

Single Audit

Coconino County
Year Ended June 30, 2008

Coconino County
Single Audit Reporting Package
Year Ended June 30, 2008

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Single Audit Reporting Package
Year Ended June 30, 2008

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Independent Auditors' Report

The Auditor General of the State of Arizona

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, 2008, 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, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through xi, the Budgetary Comparison Schedules on pages 41 through 45, and the Schedule of Agent Retirement Plan's Funding Progress on page 46 are not required parts 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 our 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 connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2009 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.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, and management 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.

Flester & Chapman P.C.

April 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Coconino County (the County) offers the following narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2008, and is designed to give the reader an easy-to-understand discussion of the County's financial position and results of operations for current fiscal year. Please consider this information in conjunction with the County's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2008

- The assets of the County exceeded its liabilities at the close of fiscal year 2008 by \$210.47 million (net assets). Of these \$52.34 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The total increase in the County's net assets was \$2.46 million in fiscal year 2008, as a result of normal operations.
- The County defeased \$16.18 million in certificates of participation in fiscal year 2008.
- At the close of fiscal year 2008, the County's governmental funds reported combined ending fund balances of \$80.19 million, a decrease of \$15.65 million. The primary reason for this decrease was the defeasance of the certificates of participation debt. Approximately 99.15% of the fund balance, \$79.51 million, is unreserved fund balance available for spending at the County's discretion.
- The General Fund reported an unreserved fund balance of \$27.49 million at the close of fiscal year 2008, a decrease of \$6.49 million. The primary reasons for this decrease were increases in expenditures that were not offset by an increase in revenues and funds used for the defeasance of the certificates of participation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private sector business.

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 non-fiduciary* assets and liabilities using the *accrual basis of accounting*.

The Statement of Net Assets presents information on 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 non-financial factors will need to be considered.

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, such as revenues pertaining to uncollected taxes and expense pertaining to earned but unused vacation and sick leave.

All of the County's basic services are considered to be governmental activities, including general government, health and 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 government-wide financial statements can be found on pages 1-2 of this report.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant County funds—not the County as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law or 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. All of the County's funds can be divided into three categories: *governmental, proprietary and fiduciary.*

Governmental funds—Most of the County's basic services are reported in governmental funds, which focus on near-term inflows and outflows of spendable resources and the balances of spendable resources available at year-end. 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 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.

Because the focus of the governmental funds is narrower than that of the government-wide statements it is useful to compare the information presented for the governmental funds with similar information presented for the governmental activities in the government-wide financial statements. Reconciliations 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 provided to facilitate this comparison.

The County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Works/HURF Fund, Jail District Fund, Debt Service Fund, and the Parks and Open Space Fund, are considered to be major funds. Data from the other governmental funds are combined into a single aggregate presentation. *The basic governmental fund financial statements can be found on pages 3-8 of this report.*

Proprietary funds—The County uses one type of proprietary fund, an internal service fund, to report fleet service activities provided 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 basic proprietary fund financial statements can be found on pages 9-11 of this report.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiduciary Funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. *The basic fiduciary funds financial statements can be found on pages 12-13 of this report.*

Notes to the financial statements—The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. *The notes to the financial statements can be found on pages 14-40 of this report.*

Required supplementary information—In addition to the basic statements and accompanying notes the report presents required supplementary information on the County's budgeting and budgetary control and the County's progress in funding its obligation to provide pension benefits to its employees. *Required supplementary information can be found on pages 41-47 of this report.*

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets may serve over time as a useful indicator of a County's financial position. The following table reflects the condensed Statement of Net Assets of the County for June 30, 2008 compared to the prior year.

	Governmental Activities (in millions)	
	2008	2007
Current and other assets	\$ 97.07	\$114.59
Capital assets	140.52	139.69
Total assets	237.59	254.28
Current liabilities	10.22	9.32
Long-term liabilities outstanding	16.90	36.95
Total liabilities	27.12	46.27
Net assets:		
Invested in capital assets, net of related debt	128.20	106.91
Restricted	29.93	36.99
Unrestricted	52.34	64.11
Total net assets	<u>\$210.47</u>	<u>\$208.01</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's net assets from governmental activities at the end of the fiscal year were \$210.47 million. The increase of \$2.46 million comes from the change in net assets as recorded in the Statement of Activities. A large portion of the County's net assets (60.91%) reflects its investment in capital assets net of accumulated depreciation and related debt. The County uses these assets to provide services but these assets are not available for future spending.

Investment in Capital Assets, net of related debt

60.91% of the County's net assets (\$128.20 million) are invested in capital assets (e.g. land, buildings, equipment, and infrastructure), net of related debt. These assets are used to provide services to citizens but are not available for future spending. The County's capital assets, net of related debt, increased by 19.91% (\$21.29 million) in the current fiscal year. The primary reason for this increase was the defeasance of certificates of participation debt which were issued to construct and improve buildings.

Restricted Net Assets

14.22% of the County's net assets (\$29.93 million) are subject to external restrictions on how they may be used. The County's restricted net assets decreased by 19.09% (\$7.06 million) in the current fiscal year. The primary reason for this decrease was the defeasance of certificates of participation debt which represented \$6.97 million in restricted net assets in fiscal 2007.

Unrestricted Net Assets

The remaining balance of the County's net assets, 24.87% (\$52.34 million), is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants or other legal requirements. Unrestricted net assets decreased 18.36% (\$11.77 million). The defeasance of the certificates of participation debt required the use of a significant amount of unrestricted net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities

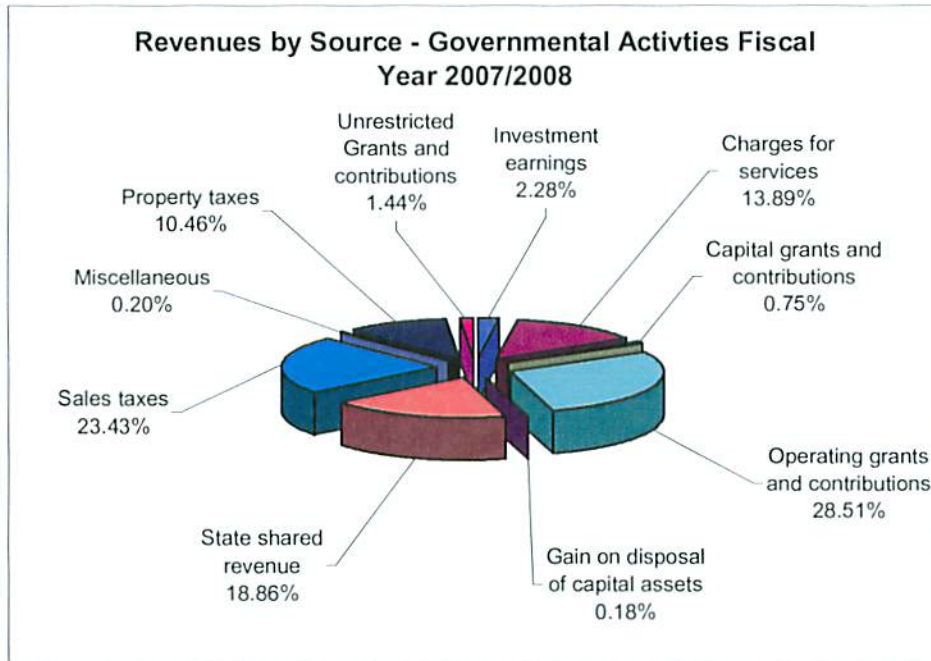
The Statement of Activities presents information on how the County's net assets changed during the most current fiscal year. The following table reflects the condensed Statement of Activities of the County for the fiscal year 2008 compared to the prior year.

	Governmental Activities (in millions)	
	2008	2007
Revenues		
Program revenues:		
Charges for services	\$ 16.66	\$ 17.77
Operating grants and contributions	34.19	33.70
Capital grants and contributions	0.90	0.13
Total program revenue	51.75	51.60
General revenues:		
State shared revenue	22.62	23.82
Sales taxes	28.09	25.40
Property taxes	12.54	11.13
Grants and contributions not restricted to specific programs	1.73	1.64
Investment earnings	2.73	4.49
Gain on disposal of capital assets	0.21	0.16
Miscellaneous	0.23	0.02
Total general revenue	68.15	66.66
Total revenues	119.90	118.26
Special item - loss on closure of activity		7.28
Program Expenses		
General government	32.25	30.14
Public safety	32.29	29.17
Highways and streets	17.99	18.70
Sanitation	3.22	3.14
Health	12.19	11.58
Welfare	6.67	5.90
Culture and recreation	6.96	5.63
Education	4.44	3.81
Interest on long-term debt	0.60	1.60
Payment to bond escrow account	0.83	
Total program expenses	117.44	109.67
Change in net assets	2.46	1.31
Net assets, beginning, as restated	208.01	206.70
Net assets, ending	\$ 210.47	\$ 208.01

Overall revenues increased by 1.39% and program expenses increased by 7.08% in the current fiscal year.

