



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Coconino County

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

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Coconino County
Single Audit Reporting Package
Year Ended June 30, 2005

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Coconino County
Single Audit Reporting Package
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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages i through vi, the Budgetary Comparison Schedules on pages 33 through 37, and the Schedule of Agent Retirement Plan's Funding Progress on page 38 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006, on our consideration of the County'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.

Debbie Davenport
Auditor General

November 14, 2006

Management's Discussion and Analysis

The following discussion and analysis of Coconino County's basic financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the County's basic financial statements, which follow this section.

Financial Highlights for Fiscal Year 2005

- The County's net assets, before restatement, increased 10.76 percent to \$156.31 million as a result of this year's operations.
- During the year, the County's governmental funds expenditures exceeded revenues by \$848 thousand. This is a change from last year when revenues exceeded expenditures by \$683 thousand.
- Total expenditures of county governmental funds increased \$7.97 million from the prior year.
- The General Fund reported excess revenues over expenditures of \$8.46 million; however, the fund balance only increased \$3.50 million due to transfers to other funds.
- During the year ended June 30, 2005, the County implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the County's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

Using this Report

This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements providing information about the County's most significant funds.

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is "Is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include *all nonfiduciary* assets and liabilities using the *accrual basis of accounting*.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets are one indicator of whether the County's financial condition is improving or deteriorating. In addition to this change, other nonfinancial factors will need to be considered.

Management's Discussion and Analysis

The following table reflects the condensed Statement of Net Assets of the County at June 30, 2005, compared to the prior year:

	Governmental Activities (In millions)	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$107.48	\$106.56
Capital assets	<u>100.74</u>	<u>88.60</u>
Total assets	<u>208.22</u>	<u>195.16</u>
Current liabilities	7.28	9.84
Long-term liabilities outstanding	<u>44.63</u>	<u>44.19</u>
Total liabilities	<u>51.91</u>	<u>54.03</u>
Net assets:		
Invested in capital assets, net of related debt	59.71	49.37
Restricted	42.60	38.07
Unrestricted	<u>54.00</u>	<u>53.69</u>
Total net assets	<u>\$156.31</u>	<u>\$141.13</u>

The County's net assets from governmental activities at the end of the fiscal year were \$156.31 million. The increase of \$15.18 million comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. Of the \$15.18 million, \$12.63 was from revenues in excess of expenses, and \$2.55 was a beginning net asset balance adjustment.

Investment in capital assets, net of related debt

38.2 percent of the county net assets (\$59.71 million) are invested in capital assets and are not available to fund day-to-day operations. The County's capital assets, net of related debt, increased by 20.94 percent (\$10.34 million) in the current fiscal year. This increase was the result of the continuation of the parks and open space programs and several road projects.

Restricted Net Assets

27.25 percent of the county net assets (\$42.6 million) are subject to restrictions on how they may be used. The County's restricted net assets increased by 11.9 percent (\$4.53 million) in the current fiscal year. Most of this change was the result of restating the revenue bonds and certificates of participation payable.

Unrestricted Net Assets

34.55 percent (\$54 million) of the County's net assets are unrestricted and can be used to finance the day-to-day operations without constraints established by debt covenants or other legal requirements.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Management's Discussion and Analysis

All of the County's basic services are considered to be governmental activities, including general government, health, welfare, public safety, highways and streets, transportation, culture and recreation, education, and sanitation. Sales taxes, property taxes, intergovernmental revenues, and user fees finance most of these activities.

The following table reflects the condensed Statement of Activities of the County for the fiscal year 2005 compared to the prior year. Beginning net assets at June 30, 2004, were restated for fiscal year 2005 for prior year corrections (see Note 2 to the financial statements for clarification). However, the fiscal year 2004 activity and net assets in the table below have not been restated:

	Governmental Activities (In millions)	
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 16.53	\$ 15.13
Operating grants and contributions	31.80	32.10
Capital grants and contributions	<u>4.31</u>	<u>6.02</u>
Total program revenue	<u>52.64</u>	<u>53.25</u>
General revenues		
State-shared revenue	20.35	14.44
Sales taxes	19.27	23.67
Property taxes	8.98	9.66
Grants and contributions not restricted to specific programs	1.72	0.55
Investment earnings	1.89	0.06
Gain on disposal of capital assets	0.21	1.27
Miscellaneous	<u>0.08</u>	<u>0.02</u>
Total general revenue	<u>52.50</u>	<u>49.67</u>
Total revenues	<u>105.14</u>	<u>102.92</u>
Program expenses		
General government	25.09	24.04
Public safety	25.41	23.54
Highways and streets	11.82	14.28
Sanitation	2.71	2.74
Health	10.52	9.63
Welfare	4.52	3.97
Culture and recreation	4.58	4.30
Education	2.92	2.23
Transportation	3.01	2.71
Interest on long-term debt	<u>1.93</u>	<u>2.00</u>
Total program expenses	<u>92.51</u>	<u>89.44</u>
Change in net assets	<u>12.63</u>	<u>13.48</u>
Net assets, beginning, as restated	<u>143.68</u>	<u>127.65</u>
Net assets, ending	<u>\$156.31</u>	<u>\$141.13</u>

Revenues increased by only 2.16 percent and expenses increased by only 3.43 percent in the current fiscal year.

Management's Discussion and Analysis

Revenues for capital grants and contributions decreased by 28.41 percent because there was a major road improvement in fiscal year 2004 funded by special assessment bonds. State shared revenues increased 40.93 percent and sales taxes decreased 18.59 percent primarily as a result of properly reporting state vehicle license tax as state-shared revenue, instead of sales tax, in fiscal year 2005. Grants and contributions not restricted to specific programs increased by 212.73 percent primarily as a result of properly reporting payments in-lieu of taxes as grants and contributions not restricted to specific programs, instead of taxes, in fiscal year 2005.

Expenses for Highways and Streets decreased by 17.23 percent primarily due to additional highway construction projects in fiscal year 2004. Welfare expenses increased 13.85 percent primarily due to reclassifying expenditures for the Public Fiduciary from General Government to Welfare. Education expenses increased 30.94 percent as a result of a change in the County's reporting entity in fiscal year 2005 to add the activity of the accommodation school. The 11.07 percent increase in Transportation expenses was primarily the result of an increase in depreciation expense in the current fiscal year.

Reporting the County's Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the Board of Supervisors establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds—*governmental and proprietary*—use different accounting approaches:

- *Governmental funds*—Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. A description of the differences between governmental *activities* as reported in the Statement of Net Assets and the Statement of Activities and the governmental *funds* as reported in the fund financial statements is reported in a reconciliation following each fund financial statement.
- *Proprietary funds*—When a County charges its own department for certain services it provides, these services are generally reported in proprietary funds. Coconino County uses an internal service fund, fleet services, to report activities that provide services for the County's other programs and activities. The County's internal service fund only provides services to county departments, so it is reported as a governmental activity in the Statement of Net Assets and the Statement of Activities.

The County reported five major funds for this fiscal year—General Fund, Public Works/HURF, Jail District, Toho Tolani Improvement District, and Debt Service. In this fiscal year, Forest Fees is no longer a major fund. At year-end, the County's governmental funds reported combined fund balances of \$88.69 million, which is a decrease of \$354 thousand or 0.4 percent after restatement from last year.

Management's Discussion and Analysis

The General Fund is the County's primary operating fund. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$27.62 million. Unreserved fund balances represent 65.38 percent of total General Fund expenditures and transfers out. This ratio indicates a strong fund balance position in comparison to expenditures. The General Fund's fund balance increased due to increases in several revenue sources.

The Public Works/HURF Fund's fund balance increased by \$922 thousand over the prior fiscal year. The primary factor in this increase was funding provided by the Forest Fees Fund for road projects.

The Jail District Fund's fund balance decreased by \$451 thousand in the current fiscal year. The decrease was primarily the result of increased operational expenditures in the current fiscal year.

The Forest Fees Fund was a major fund in the prior year primarily due to its large cash balance, which was reduced by the large cash transfer to the Public Works fund for fiscal year 2004 made in fiscal year 2005.

Toho Tolani's fund balance decreased by \$1.44 million in the current fiscal year due to road construction expenditures.

The Debt Service Fund's fund balance decreased by \$4.28 million in the current year as a result of the payment of principal and interest on debt and the repayment of transfer errors from the capital projects fund in prior years.

General Fund Budgetary Highlights

- The final budgeted expenditures for the General Fund at year-end were \$141,071 more than the adopted budget. This increase was primarily the result of moving the budgeted expenditures in the Health Services and Public Works/HURF Funds for an integrated permitting project that was managed by the Information Technology Department. For the General Fund, actual revenues exceeded final budget by \$3.45 million while actual expenditures were \$11.59 million less than budgeted.
- The budget variance for revenues in the General Fund was primarily due to state-shared sales tax and general county sales taxes. County sales tax revenues were conservatively estimated because of shortfalls in the prior years and uncertainty regarding the speed of any economic recovery. State-shared sales tax was conservatively estimated; also the estimate was made prior to changing the accounting method used to account for \$430 thousand withheld by the State. The expenditures variance was unexpended contingency funds and fiscal reserves.

The County as Trustee

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or *fiduciary*, for certain amounts held on behalf of other local government agencies—including school districts, cities, and special districts. The County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the County's other financial statements because the County cannot use these assets to finance its operations.

