



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Coconino County

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Coconino County
Single Audit Reporting Package
Year Ended June 30, 2004

| Table of Contents | Page |
|---|------|
| Financial Section | |
| Independent Auditors' Report | |
| Required Supplementary Information—Management's Discussion and Analysis | i |
| Government-Wide Statements | |
| Statement of Net Assets | 1 |
| Statement of Activities | 2 |
| Fund Statements | |
| Governmental Funds | |
| Balance Sheet | 3 |
| Reconciliation of the Balance Sheet to the Statement of Net Assets | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 6 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 8 |
| Proprietary Funds | |
| Statement of Net Assets | 9 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | 10 |
| Statement of Cash Flows | 11 |
| Fiduciary Funds | |
| Statement of Fiduciary Net Assets | 12 |
| Statement of Changes in Fiduciary Net Assets | 13 |
| Notes to Financial Statements | 14 |
| Other Required Supplementary Information | |
| Budgetary Comparison Schedules | 32 |
| Schedule of Agent Retirement Plan's Funding Progress | 37 |
| Supplementary Information | |
| Schedule of Expenditures of Federal Awards | 39 |

Coconino County
Single Audit Reporting Package
Year Ended June 30, 2004

| Table of Contents | Page |
|---|------|
| Single Audit Section | |
| 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 <i>Government Auditing Standards</i> | 43 |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | 45 |
| Schedule of Findings and Questioned Costs | |
| Summary of Auditors' Results | 47 |
| Federal Award Findings and Questioned Costs | 48 |
| County Responses | |
| Corrective Action Plan | 50 |



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2004, 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through vi, the Budgetary Comparison Schedules on pages 32 through 36 and the Schedule of Agent Retirement Plan's Funding Progress on page 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2005, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

August 23, 2005



COCONINO COUNTY ARIZONA

FINANCE DEPARTMENT

Management's Discussion and Analysis

Michael F. Townsend
Director

The following discussion and analysis of Coconino County's basic financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the County's basic financial statements, which follow this section.

Financial Highlights for FY 2004

- The County's net assets increased 13.6 percent to \$141.13 million as a result of this year's operations.
- During the year, the County's governmental funds revenues exceeded expenditures by \$683 thousand. This is a change from last year when revenues exceeded expenditures by \$3.73 million.
- Total expenditures of county governmental funds increased \$10.80 million from the prior year.
- The General Fund reported excess revenues over expenditures of \$7.04 million, however, the fund balance only increased \$2.88 million due to transfers to other funds.

Using this Report

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

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

The following table reflects the condensed Statement of Net Assets of the County at June 30, 2004, compared to June 30, 2003.

Management's Discussion and Analysis

| | Governmental Activities (in millions) | |
|---|--|-----------------|
| | <u>2004</u> | <u>2003</u> |
| Current and other assets | \$106.56 | \$ 94.46 |
| Capital assets | <u>88.60</u> | <u>84.14</u> |
| Total assets | <u>195.16</u> | <u>178.60</u> |
| | | |
| Current liabilities | 9.84 | 10.02 |
| Long-term liabilities outstanding | <u>44.19</u> | <u>44.34</u> |
| Total liabilities | <u>54.03</u> | <u>54.36</u> |
| | | |
| Net assets: | | |
| Invested in capital assets, net of related debt | 49.37 | 37.82 |
| Restricted | 38.07 | 9.91 |
| Unrestricted | <u>53.69</u> | <u>76.51</u> |
| Total net assets | <u>\$141.13</u> | <u>\$124.24</u> |

The County's net assets from governmental activities at the end of the fiscal year were \$141.13 million. The increase of \$16.89 million comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. Of the \$16.89 million, \$13.48 was from revenues in excess of expenditures and \$3.41 million was a beginning balance adjustment. Current and other assets increased by 13 percent primarily as a result of changing from a 1-month to a 2-month year-end accrual for sales taxes and highway user revenue and the \$3.5 million of special assessments levied. A large portion of the County's net assets (34.98 percent) reflects its investment in capital assets net of accumulated depreciation and related debt. The County uses these assets to provide services and these assets are not available for future spending.