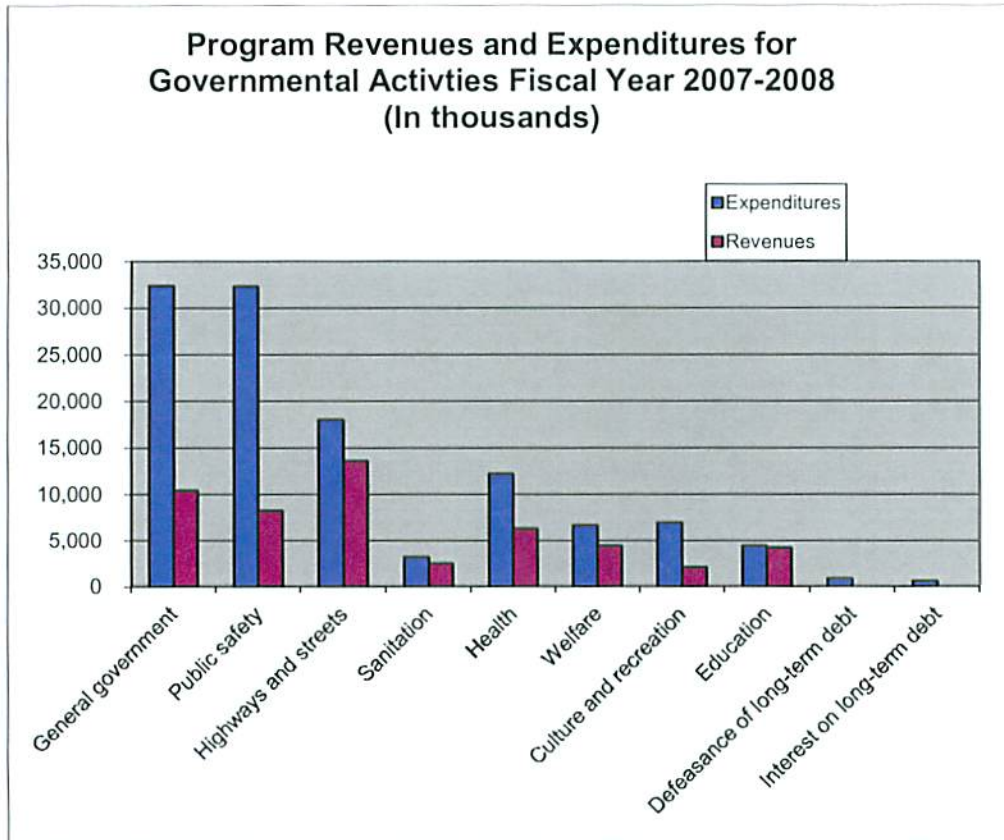
MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales taxes increased 10.59% primarily due to a full year of the increase the Jail District sales tax rate from .33% to .50% in fiscal year 2007. Property taxes increased by 12.67% (\$1.41 million) the result of an increase in the tax rate for the County Library District of 3.6 cents. The current fiscal year investment earnings increased by 15.13% because of an increase of .77% in the average earnings rate and an increase of in the average monthly investment of \$5.03 million; however, the capital loss and accrued interest adjustments between fiscal years caused investment earnings reported to decrease by 39.20%.



Culture and recreation expense increased 23.62% in the current fiscal year due to increased funding for libraries. Expenditures for the Accommodation school increased resulting in a 16.54% increase in education expenses. Public Safety expense increased 10.70% primarily as the result of increased expenditures for the County Jail District. Welfare expenses increased by 13.05% with the addition of the Home Program and Youth Build grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS



As shown in the “Revenues by Source for Governmental Activities” chart and “Program Revenues and Expenditures for Governmental Activities” chart, for governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (28.51%), followed by sales tax (23.43%), and state shared revenue (18.86%). Public safety is the largest function in expense (27.49%), followed by General government (27.46%), and highways and streets (15.32%).

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County reported five major funds for this fiscal year – General Fund, Public Works/HURF, Jail District, Debt Service and Parks and Open Space. At year-end the County's governmental funds reported combined fund balances of \$80.19 million, which is a decrease of \$15.65 million from last year or a change of 16.33%. Of the total, \$79.51 million (99.15%) constitutes unreserved fund balance.

Revenues for governmental functions overall increased by \$1.17 million, an increase of .99%, and expenditures for current governmental functions increased by \$8.47 million, an increase of 7.89%, in the current fiscal year. The largest expenditure increases were in the Public safety (\$3.45 million) and Culture and recreation (\$3.36 million dollars) functions. The large increase in Public safety expenditures was primarily the result of increased operations for the Jail District. The large increase in Culture and recreation expenditures was the result of growth funding expenditures for the County Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

District and expenditures for the Tuba City Park. Governmental fund expenditures exceeded governmental function revenues by \$15.79 million in the current fiscal year, primarily because of the \$17.01 million used for the defeasance of certificates of participation debt in the current fiscal year.

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 \$27.49 million. Unreserved fund balance represents 99.52% of General fund's total fund balance. The General Fund's fund balance decreased by \$6.42 million. The primary reasons for this decrease were increases in expenditures that were not offset by an increase in revenues and funds used for the defeasance of the certificates of participation.

The Public Works/HURF Fund's fund balance increased by \$1.88 million in the current fiscal year. This was primarily the result of lower expenditures in fiscal year 2008.

The Jail District Fund's fund balance increased by \$1.75 million in the current fiscal year. The increase was primarily the result of a full year of the Jail District sales tax increase in fiscal year 2007 from .33% to .50%.

The Debt Service Fund's fund balance decreased by \$12.30 million in the current year as a result of the defeasance of the certificates of participation debt.

General Fund Budgetary Highlights

- The final budgeted expenditures for the General Fund at year-end were \$1.02 million less than the original adopted budget. This decrease offsets increases in other fund's budgets keeping the overall County budget from exceeding the adopted budget ceiling. For the General Fund actual revenues were under the final budget by \$1.65 million while actual expenditures were \$25.76 million less than the final budget.
- The budget variance for revenues in the General Fund was primarily due to an unanticipated decrease in state shared sales tax and building permits revenue. Both of these decreases were the result of the Country's deteriorating economy. The expenditures variance was primarily unexpended contingency funds and fiscal reserves.

Capital Assets and Debt Administration

Capital Assets

During the current fiscal year, the County completed and continued various construction projects that added \$2.56 million to the County's buildings inventory, \$2.49 million to the County's machinery and equipment inventory, and \$1.39 million to the County's infrastructure inventory. The net increase to the County's capital asset inventory was only \$.83 million net of increases in depreciation and current fiscal year disposals.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reflects the changes in capital assets for the County for the fiscal year 2008 compared to fiscal year 2007.

	Governmental Activities (net of depreciation) (in millions)	
	<u>2008</u>	<u>2007</u>
Land	\$ 22.79	\$ 22.41
Buildings	60.56	60.07
Machinery and Equipment	12.60	11.77
Infrastructure	41.95	43.31
Construction in Progress	2.62	2.13
Total	<u>\$ 140.52</u>	<u>\$ 139.69</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County utilizes a Ten-Year Financial Plan, which is updated quarterly, to forecast the County's financial future. Various sales taxes constitute over 65.94% of the County's government-wide general revenues and over 57.61% of General Fund revenues. This makes the County's revenues sensitive to slumps in the economy. County staff incorporated historical trends, local economic trends and national and global economic trends into the County's fiscal 2009 budget. Because sales tax revenue was below the FY08 recessionary growth forecast, County staff is forecasting conservative increases to county sales taxes (2.1%), reflecting a local recession continuing through the first half of FY09, with some gradual economic turnaround the second half of the year. The State shared sales tax return growth estimate was more aggressive (6%), reflecting an earlier recovery from the deeper recession that occurred in FY08 at the state level. Overall revenues and General Fund revenues are estimated to increase by approximately 4.03% and 6.16% respectively in fiscal 2009.

The major issues addressed in the fiscal 2009 budget are:

- Funding for increased mandated costs and revenue shifts
- Funding for a mandatory "contribution" to the State of Arizona
- Phase II of a multi-year comprehensive pay plan and pay study
- Addressing health insurance and retirement plan increases
- Matching recurring expenditures with recurring revenue streams

The County is forecasting the impact of the recession on our largest revenue streams, and planned accordingly by only funding "mission critical" increments, and delaying the funding of most increments until mid-year when a final decision can be made on funding increments based on an updated financial picture.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's financial planning is based on conservative revenue estimates and the use of a strategic planning process to focus the expenditure of limited resources on meeting the current and future needs of its citizens.

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, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 75,103,113
Investments	591,765
Cash and investments held by trustee	2,351,469
Receivables (net of allowance for uncollectibles):	
Property taxes	361,374
Accounts	897,101
Special assessments	1,988,593
Jail district sales tax	2,173,967
Accrued interest	606,783
Due from other governments	12,558,114
Inventories	364,640
Prepaid items	75,884
Capital assets, not being depreciated	25,405,872
Capital assets, being depreciated, net	115,112,685
Total assets	237,591,360
Liabilities	
Accounts payable	5,266,667
Accrued payroll and employee benefits	2,966,486
Due to other governments	153,965
Deposits held for others	1,590,630
Bond interest payable	236,455
Noncurrent liabilities	
Due within 1 year	5,649,993
Due in more than 1 year	11,253,539
Total liabilities	27,117,735
Net Assets	
Invested in capital assets, net of related debt	128,198,350
Restricted for:	
Highways and streets	21,164,250
Education	738,620
Debt service	6,948,715
Capital projects	1,077,773
Unrestricted	52,345,917
Total net assets	\$ 210,473,625

See accompanying notes to financial statements.