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

During the fiscal year, the County completed and continued various construction projects that added \$7.79 million to the County's construction in progress, \$2.17 million to the County's building inventory, and \$1.3 million to the County's infrastructure inventory. The County also added \$1.01 million to the County's land inventory primarily for parks and open space. Additionally, prior-year corrections added \$1.3 million to the County's land inventory, transferred \$2.67 million of construction in progress to completed buildings (\$1.07 million) and infrastructure (\$1.60 million), and added \$791 thousand to land and \$502 thousand to construction in progress for the County Accommodation School.

The following table reflects the changes in capital assets for the County for the fiscal year 2005 compared to 2004:

	Governmental Activities (Net of depreciation in millions)	
	<u>2005</u>	<u>2004</u>
Land	\$ 11.66	\$ 8.58
Buildings	60.28	59.15
Machinery and equipment	12.79	13.04
Infrastructure	5.72	3.13
Construction in progress	<u>10.29</u>	<u>4.69</u>
Total	<u>\$100.74</u>	<u>\$88.59</u>

Beginning capital assets were restated for prior year corrections (see Note 6 to the financial statements for clarification). The fiscal year 2004 activity in the table above has not been restated.

Long-Term Debt

The County added \$383 thousand to its long-term debt for special assessment bond issues for a new county road improvement district.

Economic Factors

The State of Arizona and Coconino County's economy is heavily dependent on tourism. The County receives over 37.69 percent of its revenues from various sales taxes. Any slumps in the economy or events that could affect tourism have a significant impact on Coconino County.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County's Finance Department, Coconino County, 219 East Cherry Avenue, Flagstaff, Arizona 86001.

Coconino County
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 82,070,411
Investments	747,262
Cash and investments held by trustee	6,187,644
Receivables (net of allowances for uncollectibles):	
Property taxes	275,418
Accounts	437,870
Special assessments	4,208,369
Jail district sales tax	1,185,073
Accrued interest	843,862
Due from other governments	11,182,871
Inventories	208,962
Prepaid items	134,299
Capital assets, not being depreciated	21,955,975
Capital assets, being depreciated, net	<u>78,785,858</u>
Total assets	<u>208,223,874</u>
 Liabilities	
Accounts payable	4,016,464
Accrued payroll and employee benefits	1,958,083
Due to other governments	294,976
Deposits held for others	125,190
Bond interest payable	883,706
Noncurrent liabilities	
Due within 1 year	6,445,964
Due in more than 1 year	<u>38,185,412</u>
Total liabilities	<u>51,909,795</u>
 Net Assets	
Invested in capital assets, net of related debt	59,709,325
Restricted for:	
Highways and streets	23,774,706
Education	539,013
Debt service	13,288,707
Capital projects	3,673,680
Culture and recreation	1,327,683
Unrestricted	<u>54,000,965</u>
Total net assets	<u>\$ 156,314,079</u>

See accompanying notes to financial statements.

Coconino County
Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Total
Primary government:					
Governmental activities:					
General government	\$ 25,093,451	\$ 7,322,776	\$ 1,424,326		\$ (16,346,349)
Public safety	25,408,377	3,671,837	4,257,745		(17,478,795)
Highways and streets	11,814,903	967,377	12,836,046	\$ 703,198	2,691,718
Sanitation	2,710,356	1,033,289	878,088	5,727	(793,252)
Health	10,518,140	1,318,990	4,172,202		(5,026,948)
Welfare	4,519,831	921,571	2,328,908		(1,269,352)
Culture and recreation	4,580,555	995,382	240,954		(3,344,219)
Education	2,920,657	8,309	2,965,295	3,514,662	3,567,609
Transportation	3,012,154	286,090	2,697,161	87,140	58,237
Interest on long-term debt	1,928,292				(1,928,292)
Total governmental activities	<u>\$ 92,506,716</u>	<u>\$ 16,525,621</u>	<u>\$ 31,800,725</u>	<u>\$ 4,310,727</u>	<u>(39,869,643)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					6,159,732
Property taxes, levied for library					2,408,492
Property taxes, levied for flood control					411,622
General county sales tax					10,304,992
Jail district sales tax					6,183,905
Parks and open spaces sales tax					2,573,730
Excise tax					93,516
Franchise tax					115,300
Shared revenue—state sales tax					15,283,056
Shared revenue—state vehicle license tax					5,073,200
Grants and contributions not restricted to specific programs					1,720,959
Investment earnings					1,888,242
Gain on disposal of capital assets					206,469
Miscellaneous					81,129
Total general revenues					<u>52,504,344</u>
Change in net assets					12,634,701
Net assets, July 1, 2004, as restated					<u>143,679,378</u>
Net assets, June 30, 2005					<u>\$ 156,314,079</u>

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Public Works/ HURF Fund	Jail District Fund	Toho Tolani Improvement District Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 26,371,279	\$ 16,830,094	\$ 1,087,890	\$ 2,282,982	\$ 14,639,637	\$ 18,702,746	\$ 79,914,628
Investments						747,262	747,262
Cash and investments held by trustee			2,217,836		2,356,302	1,613,506	6,187,644
Receivables (net of allowances for uncollectibles):							
Property taxes	177,446					97,972	275,418
Accounts	49,329	12,223	6,412			361,040	429,004
Special assessments				2,516,201		1,692,168	4,208,369
Jail district sales tax			1,185,073				1,185,073
Accrued interest	234,228	155,936	12,679	26,836	167,900	225,714	823,293
Advances to other funds						1,043,806	1,043,806
Due from:							
Other funds	885,739	1,256,115	91,422	56	88,821	7,201,275	9,523,428
Other governments	5,400,619	2,245,335	468,339			3,068,578	11,182,871
Inventories	3,989						3,989
Prepaid items	122,370	1,122				9,523	133,015
Total assets	<u>\$ 33,244,999</u>	<u>\$ 20,500,825</u>	<u>\$ 5,069,651</u>	<u>\$ 4,826,075</u>	<u>\$ 17,252,660</u>	<u>\$ 34,763,590</u>	<u>\$ 115,657,800</u>

(Continued)

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2005
(Continued)

	General Fund	Public Works/ HURF Fund	Jail District Fund	Toho Tolani Improvement District Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 895,150	\$ 811,910	\$ 230,194	\$ 140,479		\$ 1,868,461	\$ 3,946,194
Accrued payroll and employee benefits	892,614	178,593	209,085			605,284	1,885,576
Advances from other funds						1,043,806	1,043,806
Due to:							
Other funds	3,675,710	380,018	135,187	19,775		5,616,291	9,826,981
Other governments			25,853			269,123	294,976
Deposits held for others	28,463					96,727	125,190
Bond interest payable			364,984		\$ 513,097	5,625	883,706
Certificates of participation and revenue bonds payable			1,840,000		1,840,000		3,680,000
Deferred revenue	133,732			2,471,978		1,737,396	4,343,106
Total liabilities	<u>5,625,669</u>	<u>1,370,521</u>	<u>2,805,303</u>	<u>2,632,232</u>	<u>2,353,097</u>	<u>11,242,713</u>	<u>26,029,535</u>
Fund balances:							
Reserved for:							
Inventories	3,989						3,989
Prepaid items	122,370	1,122				9,523	133,015
Debt service				251,236		650,858	902,094
Unreserved, reported in:							
General fund	27,492,971						27,492,971
Debt service fund					14,899,563	3,612,333	18,511,896
Special revenue funds		19,129,182	2,264,348			16,941,821	38,335,351
Capital projects funds				1,942,607		2,306,342	4,248,949
Total fund balances	<u>27,619,330</u>	<u>19,130,304</u>	<u>2,264,348</u>	<u>2,193,843</u>	<u>14,899,563</u>	<u>23,520,877</u>	<u>89,628,265</u>
Total liabilities and fund balances	<u>\$ 33,244,999</u>	<u>\$ 20,500,825</u>	<u>\$ 5,069,651</u>	<u>\$ 4,826,075</u>	<u>\$ 17,252,660</u>	<u>\$ 34,763,590</u>	<u>\$ 115,657,800</u>

See accompanying notes to financial statements.

Coconino County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2005

Fund balances—total governmental funds	\$ 89,628,265
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	99,230,046
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	4,343,106
Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	4,064,038
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(40,951,376)</u>
Net assets of governmental activities	<u>\$ 156,314,079</u>

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Jail District Fund</u>	<u>Toho Tolani Improvement District Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:							
Property taxes	\$ 6,164,721					\$ 2,821,368	\$ 8,986,089
Other taxes	13,610,468	\$ 1,976,561	\$ 6,183,905			2,573,733	24,344,667
Special assessments				\$ 373,661		803,305	1,176,966
Licenses and permits	1,553,517	15,505				983,786	2,552,808
Fees, fines, and forfeits	1,205,924					178,780	1,384,704
Intergovernmental	18,426,864	10,457,892				23,317,946	52,202,702
Charges for services	2,806,825		2,601,652			5,096,048	10,504,525
Investment earnings	629,000	427,376	60,660	95,411	\$ 530,465	678,151	2,421,063
Contributions	167,134	4,800				162,664	334,598
Miscellaneous	431,113	33,812	1,556	20,000		226,157	712,638
Total revenues	<u>44,995,566</u>	<u>12,915,946</u>	<u>8,847,773</u>	<u>489,072</u>	<u>530,465</u>	<u>36,841,938</u>	<u>104,620,760</u>
Expenditures:							
Current:							
General government	21,950,806				2,931	2,338,779	24,292,516
Public safety	9,912,836		8,824,256			5,663,357	24,400,449
Highways and streets	478,513	13,538,691		2,554,366		734,379	17,305,949
Sanitation						2,482,267	2,482,267
Health	3,026,006					7,296,167	10,322,173
Welfare	252,238					4,197,913	4,450,151
Culture and recreation	492,068					6,780,914	7,272,982
Education	374,159					5,629,783	6,003,942
Transportation						2,927,659	2,927,659
Debt service:							
Principal	40,246		1,840,000	210,000	1,840,000	152,297	4,082,543
Interest and other charges	3,858		735,372	123,457	1,031,380	34,225	1,928,292
Total expenditures	<u>36,530,730</u>	<u>13,538,691</u>	<u>11,399,628</u>	<u>2,887,823</u>	<u>2,874,311</u>	<u>38,237,740</u>	<u>105,468,923</u>
Excess (deficiency) of revenues over expenditures	<u>8,464,836</u>	<u>(622,745)</u>	<u>(2,551,855)</u>	<u>(2,398,751)</u>	<u>(2,343,846)</u>	<u>(1,395,802)</u>	<u>(848,163)</u>

