)
Loss on debt defeasance	(265,497)
Proceeds from sale of capital assets	25,313
Net cash used for capital and related financing activities	(90,001,330)

**Cash flows from investing activities:**

Interest received on investments	4,015,825
Net cash provided by investing activities	4,015,825

Net decrease in cash and cash equivalents (14,084,792)

Cash and cash equivalents, July 1, 2018 167,941,363

**Cash and cash equivalents, June 30, 2019** **\$ 153,856,571**

(continued)

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Statement of Cash Flows  
For the Year Ended June 30, 2019  
(Continued)

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

Operating income	\$	34,760,995
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		55,576,193
Changes in assets and deferred outflows of resources:		
Decrease (increase) in assets:		
Accounts receivable		(1,246,876)
Due from other governments		(4,292)
Inventory of materials and supplies		(326,766)
Prepaid expenses		(76,913)
Net other postemployment benefits asset		45,841
Decrease (increase) in deferred outflows of resources:		
Pension and other postemployment benefits		(128,005)
Asset retirement obligations		66,278
Changes in liabilities and deferred inflows of resources:		
Increase (decrease) in liabilities:		
Accounts payable		502,812
Due to other governments		(3,678,335)
Accrued payroll and employee benefits		(243,474)
Net pension liability		(4,989,003)
Net postemployment benefits liability		32,615
Asset retirement obligation liability		135,770
Increase in deferred inflows of resources:		
Pension and other postemployment benefits		1,522,764
Net cash provided by operating activities	\$	<u><u>81,949,604</u></u>

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2019:

The Fund disposed of capital assets with a net book value of \$747,372.

The Fund received a transfer of capital asset with a net book value of \$78,636 and also transferred out a capital asset with a net book value of \$75,041 to the County's Fleet Services Department.

The Fund retired expired Connection Flow-Through Sewer Credit Agreements totaling \$540. This transaction was recorded as an increase in capital contributions and a decrease to unearned revenue.

Developers conveyed capital assets with an estimated fair value of \$10,879,446. The Fund also received a donated land with an estimated fair value of \$87,500. These transactions were recorded as an increase in capital assets and capital contributions.

**See accompanying notes to financial statements**

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Notes to Financial Statements  
June 30, 2019

**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.

For the year ended June 30, 2019, the County implemented the provisions of GASB Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The County also implemented the provisions of GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. In addition, the County early implemented the provisions of GASB Statement No. 89, Accounting for Interest Incurred Before the End of a Construction Period, establishes accounting requirements for interest incurred before the end of the construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of the construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

**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.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Notes to Financial Statements  
June 30, 2019

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

**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 the consolidated 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.

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.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Notes to Financial Statements  
June 30, 2019

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

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.

**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. Postemployment benefits**

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plan's fiduciary net position and additions to/deductions from the plans' 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.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Notes to Financial Statements  
June 30, 2019

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

**K. 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. If an employee has accumulated annual leave in excess of 240 hours by their anniversary date, the excess hours are converted to sick leave. Upon termination of employment, all unused annual leave benefits are paid to employees. Accordingly, annual leave benefits are accrued as a liability in the fund's financial statements. A liability for these amounts is reported in the fund's financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

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.

**L. 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.

**M. 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.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Notes to Financial Statements  
June 30, 2019

**Note 2 – Change in Accounting Principle**

Net position as of July 1, 2018, has been restated as follows for the implementation of GASB Statement No. 83, Certain Asset Retirement Obligations.