Coconino County
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets
					Total
Primary government:					
Governmental activities:					
General government	\$ 32,252,372	\$ 8,273,916	\$ 2,089,717	\$ 61,087	\$ (21,827,652)
Public safety	32,282,534	2,986,695	5,251,580		(24,044,259)
Highways and streets	17,990,951	74,556	13,332,945	169,094	(4,414,356)
Sanitation	3,216,176	1,375,478	1,111,903	6,859	(721,936)
Health	12,192,703	1,340,236	4,954,630		(5,897,837)
Welfare	6,666,186	1,337,392	3,059,982	-	(2,268,812)
Culture and recreation	6,957,602	1,159,535	282,079	661,274	(4,854,714)
Education	4,437,125	115,216	4,102,417		(219,492)
Interest on long-term debt	603,969				(603,969)
Defeasance of long-term debt	832,030				(832,030)
Total governmental activities	<u>\$ 117,431,648</u>	<u>\$ 16,663,024</u>	<u>\$ 34,185,253</u>	<u>\$ 898,314</u>	<u>(65,685,057)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	7,180,218
Property taxes, levied for library	3,847,035
Property taxes, levied for flood control	1,510,077
General county sales tax	12,445,915
Jail district sales tax	12,395,931
Parks and open spaces sales tax	3,105,737
Excise tax	46,966
Franchise tax	102,863
Shared revenue - state sales tax	17,000,598
Shared revenue - state vehicle license tax	5,622,049
Grants and contributions not restricted to specific programs	1,727,679
Investment earnings	2,726,375
Gain on disposal of capital assets	209,636
Miscellaneous	225,544
Total general revenues	<u>68,146,623</u>
Change in net assets	2,461,566
Net assets, July 1, 2007	208,012,059
Net assets, June 30, 2008	<u>\$ 210,473,625</u>

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Fund
June 30, 2008

	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Parks and Open Spaces Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 30,983,428	\$ 18,353,360	\$ 3,876,862	\$ 13,264	\$ 10,545,146	\$ 9,268,972	\$ 73,041,032
Investments						591,765	591,765
Cash and investments held by trustee			2,343,490	1,713		6,266	2,351,469
Receivables (net of allowances for uncollectibles):							
Property taxes	198,819					162,555	361,374
Accounts	74,585	15,486	102,775			684,450	877,296
Special assessments						1,988,593	1,988,593
Jail district sales tax			2,173,967				2,173,967
Accrued interest	217,027	137,962	29,932	89	74,091	132,784	591,885
Advances to other funds						553,574	553,574
Due from:							
Other funds	1,670,889	318,650	153,620			10,569,290	12,712,449
Other governments	6,299,133	2,355,096	288,835		545,254	3,069,796	12,558,114
Inventories	74,785						74,785
Prepaid items	58,579	1,746	49			15,510	75,884
Total assets	<u>\$ 39,577,245</u>	<u>\$ 21,182,300</u>	<u>\$ 8,969,530</u>	<u>\$ 15,066</u>	<u>\$ 11,164,491</u>	<u>\$ 27,043,555</u>	<u>\$ 107,952,187</u>

(Continued)

Coconino County
Balance Sheet
Governmental Fund
June 30, 2008
(Continued)

	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Parks and Open Spaces Fund	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 2,055,837	\$ 786,935	\$ 413,442			\$ 1,813,594	\$ 5,069,808
Accrued payroll and employee benefits	1,403,782	294,979	344,336			826,174	2,869,271
Advances from other funds						553,574	553,574
Due to:							
Other funds	6,801,666	451,561	251,395		\$ 2,705,672	2,742,917	12,953,211
Other governments	17,925		30,330			105,710	153,965
Deposits held for others	1,512,759					77,871	1,590,630
Bond interest payable			236,143			312	236,455
Special assessments payable						2,129	2,129
Revenue bonds payable			2,095,000				2,095,000
Deferred revenue	156,570					2,080,902	2,237,472
Total liabilities	<u>11,948,539</u>	<u>1,533,475</u>	<u>3,370,646</u>		<u>2,705,672</u>	<u>8,203,183</u>	<u>27,761,515</u>
Fund balances:							
Reserved for:							
Inventories	74,785						74,785
Prepaid items	58,579						58,579
Debt service						549,455	549,455
Unreserved, reported in:							
General fund	27,495,342						27,495,342
Special revenue funds		19,648,825	5,598,884			16,484,029	41,731,738
Capital projects funds					8,458,819	1,806,888	10,265,707
Debt service fund				\$ 15,066			15,066
Total fund balances	<u>27,628,706</u>	<u>19,648,825</u>	<u>5,598,884</u>	<u>15,066</u>	<u>8,458,819</u>	<u>18,840,372</u>	<u>80,190,672</u>
Total liabilities and fund balances	<u>\$ 39,577,245</u>	<u>\$ 21,182,300</u>	<u>\$ 8,969,530</u>	<u>\$ 15,066</u>	<u>\$ 11,164,491</u>	<u>\$ 27,043,555</u>	<u>\$ 107,952,187</u>

See accompanying notes to financial statements.

Coconino County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2008

Fund balances—total governmental funds	\$ 80,190,672
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.	138,759,003
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	2,237,472
Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance and operation, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	4,092,881
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(14,806,403)</u>
Net assets of governmental activities	<u><u>\$ 210,473,625</u></u>

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
Year Ended June 30, 2008

	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Parks and Open Spaces Fund	Other Governmental Funds	Total Governmental Funds
Revenues:							
Property taxes	\$ 7,139,615					\$ 5,307,744	\$ 12,447,359
Other taxes	16,011,091	\$ 2,211,638	\$ 12,395,930		\$ 3,105,737	2,205	33,726,601
Special assessments						697,085	697,085
Licenses and permits	1,235,113	18,630				774,396	2,028,139
Fees, fines, and forfeits	1,323,755					1,102,791	2,426,546
Intergovernmental	20,384,912	10,901,384	99,975			21,421,666	52,807,937
Charges for services	3,385,592		1,895,171			5,778,381	11,059,144
Investment earnings	1,220,542	724,452	168,704	\$ 116,600	437,885	758,055	3,426,238
Contributions	146,336		10,000			482,337	638,673
Miscellaneous	269,192	18,096	315			356,927	644,530
Total revenues	<u>51,116,148</u>	<u>13,874,200</u>	<u>14,570,095</u>	<u>116,600</u>	<u>3,543,622</u>	<u>36,681,587</u>	<u>119,902,252</u>
Expenditures:							
Current:							
General government	28,536,308					3,238,740	31,775,048
Public safety	12,437,993		12,043,072			7,007,900	31,488,965
Highways and streets	647,935	15,804,494				738,545	17,190,974
Sanitation						3,154,224	3,154,224
Health	3,516,544					8,561,091	12,077,635
Welfare	444,487					6,161,032	6,605,519
Culture and recreation	1,151,421					7,937,387	9,088,808
Education	448,800					3,878,701	4,327,501
Debt service:							
Principal			2,095,000	16,180,000		270,471	18,545,471
Interest and other charges			477,958	832,030		126,011	1,435,999
Total expenditures	<u>47,183,488</u>	<u>15,804,494</u>	<u>14,616,030</u>	<u>17,012,030</u>	<u>3,543,622</u>	<u>41,074,102</u>	<u>135,690,144</u>
Excess (deficiency) of revenues over expenditures	<u>3,932,660</u>	<u>(1,930,294)</u>	<u>(45,935)</u>	<u>(16,895,430)</u>	<u>3,543,622</u>	<u>(4,392,515)</u>	<u>(15,787,892)</u>

(Continued)

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
Year Ended June 30, 2008
(Continued)

	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Parks and Open Spaces Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):							
Sale of capital assets	\$ 1,985	\$ 677				\$ 20,249	\$ 22,911
Transfers in	8,569,073	4,062,259	\$ 2,297,738	\$ 11,529,936		10,634,491	37,093,497
Transfers out	<u>(18,922,472)</u>	<u>(254,345)</u>	<u>(500,000)</u>	<u>(6,938,184)</u>	<u>\$ (2,705,672)</u>	<u>(7,661,548)</u>	<u>(36,982,221)</u>
Total other financing sources and uses	<u>(10,351,414)</u>	<u>3,808,591</u>	<u>1,797,738</u>	<u>4,591,752</u>	<u>(2,705,672)</u>	<u>2,993,192</u>	<u>134,187</u>
Net change in fund balances	(6,418,754)	1,878,297	1,751,803	(12,303,678)	837,950	(1,399,323)	(15,635,705)
Fund balances, July 1, 2007	34,047,460	17,770,528	3,847,081	12,318,744	7,620,869	20,239,695	95,844,377
Fund balances, June 30, 2008	<u>\$ 27,628,706</u>	<u>\$ 19,648,825</u>	<u>\$ 5,598,884</u>	<u>\$ 15,066</u>	<u>\$ 8,458,819</u>	<u>\$ 18,840,372</u>	<u>\$ 80,190,672</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, 2008

Net change in fund balances—total governmental funds		\$ (15,653,705)
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>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.</p>		
Capital outlay	\$ 7,553,934	
Depreciation expense	<u>(7,254,098)</u>	299,836
<p>Governmental funds only report the proceeds on the sale of capital assets. However, in the Statement of Activities the gain or loss on the disposal of capital assets is reported. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold.</p>		
		340,924
<p>Revenues in the Statement of Activities that were recognized in a prior year which are reported as current financial resources of government funds.</p>		
		(519,693)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
Principal repaid		2,365,471
<p>Payment to a bond escrow account for defeasance of debt principal from County resources is reported as an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the book value of the debt defeased.</p>		
		16,180,000
<p>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.</p>		
Increase in compensated absences	(397,543)	
Increase in claims and judgments	<u>(13,464)</u>	(411,007)
<p>Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance and operation, to individual funds. The net loss of internal service fund is reported with governmental activities in the Statement of Activities.</p>		
		<u>(140,260)</u>
Change in net assets of governmental activities		<u><u>\$ 2,461,566</u></u>

See accompanying notes to financial statements.

