

REPORT HIGHLIGHTS
 FINANCIAL STATEMENT AUDIT

Subject

Pima County issues a Comprehensive Annual Financial Report. The County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, we determine whether the County has met its responsibilities.

Our Conclusion

The information in the financial statements is fairly stated in all material respects and the financial statements can be relied on. Generally, the County maintained adequate internal controls over its financial transactions.

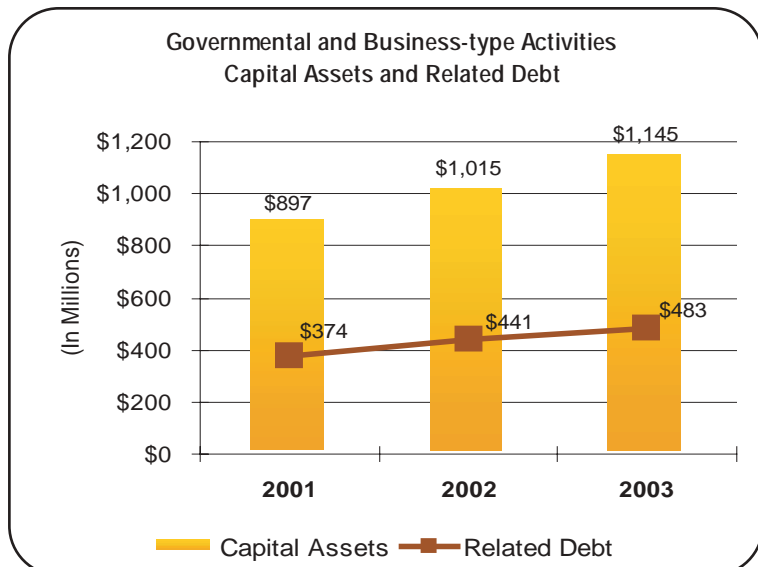
Capital Assets and the Related Debt Increase

Pima County's capital assets, net of accumulated depreciation, have increased by approximately 28 percent, or \$248 million over the past 3 years. The County has financed most of the construction and acquisition of these assets through the issuance of bonds and loans. The following is a summary of the two most significant increases:

- Infrastructure projects—During fiscal year 2002, the County implemented a new financial reporting model required by the Governmental Accounting Standards Board. The new model requires the County to capitalize the value of infrastructure assets, such as roads. During fiscal years 2002 and 2003, the County expended more than \$100 million for road improvements. Transportation revenue bonds financed most of the road improvements.

- Other construction projects—Over the past 3 years, the County began several large construction projects. At June 30, 2003, more than half, or \$136 million, of the County's construction in progress related to sewer system construction projects. These projects were financed with sewer revenue bonds and loan proceeds. The County's other construction projects were partly financed by the issuance of general obligation and flood control bonds.

The figure below presents the County's capital assets and related debt increases over the past 3 years.



2003

Year Ended June 2003

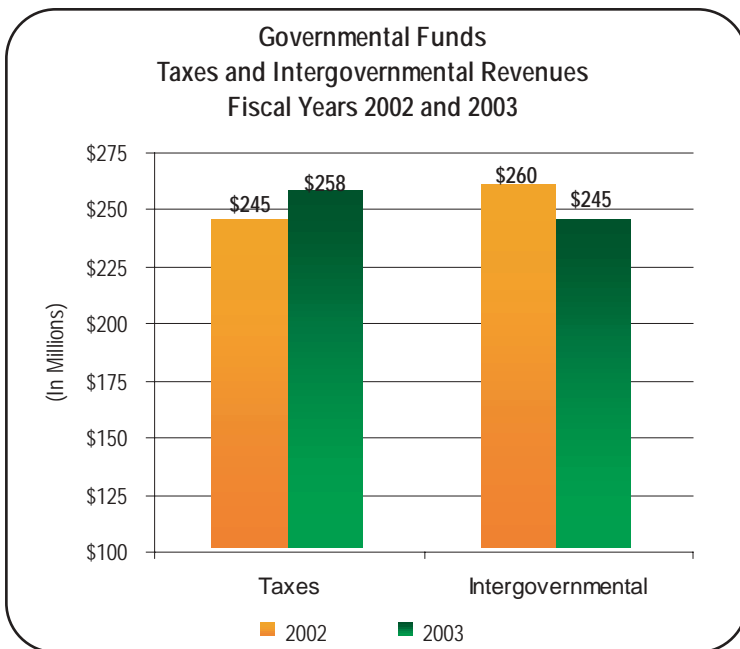
Tax Revenues Increase and Intergovernmental Revenues Decrease

Tax and intergovernmental revenues represent almost 90 percent of the County's total governmental fund revenues in fiscal year 2003. During the fiscal year tax revenues increased by approximately 5 percent, or \$13 million, and intergovernmental revenues decreased by approximately 5 percent, or \$15 million.

Tax revenues include real and personal property taxes and penalties and interest on delinquent taxes. These revenues increased from the prior year because of higher property valuations.

Intergovernmental revenues include federal and state grants, highway user revenues, and state-shared sales and other taxes. These revenues decreased from the prior year primarily because of the following:

- The County received approximately \$12 million less in Urban-area Highway User revenues for three of its transportation projects because these projects were substantially completed during fiscal year 2002.
- The County received approximately \$3 million less in federal grant monies for flood control improvements along the Santa Cruz River.



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