Net position as previously reported at June 30, 2018	\$ 783,829,425
Prior period adjustment:	
Asset retirement obligations	(6,023,501)
Deferred outflows - Asset retirement obligations	4,574,648
Total prior period adjustment	<u>(1,448,853)</u>
Net position as restated, July 1, 2018	<u><u>\$ 782,380,572</u></u>

**Note 3 – Cash and Investments**

Cash and cash equivalents consisted of the following amounts:

Current	
Cash on hand	\$ 1,950
Cash and cash equivalents	<u>66,721,869</u>
Total current cash and cash equivalents	66,723,819
Restricted cash and cash equivalents:	
Construction	6,212,993
Debt service	5,854,849
Operation and maintenance	<u>19,157,531</u>
Total current restricted cash and cash equivalents	31,225,373
Noncurrent	
Restricted cash and cash equivalents:	
Debt service	35,907,379
Emergency reserve fund	<u>20,000,000</u>
Total noncurrent restricted cash and cash equivalents	55,907,379
Total cash and cash equivalents	<u><u>\$ 153,856,571</u></u>

Current restricted cash and cash equivalents represents cash received for capital projects, anticipated one-twelfth of the annual debt service payments, and an estimated one-fourth of annual operating expenses.

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, 2017, 2018 and 2019 Obligations, and 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.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Notes to Financial Statements  
June 30, 2019

**Note 3 – Cash and Investments (continued)**

**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 \$35,907,379 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 487 days at June 30, 2019.

**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, notes, and other evidences of indebtedness; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain 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 of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated A or better at the time of purchase by at least two nationally recognized rating agencies.
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.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
Notes to Financial Statements  
June 30, 2019

**Note 3 – Cash and Investments (continued)**

*Custodial credit risk* - Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

*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. The maximum maturity for investments in repurchase agreements is 180 days.

*Foreign currency risk* - Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

**Note 4 – Capital Assets**

Capital asset activity for the year ended June 30, 2019, is presented in the following schedule:

	Balance <u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2019</u>
Capital assets not being depreciated:				
Land	\$ 10,417,196	\$ 92,092		\$ 10,509,288
Intangibles - easements	3,286,482	414,183		3,700,665
Construction in progress	74,157,707	40,376,154	\$ (66,994,426)	47,539,435
Total capital assets not being depreciated	<u>87,861,385</u>	<u>40,882,429</u>	<u>(66,994,426)</u>	<u>61,749,388</u>
Capital assets being depreciated:				
Sewage conveyance systems	839,257,291	64,994,972	(2,014,926)	902,237,337
Treatment facilities	742,791,281	2,094,637	(59,497)	744,826,421
Equipment	152,986,965	11,999,572	(1,069,971)	163,916,566
Total capital assets being depreciated	<u>1,735,035,537</u>	<u>79,089,181</u>	<u>(3,144,394)</u>	<u>1,810,980,324</u>
Less accumulated depreciation for:				
Sewage conveyance systems	334,036,634	17,174,073	(1,431,630)	349,779,077
Treatment facilities	207,291,577	26,839,905	(2,967)	234,128,515
Equipment	68,338,550	11,562,215	(966,020)	78,934,745
Total accumulated depreciation	<u>609,666,761</u>	<u>55,576,193</u>	<u>(2,400,617)</u>	<u>662,842,337</u>
Total capital assets being depreciated, net	<u>1,125,368,776</u>	<u>23,512,988</u>	<u>(743,777)</u>	<u>1,148,137,987</u>
Capital assets, net	<u>\$ 1,213,230,161</u>	<u>\$ 64,395,417</u>	<u>\$ (67,738,203)</u>	<u>\$ 1,209,887,375</u>

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**Note 5 – 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, 2019, there were no material lawsuits related to contractual breaches.

**Note 6 – Long-Term Liabilities**

The following schedule details the Fund’s long-term liability and obligation activity for the year ended June 30, 2019:

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>June 30, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2019</b>	<b>1 Year</b>
Sewer revenue bonds	\$ 2,860,000		\$ (2,860,000)		
Unamortized premium/discount	2,909		(2,909)		
Total sewer revenue bonds payable	<u>2,862,909</u>		<u>(2,862,909)</u>		
Sewer revenue obligations	466,745,000	\$ 21,245,000	(50,835,000)	\$ 437,155,000	\$ 44,060,000
Obligations from direct placement*	42,325,000		(2,750,000)	39,575,000	2,825,000
Unamortized premium/discount	56,637,563	4,053,775	(11,389,918)	49,301,420	10,752,072
Total sewer revenue obligations payable	<u>565,707,563</u>	<u>25,298,775</u>	<u>(64,974,918)</u>	<u>526,031,420</u>	<u>57,637,072</u>
Loan from direct borrowing	<u>3,554,892</u>		<u>(557,021)</u>	<u>2,997,871</u>	<u>570,746</u>
Construction contract retention payable	762,604	1,474,031	(1,349,649)	886,986	
Compensated absences payable	2,773,180		(242,695)	2,530,485	1,873,168
Net pension and OPEB	36,125,716	32,615	(4,989,003)	31,169,328	
Asset retirement obligations **	6,023,501	135,770		6,159,271	
Total long-term liabilities	<u>\$ 617,810,365</u>	<u>\$ 26,941,191</u>	<u>\$ (74,976,195)</u>	<u>\$ 569,775,361</u>	<u>\$ 60,080,986</u>

\* There was a debt disclosure reclassification as a result of the implementation of GASB Statement No.88 (see Note 1).

\*\* There was a restatement of net position as a result of the implementation of GASB Statement No.83 (see Note 2).

**Sewer Revenue Bonds Payable**—The Fund has issued sewer revenue bonds (Series 2009) to provide funds for the construction of a sewage treatment plant and the construction of improvements to the sewer system.

During the year ended June 30, 2019, the bonds were fully defeased, as the Fund defeased \$2,860,000 of Sewer Revenue Bonds, Series 2009 with existing resources to reduce the debt service costs and help eliminate the need for future sewer rate increases. Accordingly, the related liabilities are not included in the Fund’s financial statements. The Fund placed \$2,925,132 of existing cash in an irrevocable trust to provide resources for the future debt service payments of \$2,913,625 on the defeased debt.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
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**Note 6 – Long-Term Liabilities (continued)**

**Sewer Revenue Obligations Payable**—The Fund issued 2010, 2011B, 2012A, 2014, 2016 Refunding, 2018, and 2019 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.

In April 2019, the County issued for the Fund \$21,245,000 in Sewer Revenue Obligations Series 2019. 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.

During the year ended June 30, 2019, the Fund defeased \$9,000,000 of Sewer Revenue Obligations, Series 2010 with existing resources to reduce the debt service costs and help eliminate the need for future sewer rate increases. Accordingly, the related liabilities are not included in the Fund's financial statements. The Fund placed \$9,362,616 of existing cash in an irrevocable trust to provide resources for the future debt service payments of \$9,675,000 on the defeased debt.

In prior years, the Fund defeased certain Sewer Revenue Bonds and Sewer Revenue Obligations by placing the proceeds of Sewer Revenue Refunding Obligations Series 2016 in an irrevocable trust to provide for all future debt service payments on the defeased debts. Accordingly, the trust account assets and the liability for these defeased bonds and obligations are not included in the Fund's financial statements. At June 30, 2019, \$85,495,000 of Sewer Revenue Obligations Series 2010, and \$71,000,000 of Sewer Revenue Obligations Series 2011B were considered defeased.

**Obligations from Direct Placement** —The Fund's outstanding obligations from direct placement related to the Sewer System Revenue Obligations, Series 2017 of \$39,575,000 were issued 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.

**Loan from Direct Borrowing**—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.

**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, 2019, 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.

PIMA COUNTY, ARIZONA  
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Notes to Financial Statements  
June 30, 2019

**Note 6 – Long-Term Liabilities (continued)**

Obligations and loan outstanding at June 30, 2019, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Call Dates</u>	<u>Outstanding Principal</u>
Series 2010	4.00-5.00%	2020-21	July 1, 2020	\$ 18,935,000
Series 2011B	5.00%	2020-22	July 1, 2021	36,360,000
Series 2012A	2.00-5.00%	2020-27	July 1, 2022	80,390,000
Series 2014	5.00%	2020-28	July 1, 2023	34,740,000
Series 2016 Refunding	5.00%	2020-26		207,280,000
Series 2018	5.00%	2026-33	July 1, 2028	38,205,000
Series 2019	5.00%	2020-32	July 1, 2029	21,245,000
Total sewer revenue obligations payable				<u>\$ 437,155,000</u>
Series 2017	2.77%	2020-31		\$ 39,575,000
Total obligations from direct placement				<u>\$ 39,575,000</u>
2009 loan payable	0.96%	2020-24		\$ 2,997,871
Total loan from direct borrowing				<u>\$ 2,997,871</u>