Coconino County
Statement of Net Assets
Proprietary Fund
June 30, 2008

	Governmental Activities- Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,062,081
Receivables (net of allowances for uncollectibles):	
Accounts	19,805
Accrued interest	14,898
Due from other funds	355,202
Inventories	289,855
Total current assets	2,741,841
Noncurrent assets:	
Capital assets, net of accumulated depreciation	
Buildings, net	77,304
Equipment, net	1,682,250
Capital assets, net	1,759,554
Total noncurrent assets	1,759,554
Total assets	4,501,395
Liabilities	
Current liabilities:	
Accounts payable	196,859
Accrued payroll and employee benefits	97,215
Due to other funds	114,440
Total current liabilities	408,514
Total liabilities	408,514
Net Assets	1,759,554
Invested in capital assets, net of related debt	2,333,327
Unrestricted	\$ 4,092,881
Total net assets	

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Year Ended June 30, 2008

	Governmental Activities- Internal Service Fund
Operating revenues:	
Charges for services	\$ 3,492,112
Total operating revenues	3,492,112
Operating expenses:	
Personal services	631,738
Professional services	98,484
Supplies	2,177,547
Utilities	28,654
Repairs and maintenance	156,058
Travel	10,766
Depreciation	529,955
Total operating expenses	3,633,202
Operating loss	(141,090)
Nonoperating revenues (expenses):	
Investment earnings	91,921
Gain on disposal of capital assets	20,185
Transfers to other funds	(111,276)
Total nonoperating revenues	830
Decrease in net assets	(140,260)
Total net assets, July 1, 2007	4,233,141
Total net assets, June 30, 2008	\$ 4,092,881

See accompanying notes to financial statements.

Coconino County
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2008

	<u>Governmental Activities- Internal Service Fund</u>
Cash flows from operating activities:	
Receipts from other funds for services provided	\$ 3,544,095
Payments to suppliers and providers of goods and services	(2,467,868)
Payments to employees	(631,511)
Net cash provided by operating activities	<u>444,716</u>
Cash flows from noncapital financing activities:	
Cash transfers to other funds	(111,276)
Net cash used for noncapital financing activities	<u>(111,276)</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	29,950
Purchases of capital assets	(725,800)
Net cash used for capital and related financing activities	<u>(695,850)</u>
Cash flows from investing activities:	
Interest received on investments	92,896
Net cash provided by investing activities	<u>92,896</u>
Net decrease in cash and cash equivalents	(269,514)
Cash and cash equivalents, July 1, 2007	<u>2,331,595</u>
Cash and cash equivalents, June 30, 2008	<u>\$ 2,062,081</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (141,090)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	529,955
Changes in assets and liabilities:	
Increase in:	
Accrued payroll and employee benefits	10,992
Accounts payable	22,373
Due to other funds	101,273
Accounts receivable	(4,673)
Inventories	(29,497)
Due from other funds	(44,617)
Net cash provided by operating activities	<u>\$ 444,716</u>

See accompanying notes to financial statements.

Coconino County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Investment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 89,452,631	\$ 548,833
Cash and investment held by trustee		1,783,112
Interest and dividends receivable	826,588	
Total assets	90,279,219	\$ 2,331,945
 Liabilities		
Deposits held for others		\$ 2,135,748
Due to other governments		196,197
Total liabilities		\$ 2,331,945
 Net Assets		
Held in trust for investment trust participants	\$ 90,279,219	

See accompanying notes to financial statements.

Coconino County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Investment Trust Funds</u>
Additions:	
Contribution from participants	\$ 329,847,193
Investment earnings	7,764,704
Total additions	<u>337,611,897</u>
Deductions:	
Distributions to participants	<u>337,292,086</u>
Total deductions	<u>337,292,086</u>
 Change in net assets	 319,811
 Net assets, July 1, 2007	 <u>89,959,408</u>
 Net assets, June 30, 2008	 <u><u>\$ 90,279,219</u></u>

See accompanying notes to financial statements.

Coconino County
Notes to Financial Statements
June 30, 2008

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).

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:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
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 County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Coconino County
Notes to Financial Statements
June 30, 2008

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
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 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	Not available

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.

Coconino County
Notes to Financial Statements
June 30, 2008

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.

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 and expenditures 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 and are considered nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

Coconino County
Notes to Financial Statements
June 30, 2008

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-half cent sales tax.

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

The Parks and Open Spaces Fund is used to account for parks and open space acquisitions and improvements and is funded by a one-eighth cent sales tax.

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 other parties, and for property taxes collected and distributed to the State, local school districts, community college districts, 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, with the exception of agency

Coconino County
Notes to Financial Statements
June 30, 2008

funds, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. 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 they became both 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. The County's major revenue sources that are susceptible to accrual are state-shared sales taxes and fuel taxes, county sales tax, property taxes and grants from the federal and state government. 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, 2008

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 in the government-wide and the proprietary funds' financial statements are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method of valuation and moving weighted average method of valuation, respectively.

F. Property Tax Calendar

The County levies real and 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.

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.

Coconino County
Notes to Financial Statements
June 30, 2008

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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	15-50 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 government-wide and proprietary fund's financial statements.

Non-exempt, eligible employees may accumulate up to 60 hours of compensatory time. Accruals beyond 60 hours require approval by the county manager. The Fair Labor Standards Act requires that the County pay off any compensatory time balance above 240 hours for most non-exempt positions and 480 hours for public safety positions. This is done periodically throughout the year. Upon termination all unused compensatory time is paid to the employee. Accordingly, compensatory time is accrued as a liability in the government-

Coconino County
Notes to Financial Statements
June 30, 2008

wide and proprietary fund's financial statements.

Employees may accumulate up to 1,040 of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. However, for employees who terminate with a minimum of 20 years of continuous service, sick leave benefits do vest. Such eligible terminating employees are compensated at the rate of 1 day for each 4 sick days accrued. Accordingly, this vested sick leave is accrued as a liability in the government-wide and proprietary fund's financial statements.

Note 2 – Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2008, the following funds reported deficits in fund balances.

Fund	Deficit
Improvement districts	\$ 413,797
Sheriff	94,806
Parks and recreation	92,329
Health	64,463
Community services	47,069
Public safety	639
Career and training	106

The County expects the fund deficits listed above to be corrected through normal operations, or for the Improvement Districts, from National Forest Fees Fund transfers in fiscal year 2009.

Note 3 – 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 depositories; and specified commercial paper, bonds, debentures, and notes issued by

Coconino County
Notes to Financial Statements
June 30, 2008

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 gave 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 required collateral or 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. Investment in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk

Statutes do not allow for foreign investments.

Deposits—At June 30, 2008, the carrying amount of the County's deposits was \$9,501,638 and the bank balance was \$11,346,436. The County does not have a formal policy with respect to custodial credit risk.

Coconino County
Notes to Financial Statements
June 30, 2008

At June 30, 2008, \$83,370 of the County's bank balance was exposed to custodial risk as follows:

Uninsured and Uncollateralized	\$83,370
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Investments— The County's investments at June 30, 2008, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 108,864,044
Corporate bonds	25,990,115
State Treasurer's investment pools	16,072,975
Repurchase agreements (implicitly guaranteed)	4,958,536
Money market mutual funds	2,736,212
Municipal bonds	1,034,828
Mutual funds-equity	22,933
	\$ 159,679,643

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of the participant's pool shares, and the participant's shares are not identified with specific investments.

Coconino County
Notes to Financial Statements
June 30, 2008

Credit risk— The County does not have a formal investment policy with respect to credit risk. At June 30, 2008, credit risk for the County’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	Aaa	Moody's	\$ 108,864,044
State Treasurer's investment pools	Unrated	Not applicable	16,072,975
Corporate bonds	Aaa	Moody's	12,207,628
Corporate bonds	Aa3	Moody's	9,311,954
Repurchase agreements (implicitly guaranteed)	Aaa	Moody's	4,958,536
Corporate bonds	Aa2	Moody's	4,052,523
Mutual funds-debt	Aaa	Moody's	2,345,203
Municipal bonds	Aa3	Moody's	587,355
Mutual funds-debt	Unrated	Not Applicable	391,009
Corporate bonds	A2	Moody's	176,361
Corporate bonds	Unrated	Not Applicable	155,566
Municipal bonds	Aaa	Moody's	144,666
Municipal bonds	Aa2	Moody's	102,969
Municipal bonds	A1	Moody's	101,173
Corporate bonds	A1	Moody's	86,083
Municipal bonds	A2	Moody's	68,452
Municipal bonds	Unrated	Not Applicable	30,213
			<u><u>\$ 159,656,710</u></u>

Custodial credit risk— For an investment, custodial 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, 2008, the County had \$4,958,536 of repurchase agreements (implicitly guaranteed), \$108,864,044 of U.S. agency securities, \$1,034,828 of municipal bonds, \$2,736,212 of mutual funds-debt, and \$25,990,115 of corporate bonds uninsured and held by the counterparty.

Coconino County
Notes to Financial Statements
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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, 2008, were in Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and General Electric Capital Corporation. These investments were 35.6 percent, 15.4 percent, 12.7 percent, and 7.6 percent respectively, of the County's total investments.

Interest rate risk— The County does not have a formal policy with respect to interest rate risk. At June 30, 2008, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity in Years
U.S. agency securities	\$ 108,864,044	4.176
State Treasurer's investment pool #7	15,658,267	0.063
Corporate bonds	12,207,628	1.973
Corporate bonds	9,311,954	1.397
Repurchase agreements (implicitly guaranteed)	4,958,536	0.003
Corporate bonds	4,052,523	0.571
Mutual funds-debt	2,345,203	0.052
State Treasurer's investment pool #5	414,708	0.122
Municipal bonds	587,355	1.711
Mutual funds-debt	198,320	7.940
Mutual funds-debt	192,689	6.400
Corporate bonds	176,361	0.023
Corporate bonds	155,566	0.017
Municipal bonds	144,666	0.503
Municipal bonds	102,969	0.307
Municipal bonds	101,173	0.147
Corporate bonds	86,083	0.005
Municipal bonds	68,452	0.096
Municipal bonds	30,213	0.051
	<u>\$ 159,656,710</u>	

Coconino County
Notes to Financial Statements
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A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Assets follows:

Cash, deposits, and investments:

Cash on hand	\$ 649,642
Amount of deposits	9,501,638
Amount of investments	159,679,643
Total	<u><u>\$ 169,830,923</u></u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Assets:				
Cash and cash equivalents	\$ 75,103,113	\$ 89,452,631	\$ 548,833	\$ 165,104,577
Investments	591,765			591,765
Cash and investments held by trustees	2,351,469		1,783,112	4,134,581
Total	<u><u>\$ 78,046,347</u></u>	<u><u>\$ 89,452,631</u></u>	<u><u>\$ 2,331,945</u></u>	<u><u>\$ 169,830,923</u></u>

Note 4– Receivables

Due from other governments

Amounts due from other governments at June 30, 2008, include \$2,430,761 and \$1,610,805 in state-shared revenue from sales taxes and fuel taxes, respectively; \$244,408 from the State of Arizona for state vehicle license tax; \$2,181,575 in county sales tax; \$545,254 in parks and open space sales tax; and \$1,975,136 in grants from the federal government; and \$1,527,726 in grants from various state agencies. The balance of \$2,042,449 is composed of miscellaneous receivables from federal, state, and local governments.