(Continued)

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005
(Continued)

	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Jail District Fund</u>	<u>Toho Tolani Improvement District Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):							
Sale of capital assets		\$ 114,205				\$ 36,200	\$ 150,405
Special assessment bonds issued						382,917	382,917
Transfers in	\$ 750,685	2,377,545	\$ 2,102,111	\$ 963,052	\$ 23,735	10,548,716	16,765,844
Transfers out	<u>(5,711,099)</u>	<u>(947,217)</u>	<u>(1,635)</u>		<u>(1,954,897)</u>	<u>(8,150,996)</u>	<u>(16,765,844)</u>
Total other financing sources and uses	<u>(4,960,414)</u>	<u>1,544,533</u>	<u>2,100,476</u>	<u>963,052</u>	<u>(1,931,162)</u>	<u>2,816,837</u>	<u>533,322</u>
Net change in fund balances	<u>3,504,422</u>	<u>921,788</u>	<u>(451,379)</u>	<u>(1,435,699)</u>	<u>(4,275,008)</u>	<u>1,421,035</u>	<u>(314,841)</u>
Fund balances, July 1, 2004, as restated	<u>24,114,908</u>	<u>18,208,516</u>	<u>2,715,727</u>	<u>3,629,542</u>	<u>19,174,571</u>	<u>22,099,842</u>	<u>89,943,106</u>
Fund balances, June 30, 2005	<u>\$27,619,330</u>	<u>\$19,130,304</u>	<u>\$ 2,264,348</u>	<u>\$2,193,843</u>	<u>\$14,899,563</u>	<u>\$23,520,877</u>	<u>\$89,628,265</u>

See accompanying notes to financial statements.

Coconino County
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2005

Net change in fund balances—total governmental funds	\$	(314,841)
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Amounts reported for governmental activities in the Statement of
Activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense.

Capital outlay	\$ 14,271,270	
Depreciation expense	<u>(4,548,609)</u>	9,722,661

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	270,887
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Debt proceeds provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the
Statement of Net Assets. Repayment of debt principal is an
expenditure in the governmental funds, but the repayment
reduces long-term liabilities in the Statement of Net Assets.

Debt issued or incurred	(382,917)	
Principal repaid	<u>4,082,543</u>	3,699,626

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	(1,016,264)
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Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance, to individual funds. The net revenue of the internal service fund is reported with governmental activities.	<u>272,632</u>
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Change in net assets of governmental activities	<u>\$ 12,634,701</u>
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See accompanying notes to financial statements.

Coconino County
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Governmental Activities— Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,155,783
Receivables (net of allowances for uncollectibles):	
Accounts	8,866
Accrued interest	20,569
Due from other funds	326,554
Inventories	204,973
Prepaid items	1,284
Total current assets	<u>2,718,029</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation:	
Buildings, net	91,799
Equipment, net	<u>1,419,988</u>
Capital assets, net	<u>1,511,787</u>
Total noncurrent assets	<u>1,511,787</u>
Total assets	<u>4,229,816</u>
Liabilities	
Current liabilities:	
Accounts payable	70,270
Accrued payroll and employee benefits	72,507
Due to other funds	<u>23,001</u>
Total current liabilities	<u>165,778</u>
Total liabilities	<u>165,778</u>
Net Assets	
Invested in capital assets, net of related debt	1,511,787
Unrestricted	<u>2,552,251</u>
Total net assets	<u>\$ 4,064,038</u>

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Governmental Activities— Internal Service Fund
Operating revenues:	
Charges for services	\$ 3,030,482
Total operating revenues	<u>3,030,482</u>
Operating expenses:	
Personal services	632,823
Professional services	87,853
Supplies	1,479,028
Utilities	23,196
Repairs and maintenance	181,437
Travel	5,741
Depreciation	<u>447,137</u>
Total operating expenses	<u>2,857,215</u>
Operating income	<u>173,267</u>
Nonoperating revenues:	
Investment earnings	58,724
Gain on disposal of capital assets	<u>40,641</u>
Total nonoperating revenues	<u>99,365</u>
Increase in net assets	272,632
Total net assets, July 1, 2004	<u>3,791,406</u>
Total net assets, June 30, 2005	<u>\$ 4,064,038</u>

See accompanying notes to financial statements.

Coconino County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	<u>Governmental Activities— Internal Service Fund</u>
Cash flows from operating activities:	
Receipts from other funds for services provided	\$ 3,032,457
Payments to suppliers and providers of goods and services	(1,790,028)
Payments to employees	<u>(615,347)</u>
Net cash provided by operating activities	<u>627,082</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	46,408
Purchases of capital assets	<u>(452,194)</u>
Net cash provided by capital and related financing activities	<u>(405,786)</u>
Cash flows from investing activities:	
Interest received on investments	<u>56,964</u>
Net cash provided by investing activities	<u>56,964</u>
Net increase in cash and cash equivalents	278,260
Cash and cash equivalents, July 1, 2004	<u>1,877,523</u>
Cash and cash equivalents, June 30, 2005	<u>\$ 2,155,783</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 173,267
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	447,137
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(795)
Due from other funds	(17,023)
Inventories	(25,386)
Prepaid items	(1,284)
Accounts payable	8,156
Accrued payroll and employee benefits	23,217
Due to other funds	<u>19,793</u>
Net cash provided by operating activities	<u>\$ 627,082</u>

See accompanying notes to financial statements.

Coconino County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 78,393,309	\$ 1,322,046
Cash and investments held by trustee		540,880
Interest and dividends receivable	<u>996,223</u>	
Total assets	<u>79,389,532</u>	<u>\$ 1,862,926</u>
Liabilities		
Deposits held for others		\$ 1,677,937
Due to other governments		<u>184,989</u>
Total liabilities		<u>\$ 1,862,926</u>
Net Assets		
Held in trust for investment trust participants	<u>\$ 79,389,532</u>	

See accompanying notes to financial statements.

Coconino County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 277,565,959
Investment earnings	<u>2,087,480</u>
Total additions	<u>279,653,439</u>
Deductions:	
Distributions to participants	<u>283,857,422</u>
Total deductions	<u>283,857,422</u>
Change in net assets	(4,203,983)
Net assets, July 1, 2004, as restated	<u>83,593,515</u>
Net assets, June 30, 2005	<u>\$ 79,389,532</u>

See accompanying notes to financial statements.

Coconino County
Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Coconino County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

During the year ended June 30, 2005, the County implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the County's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of five county supervisors. The accompanying financial statements present the activities of the County (the primary government) and its component units.

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each blended component unit discussed below has a June 30 year end. The County has no discretely presented component units.

The following table describes the County's component units:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Coconino County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Coconino County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Coconino County Special Assessment Districts	Constructs or improves sidewalks, curbs and gutters, irrigation systems, and street lighting within the County; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Coconino County
Notes to Financial Statements
June 30, 2005

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Coconino County Street Lighting Districts	Operates and maintains street lighting in areas outside local city jurisdictions; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Coconino County Jail District	A tax-levying district that acquires, constructs, operates, maintains, and finances county jails and jail systems; the County's Board of Supervisors serves as the governing board	Blended	911 East Sawmill Road Flagstaff, AZ 86001-5827 Attn: Cathy Allen

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the County as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Coconino County
Notes to Financial Statements
June 30, 2005

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund revenues are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as user charges, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Works/HURF Fund is used to account for highway user fees restricted to the construction, repair, and maintenance of county roads.

The Jail District Fund is used to account for jail operations and jail capital improvements that are funded by a one-third cent sales tax.

The Toho Tolani Improvement District Fund is used to account for the construction of a new road financed through a special assessment and the debt service on the special assessment debt.

The Debt Service Fund is used to account for debt service on certificates of participation and is funded by appropriations.

Coconino County
Notes to Financial Statements
June 30, 2005

The County reports the following fund types:

The internal service fund accounts for automotive maintenance and operation provided to the County's departments or to other governments on a cost-reimbursement basis.

The investment trust funds account for pooled and nonpooled assets held and invested by the County Treasurer on behalf of the County's departments and other governmental entities.

The agency funds account for assets held by the County as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, the community college district, and special districts.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

D. Cash and Investments

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.

Coconino County
Notes to Financial Statements
June 30, 2005

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 time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Inventories

The County accounts for its inventories in the governmental funds using the consumption method. Inventories of the governmental funds are recorded as assets when purchased and expensed when consumed. Amounts on hand at year end are shown on the balance sheet as an asset for informational purposes only and are offset by a fund balance reserve to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method of valuation.