Restricted Net Assets

26.98 percent of the county net assets (\$38.07 million) are subject to restrictions on how they may be used. The County's restricted net assets increased significantly in the current year because net assets relating to unexpended highway user revenues of over \$16.55 million that had been classified in error as unrestricted in the prior year were reclassified as restricted.

Unrestricted Net Assets

38.04 percent (\$53.69 million) of the County's net assets are unrestricted and can be used to finance the day-to-day operations without constraints established by debt covenants or other legal requirements.

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

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.

Management's Discussion and Analysis

The following table reflects the condensed Statement of Activities of the County for the fiscal year 2004 compared to the prior year. Beginning net assets at June 30, 2003, were restated for fiscal year 2004 for prior year corrections (see Note 2 to the financial statements for clarification). However, the fiscal year 2003 activity and net assets in the table below have not been restated.

| | Governmental Activities | |
|---|--------------------------------|-----------------|
| | (in millions) | |
| | <u>2004</u> | <u>2003</u> |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 15.13 | \$ 14.66 |
| Operating grants and contributions | 32.10 | 28.62 |
| Capital grants and contributions | <u>6.02</u> | <u>0.92</u> |
| Total program revenue | <u>53.25</u> | <u>44.20</u> |
| General revenues | | |
| State shared revenue | 14.44 | 13.90 |
| Sales taxes | 23.67 | 20.32 |
| Property taxes | 9.66 | 7.77 |
| Grants and contributions not restricted to specific programs | 0.55 | 0.55 |
| Investment earnings | 0.06 | 2.64 |
| Gain on disposal of capital assets | 1.27 | 0.40 |
| Miscellaneous | <u>0.02</u> | <u>0.11</u> |
| Total general revenue | <u>49.67</u> | <u>45.69</u> |
| Total revenues | <u>102.92</u> | <u>89.89</u> |
| Program expenses | | |
| General government | 24.04 | 22.21 |
| Public safety | 23.54 | 22.43 |
| Highways and streets | 14.28 | 10.42 |
| Sanitation | 2.74 | 2.61 |
| Health | 9.63 | 9.34 |
| Welfare | 3.97 | 4.47 |
| Culture and recreation | 4.30 | 3.64 |
| Education | 2.23 | 0.69 |
| Transportation | 2.71 | 2.14 |
| Interest on long-term debt | <u>2.00</u> | <u>2.12</u> |
| Total program expenses | <u>89.44</u> | <u>80.07</u> |
| Change in net assets | <u>13.48</u> | <u>9.82</u> |
| Net assets, beginning, as restated | <u>127.65</u> | <u>114.42</u> |
| Net assets, ending | <u>\$141.13</u> | <u>\$124.24</u> |

Revenues increased by 14.5 percent primarily due to an increase of \$.06 in the General Fund property tax rate, issuance of \$5.4 million in special assessments, a \$1.4 million increase relating to the forest fee receipts passed through the County to school districts and an increase of \$1.6 million for the first full year of the open space sales tax originally collected in fiscal year 2003. Expenses increased by 12 percent primarily due to outlays for road maintenance as a result of two large road project expenses of \$2.6 million (Highways and streets) and a \$1.4 million increase for forest fee distributions to school districts (Education).

Management's Discussion and Analysis

Reporting the County's Funds

Fund Financial Statements

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

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

The County reported six major funds for this fiscal year—General Fund, Public Works/HURF, Jail District, Forest Fees, Toho Tolani Improvement District, and Debt Service. In this fiscal year, Parks Capital Projects no longer is a major fund, and the Toho Tolani Improvement District was added as a major fund. At year-end, the County's governmental funds reported combined fund balances of \$89.44 million, which is an increase of \$4.79 million or 5.66 percent after restatement from last year. This increase was due primarily to increases in sales taxes.

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 \$23.22 million. Unreserved fund balances represents 58 percent of total General Fund expenditures and transfers out. This ratio indicates a strong fund balance position in comparison to expenditures. The General Fund's balance increased by \$2.88 million.

The Public Works/HURF Fund's balance increased by \$1.65 million over the prior fiscal year. The primary factor was the increased transfers made from Forest Fees Fund revenues to fund major road projects.