Obligation debt service and loan payment requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Sewer Obligation Debt Service</u>		<u>Obligations from Direct Placement</u>		<u>Loan from Direct Borrowing</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 44,060,000	\$ 21,632,350	\$ 2,825,000	\$ 1,096,227	\$ 570,746	\$ 73,867
2021	56,045,000	19,494,750	2,905,000	1,017,975	584,810	59,805
2022	58,255,000	16,772,500	2,985,000	937,507	599,219	45,395
2023	61,215,000	13,939,750	3,065,000	854,822	613,984	30,630
2024	54,650,000	10,879,000	3,150,000	769,922	629,112	15,501
2025 - 2029	136,770,000	20,628,500	17,120,000	2,490,784		
2030 - 2033	26,160,000	3,148,000	7,525,000	314,118		
Total	<u>\$ 437,155,000</u>	<u>\$ 106,494,850</u>	<u>\$ 39,575,000</u>	<u>\$ 7,481,355</u>	<u>\$ 2,997,871</u>	<u>\$ 225,198</u>

The Fund has pledged future user charges, net of specified operating expenses, to repay \$437,155,000 in sewer obligations and \$39,575,000 in obligations from direct placement issued between 2010 and 2019, and \$2,997,871 in loan from direct borrowing issued in 2009. Proceeds from the obligations, direct placement and direct borrowing provided financing for construction of various treatment facilities and sewer infrastructure within Pima County. The obligations, direct placement and direct borrowing are payable from total customer net revenues and are payable through 2033. It is expected that approximately 23 percent of total future customer net revenues will be used to pay annual principal and interest payments on the obligations, direct placement and direct borrowing. Total principal and interest remaining to be paid on the obligations, direct placement and direct borrowing are \$543,649,850, \$47,056,355 and \$3,223,069, respectively. Principal and interest paid in the current year on the bonds, obligations and direct placement, and on direct borrowing, and total customer net revenues were \$68,892,449, \$644,614 and \$106,184,724, respectively.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
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June 30, 2019

**Note 6 – Long-Term Liabilities (continued)**

**Asset Retirement Obligations**—Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement and clean closure of a wastewater treatment facility as required by State laws and regulations. The estimates used in calculating this liability are based on actual historical clean-up costs associated with the retirement and clean closure of a recently closed wastewater treatment facility. The clean closure costs estimate is adjusted annually using an inflation factor. The estimated remaining useful lives of the associated wastewater treatment facilities range between 2 to 25 years. The Fund's existing resources will be used for the payment of this liability.

**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 7 – 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, 2019, the payables of \$14,712 was due to Development Services.

**Note 8 – Related Party Transactions**

**Administrative and Fiscal Services**—The Fund incurred expenses from Pima County for a variety of administrative and fiscal services, including \$5,218,157 for the allocation of overhead; \$1,371,204 for self-insurance premiums; \$4,717,973 for interdepartmental supplies and services charges; \$2,288,229 for motor pool charges; \$554,538 for repair and maintenance charges; and \$58,748 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 \$285,396 for the year ended June 30, 2019.

**Note 9 – Construction and Other Significant Commitments**

At June 30, 2019, the Fund had construction contractual commitments of \$32,637,413 and other contractual commitments related to service contracts of \$20,197,809. Funding for these expenses will be primarily from Sewer Revenue Obligations and related fees.

**Note 10 – 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, 2019, the Fund paid fees totaling \$3,767,412, \$318,466, \$43,729 and \$339,718, respectively, for such services.