Coconino County
Notes to Financial Statements
June 30, 2008

Note 5– Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

<u>Governmental activities:</u>	<u>Balance 7/1/2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2008</u>
Capital assets not being depreciated:				
Land	\$ 22,415,056	\$ 427,384	\$ 55,765	\$ 22,786,675
Construction in progress	2,134,069	4,506,754	4,021,626	2,619,197
Total capital assets not being depreciated	<u>24,549,125</u>	<u>4,934,138</u>	<u>4,077,391</u>	<u>25,405,872</u>
Capital assets being depreciated:				
Buildings	80,739,166	2,607,387	48,690	83,297,863
Machinery and equipment	31,118,122	3,931,823	1,441,704	33,608,241
Infrastructure	78,338,526	1,395,960		79,734,486
Total capital assets being depreciated	<u>190,195,814</u>	<u>7,935,170</u>	<u>1,490,394</u>	<u>196,640,590</u>
Less accumulated depreciation for:				
Buildings	20,668,502	2,070,520	890	22,738,132
Machinery and equipment	19,349,726	2,963,848	1,308,480	21,005,094
Infrastructure	35,034,994	2,749,685		37,784,679
Total accumulated depreciation	<u>75,053,222</u>	<u>7,784,053</u>	<u>1,309,370</u>	<u>81,527,905</u>
Total capital assets being depreciated, net	<u>115,142,592</u>	<u>151,117</u>	<u>181,024</u>	<u>115,112,685</u>
Total	<u>\$ 139,691,717</u>	<u>\$ 5,085,255</u>	<u>\$ 4,258,415</u>	<u>\$ 140,518,557</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 901,758
Public safety	998,192
Highways and streets	4,477,282
Sanitation	202,561
Health	129,345
Welfare	74,961
Culture and recreation	370,538
Education	99,461
Internal service fund	529,955
Total governmental activities depreciation expense	<u>\$ 7,784,053</u>

Construction Commitments

The County has active construction projects as of June 30, 2008. The projects include new street construction, reconstruction and improvements to existing streets, public parks, and

Coconino County
Notes to Financial Statements
June 30, 2008

water wastewater improvements. At year-end the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Buildings and improvements-public purpose	\$ 863,400	\$ 153,619

Note 6 – Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2008:

Governmental activities	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within 1 year
Bonds payable:					
Revenue bonds	\$ 12,445,000		\$ 2,010,000	\$ 10,435,000	\$ 2,095,000
Special assessment bonds with governmental commitment	2,153,550		268,342	1,885,208	279,042
Total bonds payable	14,598,550		2,278,342	12,320,208	2,374,042
Certificates of participation payable	18,180,000		18,180,000		
Compensated absences payable	3,909,297	\$ 3,245,641	2,848,098	4,306,840	3,173,835
Claims and judgments payable	263,020	66,924	53,460	276,484	102,116
Total governmental activities long-term liabilities	\$ 36,950,867	\$ 3,312,565	\$ 23,359,900	\$ 16,903,532	\$ 5,649,993

Revenue Bonds—The County's revenue bonds were issued specifically to finance a jail and related facilities. Future revenues from a voter-approved sales tax are pledged to repay \$21,130,000 and \$3,630,000 in revenue bonds issued in 1998 and 2000 respectively. The revenue bonds are payable from Jail District sales tax revenues through 2013. At June 30, 2008, \$10,435,000 in principal remains outstanding, along with future interest payments totaling \$1,155,539, to be repaid by future Jail District sales tax revenues. For the fiscal year ended June 30, 2008, net revenues available for service of this debt was \$12,395,930. The principal and interest paid in fiscal year 2008 was \$2,572,958 (20.76% of available net

Coconino County
Notes to Financial Statements
June 30, 2008

revenues). The annual principal and interest payments on the revenue bonds are expected to require approximately 21% of net revenues. They are generally noncallable with interest payable semiannually.

Bonds outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Revenue bonds	<u>\$ 24,760,000</u>	7/1/2006-12	4.25-5.0%	<u>\$ 10,435,000</u>

The following schedule details debt service requirements to maturity for the County's revenue bonds payable at June 30, 2008:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,095,000	\$ 425,303
2010	2,195,000	328,635
2011	2,290,000	226,213
2012	1,885,000	131,063
2013	1,970,000	44,325
Total	<u>\$ 10,435,000</u>	<u>\$ 1,155,539</u>

Special Assessment Bonds—Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. Proceeds from special assessment bonds are used for improvements such as paving, street lighting, and sewers. Payments made by the assessed property owners are pledges as collateral. In the event of default by the property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the default assessment. Annual principal and interest on the bonds are expected to require 100% of net revenues. The total principal and interest to be paid on the bonds is generally noncallable with interest payable semiannually. The original amounts of special assessment bonds issued in prior years were \$4,391,217.

Coconino County
Notes to Financial Statements
June 30, 2008

Special assessment bonds outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Special assessment bonds with governmental commitment	4,391,217	7/1/2006-15	2.47-7.50%	1,885,208

The following schedule details debt service requirements to maturity for the County's special assessment bonds payable at June 30, 2008:

Year Ending June 30	Governmental Activities	
	Special Assessment Bonds	
	Principal	Interest
2009	\$ 279,042	\$ 89,374
2010	289,419	75,943
2011	301,090	62,235
2012	316,682	47,853
2013	327,291	32,729
2014-2015	371,684	17,813
Total	\$ 1,885,208	\$ 325,947

Certificates of participation - In December 2007, the County utilized \$17,007,320 in funds set aside in a debt service fund for the prepayment and defeasance of the County's Series 1998 and Series 2001 certificates of participation debt to prepay the debt. At the time of the prepayment and defeasance, principal and interest outstanding were \$16,180,000 and \$2,986,915, respectively. These funds were deposited with a trustee in an irrevocable trust to be held and invested to provide for all future debt payments and prepayments. All remaining principal and interest on the Series 1998 certificates of participation will be paid on July 1, 2008. The final payment for principal and interest on the Series 2001 certificates of participation will be made on July 1, 2011. At June 30, 2008, the following certificates of participation were considered defeased:

Description	Amount
Series 1998	\$ 9,210,000
Series 2001	6,970,000

Coconino County
Notes to Financial Statements
June 30, 2008

Insurance claims—The County provides life, health, and disability benefits to its employees and their dependents through the Northern Arizona Public Employee Benefit Trust currently composed of five members. The trust provides benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium 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 2008, the County paid for compensated absences as follows: 49.72 percent from the General Fund, 21.54 percent from major funds, and 28.74 percent from other funds. The County paid for claims and judgments from the General Fund.

Note 7 – 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 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 on 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

Coconino County
Notes to Financial Statements
June 30, 2008

the property values. Crime coverage is also a \$25,000 deductible with limits of \$1,000,000. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past 3 fiscal years.

Note 8 – Pensions and Other Postemployment Benefits

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 the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees’ average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee’s monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree’s healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, 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)* administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium 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.

Coconino County
Notes to Financial Statements
June 30, 2008

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 North Central Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or 1- (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 for the ASRS and PSPRS.

Cost-sharing plans—For the year ended June 30, 2008, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term-disability) of the members' annual covered payroll. The County's contributions to ASRS for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended 30-Jun	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2008	\$ 2,928,708	\$ 382,005	\$ 181,908
2007	2,663,764	370,457	176,408
2006	2,002,935	392,256	173,564

Agent plans—For the year ended June 30, 2008, 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 22.39 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.52 percent of covered payroll.

Coconino County
Notes to Financial Statements
June 30, 2008

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2008, were established by the June 30, 2006, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on 1) the plans as understood by the County and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2008 contribution requirements are as follows:

Actuarial valuation date	June 30, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	30 years for unfunded actuarial liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50%
Inflation rate	5.00%

Coconino County
Notes to Financial Statements
June 30, 2008

Annual Pension Cost—The County’s pension cost for the agent plan for the year ended June 30, 2008, and related information follows.

	PSPRS	
	Pension	Health Insurance
Annual pension cost	\$ 764,755	\$ 25,169
Contributions made	\$ 764,755	\$ 25,169

Trend Information—Annual pension cost information for the current and 2 preceding years follows for the PSPRS. Annual OPEB cost information for the current year (i.e., transition year) is as follows. Information about preceding years will be added over the next 2 years.