The Jail District Fund's balance increased by \$.25 million over the prior fiscal year. The increase was the net result of a correction of an error in the accrual of sales tax that increased the fund balance and increased expenditures that decreased the fund balance.

Management's Discussion and Analysis

The Forest Fees Fund's balance decreased by \$2.92 million over the prior fiscal year. This decrease was the result of a significant increase in transfers of Forest Fees revenues to fund Public Works/HURF Fund's projects.

The Parks Capital Projects Fund was a major fund in the prior fiscal year because of its large cash and due to other funds balances. Liquidation of the due to others funds in the current year spent down the cash balance and the Parks Capital Projects Fund is no longer a major fund.

Toho Tolani is a major road improvement district that was formed in 2003 but did not issue bonds and begin major construction until the current fiscal year.

The Debt Service Fund's balance decreased by \$2.80 million in the current year as a result of the payment of principal and interest on debt.

General Fund Budgetary Highlights

- The final appropriations for the General Fund at year-end were \$444.45 thousand less than the adopted budget.
- For the General Fund actual revenues exceeded final budget by \$2.31 million while actual expenditures were \$6.90 million less than budget.
- The budget variance for revenues in the General Fund was primarily due to general county sales tax and state vehicle license taxes. County sales tax revenues were conservatively estimated because of shortfalls in the prior years and uncertainty regarding the speed of any economic recovery. State vehicle license taxes revenues increased because of a significant increase in vehicle registrations state-wide, which is shared with counties. The expenditures variance was primarily \$4.97 million of unexpended contingency funds and fiscal reserves mainly included in non-departmental budget items.

The County as Trustee

Reporting the County's Fiduciary Responsibilities

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

Capital Assets and Debt Administration

Capital Assets

During the fiscal year, the County completed several construction projects that added \$1.90 million to the County's building inventory and \$2.77 million to the County's infrastructure inventory.

Management's Discussion and Analysis

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

| | Governmental Activities (net of depreciation and in millions) | |
|--------------------------|---|------------------------------|
| | <u>2004</u> | <u>2003, as restated</u> |
| Land | \$ 8.58 | \$ 8.48 |
| Buildings | 59.15 | 59.08 |
| Machinery and equipment | 13.04 | 11.29 |
| Infrastructure | 3.13 | 0.37 |
| Construction in progress | <u>4.69</u> | <u>4.61</u> |
| Total | <u>\$88.59</u> | <u>\$83.83</u> |

Beginning capital assets were restated for prior year corrections (see Note 6 to the financial statements for clarification). The fiscal year 2003 activity in the table above has been restated but not audited.

Long-term Debt

The County added \$2.93 million to long-term debt for special assessment bond issues for three county road improvement districts.

Economic Factors

The State of Arizona and Coconino County's economy is heavily dependent on tourism. The County receives over 37.0 percent of its revenues from various sales taxes. Any slumps in the economy or events that could affect tourism have a significant impact on Coconino County.

Contacting the County's Financial Management

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

Coconino County
Statement of Net Assets
June 30, 2004

| | Governmental Activities |
|---|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 80,612,890 |
| Investments | 878,040 |
| Cash and investments held by trustee | 6,431,038 |
| Receivables (net of allowances for uncollectibles): | |
| Property taxes | 276,779 |
| Accounts | 722,368 |
| Special assessments | 3,903,206 |
| Jail district sales tax | 1,116,073 |
| Notes | 553,663 |
| Accrued interest | 817,463 |
| Due from other governments | 10,958,524 |
| Inventories | 183,551 |
| Prepaid items | 112,787 |
| Capital assets, not being depreciated | 13,276,410 |
| Capital assets, being depreciated, net | 75,322,025 |
| Total assets | 195,164,817 |
| Liabilities | |
| Accounts payable | 3,212,542 |
| Accrued payroll and employee benefits | 1,572,973 |
| Due to other governments | 468,657 |
| Deposits held for others | 71,871 |
| Certificates of participation payable | 1,760,000 |
| Revenue bonds payable | 1,760,000 |
| Bond interest payable | 998,543 |
| Noncurrent liabilities | |
| Due within 1 year | 5,850,374 |
| Due in more than 1 year | 38,338,027 |
| Total liabilities | 54,032,987 |
| Net Assets | |
| Invested in capital assets, net of related debt | 49,373,069 |
| Restricted for: | |
| Highways and streets | 25,553,097 |
| Debt service | 6,717,897 |
| Capital projects | 4,135,832 |
| Culture and recreation | 1,664,400 |
| Unrestricted | 53,687,535 |
| Total net assets | \$ 141,131,830 |

See accompanying notes to financial statements.