Inventories of the proprietary funds are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the moving weighted average method of valuation.

F. Property Tax Calendar

The County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

G. Capital Assets

Capital assets are reported at actual cost, or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Coconino County
Notes to Financial Statements
June 30, 2005

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Construction in progress	\$5,000	N/A	N/A
Buildings	5,000	Straight-line	25-40 years
Machinery and equipment	5,000	Straight-line	3-25 years
Infrastructure	5,000	Straight-line	15-25 years

H. Investment Earnings

Investment earnings is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation. 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.

Generally, employees may accumulate up to 60 hours of compensatory time. Accruals beyond that require the county manager's approval. Upon termination, all unused compensatory time is paid to the employee. Accordingly, compensatory time is accrued as a liability in the financial statements.

Employees may accumulate up to 1,040 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who terminate with a minimum of 20 years of continuous service, sick leave benefits do vest and, therefore, are accrued. Such eligible terminating employees are compensated at the rate of 1 day for each 4 sick days accrued.

Note 2 - Beginning Balances Restated

As a result of various corrections for prior years, the County's fund balances and net assets as of June 30, 2004, have been restated. The reconciliation below summarizes these changes.

Coconino County
Notes to Financial Statements
June 30, 2005

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Aggregate fund balances of governmental fund types as of June 30, 2004, as previously reported	\$23,218,675	\$15,146,900	\$ 89,438,512
Corrections for recognition of revenues improperly deferred	896,233		896,233
Corrections for reclassification of interfund transactions		(553,663)	(553,663)
Corrections for inclusion of accommodation school		162,024	162,024
Reclassification of Forest Fees Fund to nonmajor	<u> </u>	<u>7,344,581</u>	<u> </u>
Restated aggregate fund balances of governmental fund types as of July 1, 2004	<u>\$24,114,908</u>	<u>\$22,099,842</u>	<u>\$ 89,943,106</u>
Net assets of fiduciary fund types as of June 30, 2004, as previously reported			\$ 83,941,883
Corrections for inclusion of accommodation school in the County's governmental funds			<u>(348,368)</u>
Restated net assets of fiduciary fund types as of July 1, 2004			<u>\$ 83,593,515</u>
Net assets of governmental activities as of June 30, 2004, as previously reported			\$141,131,830
Corrections for inclusion of accommodation school			162,024
Corrections to capital asset balances, net			<u>2,385,524</u>
Restated net assets of governmental activities as of July 1, 2004			<u>\$143,679,378</u>

Note 3 - Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2005, the following funds reported deficits in fund balances:

Fund	Deficit
Parks and Recreation	\$302,207
Improvement Districts	68,071
Health	14,232
Sheriff	13,276
Welfare	2,477
Superior Court	115

The County expects the fund deficits listed above to be corrected through normal operations or for the Improvement Districts Fund from Forest Fees Fund transfers in fiscal year 2006.

Note 4 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County 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

Coconino County
Notes to Financial Statements
June 30, 2005

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.

Deposits—At June 30, 2005, the carrying amount of the County's deposits was \$1,729,227 and the bank balance was \$4,036,928. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2005, \$99,566 of the County's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$99,566
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Investments—The County's investments at June 30, 2005, were as follows:

Coconino County
Notes to Financial Statements
June 30, 2005

Investment Type	Amount
U.S. agency securities	\$148,557,320
Mutual funds—debt	8,247,042
Commercial paper	6,093,513
Corporate bonds	1,008,860
Repurchase agreements (implicitly guaranteed)	1,100,000
State Treasurer's investment pools	894,131
Mutual funds—equity	22,549
Guaranteed investment contract	74,283
	<u>\$165,997,698</u>

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Credit Risk—The County does not have a formal investment policy with respect to credit risk. At June 30, 2005, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	Aaa	Moody's	\$138,615,130
U.S. agency securities	AAA	Fitch	9,942,190
Commercial paper	P1	Moody's	6,093,513
Mutual funds—debt	Aaa	Moody's	6,187,644
Mutual funds—debt	Unrated	Not applicable	2,059,398
Corporate bonds	Aa3	Moody's	1,008,860
Repurchase agreements (implicitly guaranteed)	Aaa	Moody's	1,100,000
State Treasurer's investment pools	Unrated	Not applicable	894,131
			<u>\$165,900,866</u>

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal policy with respect to custodial credit risk. At June 30, 2005, the County had \$1,100,000 of repurchase agreements (implicitly guaranteed), \$148,557,320 of U.S. agency securities, \$6,187,644 of mutual funds—debt, \$1,008,860 of corporate bonds, and \$6,093,513 of commercial paper that were uninsured and held by the counterparty.

Concentration of credit risk—The County does not have a formal policy with respect to concentration of credit risk. More than 5 percent of the County's investments as of June 30, 2005, were in Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. These investments were 50.6 percent, 24.4 percent, and 13.2 percent, respectively, of the County's total investments.

Coconino County
Notes to Financial Statements
June 30, 2005

Interest rate risk—The County does not have a formal policy with respect to interest rate risk. At June 30, 2005, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity (Years)
U.S. agency securities	\$148,557,320	3.430
Mutual funds—debt	7,769,423	0.018
Corporate bonds	1,008,860	1.692
Repurchase agreements (implicitly guaranteed)	1,100,000	0.002
State Treasurer's investment pool 5	601,941	0.220
State Treasurer's investment pool 7	292,190	0.410
Commercial paper	6,093,513	0.035
Mutual funds—debt	<u>477,619</u>	7.500
	<u>\$165,900,866</u>	

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Assets follows:

Cash, deposits, and investments:	
Cash on hand	\$ 1,534,627
Amount of deposits	1,729,227
Amount of investments	<u>165,997,698</u>
Total	<u>\$169,261,552</u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Assets:				
Cash and cash equivalents	\$82,070,411	\$78,393,309	\$1,322,046	\$161,785,766
Investments	747,262			747,262
Cash and investments held by trustee	<u>6,187,644</u>	<u></u>	<u>540,880</u>	<u>6,728,524</u>
Total	<u>\$89,005,317</u>	<u>\$78,393,309</u>	<u>\$1,862,926</u>	<u>\$169,261,552</u>

Note 5 - Due from other governments

Amounts due from other governments at June 30, 2005, include \$2,842,713 and \$1,916,063 in state-shared revenue from sales taxes and fuel taxes, respectively; \$510,096 from the State of Arizona for state vehicle license tax; \$1,968,491 in county sales tax; \$492,382 in parks and open space sales tax; \$2,011,246 in grants from the federal government; and \$433,990 in grants from various state agencies. The balance of \$1,007,890 is composed of miscellaneous receivables from federal, state, and local governments.

Coconino County
Notes to Financial Statements
June 30, 2005

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004, as restated	Increases	Decreases	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,648,981	\$ 1,012,137		\$ 11,661,118
Construction in progress (estimated cost to complete \$16,284,863)	<u>2,499,987</u>	<u>9,353,340</u>	<u>\$1,558,470</u>	<u>10,294,857</u>
Total capital assets not being depreciated	<u>13,148,968</u>	<u>10,365,477</u>	<u>1,558,470</u>	<u>21,955,975</u>
Capital assets being depreciated:				
Buildings	75,535,382	2,171,236		77,706,618
Machinery and equipment	28,183,151	2,579,950	1,072,013	29,691,088
Infrastructure	<u>4,744,649</u>	<u>1,299,793</u>		<u>6,044,442</u>
Total	<u>108,463,182</u>	<u>6,050,979</u>	<u>1,072,013</u>	<u>113,442,148</u>
Less accumulated depreciation for:				
Buildings	15,407,277	2,016,042	250	17,423,069
Machinery and equipment	15,113,716	2,758,481	967,397	16,904,800
Infrastructure	<u>107,198</u>	<u>221,223</u>		<u>328,421</u>
Total	<u>30,628,191</u>	<u>4,995,746</u>	<u>967,647</u>	<u>34,656,290</u>
Total capital assets being depreciated, net	<u>77,834,991</u>	<u>1,055,233</u>	<u>104,366</u>	<u>78,785,858</u>
Governmental activities capital assets, net	<u>\$ 90,983,959</u>	<u>\$11,420,710</u>	<u>\$1,662,836</u>	<u>\$100,741,833</u>

The July 1, 2004, governmental activities capital asset balances for land, construction in progress, buildings, machinery and equipment, infrastructure, and accumulated depreciation were restated for classification adjustments and errors totaling \$2,385,524 to correct prior years' errors.