June 30	Cost (APC)	Contributed	Obligation
Pension			
2008	\$ 764,755	100.0%	\$0
Health Insurance			
2008	25,169	100.0%	0
Pension and Health Insurance			
2007	703,332	100.0%	0
2006	597,694	100.0%	0

Funded Status—The funded status of the plan, as of the most recent valuation date, June 30, 2008, along with the actuarial assumptions and methods used in that valuation follows. Additionally, the required schedule of funding progress, presented in the required supplementary information section following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Coconino County
Notes to Financial Statements
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	Actuarial Accrued Liability (a)	Actuarial Value of Plan Assets (b)	Unfunded actuarial accrued liability (funding excess) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a-b)/c)
Pension						
6/30/2008	\$ 24,374,917	\$ 12,743,038	\$11,631,879	52.3%	\$3,557,390	327.0%
Health Insurance						
6/30/2008	768,655	-	768,655	0.0%	3,557,390	21.61%

The actuarial methods and assumptions used for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for unfunded actuarial liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50%
Inflation rate	5.00%

Coconino County
Notes to Financial Statements
June 30, 2008

Note 9 – Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2008, were as follows:

	Payable to					Total
	General Fund	Public Works/HURF Fund	Jail District Fund	Nonmajor Governmental Funds	Internal Service Fund	
Payable from						
General Fund		\$ 2,560	\$ 153,620	\$ 6,536,516	\$ 108,970	\$ 6,801,666
Public Works/HURF Fund	\$ 155,695			121,951	173,915	451,561
Jail District Fund	244,679				6,716	251,395
Parks & Open Spaces Fund	397,517			2,308,155		2,705,672
Nonmajor Governmental Funds	872,998	312,926		1,491,392	65,601	2,742,917
Internal Service Fund		3,164		111,276		114,440
Total	\$ 1,670,889	\$ 318,650	\$ 153,620	\$ 10,569,290	\$ 355,202	\$ 13,067,651

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.

Interfund transfers—Interfund transfers for the year ended June 30, 2008, were as follows:

	Transfer to					Total
	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Nonmajor Governmental Funds	
Transfer from						
General Fund		\$ 65,987	\$ 2,297,738	\$ 10,078,776	\$ 6,479,971	\$ 18,922,472
Public Works/HURF Fund	\$ 155,335				99,010	254,345
Jail District Fund	500,000					500,000
Debt Service Fund	6,938,184					6,938,184
Parks & Open Spaces Fund	397,517				2,308,155	2,705,672
Nonmajor Governmental Funds	578,037	3,996,272		1,451,160	1,636,079	7,661,548
Internal Service Fund					111,276	111,276
Total	\$ 8,569,073	\$ 4,062,259	\$ 2,297,738	\$ 11,529,936	\$ 10,634,491	\$ 37,093,497

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

Coconino County
Notes to Financial Statements
June 30, 2008

In the year ended June 30, 2008, the County made one-time transfers of \$3,140,592 (net amount) from the general fund and \$1,451,160 from nonmajor funds to the debt service fund.

Advances from/to other funds

Advances from/to other funds represent monies owed from various County Road Improvement Districts (nonmajor governmental funds) to the Forest Fee Revolving Fund (nonmajor governmental fund) to assist citizens with road improvements. The amount of advances as of June 30, 2008 was \$553,574. The County Road Improvement Districts are paying interest on the advances. The interest rates range from 2.510% to 4.0299%.

	Advances From the Forest Fees Revolving Fund
Advances To	
Buckboard Trail	\$ 69,483
Kiowa Commanche	113,369
Lupine	105,524
Oakwood Pines	51,800
Pawnee	81,817
Pinon Improvement	66,257
Shoshone	25,267
Tonowanda	40,057
Total advances from	<u>\$ 553,574</u>

Note 10 – 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

Coconino County
Notes to Financial Statements
June 30, 2008

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 \$2,140,064 of deposits, \$2,736,212 of investments in Mutual funds-debt, \$1,258,536 in repurchase agreements, \$9,094,922 in the State Treasurer's investment pool, and \$22,933 of investments in equities; 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 3 for the disclosure of the County's deposit and investment risk.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Amount
State Treasurer's investment pools	\$ 178,052	None stated	None stated	\$ 178,052
U.S. agency securities	109,129,597	3.000-5.850%	6/30/2009-5/28/2013	108,864,044
Municipal bonds	1,046,263	3.600-5.970%	8/15/2008-5/01/2013	1,034,828
Corporate securities	26,723,031	3.375-7.350%	8/22/2008-4/16/2013	25,990,115
Repurchase agreements	3,700,000	4.900%	7/1/2008	3,700,000

Coconino County
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June 30, 2008

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

Statement of Net Assets

Assets	\$ 154,368,313
Net assets	<u>\$ 154,368,313</u>

Net assets held in trust for:

Internal participants	\$ 73,779,407
External participants	80,588,906
Total net assets held in trust	<u>\$ 154,368,313</u>

Statement of Changes in Net Assets

Total additions	\$ 489,917,033
Total deletions	511,525,312
Net decrease	<u>(21,608,279)</u>
Net assets held in trust:	
July 1, 2007	<u>175,976,592</u>
June 30, 2008	<u>\$ 154,368,313</u>

Note 11 – Maintenance of Effort Payments

In accordance with Arizona Revised Statute Section 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 2027, 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 GDP price deflator, obtained from the State of Arizona Economic Estimates Commission. These payments are recorded by the jail district as transfers. The MOE payment for fiscal year 2008 was \$2,297,738.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 6,636,993	\$ 6,636,993	\$ 7,139,615	\$ 502,622
Other taxes	16,570,650	16,570,650	16,011,091	(559,559)
Licenses and permits	1,684,267	1,684,267	1,235,113	(449,154)
Fees, fines, and forfeits	1,346,216	1,346,216	1,323,755	(22,461)
Intergovernmental	21,703,726	21,767,530	20,384,912	(1,382,618)
Charges for services	3,439,582	3,439,582	3,385,592	(53,990)
Investment earnings	938,253	938,253	1,220,542	282,289
Contributions	152,132	152,132	146,336	(5,796)
Miscellaneous	236,110	236,110	269,192	33,082
Total revenues	<u>52,707,929</u>	<u>52,771,733</u>	<u>51,116,148</u>	<u>(1,655,585)</u>
Expenditures:				
Current				
Adult probation	1,456,548	1,455,324	1,400,109	55,215
Assessor	1,782,053	1,782,053	1,674,989	107,064
Board of Supervisors	1,053,827	1,090,635	1,063,606	27,029
Clerk of Superior Court	1,080,795	1,080,794	1,009,631	71,163
Community development	1,723,845	1,716,145	1,535,748	180,397
Community initiatives	235,000	317,243	253,966	63,277
Constable	82,139	82,139	73,584	8,555
County Attorney	2,903,087	2,903,087	2,911,518	(8,431)
County Manager	2,113,369	2,160,283	1,754,051	406,232
Facilities	3,419,591	3,806,981	3,195,188	611,793
Finance / budget	1,574,295	1,683,228	1,487,824	195,404
Flagstaff Justice Court	1,219,988	1,219,988	1,206,614	13,374
Fredonia Justice Court	158,097	158,097	161,007	(2,910)
Health	4,027,798	4,055,998	3,982,284	73,714
Human resources	1,374,351	1,434,717	1,403,820	30,897
Information technology	2,994,165	3,386,318	3,416,942	(30,624)
Juvenile probation	2,596,041	2,592,712	2,349,662	243,050
Legal defender	773,801	773,801	850,345	(76,544)
Non-departmental	25,922,100	23,776,262	113,879	23,662,383
Page Justice Court	323,034	323,034	322,294	740
Parks and recreation	1,329,852	1,259,482	1,151,421	108,061

(Continued)

Coconino County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2008
 (Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public Defender	\$ 2,228,985	\$ 2,228,985	\$ 2,129,830	\$ 99,155
Public Fiduciary	436,464	439,464	444,487	(5,023)
Public works	39,760	39,760		39,760
Recorder	1,458,385	1,467,940	1,412,826	55,114
School Superintendent	466,725	466,725	448,800	17,925
Sheriff	7,813,031	7,823,031	8,135,033	(312,002)
Superior Court	2,370,861	2,437,781	2,378,668	59,113
Treasurer	672,201	650,777	597,558	53,219
Williams Justice Court	327,531	327,531	317,804	9,727
Total expenditures	<u>73,957,719</u>	<u>72,940,315</u>	<u>47,183,488</u>	<u>25,756,827</u>
Excess (deficiency) of revenues over expenditures	(21,249,790)	(20,168,582)	3,932,660	24,101,242
Other financing sources (uses):				
Sale of capital assets			1,985	1,985
Transfers in	8,867,770	8,876,660	8,569,073	(307,587)
Transfers out	(19,427,695)	(20,961,283)	(18,922,472)	2,038,811
Total other financing sources and (uses)	<u>(10,559,925)</u>	<u>(12,084,623)</u>	<u>(10,351,414)</u>	<u>1,733,209</u>
Net changes in fund balances	(31,809,715)	(32,253,205)	(6,418,754)	25,834,451
Fund balances, July 1, 2007	<u>31,809,715</u>	<u>31,809,715</u>	<u>34,047,460</u>	<u>2,237,745</u>
Fund balances, June 30, 2008	<u>\$ -</u>	<u>\$ (443,490)</u>	<u>\$ 27,628,706</u>	<u>\$ 28,072,196</u>

See accompanying notes to budgetary comparison schedules.