Coconino County
Statement of Activities
Year Ended June 30, 2004

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--|---------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Total |
| Governmental activities: | | | | | |
| General government | \$24,038,681 | \$ 6,874,262 | \$ 2,170,089 | | \$ (14,994,330) |
| Public safety | 23,546,410 | 3,787,242 | 4,223,461 | \$ 213,594 | (15,322,113) |
| Highways and streets | 14,276,404 | 158,596 | 12,449,572 | 5,802,046 | 4,133,810 |
| Sanitation | 2,743,348 | 1,072,675 | 660,551 | 3,499 | (1,006,623) |
| Health | 9,631,470 | 1,289,677 | 4,096,002 | | (4,245,791) |
| Welfare | 3,967,458 | 768,396 | 2,271,532 | | (927,530) |
| Culture and recreation | 4,298,993 | 907,000 | 663,611 | | (2,728,382) |
| Education | 2,228,618 | 5,925 | 2,238,042 | | 15,349 |
| Transportation | 2,708,420 | 266,099 | 3,328,687 | | 886,366 |
| Interest on long-term debt | 1,998,810 | | | | (1,998,810) |
| Total governmental activities | <u>\$89,438,612</u> | <u>\$15,129,872</u> | <u>\$32,101,547</u> | <u>\$6,019,139</u> | <u>(36,188,054)</u> |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 9,662,395 |
| Share of state sales tax | | | | | 14,439,695 |
| General county sales tax | | | | | 10,153,344 |
| Jail district sales tax | | | | | 6,086,834 |
| Parks and open spaces sales tax | | | | | 2,470,248 |
| Franchise tax | | | | | 102,781 |
| Shared revenue-state vehicle license tax | | | | | 4,850,913 |
| Grants and contributions not restricted to specific programs | | | | | 550,035 |
| Investment earnings | | | | | 61,822 |
| Gain on disposal of capital assets | | | | | 1,269,042 |
| Miscellaneous | | | | | 17,606 |
| Total general revenues | | | | | <u>49,664,715</u> |
| Change in net assets | | | | | 13,476,661 |
| Net assets, July 1, 2003, as restated | | | | | <u>127,655,169</u> |
| Net assets, June 30, 2004 | | | | | <u>\$141,131,830</u> |

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2004

| | <u>General Fund</u> | <u>Public Works/ HURF Fund</u> | <u>Jail District Fund</u> | <u>Forest Fees Fund</u> | <u>Toho Tolani Improvement District Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|-----------------------------------|---------------------------------|--|----------------------------------|---|---|
| Assets | | | | | | | | |
| Cash and cash equivalents | \$21,112,428 | \$13,655,325 | \$1,568,105 | \$10,552,272 | \$3,952,460 | \$18,979,658 | \$ 8,915,119 | \$ 78,735,367 |
| Investments | | | | | | | 878,040 | 878,040 |
| Cash and investments held by trustee | | | 2,168,973 | | | 2,311,842 | 1,950,223 | 6,431,038 |
| Receivables (net of allowances for uncollectibles): | | | | | | | | |
| Property taxes | 183,141 | | | | | | 93,638 | 276,779 |
| Accounts | 108,967 | 6,726 | 59,352 | | | | 539,252 | 714,297 |
| Special assessments | | | | | 3,262,431 | | 640,775 | 3,903,206 |
| Jail district sales tax | | | 1,116,073 | | | | | 1,116,073 |
| Accrued interest | 204,773 | 137,801 | 16,867 | 108,114 | 39,957 | 194,913 | 96,229 | 798,654 |
| Notes | | | | | | | 553,663 | 553,663 |
| Due from: | | | | | | | | |
| Other funds | 2,868,011 | 3,592,684 | 36,454 | 100,000 | 2,122 | | 3,315,332 | 9,914,603 |
| Other governments | 5,027,161 | 1,987,306 | 268,371 | | | | 3,675,686 | 10,958,524 |
| Inventories | 3,964 | | | | | | | 3,964 |
| Prepaid items | 90,306 | 250 | | | | | 22,231 | 112,787 |
| Total assets | <u>\$29,598,751</u> | <u>\$19,380,092</u> | <u>\$5,234,195</u> | <u>\$10,760,386</u> | <u>\$7,256,970</u> | <u>\$21,486,413</u> | <u>\$20,680,188</u> | <u>\$114,396,995</u> |