Infrastructure assets reported included assets for which construction was started or completed during the year ended June 30, 2005. Infrastructure assets that were started or completed prior to July 1, 2002, are not included and will retroactively be added to the County's capital assets listing within the next 2 years.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 861,147
Public safety	1,021,908
Highways and streets	1,572,889
Sanitation	247,624
Health	148,342
Welfare	61,129
Culture and recreation	236,063

Coconino County
Notes to Financial Statements
June 30, 2005

Education	\$ 11,197
Transportation	388,310
Internal service fund	447,137
Total governmental activities depreciation expense	<u>\$4,995,746</u>

Note 7 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2005:

	Balance July 1, 2004, as restated	Additions	Reductions	Balance June 30, 2005	Due within 1 year
Governmental activities					
Bonds payable:					
Revenue bonds	\$17,970,000		\$1,760,000	\$16,210,000	\$1,840,000
Special assessment bonds with governmental commitment	<u>2,819,757</u>	<u>\$ 382,917</u>	<u>362,297</u>	<u>2,840,377</u>	<u>278,486</u>
Total bonds payable	<u>20,789,757</u>	<u>382,917</u>	<u>2,122,297</u>	<u>19,050,377</u>	<u>2,118,486</u>
Certificates of participation payable	23,700,000		1,760,000	21,940,000	1,840,000
Capital leases payable	82,377		40,246	42,131	42,131
Compensated absences payable	2,184,737	2,447,744	1,560,037	3,072,444	2,291,637
Claims and judgments payable	<u>397,867</u>	<u>177,045</u>	<u>48,488</u>	<u>526,424</u>	<u>153,710</u>
Governmental activities long-term liabilities	<u>\$47,154,738</u>	<u>\$3,007,706</u>	<u>\$5,531,068</u>	<u>\$44,631,376</u>	<u>\$6,445,964</u>

The July 1, 2004, governmental activities balances for revenue bonds payable, special assessment bonds with governmental commitment, and certificates of participation payable were restated to correct prior years' errors totaling \$2,966,337.

Bonds—The County's bonded debt consists of various issues of revenue and special assessment bonds that are generally noncallable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Revenue bonds are repaid from a voter-approved sales tax in the Jail District Fund. Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The original amounts of revenue bonds and special assessment bonds issued in prior years were \$24,760,000 and \$4,008,300, respectively. During the year, the County issued special assessment bonds totaling \$382,917 to build roads.

Bonds outstanding at June 30, 2005, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	\$24,760,000	7/1/05-12	4.25-5.00%	\$16,210,000
Special assessment bonds with governmental commitment	4,391,217	7/1/05-15	4.75-7.34%	<u>2,840,377</u>
				<u>\$19,050,377</u>

Coconino County
Notes to Financial Statements
June 30, 2005

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2005:

Year ending June 30	Governmental Activities			
	Revenue Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 1,840,000	\$ 687,809	\$ 278,486	\$136,014
2007	1,925,000	603,443	289,929	122,114
2008	2,010,000	516,761	281,997	108,298
2009	2,095,000	425,303	294,046	94,548
2010	2,195,000	328,635	301,563	80,212
2011-15	<u>6,145,000</u>	<u>401,600</u>	<u>1,394,356</u>	<u>171,053</u>
Total	<u>\$16,210,000</u>	<u>\$2,963,551</u>	<u>\$2,840,377</u>	<u>\$712,239</u>

Certificates of participation—The County has issued certificates of participation that are generally noncallable with interest payable semiannually to purchase or construct buildings, building improvements, parks, and park improvements.

Certificates outstanding at June 30, 2005, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Series 1998	\$19,000,000	7/1/05-13	4.4-5.0%	\$12,935,000
Series 2001	11,650,000	7/1/05-15	4.25-5.50%	<u>9,005,000</u>
Total				<u>\$21,940,000</u>

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2005:

Year ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 1,840,000	\$ 985,389
2007	1,920,000	902,234
2008	2,000,000	812,528
2009	2,100,000	714,521
2010	2,200,000	609,091
2011-15	10,865,000	1,399,387
2016	<u>1,015,000</u>	<u>24,360</u>
Total	<u>\$21,940,000</u>	<u>\$5,447,510</u>

Coconino County
Notes to Financial Statements
June 30, 2005

Insurance claims—The County provides life, health, and disability benefits to its employees and their dependents through the Northern Arizona Public Employees Benefit Trust currently composed of five members. The Trust provides the benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premiums and requires its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

Compensated absences and claims and judgments—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2005, the County paid for compensated absences as follows: 53.15 percent from the General Fund, 20.01 percent from major funds, and 26.84 percent from other funds. The County paid for claims and judgments from the General Fund.

Note 8 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. These risks of loss are accounted for and financed by the following described insurance coverage and internal risk management program.

The County contracts with the State of Arizona Workers' Compensation Fund to provide workers' compensation coverage for employees. There is no deductible associated with this coverage, and the maximum coverage is \$500,000 per occurrence. Claims over this amount are covered by the County's liability insurance policy up to \$40 million.

The County self-insures for commercial general liability for the first \$125,000 per occurrence. A self-insurance retention fund is set up for these losses. The County then purchases coverage from insurers up to \$40 million. For real property and business personal property damage coverage, the County has a \$25,000 deductible with blanket coverage up to the property values. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past 3 fiscal years.

Note 9 - Retirement Plans

Plan Descriptions—The County contributes to four plans, two of which are described below. The other two, the Elected Officials Retirement Plan and the Corrections Officer Retirement Plan, are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

Coconino County
Notes to Financial Statements
June 30, 2005

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or (800) 621-3778

PSPRS

3010 East Camelback Road, Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

Cost-sharing plan—For the year ended June 30, 2005, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2005, 2004, and 2003, were \$1,792,752, \$1,663,268, and \$1,445,564, respectively, which were equal to the required contributions for the year.

Agent plan—For the year ended June 30, 2005, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 15.96 percent.

Annual Pension Cost—The County's pension cost for the agent plan for the year ended June 30, 2005, and related information follows:

	PSPRS
Contribution rates:	
County	15.96%
Plan members	7.65%
Annual pension cost	\$463,276
Contributions made	\$463,276

Coconino County
Notes to Financial Statements
June 30, 2005

The current-year annual required contributions for the PSPRS was determined as part of its June 30, 2003, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2003, was 20 years.

Trend Information—Annual pension cost information for the current and 2 preceding years follows for the PSPRS:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$463,276	100%	\$0
2004	329,549	100	0
2003	209,070	100	0

Note 10 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2005, were as follows:

Payable from	Payable to							Total
	General Fund	Public Works/HURF Fund	Jail District Fund	Toho Tolani Improvement District Fund	Debt Service Fund	Nonmajor Governmental Funds	Internal Service Fund	
General Fund		\$ 1,306	\$71,618			\$3,495,214	\$107,572	\$3,675,710
Public Works/ HURF Fund	\$ 95,632					127,341	157,045	380,018
Jail District Fund	126,445	128				1,383	7,231	135,187
Toho Tolani Improvement District Fund		19,516				259		19,775
Nonmajor Governmental Funds	663,662	1,217,914	19,804	\$56	\$88,821	3,571,328	54,706	5,616,291
Internal Service Fund		17,251				5,750		23,001
Total	<u>\$885,739</u>	<u>\$1,256,115</u>	<u>\$91,422</u>	<u>\$56</u>	<u>\$88,821</u>	<u>\$7,201,275</u>	<u>\$326,554</u>	<u>\$9,849,982</u>

The interfund balances resulted from time lags between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Coconino County
Notes to Financial Statements
June 30, 2005

Interfund transfers—Interfund transfers for the year ended June 30, 2005, were as follows:

Transfer from	Transfer to						Total
	General Fund	Public Works/HURF Fund	Jail District Fund	Toho Tolani Improvement District Fund	Debt Service Fund	Nonmajor Governmental Funds	
General Fund			\$2,102,060			\$ 3,609,039	\$ 5,711,099
Public Works/HURF Fund	\$170,547			\$665,174		111,496	947,217
Jail District Fund						1,635	1,635
Debt Service Fund						1,954,897	1,954,897
Nonmajor Governmental Funds	<u>580,138</u>	<u>\$2,377,545</u>	<u>51</u>	<u>297,878</u>	<u>\$23,735</u>	<u>4,871,649</u>	<u>8,150,996</u>
Total	<u>\$750,685</u>	<u>\$2,377,545</u>	<u>\$2,102,111</u>	<u>\$963,052</u>	<u>\$23,735</u>	<u>\$10,548,716</u>	<u>\$16,765,844</u>

Interfund transfers are used to move revenues from the fund that collects them to the fund that expends them.

Advances from and to other funds—Advances from and to other funds represent monies owed from various County Road Improvement Districts (nonmajor governmental funds) to the Forest Fee Revolving Loan Fund (nonmajor governmental fund) to assist citizens with road improvements. The amount of advances as of June 30, 2005, was \$1,043,806. The County Road Improvement Districts pay interest on the advances ranging from 2.51 percent to 3.63 percent.

Advances from the Forest Fees Revolving Loan Fund	
Advances to	
Buckboard Trail	\$ 151,960
Kiowa-Comanche	287,581
Oakwood Pines	105,600
Pawnee	212,597
Pinon Improvement	153,107
Shoshone	59,050
Tonowanda	<u>73,911</u>
Total	<u>\$1,043,806</u>

Coconino County
Notes to Financial Statements
June 30, 2005

Note 11 - County Treasurer's Investment Pool

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County's monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

The County Treasurer's investment pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. The pool's structure does not provide for shares, and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments.

The Treasurer allocates interest earnings to each of the pool's participants.