Coconino County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Public Works/HURF Fund
 Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other taxes	\$ 2,392,200	\$ 2,392,200	\$ 2,211,638	\$ (180,562)
Licenses and permits	15,000	15,000	18,630	3,630
Intergovernmental	11,709,375	11,709,375	10,901,384	(807,991)
Investment earnings	342,464	342,464	724,452	381,988
Miscellaneous	1,200	1,200	18,096	16,896
Total revenues	<u>14,460,239</u>	<u>14,460,239</u>	<u>13,874,200</u>	<u>(586,039)</u>
Expenditures:				
Current				
Public works	22,248,000	22,077,563	15,804,494	6,273,069
Total expenditures	<u>22,248,000</u>	<u>22,077,563</u>	<u>15,804,494</u>	<u>6,273,069</u>
Excess (deficiency) of revenues over expenditures	(7,787,761)	(7,617,324)	(1,930,294)	5,687,030
Other financing sources (uses):				
Gain on sales of net assets	270,000	270,000	677	(269,323)
Transfers in	4,605,000	4,605,000	4,062,259	(542,741)
Transfers out	(244,934)	(244,934)	(254,345)	(9,411)
Total other financing sources and (uses)	<u>4,630,066</u>	<u>4,630,066</u>	<u>3,808,591</u>	<u>(821,475)</u>
Net changes in fund balances	(3,157,695)	(2,987,258)	1,878,297	4,865,555
Fund balances, July 1, 2007	17,267,745	17,267,745	17,770,528	502,783
Fund balances, June 30, 2008	<u>\$ 14,110,050</u>	<u>\$ 14,280,487</u>	<u>\$ 19,648,825</u>	<u>\$ 5,368,338</u>

See accompanying notes to budgetary comparison schedules.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Jail District Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other taxes	\$ 11,945,748	\$ 11,945,748	\$ 12,395,930	\$ 450,182
Intergovernmental			99,975	99,975
Charges for services	2,575,500	2,575,500	1,895,171	(680,329)
Investment earnings	62,005	62,005	168,704	106,699
Contributions			10,000	10,000
Miscellaneous	31,000	31,000	315	(30,685)
Total revenues	<u>14,614,253</u>	<u>14,614,253</u>	<u>14,570,095</u>	<u>(44,158)</u>
Expenditures:				
Current				
Sheriff	12,553,198	12,532,597	12,043,072	489,525
Debt Service:				
Principal	2,095,000	2,095,000	2,095,000	
Interest and other charges	475,866	475,866	477,958	(2,092)
Total expenditures	<u>15,124,064</u>	<u>15,103,463</u>	<u>14,616,030</u>	<u>487,433</u>
Excess (deficiency) of revenues over expenditures	(509,811)	(489,210)	(45,935)	443,275
Other financing sources (uses):				
Transfers in	2,263,689	2,263,689	2,297,738	34,049
Transfers out	(500,000)	(500,000)	(500,000)	
Total other financing sources and (uses)	<u>1,763,689</u>	<u>1,763,689</u>	<u>1,797,738</u>	<u>(34,049)</u>
Net changes in fund balances	1,253,878	1,274,479	1,751,803	477,324
Fund balances, July 1, 2007	5,189,613	5,189,613	3,847,081	(1,342,532)
Fund balances, June 30, 2008	<u>\$ 6,443,491</u>	<u>\$ 6,464,092</u>	<u>\$ 5,598,884</u>	<u>\$ (865,208)</u>

See accompanying notes to budgetary comparison schedules.

Coconino County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2008

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, transfer 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, 2008, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund:	
Sheriff	\$ 312,002
Legal Defender	76,544
Information Technology	30,624
County Attorney	8,431
Public Fiduciary	5,023
Fredonia Justice Court	2,910

Departments may exceed their department's budget for various reasons, including unexpected events. When departments exceed their budget, it is noted and addressed with the department heads 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, 2008

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)
Pension						
6/30/2008	\$12,743,038	\$24,374,917	(\$11,631,879)	52.3%	\$3,557,390	327.0%
Health Insurance						
6/30/2008	-	768,655	(768,655)	0.0%	3,557,390	21.61%
Pension and Health Insurance						
6/30/2007	12,295,932	24,063,303	(11,767,371)	51.1%	3,254,171	361.6%
6/30/2006	12,709,298	21,437,667	(8,728,369)	59.3%	2,938,962	297.0%

See accompanying notes to schedule of agent retirement plan's funding progress.

Coconino County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2008

Note 1 – Actuarial Information Available

For valuation years prior to 2008, which was prior to the implementation of GASB Statement Nos. 43 and 45, the actuarial measurements were made in the aggregate as to pension and health insurance benefits. In future years when GASB Statement Nos. 43 and 45 measurements are made and reported, the pension and health insurance benefits information will be disaggregated and reported separately.

SUPPLEMENTARY INFORMATION

Coconino County
Schedule of Expenditure of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	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	\$ 2,297
Child Nutrition Cluster, passed through the Arizona Department of Education	10.553	ED05-0001-01	15,177
School Breakfast Program	10.555	ED05-0001-01	23,319
National School Lunch Program			<u>38,496</u>
Total Child Nutrition Cluster			
Special Supplemental Nutrition Program for Women, Infants and Children, passed through the Arizona Department of Health Services	10.557	HG361074, HG861083, HP661311-003	626,410
State Administrative Matching Grants for Food Stamp Program, passed through the Arizona Department of Health Services	10.561	HG 661045	355,668
Commodity Supplemental Food Program, passed through the Arizona Department of Health Services	10.565	HG36100, HG861147	9,598
WIC Farmers' Market Nutrition Program (FMNP), passed through the Arizona Department of Health Services	10.572	HG561261, HG861330	1,399
Cooperative Forestry Assistance, passed through the Arizona State Land Department	10.664	SFA4002, FHA4002 SFA7-11	105,675
Schools and Roads-Grants to States, passed through the Arizona State Treasurer	10.665	None	6,092,472
Total U.S. Department of Agriculture			<u>7,232,015</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants, passed through the City of Flagstaff	14.218	B07-MC-05-510, B06-MC-05-510	122,762
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	115-06	141,635
Emergency Shelter Grants Program, passed through the Arizona Department of Economic Security	14.231	E6306011	13,490
HOME Investment Partnerships Program	14.239		123,009
Total U.S. Department of Housing and Urban Development			<u>400,896</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		944,666
U.S. Department of Justice			
Southwest Border Prosecution Initiative	16.unknown		316,307
DEA Marijuana Eradication in Northern Arizona	16.unknown		8,000
Juvenile Accountability Incentive Block Grants, passed through the Arizona Governor's Division for Children	16.523	JB-CSG-07-8274-04, JB-CSG-08-9273-02	3,126
Missing Children's Assistance, passed through The City of Phoenix Police Department	16.543	2005-MC-CK-K009	12,362
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-08-051, VC07-051	26,029
State Criminal Alien Assistance Program	16.606		145,427
Edward Byrne Memorial Justice Assistance Grant, passed through the Arizona Criminal Justice Commission	16.738	PC-08-090	56,132
Edward Byrne Memorial Justice Assistance Grant, passed through the City of Flagstaff	16.738	2007-F3058-AZ-DJ	11,050
Edward Byrne Memorial Justice Assistance Grant, passed through the Arizona Supreme Court	16.738	None	16,479
Total Edward Byrne Memorial Justice Assistance Grant			<u>83,661</u>
Total U.S. Department of Justice			<u>594,912</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditure of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5706003	\$ 159,571
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5706003	345,622
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	E5706003	128,656
Total WIA Cluster			<u>633,849</u>
Incentive Grants-WIA Section 503, passed through the Arizona Department of Economic Security	17.267	dc071136	5,886
YOUTHBUILD, passed through the Arizona Department of Economic Security	17.274	YB-16889-08-60-A-4	203,934
Women's Bureau	17.700		60,674
Women's Bureau, passed through Native Public Media	17.700	None	4,193
Total Women's Bureau			<u>64,867</u>
Total U.S. Department of Labor			<u>908,536</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through Arizona Department of Transportation	20.205	JPA 07-022T, JPA06-015T, JPA98-199	418,150
Highway Planning and Construction, passed through Flagstaff Metropolitan Planning Organization	20.205	None	108,512
Total Highway Planning and Construction			<u>526,662</u>
Highway Safety Cluster			
State and Community Highway Safety, passed through Governor's Office of Highway Safety	20.600	2007-OP-015	2,548
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants, passed through Governor's Office of Highway Safety	20.601	2007-K8HV-011	13,682
Total Highway Safety Cluster			<u>16,230</u>
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Emergency Response Commission	20.703	None	1,608
Total U.S. Department of Transportation			<u>544,500</u>
U.S. Department of Education			
Title I Grants to Local Educational Agencies, passed through the Flagstaff Unified School District	84.010	08FAATT1-860586-25A	11,778
Title I Program for Neglected and Delinquent Children, passed through the Arizona Supreme Court	84.013	29896	10,619
Special Education _ Grants to States, passed through the Arizona Department of Education	84.027	08FESSCG-860594-03A, 07FESSCG-760594-03A, 08FESCBG-860594-02A	19,252
Fund for the Improvement of Education	84.215		147,611
State Grants for Innovative Programs, passed through the Arizona Department of Education	84.298	08FAATVR-870669-05A	30,201
English Language Acquisition Grants, passed through the Arizona Department of Education	84.365	08FAAENG-870669-06A	12,016
Mathematics and Science Partnerships, passed through the Arizona Department of Education	84.366	07FSEMS2-770669-05A, 07FSDMS2-770669-07A, 08FSDMS2-870669-02A, 08FSDMS2-870669-04A	387,087
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	07FAAAZE-770669-01A, 08FAAAZE-870669-01A, 29896	60,208
Total U.S. Department of Education			<u>678,772</u>
Elections Assistance Commission			
Help America Vote Act Requirements Payments, passed through the Arizona Secretary of State	90.401	None	114,119