(Continued)

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2004
(Continued)

| | <u>General Fund</u> | <u>Public Works/ HURF Fund</u> | <u>Jail District Fund</u> | <u>Forest Fees Fund</u> | <u>Toho Tolani Improvement District Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|-----------------------------------|---------------------------------|--|----------------------------------|---|---|
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | \$ 889,991 | \$ 805,810 | \$ 120,529 | | \$ 356,909 | | \$ 977,189 | \$ 3,150,428 |
| Accrued payroll and employee benefits | 725,870 | 149,409 | 174,060 | | | | 474,344 | 1,523,683 |
| Due to: | | | | | | | | |
| Other funds | 3,722,449 | 216,357 | 32,712 | \$ 3,415,805 | | | 2,833,603 | 10,220,926 |
| Other governments | | | 25,853 | | | | 442,804 | 468,657 |
| Deposits held for others | 6,812 | | | | | | 65,059 | 71,871 |
| Bond interest payable | | | 405,314 | | 30,756 | \$ 551,842 | 10,631 | 998,543 |
| Certificates of participation and revenue bonds payable | | | 1,760,000 | | | 1,760,000 | | 3,520,000 |
| Deferred revenue | <u>1,034,954</u> | | | | <u>3,239,763</u> | | <u>729,658</u> | <u>5,004,375</u> |
| Total liabilities | <u>6,380,076</u> | <u>1,171,576</u> | <u>2,518,468</u> | <u>3,415,805</u> | <u>3,627,428</u> | <u>2,311,842</u> | <u>5,533,288</u> | <u>24,958,483</u> |
| Fund balances: | | | | | | | | |
| Reserved for: | | | | | | | | |
| Debt service | | | | | 205,381 | | 564,408 | 769,789 |
| Unreserved, reported in: | | | | | | | | |
| General fund | 23,218,675 | | | | | | | 23,218,675 |
| Debt service fund | | | | | | 19,174,571 | 3,455,974 | 22,630,545 |
| Special revenue funds | | 18,208,516 | 2,715,727 | 7,344,581 | | | 11,558,435 | 39,827,259 |
| Capital projects funds | | | | | <u>3,424,161</u> | | <u>(431,917)</u> | <u>2,992,244</u> |
| Total fund balances | <u>23,218,675</u> | <u>18,208,516</u> | <u>2,715,727</u> | <u>7,344,581</u> | <u>3,629,542</u> | <u>19,174,571</u> | <u>15,146,900</u> | <u>89,438,512</u> |
| Total liabilities and fund balances | <u>\$29,598,751</u> | <u>\$19,380,092</u> | <u>\$5,234,195</u> | <u>\$10,760,386</u> | <u>\$7,256,970</u> | <u>\$21,486,413</u> | <u>\$20,680,188</u> | <u>\$114,396,995</u> |

See accompanying notes to financial statements.

Coconino County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2004

| | |
|---|-----------------------|
| Fund balances—total governmental funds | \$ 89,438,512 |
| 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. | 87,085,938 |
| Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds. | 5,004,375 |
| Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. | 3,791,406 |
| Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. | <u>(44,188,401)</u> |
| Net assets of governmental activities | <u>\$ 141,131,830</u> |