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$3,202,759 in deposits, \$6,665,264 of investments in mutual funds—debt, \$483,166 in the State Treasurer's Investment Pools, \$74,283 of investments in guaranteed investment contracts, and \$22,549 in mutual funds—equity. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks, see Note 4 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Amount
State Treasurer's investment pools	\$ 410,965	None stated	None stated	\$ 410,965
U.S. agency securities	148,650,000	1.85–7.25%	8/5/05-5/3/10	148,557,320
Corporate bonds	1,000,000	4.13–7.00%	3/15/06-3/11/08	1,008,860
Mutual funds—debt	1,581,570	3.12%	7/1/05	1,581,778
Repurchase agreements	1,100,000	2.90%	7/1/05	1,100,000
Commercial paper	6,100,000	3.13–3.20%	7/8/05-7/18/05	6,093,513

A condensed statement of the investment pool's net assets and changes in net assets follows:

Coconino County
Notes to Financial Statements
June 30, 2005

Statement of Net Assets

Assets	\$160,139,499
Liabilities	
Net assets	<u>\$160,139,499</u>

Net assets held in trust for:

Internal participants	\$ 80,940,531
External participants	<u>79,198,968</u>
Total net assets held in trust	<u>\$160,139,499</u>

Statement of Changes in Net Assets

Total additions	\$423,471,372
Total deductions	<u>416,276,764</u>
Net increase	<u>7,194,608</u>
Net assets held in trust:	
July 1, 2004	<u>152,944,891</u>
June 30, 2005	<u>\$160,139,499</u>

Note 12 - Maintenance of Effort Payments

In accordance with A.R.S. §48-4024, Coconino County is required to make annual maintenance of effort payments (MOE) to the Coconino County Jail District, a special revenue fund type. The payments will be made through fiscal year 2012 and are determined by first establishing a base expenditure, which is used as the initial fiscal year 1998 MOE payment. Subsequent payments are determined by adjusting the base expenditure by the annual change in the gross domestic product price deflator, obtained from the State of Arizona Economic Estimates Commission. These payments are recorded by the jail district as transfers in. The MOE payment for fiscal year 2005 was \$2,102,060.

Note 13 - Subsequent Events

On January 3, 2006, the County's Mountain Line Transit Fund (nonmajor governmental fund) purchased buildings and land for \$4,255,202. This will become the new location for the Northern Arizona Intergovernmental Transportation Authority which was formed on March 14, 2006, pursuant to A.R.S. §28-9102. On July 1, 2006, all transportation functions previously managed by Coconino County transferred to the Northern Arizona Intergovernmental Transportation Authority, a corporate body and political subdivision of the State of Arizona.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Property taxes	\$ 6,080,580	\$ 6,080,580	\$ 6,164,721	\$ 84,141
Other taxes	12,850,213	12,850,213	13,610,468	760,255
Licenses and permits	1,615,191	1,615,191	1,553,517	(61,674)
Fees, fines, and forfeits	1,049,500	1,049,500	1,205,924	156,424
Intergovernmental	16,845,397	16,845,397	18,426,864	1,581,467
Charges for services	2,236,267	2,236,267	2,806,825	570,558
Investment earnings	523,726	523,726	629,000	105,274
Contributions	171,500	171,500	167,134	(4,366)
Miscellaneous	135,000	135,000	431,113	296,113
Total revenues	<u>41,507,374</u>	<u>41,507,374</u>	<u>44,995,566</u>	<u>3,488,192</u>
Expenditures:				
Current:				
Adult probation	1,187,536	1,187,536	1,145,682	41,854
Assessor	1,139,898	1,139,898	1,101,347	38,551
Board of Supervisors	753,132	753,132	741,395	11,737
Clerk of Superior Court	880,368	880,368	871,432	8,936
Community development	1,504,153	1,304,153	1,194,474	109,679
Community initiatives	522,161	467,170	275,444	191,726
Community services	256,152	256,152	252,238	3,914
Constable	68,982	68,982	61,991	6,991
County Attorney	2,232,490	2,285,990	2,174,481	111,509
County Manager	585,682	585,682	577,649	8,033
Facilities	2,389,207	2,389,207	2,073,668	315,539
Finance	1,072,960	1,072,960	1,020,572	52,388
Flagstaff Justice Court	807,700	807,700	821,692	(13,992)
Fredonia Justice Court	115,780	115,780	119,535	(3,755)
Geographic information systems	729,021	729,021	476,853	252,168
Health	3,332,608	3,332,608	3,344,939	(12,331)
Human resources	762,034	762,034	693,738	68,296
Information technology	1,473,174	1,820,174	1,768,812	51,362

(Continued)

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005
(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Juvenile probation	\$ 2,000,031	\$ 2,000,031	\$ 1,737,503	\$ 262,528
Legal defender	620,646	620,646	742,462	(121,816)
Nondepartmental	11,863,248	11,762,748	1,734,919	10,027,829
Page Justice Court	259,988	259,988	262,785	(2,797)
Parks and recreation	714,308	714,308	492,068	222,240
Public Defender	1,818,764	1,818,764	1,654,745	164,019
Public works	38,715	38,715	1,659	37,056
Recorder	1,188,930	1,247,159	1,352,927	(105,768)
School Superintendent	433,763	433,763	374,159	59,604
Sheriff	6,256,517	6,294,350	6,648,727	(354,377)
Superior Court	2,127,277	2,127,277	2,001,402	125,875
Treasurer	597,717	597,717	573,649	24,068
Williams Justice Court	242,148	242,148	237,783	4,365
Total expenditures	<u>47,975,090</u>	<u>48,116,161</u>	<u>36,530,730</u>	<u>11,585,431</u>
Excess (deficiency) of revenues over expenditures	<u>(6,467,716)</u>	<u>(6,608,787)</u>	<u>8,464,836</u>	<u>15,073,623</u>
Other financing sources (uses):				
Transfers in	893,861	893,861	750,685	(143,176)
Transfers out	<u>(6,307,865)</u>	<u>(6,384,447)</u>	<u>(5,711,099)</u>	<u>673,348</u>
Total other financing sources and uses	<u>(5,414,004)</u>	<u>(5,490,586)</u>	<u>(4,960,414)</u>	<u>530,172</u>
Net change in fund balances	(11,881,720)	(12,099,373)	3,504,422	15,603,795
Fund balances, July 1, 2004, as restated	<u>14,231,180</u>	<u>14,231,180</u>	<u>24,114,908</u>	<u>9,883,728</u>
Fund balances, June 30, 2005	<u>\$ 2,349,460</u>	<u>\$ 2,131,807</u>	<u>\$ 27,619,330</u>	<u>\$ 25,487,523</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works/HURF Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Other taxes	\$ 1,700,000	\$ 1,700,000	\$ 1,976,561	\$ 276,561
Licenses and permits	10,000	10,000	15,505	5,505
Intergovernmental	8,431,125	8,431,125	10,457,892	2,026,767
Charges for services	54,500	54,500		(54,500)
Investment earnings	300,000	300,000	427,376	127,376
Contributions			4,800	4,800
Miscellaneous			33,812	33,812
Total revenues	<u>10,495,625</u>	<u>10,495,625</u>	<u>12,915,946</u>	<u>2,420,321</u>
Expenditures:				
Current:				
Public works	<u>25,226,488</u>	<u>20,485,302</u>	<u>13,538,691</u>	<u>6,946,611</u>
Total expenditures	<u>25,226,488</u>	<u>20,485,302</u>	<u>13,538,691</u>	<u>6,946,611</u>
Excess (deficiency) of revenues over expenditures	<u>(14,730,863)</u>	<u>(9,989,677)</u>	<u>622,745</u>	<u>9,366,932</u>
Other financing sources (uses):				
Sale of capital assets	240,000	240,000	114,205	(125,795)
Transfers in	2,150,000	2,150,000	2,377,545	227,545
Transfers out	<u>(197,590)</u>	<u>(197,590)</u>	<u>(947,217)</u>	<u>(749,627)</u>
Total other financing sources and uses	<u>2,192,410</u>	<u>2,192,410</u>	<u>1,544,533</u>	<u>(647,877)</u>
Net change in fund balances	(12,538,453)	(7,797,267)	921,788	8,719,055
Fund balances, July 1, 2004	<u>14,790,259</u>	<u>14,790,259</u>	<u>18,208,516</u>	<u>3,418,257</u>
Fund balances, June 30, 2005	<u>\$ 2,251,806</u>	<u>\$ 6,992,992</u>	<u>\$ 19,130,304</u>	<u>\$ 12,137,312</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Jail District Fund
Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues:				
Other taxes	\$ 5,818,902	\$ 5,818,902	\$ 6,183,905	\$ 365,003
Charges for services	3,264,500	3,264,500	2,601,652	(662,848)
Investment earnings	67,000	67,000	60,660	(6,340)
Miscellaneous	<u>660</u>	<u>660</u>	<u>1,556</u>	<u>896</u>
Total revenues	<u>9,151,062</u>	<u>9,151,062</u>	<u>8,847,773</u>	<u>(303,289)</u>
Expenditures:				
Current:				
Public safety—Sheriff	8,911,920	8,912,119	8,824,256	87,863
Debt Service:				
Principal	1,840,011	1,840,011	1,840,000	11
Interest and other charges	<u>732,969</u>	<u>732,969</u>	<u>735,372</u>	<u>(2,403)</u>
Total expenditures	<u>11,484,900</u>	<u>11,485,099</u>	<u>11,399,628</u>	<u>85,471</u>
Deficiency of revenues over expenditures	(2,333,838)	(2,334,037)	(2,551,855)	(217,818)
Other financing sources (uses):				
Transfers in	2,333,838	2,333,838	2,102,111	(231,727)
Transfers out	<u> </u>	<u> </u>	<u>(1,635)</u>	<u>(1,635)</u>
Total other financing sources and uses	<u>2,333,838</u>	<u>2,333,838</u>	<u>2,100,476</u>	<u>(233,362)</u>
Net change in fund balances		(199)	(451,379)	(451,180)
Fund balances, July 1, 2004	<u>2,045,288</u>	<u>2,045,288</u>	<u>2,715,727</u>	<u>670,439</u>
Fund balances, June 30, 2005	<u>\$ 2,045,288</u>	<u>\$ 2,045,089</u>	<u>\$ 2,264,348</u>	<u>\$ 219,259</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2005

Note 1 - Budgeting and Budgetary Control

A.R.S. requires the County to prepare and adopt a balanced budget annually for each governmental fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

Note 2 - Budgetary Basis of Accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles.

