

**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.



**2004**

Year Ended June 30, 2004

## Government-Wide Revenues and Expenses Increase

The County's government-wide financial statements provide readers with a broad overview of the County's finances in a manner similar to private-sector businesses. These statements include all of the financial activities of the County, except for fiduciary activities.

The table to the right presents a summary of the government-wide Statement of Activities for the years ended 2003 and 2004. This summary shows that the County's revenues and expenses increased from the prior year.

**Revenues**—County revenues increased by approximately \$117 million, or 14% from the prior year. The primary reasons that revenues increased are as follows.

- Charges for services increased by \$53 million. Approximately one-half of this increase resulted from increased enrollment in the Pima Health Care System health plans. The other half primarily resulted from increased sewer connection, impact, and other development fees.
- Grants and contributions increased by approximately \$27 million primarily because the County received more highway user revenue fees and federal highway grant monies.
- Property taxes increased by approximately \$21 million because of increased property valuations.
- Sales and vehicle license taxes increased by approximately \$6 million because of improvements in the economy.

**Expenses**—County expenses increased by approximately \$73 million, or 9% from the prior year. The primary reasons that expenses increased are as follows.

- Enrollment in the Pima Health Care System health plans increased causing a \$42 million increase in medical and health care claims.
- Public safety expenses increased by approximately \$19 million mainly because of increased costs related to salaries and grant activities.

**Statement of Activities**  
Governmental and Business-type Activities  
Years Ended June 30, 2003 and 2004  
(In Millions)

	2003	2004
<b>Revenues</b>		
Governmental activities	\$559	\$624
Business-type activities	<u>300</u>	<u>352</u>
Total revenues	<u>859</u>	<u>976</u>
<b>Expenses</b>		
Governmental activities	496	524
Business-type activities	<u>307</u>	<u>352</u>
Total expenses	<u>803</u>	<u>876</u>
Change in net assets	56	100
Net assets—beginning, as restated	<u>807</u>	<u>863</u>
Net assets—ending	<u>\$863</u>	<u>\$963</u>

# Kino Community Hospital's License Transfers to University Physicians, Inc.

Pima County has entered into a contract to lease Kino Community Hospital to University Physicians, Inc. (UPI), a nonprofit organization. On June 16, 2004, the Hospital's license was transferred and UPI began operating the Hospital. The significant provisions of the contract include the following:

- UPI is leasing the Hospital's buildings for \$10 a year. The initial term of the lease is 25 years, with extension and termination options.
- The County is required to pay UPI an annual service fee during the first 10 years of the contract to support the continued operations of the Hospital. The service fee will be paid by the County's General Fund and is subject to maximum amounts defined within the agreement. The service fee totals approximately \$127 million over the 10-year period and varies annually from a maximum of approximately \$25 million in fiscal year 2005 to a low of \$7.7 million in fiscal year 2014.
- Pima County and UPI will create a joint Master Development Plan for the expansion of healthcare facilities on the Hospital's premises and on several acres of county-owned land that is adjacent to the Hospital's premises.

UPI will construct improvements subject to availability of the Hospital's operating monies and Pima County service fees. In addition, Pima County will construct a health center and psychiatric facility with \$37 million of its general obligation bond monies.

- UPI will obtain and maintain all appropriate insurance policies related to hospital operations.

Some of the Hospital's equipment and inventories were sold to UPI and its remaining assets and liabilities were retained by the County, as summarized in the table below.

Net assets of Kino Hospital	\$13.7
Assets and liabilities retained by the County:	
Property leased to UPI	\$ 8.3
Notes receivable for equipment and supplies	2.0
Receivables and other current assets	10.0
Payables and other current liabilities	<u>(6.7)</u>
Total net assets retained by the County	<u>(13.6)</u>
Loss on disposition of Hospital net assets	<u>\$ 0.1</u>

## TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling  
**(602) 553-0333**



or by visiting our Web site at:  
[www.auditorgen.state.az.us](http://www.auditorgen.state.az.us)

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## REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Year Ended June 30, 2004