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
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**Note 11 – Pension and Other Postemployment Benefits**

The County 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 political subdivisions and school districts. Although the County contributes to the Arizona State Retirement System (ASRS), the Corrections Officer Retirement Plan (CORP), the Public Safety Personnel Retirement System (PSPRS), and the Elected Officials Retirement Plan (EORP), all component units of the State of Arizona, the Fund employees only participate in the Arizona State Retirement System (ASRS).

At June 30, 2019 the Fund reported the following amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Net OPEB asset	\$	80,975
Net pension and OPEB liability		31,169,328
Deferred outflows of resources related to pensions and OPEB		4,541,654
Deferred inflows of resources related to pensions and OPEB		4,643,180
Pension and OPEB expense		(835,711)

The Fund's accrued payroll and employee benefits includes \$145,478 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2019. The OPEB plans are not described below due to their relative insignificance to the Fund's financial statements.

**Plan description**—The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

**Benefits Provided** - The ASRS provides retirement 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:

PIMA COUNTY, ARIZONA  
Regional Wastewater Reclamation Enterprise Fund  
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June 30, 2019

**Note 11 – Pension and Other Postemployment Benefits (continued)**

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

**Contributions** – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates. 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, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.8 percent (11.64 percent for retirement and 0.16 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 11.8 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 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 10.53 percent (10.41 percent for retirement, 0.06 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of the annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The Fund's contributions to the pension plan for the year ended June 30, 2019, were \$2,541,078.

**Liability** – At June 30, 2019, the Fund reported a liability of \$31,052,782 for its proportionate share of the ASRS net pension liability. The net pension liability was measured as of June 30, 2018. 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, 2017, to the measurement date of June 30, 2018. The total pension liability as of June 30, 2018, reflects changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3-6.75 percent to 2.7-7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

PIMA COUNTY, ARIZONA  
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**Note 11 – Pension and Other Postemployment Benefits (continued)**

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 for the year ended June 30, 2018. The Fund’s proportion measure as of June 30, 2018, was 9.48 percent, which did not significantly change from that measured as of June 30, 2017.

**Expense** – For the year ended June 30, 2019, the Fund recognized pension expense of (\$958,452).

**Deferred Outflows/Inflows of Resources** – At June 30, 2019, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
ASRS		
Differences between expected and actual experience	\$ 855,479	\$ 171,189
Changes of assumptions or other inputs	821,714	2,753,256
Net difference between projected and actual earnings on pension plan investments		746,746
Changes in proportion and differences between county contributions and proportionate share of contributions		722,059
County contributions subsequent to the measurement date	<u>2,541,078</u>	
Total	<u>\$ 4,218,271</u>	<u>\$ 4,393,250</u>

The \$2,541,078 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 liability in the year ending June 30, 2020. 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>	
2020	\$ (205,774)
2021	(1,042,638)
2022	(1,132,758)
2023	(334,887)

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

ASRS	
Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

PIMA COUNTY, ARIZONA  
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**Note 11 – Pension and Other Postemployment Benefits (continued)**

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 geometric real rates of return for each major asset class are summarized in the following table:

ASRS	Target	Long-Term Expected
Asset Class	<u>Allocation</u>	<u>Geometric Real Rate of Return</u>
Equity	50%	5.50%
Fixed income	30%	3.83%
Real estate	20%	5.85%
Total	<u>100%</u>	

**Discount Rate** – At June 30, 2018, the discount rate used to measure the ASRS total pension liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. 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 plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on 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 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Fund's proportionate share of the net pension liability	\$ 44,266,455	\$ 31,052,782	\$ 20,012,972

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



**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 Pima County, Regional Wastewater Reclamation Enterprise Fund (the Fund), as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019.

**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 results of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Tucson, Arizona  
October 30, 2019



**Board of Supervisors**

Richard Elías, *Chairman*, District 5

Ally Miller, District 1

Ramón Valadez, District 2

Sharon Bronson, District 3

Stephen W. Christy, District 4

**Pima County Administrator**

Chuck Huckelberry