Note 3 - Expenditures in Excess of Appropriations

For the year ended June 30, 2005, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund:	
Sheriff	\$ 354,377
Legal defender	121,816
Recorder	105,768
Flagstaff Justice Court	13,992
Health	12,331
Fredonia Justice Court	3,755
Page Justice Court	2,797

Departments exceed their department's budget for various reasons, including unexpected events. When departments exceed their budget then it is noted and this is addressed with the departments in their subsequent budget meetings with the County Manager and the Board of Supervisors.

Coconino County
Required Supplementary Information
Schedule of Agent Retirement Plan's Funding Progress
June 30, 2005

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/05	\$12,653,376	\$20,465,237	\$(7,811,861)	61.8%	\$2,690,586	(290.3)%
6/30/04	12,735,847	17,648,766	(4,912,919)	72.2	2,548,745	(192.8)
6/30/03	13,192,645	15,814,122	(2,621,477)	83.4	2,433,521	(107.7)

Supplementary Information

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Food Donation, passed through the Arizona Department of Education	10.550	ED05-0001-01	\$ 8,300
Child Nutrition Cluster, passed through the Arizona Department of Education			
School Breakfast Program	10.553	ED05-0001-01	11,209
National School Lunch Program	10.555	ED05-0001-01	16,977
Total Child Nutrition Cluster			<u>28,186</u>
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HP561153-002, HG361074-2	574,467
State Administrative Matching Grants for Food Stamp Program, passed through the Arizona Department of Health Services	10.561	HI461237-1	370,187
Commodity Supplemental Food Program, passed through the Arizona Department of Health Services	10.565	HG361100	8,805
WIC Farmers' Market Nutrition Program, passed through the Arizona Department of Health Services	10.572	HG561261-0	490
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	5,139,369
Total U.S. Department of Agriculture			<u>6,129,804</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants, passed through the City of Flagstaff	14.218	88C-04	48,950
Community Development Block Grants/State's Program, passed through the Arizona Department of Housing	14.228	184-04, 115-06	162,293
Emergency Shelter Grants Program, passed through the Arizona Department of Economic Security	14.231	E6301004	17,790
Total U.S. Department of Housing and Urban Development			<u>229,033</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>435,081</u>
U.S. Department of Justice			
State and Local Domestic Preparedness Training Program, passed through the Arizona Department of Emergency and Military Affairs	16.008	2003-MU-T3-0034	2,117
Juvenile Accountability Incentive Block Grants, passed through the Arizona Governor's Division for Children	16.523	00JAIBG-03, JB-GRA-02-4182-03, JB-GRA-04-6273-03	29,871
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-05-051	53,186
Edward Byrne Memorial Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	PC-090-05	114,925
Local Law Enforcement Block Grant Program	16.592		15,392
Bulletproof Vest Partnership Program	16.607		767
Total U.S. Department of Justice			<u>216,258</u>
U.S. Department of Labor			
Senior Community Service Employment Program, passed through the Arizona Department of Economic Security	17.235	E6205052	97,507
WIA Cluster, passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	E5704003, E5705003	220,736

(Continued)

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
WIA Youth Activities	17.259	E5704003, E5705003	\$ 272,288
WIA Dislocated Workers	17.260	E5704003, E5705003	327,830
Total WIA Cluster			820,854
Total U.S. Department of Labor			918,361
U.S. Department of Transportation			
Federal Transit Cluster			
Federal Transit—Capital Investment Grants	20.500		233,391
Federal Transit—Formula Grants	20.507		477,128
Total Federal Transit Cluster			710,519
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2005-PT-007	11,588
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Emergency Response Commission	20.703	None	4,905
Total U.S. Department of Transportation			727,012
U.S. Department of Education			
Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	05FAEABE-570669-02A	103,073
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	05FAARCC-570669-04A	40,536
Title I Grants to Local Educational Agencies, passed through the Flagstaff Unified School District #1	84.010	05FAADEL-560586-14A	648
Total Title I Grants to Local Educational Agencies			41,184
Title I Program for Neglected and Delinquent Children, passed through the Arizona Supreme Court	84.013	26700	9,450
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	05FESCD2-570669-09A, 05FESPD2-570669-01A, 05FESPRG-560594-02A, 05FESCBG-560594-01A	46,665
Special Education—Grants for Infants and Families with Disabilities, passed through the Arizona Department of Health Services	84.181	161004-8	29,612
Fund for the Improvement of Education	84.215		72,415
State Grants for Innovative Programs, passed through the Arizona Department of Education	84.298	05FAATVE-570669-05A	40,029
Reading First State Grants, passed through the Arizona Department of Education	84.357	05FSASRS-570669-11A	34,522
English Language Acquisition Grants, passed through the Arizona Department of Education	84.365	05FAAENG-570669-10A	9,050
Mathematics and Science Partnerships, passed through the Arizona Department of Education	84.366	05FAAMSP-570669-12A, 05FAAMS2-570669-07A	42,799
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	05FAAT13-570669-06A	17,510
Total U.S. Department of Education			446,309

(Continued)

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
Aging Cluster, passed through the Northern Arizona Council of Governments			
Special Programs for the Aging—Title III, Part B - Grants for			
Supportive Services and Senior Centers	93.044	866000441ba	\$ 111,917
Nutrition Services Incentive Program	93.053	866000441ba	139,354
Total Aging Cluster			<u>251,271</u>
Family Planning—Services, passed through the Arizona Family Planning Council	93.217	None	69,764
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG352210-2, HG352210-1	129,725
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252034	362,955
Temporary Assistance for Needy Families, passed through the Arizona Department of Economic Security	93.558	E6301004	149,563
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	E7205005, E7205306	31,168
Low-Income Home Energy Assistance, passed through the Arizona Department of Economic Security	93.568	E6301004	133,377
Community Services Block Grant, passed through the Arizona Department of Economic Security	93.569	E6301004	130,068
Social Services Block Grant, passed through the Arizona Department of Economic Security	93.667	E6301004	21,579
Social Services Block Grant, passed through the Northern Arizona Council of Governments	93.667	866000441ba, 866000441bb	149,274
Total Social Services Block Grant			<u>170,853</u>
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations, passed through the Arizona Department of Economic Security	93.779	E2308327	47,416
HIV Care Formula Grants, passed through the Arizona Department of Health Services	93.917	152067	567,745
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	HG454515, HP4547174-001, HG352237	237,501
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977		1,172
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	HG354178, HG461341	83,996
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG361136, 261181, HP461323-006, HP461413-012	219,025
Total U.S. Department of Health and Human Services			<u>2,585,599</u>
Corporation for National and Community Service			
AmeriCorps, passed through the Arizona Governor's Office for Children, Youth and Families	94.006	ACVSG-04-5031-001, AD030052-002y2	178,026

(Continued)

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Homeland Security			
Emergency Food and Shelter National Board Program, passed through the United Way	97.024	None	\$ 18,629
Disaster Grants-Public Assistance (Presidentially Declared Disasters), passed through the Arizona Department of Emergency and Military Affairs	97.036	ADEM/FEMA-1581-DR-AZ-005-99005-00	111,142
State and Local All Hazards Emergency Operations Planning, passed through the Arizona Department of Emergency and Military Affairs	97.051	None	<u>29,993</u>
Total U.S. Department of Homeland Security			<u>159,764</u>
Homeland Security Grant Program Cluster			
U.S. Department of Justice:			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department of Emergency and Military Affairs	16.007	2003-TE-TX-0196, 2003-MU-T3-0034, 2002-TE-CX-0051/0142	353,829
U.S. Department of Homeland Security:			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department of Emergency and Military Affairs	97.004	2004-GE-T4-0051	9,310
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	None	53,673
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	None	<u>4,492</u>
Total U.S. Department of Homeland Security			<u>67,475</u>
Total Homeland Security Grant Program Cluster			<u>421,304</u>
Total Expenditures of Federal Awards			<u>\$12,446,551</u>

See accompanying notes to schedule.