Coconino County
Schedule of Expenditure of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
State and Territorial and Technical Assistance Capacity			
Development Minority HIV/AIDS Demonstration Program, passed through Arizona Department of Health Services	93.006	HR854059-006	\$ 1,381
Aging Cluster:			
Special Programs for the Aging_ Title III, Part B_ Grants for Supportive Services and Senior Centers, passed through the Northern Arizona Council of Governments	93.044	866000441ba	117,891
Nutrition Services Incentive Program, passed through the Northern Arizona Council of Governments	93.053	866000441ba	166,020
Total Aging Cluster			<u>283,911</u>
Family Planning Services, passed through the Arizona Family Planning Council	93.217	None	50,368
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG 352210	60,560
Centers for Disease Control and Prevention_ Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	HG754194	386,555
Temporary Assistance for Needy Families, passed through the Arizona Department of Economic Security	93.558	E6306011	149,974
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	DES060824-1, 007	35,710
Low-Income Home Energy Assistance, passed through the Arizona Department of Economic Security	93.568	E6306011	169,999
Community Services Block Grant, passed through the Arizona Department of Economic Security	93.569	E6306011	155,832
Social Services Block Grant, passed through the Arizona Department of Economic Security	93.667	E6306011	22,111
Social Services Block Grant, passed through the Northern Arizona Council of Governments	93.667	866000441ba	155,366
Total Social Services Block Grant			<u>177,477</u>
HIV Care Formula Grants, passed through the Arizona Department of Health Services	93.917	HP652141-003	50,681
HIV Prevention Activities _ Health Department Based, passed through the Arizona Department of Health Services	93.940	HG352237, HG852279, HG454515	87,537
Block Grants for Prevention and Treatment of Substance Abuse, passed through The Guidance Center	93.959	None	21,510
Preventative Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	HG461341, HG354178, HG854370	109,859
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG361136, HG854242, HP 461413-012, HG754060	347,473
Total U.S. Department of Health and Human Services			<u>2,088,827</u>
Corporation for National and Community Service			
Americorps, passed through the Arizona Governor's Office for Children, Youth and Families	94.006	AC-VSG-07-9273-02Y2, 07NDHAZ002	363,893
U.S. Department of Homeland Security			
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs			
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.042	None	62,099
Emergency and Military Affairs	97.053	222115-01	8,193
Homeland Security Grant Program, passed through the Arizona Department of Homeland Security	97.067	07-AZDOHS-HSGP-333108-03	5,981
Total U.S. Department of Homeland Security			<u>76,273</u>
Total Expenditures of Federal Awards			<u>\$ 13,947,409</u>

See accompanying notes to schedule.

Coconino County
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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 State, 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) represents the value of non-cash assistance expended from this federal program.

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 2008 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the work “unknown” were used.

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	\$1,303,445
DEA Marijuana Eradication in Northern Arizona	16.unknown	1,805
Crime Victim Compensation	16.576	26,029
Americorps	94.006	101,349

SINGLE AUDIT REPORTS

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*

The Auditor General of the State of Arizona

The Board of Supervisors of
Coconino County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coconino County, Arizona as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 10, 2009. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 08-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency identified above to be a material weakness.

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*.

Coconino County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, 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.

Fester & Chapman P.C.

April 10, 2009

**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**

The Auditor General of the State of Arizona

The Board of Supervisors of
Coconino County, Arizona

Compliance

We have audited the compliance of Coconino County, Arizona 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, 2008. 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 08-101 and 08-103 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding reporting that are applicable to CFDA# 16.606 - State Criminal Alien Assistance Program and CFDA# 94.006 - Americorps, respectively. Also, as described in item 08-102 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding special tests and provisions that are applicable to CFDA# 94.006 - Americorps. 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, 2008.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance, that we consider to be significant deficiencies.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 08-101, 08-102, and 08-103 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 08-101, 08-102, and 08-103 to be material weaknesses.

The County's responses to the findings identified in our audit are presented on pages 60 through 62. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, 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.

Fester & Chapman P.C.

April 10, 2009

Coconino County, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
	Yes No
Material weaknesses identified in internal control over financial reporting?	X
Significant deficiencies identified not considered to be material weaknesses?	X (None Reported)
Noncompliance material to the financial statements noted?	X

Federal Awards

Material weaknesses identified in internal control over major programs?	X
Significant deficiencies identified not considered to be material weaknesses?	X
Type of auditors' report issued on compliance for major programs:	Unqualified for all major programs except for the State Criminal Alien Assistance Program and Americorps, which were qualified.
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads - Grants to States
16.606	State Criminal Alien Assistance Program
20.205	Highway Planning and Construction
94.006	Americorps

	<u>Yes</u> <u>No</u>
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 418,422
Auditee qualified as low-risk auditee?	X

Other Matters

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X
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Coconino County, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008
(continued)

Financial Statement Findings

08-01 Accounts Payable

Criteria:

All material liabilities should be recorded in the County's financial records in the proper accounting period.

Condition/Context:

At year-end the County did not accrue one invoice for \$67,176 for goods and services received prior to year-end.

Effect:

Prior to audit adjustments, the County's expenditures and accounts payable balances were understated by \$67,176.

Cause:

Unknown

Recommendation:

The County should implement procedures whereby all invoices are thoroughly reviewed in order to record expenditures in the proper accounting period.

Federal Award Findings and Questioned Costs

08-101 Reporting

CFDA Number:

16.606 - State Criminal Alien Assistance Program

Questioned Costs:

Unknown

Criteria:

State Criminal Alien Assistance Program guidelines and application require that the detailed inmate files reflect the jurisdiction's good faith and due diligence efforts to identify and list undocumented criminal aliens housed in its correctional facilities.

Condition/Context:

The dates taken into and released from custody reported to the Department of Justice did not match with the County's jail system records for 15 out of 60 inmates tested.

Effect:

The County did not correctly report inmate incarcerations to the Department of Justice.

Coconino County, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008
(continued)

Cause:

The County does not have adequate internal controls in place to help ensure that the required inmate data elements are accurately submitted.

Recommendation:

The County should review and assure that all information reported on its reimbursement request submitted to the Department of Justice is accurate.

08-102 Special Tests and Provisions

CFDA Number:

94.006 - Americorps

Questioned Costs:

N/A

Criteria:

Americorps grant provisions require grantees to run a check with the National Sex Offender Registry on members and employees as part of the screening process, and to conduct and maintain a record of a midterm and end-of-term written evaluation of each full and half-time members' performance and an end-of-term written evaluation for less than half-time members.

Condition/Context:

For 8 of 40 files reviewed, National Sex Offender Registry checks were not performed. For 4 of 40 files reviewed, midterm and end-of-term written evaluations were not performed. For 4 of 40 files reviewed, end-of-term written evaluations were not performed.

Effect:

The County is not in compliance with Americorps grant provisions.

Cause:

The County did not adhere to its internal policies and procedures to help ensure that all required documentation is included in the members' files.

Recommendation:

To comply with the terms of the Americorps grant, the County should properly maintain its member files to support eligibility.

Coconino County, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008
(continued)

08-103 Reporting

CFDA Number:
94.006 - Americorps

Questioned Costs:
N/A

Criteria:
Americorps grant provisions require grantees to notify the Corporation for National and Community Service (the Corporation), within 30 days of either entering into a commitment with an individual or at the end of a term of service.

Condition/Context:
For 8 of 40 files reviewed, the Corporation was not notified within 30 days of the commitment date, and for 3 additional files, a commitment date could not be determined. For 8 of the 40 files reviewed, the Corporation was not notified within 30 days of the termination of the member's service, and for 2 files reviewed, exit forms were not present.

Effect:
The County was not in compliance with Americorps grant reporting requirements.

Cause:
The County did not adhere to its internal policies and procedures to help ensure that member enrollments and exits were reported in a timely manner.

Recommendation:
To comply with the terms of the Americorps grant, the County should adhere to its procedures regarding the timely reporting of required information to the Corporation.



COCONINO COUNTY ARIZONA
OFFICE OF THE COUNTY MANAGER

March 23, 2009

Debra K. Davenport, CPA
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport,

The accompanying Corrective Action Plan has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date for each audit finding in the Schedule of Findings and Questioned Costs for the year ended June 30, 2008.

Sincerely,

Sandra Schulz, CPA
Chief Fiscal Officer

08-01 Accounts payable
Contact: Holly Lindfors
Anticipated completion date: July 1, 2009

The County will add an additional procedure for reviewing invoices to ensure expenditures are recorded in the proper accounting period. In addition to the other procedures in place the Financial Reporting/Audit Division of the Finance Department will check all invoices for \$5,000 or more, until end of field work, to ensure that they have been recorded in the proper accounting period.

08-101 Reporting
CFDA Number:
16.606 – State Criminal Alien Assistance Program
Contact: Angela Rodriguez
Anticipated Completion Date: February 26, 2009

The condition was the caused by inmate information sent that was sorted incorrectly resulting in the dates being shifted.

The corrective action being implemented will be an audit of the inmate information before it is submitted. An individual not involved with the data collection will randomly select inmate records and search for the incarceration date in the Jail Management System. The data will be compared to the report being submitted to the Department of Justice for accuracy.

08-102 Special Test and Provisions
CFDA Number:
94.006 – AmeriCorps
Contact: Verna Fischer
Anticipated Completion Date: March 31, 2009

The County adopted a modified member checklist in January 2009 to be used in all member files that includes the requirement of National Sex Offender Registry checks, as well as all other County and grant requirements. The CREC Administrative Assistant II will be responsible to see that all items on the checklist are completed in a timely fashion. Annual refresher training will be provided by the CREC Manager to all CREC staff members on AmeriCorps requirements. This training will include a review of all required member documentation and associated timelines. Attendance at this meeting will be documented along with the detailed listing of items that were covered in the training. An internal monitoring guide will be developed by 3/27/09 which delineates the duties and responsibilities of CREC staff members with regard to required AmeriCorps paper work including mid and post reviews. This plan will be submitted to the County Audits department for review and approval by 3/31/09.

08-103 Reporting

CFDA Number:

94.006 – AmeriCorps

Contact: Verna Fischer

Anticipated Completion Date: March 31, 2009

The County adopted a modified member checklist in January 2009 to be used in all member files that will include the requirement of criminal background checks, as well as all other County and grant requirements. The CREC Administrative Assistant II will be responsible to see that all items on the checklist are completed in a timely fashion. Annual refresher training will be provided by the CREC Manager to all CREC staff members on AmeriCorps requirements; this training will include a review of all required member documentation and associated timelines. Attendance at this meeting will be documented along with the detailed listing of items that were covered in the training. An internal monitoring guide will be developed by 3/27/09 which delineates the duties and responsibilities of CREC staff members with regard to required AmeriCorps paper work including mid and post reviews. This plan will be submitted to the County Audits department for review and approval by 3/31/09.