Coconino County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Coconino County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The amount reported on the schedule for Food Donation (CFDA Number 10.550) and \$78,763 of the Immunization Grants amount (CFDA Number 93.268) represent the value of noncash assistance expended from these federal programs.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2005 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients:

Program Title	CFDA Number	Amount
Schools and Roads—Grants to States	10.665	\$1,269,637
HIV Care Formula Grants	93.917	232,803
State Domestic Preparedness Equipment Support Program	16.007	189,353
Crime Victim Compensation	16.576	53,186



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 14, 2006. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter at a future date.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic 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*. However, we noted certain immaterial instances of noncompliance or other matters that we will report to the County's management in a separate letter at a future date.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

November 14, 2006



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

Compliance

We have audited the compliance of Coconino County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in items 05-101 and 05-102 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding Davis-Bacon Act that are applicable to its Schools and Roads—Grants to States program and subrecipient monitoring that are applicable to its HIV Care Formula Grants program and Homeland Security Grant Program Cluster. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Coconino County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 05-103 and 05-104.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-101, 05-102, 05-103, and 05-104.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-101 and 05-102 to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

November 14, 2006

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	Yes	No
Material weakness identified in internal control over financial reporting?	___	<u>X</u>
Reportable condition identified not considered to be a material weakness?	___	<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	___	<u>X</u>

Federal Awards

Material weaknesses identified in internal control over major programs?	<u>X</u>	___
Reportable conditions identified not considered to be material weaknesses?	<u>X</u>	___
Type of auditors' report issued on compliance for major programs:	Unqualified for all major programs except for Schools and Roads—Grants to States, HIV Care Formula Grants, and the Homeland Security Grant Program Cluster, which were qualified.	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.665	Schools and Roads—Grants to States
	Federal Transit Cluster
20.500	Federal Transit—Capital Investment Grants
20.507	Federal Transit—Formula Grants
93.917	HIV Care Formula Grants
	Homeland Security Grant Program Cluster
16.007	State Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program
97.042	Emergency Management Performance Grants
97.053	Citizen Corps

Dollar threshold used to distinguish between Type A and Type B programs:	\$373,397
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Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

	Yes	No
Auditee qualified as low-risk auditee?	<u> </u>	<u> X </u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u> X </u>	<u> </u>
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Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

05-101

CFDA No.: 10.665 **Schools and Roads—Grants to States**

U.S. Department of Agriculture passed through the Arizona State Treasurer

Award Year: July 1, 2004 through June 30, 2005

Questioned Cost: Unknown

The County did not have policies and procedures to comply with the Davis-Bacon Act requirements for the Schools and Roads—Grants to States program. As a result, the County awarded two road construction contracts totaling \$1,197,878, and neither included the prevailing wage-rate clause in the contracts nor required the contractors to submit certified payrolls as required by 29 Code of Federal Regulations (CFR) §5.5(a).

It was not practical to extend our auditing procedures sufficiently to determine if any questioned costs resulted from this finding. This finding is considered to be a material internal control weakness and material noncompliance with the program's Davis-Bacon Act requirements.

To comply with 29 CFR §5.5(a), the County should develop policies and procedures to comply with the Davis-Bacon Act and should include in its construction contracts, subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act. In addition, the County should require the contractor or subcontractor to submit weekly a copy of the payroll and a statement of compliance in the form of certified payrolls.

05-102

CFDA No.: 93.917 **HIV Care Formula Grants**

U.S. Department of Health and Human Services, passed through the Arizona Department of Health Services, #152067

CFDA No.: 16.007 **State Domestic Preparedness Equipment Support Program**

U.S. Department of Justice, passed through the Arizona Department of Emergency and Military Affairs, #2003-TE-TX-0196, 2003-MU-T3-0034, and 2002-TE-CX-0051/0142

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**

97.042 **Emergency Management Performance Grants**

97.053 **Citizen Corps**

U.S. Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs, #2004-GE-T4-0051

Award Year: July 1, 2004 through June 30, 2005

Questioned Cost—Unknown

The County did not have policies and procedures for its departments to ensure that they complied with subrecipient monitoring requirements. As a result, the County Health Department and Public Works Department did not monitor subrecipients that received \$232,803 in federal HIV Care Formula Grants monies and \$189,353 in Homeland Security Grant Program Cluster monies, respectively, during the audit period July 1, 2004 through June 30, 2005. Specifically, the departments did not obtain audit reports for

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

the programs' subrecipients who were required to have audits conducted in accordance with OMB Circular A-133; did not monitor the subrecipients to ensure that they were accurately reporting the grants on their Schedule of Expenditures of Federal Awards; and did not monitor the subrecipients to ensure they were complying with laws, regulations, or provisions of grant agreements.

It was not practical to extend our auditing procedures sufficiently to determine if any questioned costs resulted from this finding. This finding is a material internal control weakness and material noncompliance with both programs' subrecipient monitoring requirements.

To help ensure compliance with OMB Circular A-133, §.400 (d)(3), the County and department management should develop uniform county-wide subrecipient monitoring policies and procedures. Further, county management should monitor each department's subrecipient monitoring activities to ensure that established policies and procedures are being followed.

05-103

CFDA No.: 20.500 **Federal Transit—Capital Investment Grants**

20.507 **Federal Transit—Formula Grants**

U.S. Department of Transportation, #AZ-90-X067, AZ-90-X045, and AZ-90-X072

Award Year: October 1, 2003 through September 30, 2004 and
October 1, 2004 through September 30, 2005

Questioned Cost—N/A

The Transportation Services Department management did not have adequate internal control policies and procedures to ensure compliance with matching and reporting requirements for the Federal Transit Cluster. Specifically, the Department recorded all federal and nonfederal program expenditures in the same account that made it difficult for the department to report program expenditures on the Financial Status Reports and Requests for Advance and Reimbursement. As a result, for three federal reports, the department was unable to reconcile federal and nonfederal expenditures reported to its accounting system, audited financial statements, or Schedule of Expenditures of Federal Awards. In addition, the Department did not report \$240,000 in the correct period because the department did not prepare federal reports on the accrual basis of accounting and, in another instance, did not retain documentation supporting a federal report. Also, supporting documentation was not maintained to document matching for federal and recipient share of outlays for one Financial Status Report. Further, the department submitted three Financial Status Reports to the grantor nine days after the deadline outlined in the grant agreement.

This finding is considered a reportable condition and immaterial noncompliance with the program's matching and reporting requirements.

To help ensure that the program is properly administered and to comply with OMB Circular A-133, §.300 and 49 CFR §§18.20 and 18.41, the department should establish internal control policies and procedures that include the following:

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

- Record federally reimbursed program expenditures separately from nonfederal expenditures so that only those expenditures allowable under the grant agreement are recorded in the accounting system in the grant account.
- Prepare written reconciliations of the amounts reported on the financial reports and reimbursement requests to the underlying accounting records to help ensure that the reports are adequately supported.
- Require a supervisor to review and approve reports and related reconciliations to help ensure the accuracy and completeness of reports.
- Monitor report deadlines to help ensure required reports are submitted to the grantor agency by the deadline outlined in the grant agreement.
- Retain documentation to support both federal expenditures and matching expenditures.

05-104

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
U.S. Department of Agriculture passed through the Arizona Department of Health Services,
#HG361074-2, HP561153-002

Award Year: October 1, 2003 through September 30, 2004
October 1, 2004 through September 30, 2005

Questioned Cost: None

For several years, the Coconino County Health Department maintained a \$27,041 cash balance for the Special Supplemental Nutrition Program for Women, Infants, and Children which is funded on a reimbursement basis. Further, the County did not disburse these monies before requesting additional reimbursements since the County could not identify the source of the excess monies.

This finding is considered to be a reportable condition and immaterial noncompliance with the program's cash management requirements.

To comply with 7 CFR §3016.21(f)(2) and the Cash Management Act, the County should identify the cash balance's source and determine with the grantor the appropriate actions that should be taken to eliminate the cash balance before it requests additional reimbursements.

Coconino County
Corrective Action Plan
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

05-101

CFDA No.: 10.665 **Schools and Roads—Grants to States**

Contact: Scott Richardson

Anticipated completion date: Completed

The County amended its purchasing policy to include information regarding the requirements of complying with the Davis Bacon Act when using federal funds for construction projects costing in excess of \$2,000. For all construction projects exceeding \$2,000, the purchasing office will determine whether federal funds are being used prior to issuing a purchase order, request for proposal or Bid.

05-102

CFDA No.: 93.917 **HIV Care Formula Grants**

16.007 **State Domestic Preparedness Equipment Support Program**

97.004 **State Domestic Preparedness Equipment Support Program**

97.042 **Emergency Management Performance Grants**

97.053 **Citizen Corps**

Contact: For 93.917 Scott Barker

Anticipated completion date: December 31, 2006

Contact For 16.007, 97.004, 97.042, 97.053 Sherrie Collins

Anticipated completion date: December 15, 2006

The County Health Department and Public Works Department shall develop written policies and procedures to ensure that they comply with all of the policies and procedures prescribed by OMB Circular A-133, including those related to subrecipient monitoring.

05-103

CFDA No. 20.500 **Federal Transit—Capital Investment Grants**

20.507 **Federal Transit—Formula Grants**

Contact: Heather Dalmolin

Anticipated completion date: July 1, 2006

The accounting system used to record and track expenditures will be modified to include new account strings that identify allowable expenses. Reconciliations will identify the documents required to support the amounts reported on the financial reports, including copies of invoices, accounting system printout of amount paid, and financial system report printout for period matching reported amounts. Quarterly grant meetings will be held with required supervisory staff to ensure adequate review and signature as well as reporting that meets federal deadlines.

05-104

CFDA No. 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

Anticipated completion date: A transfer was made on December 27, 2005 to pay for prior year unpaid indirects.

Coconino County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Status of Federal Award Findings and Questioned Costs

CFDA No.: 10.665 **Schools and Roads—Grants to States**
Finding No.: **04-101**
Status: **Partially corrected.** Changes to the County's Purchasing Policy were approved by the Board of Supervisors on May 2, 2006.

CFDA No.: 93.568 **Low-Income Home Energy Assistance**
CFDA No.: 93.569 **Community Services Block Grant**
Finding No.: **04-102**
Status: **Partially corrected.** The Community Services Department made changes to their procedures as of August 29, 2005.

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**
Finding No.: **04-103**
Status: **Partially corrected.** A transfer was made on December 27, 2005, to pay for prior-year unpaid indirects.