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

| | General Fund | Public Works/ HURF Fund | Jail District Fund | Forest Fees Fund | Toho Tolani Improvement District Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|-------------------------------|--------------------------|------------------------|---|-------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | | | | |
| Property taxes | \$ 5,922,056 | | | | | | \$ 2,623,254 | \$ 8,545,310 |
| Other taxes | 13,231,828 | \$ 1,876,389 | \$ 6,086,834 | | | | 2,470,893 | 23,665,944 |
| Special assessments | | | | | \$1,862,881 | | 650,739 | 2,513,620 |
| Licenses and permits | 1,902,358 | 15,430 | | | | | 957,251 | 2,875,039 |
| Fees, fines, and forfeits | 1,051,221 | | | | | | 342,643 | 1,393,864 |
| Intergovernmental | 16,910,934 | 10,349,100 | 5,000 | \$ 2,811,335 | | | 17,867,883 | 47,944,252 |
| Charges for services | 2,375,674 | | 2,895,093 | | | | 4,801,876 | 10,072,643 |
| Investment income | 51,281 | 23,315 | (537) | (1,703) | (7,297) | \$ 57,492 | 118,552 | 241,103 |
| Contributions | 180,870 | | | | | | 344,012 | 524,882 |
| Miscellaneous | 179,774 | 1,323 | 372 | | | | 226,621 | 408,090 |
| Total revenues | <u>41,805,996</u> | <u>12,265,557</u> | <u>8,986,762</u> | <u>2,809,632</u> | <u>1,855,584</u> | <u>57,492</u> | <u>30,403,724</u> | <u>98,184,747</u> |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 20,740,768 | | | | | | 3,863,748 | 24,604,516 |
| Public safety | 9,383,636 | | 8,205,622 | | | | 5,266,021 | 22,855,279 |
| Highways and streets | 720,964 | 16,075,607 | | | 815,314 | | 263,180 | 17,875,065 |
| Sanitation | | | | | | | 2,603,218 | 2,603,218 |
| Health | 2,772,615 | | | | | | 6,716,777 | 9,489,392 |
| Welfare | | | | | | | 3,908,526 | 3,908,526 |
| Culture and recreation | 647,779 | | | | | | 4,300,868 | 4,948,647 |
| Education | 394,214 | | | 1,440,668 | | | 385,727 | 2,220,609 |
| Transportation | | | | | | | 3,224,686 | 3,224,686 |
| Debt service: | | | | | | | | |
| Principal | 99,301 | | 1,760,000 | | | 1,760,000 | 153,741 | 3,773,042 |
| Interest and other charges | 9,114 | | 816,031 | | 31,588 | 1,108,909 | 33,168 | 1,998,810 |
| Total expenditures | <u>34,768,391</u> | <u>16,075,607</u> | <u>10,781,653</u> | <u>1,440,668</u> | <u>846,902</u> | <u>2,868,909</u> | <u>30,719,660</u> | <u>97,501,790</u> |
| Excess (deficiency) of revenues over expenditures | <u>7,037,605</u> | <u>(3,810,050)</u> | <u>(1,794,891)</u> | <u>1,368,964</u> | <u>1,008,682</u> | <u>(2,811,417)</u> | <u>(315,936)</u> | <u>682,957</u> |

(Continued)

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004
(Continued)

| | <u>General Fund</u> | <u>Public Works/ HURF Fund</u> | <u>Jail District Fund</u> | <u>Forest Fees Fund</u> | <u>Toho Tolani Improvement District Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|-----------------------------------|---------------------------------|--|----------------------------------|---|---|
| Other financing sources (uses): | | | | | | | | |
| Sale of capital assets | \$ 358,532 | \$ 594,338 | | | | | \$ 220,290 | \$ 1,173,160 |
| Special assessment bonds issued | | | | | \$2,590,852 | | 340,910 | 2,931,762 |
| Transfers in | 914,695 | 4,958,006 | \$ 2,053,676 | | 30,000 | \$ 10,320 | 3,382,661 | 11,349,358 |
| Transfers out | <u>(5,427,333)</u> | <u>(89,446)</u> | <u>(9,004)</u> | <u>\$(4,292,832)</u> | | | <u>(1,530,743)</u> | <u>(11,349,358)</u> |
| Total other financing sources and uses | <u>(4,154,106)</u> | <u>5,462,898</u> | <u>2,044,672</u> | <u>(4,292,832)</u> | <u>2,620,852</u> | <u>10,320</u> | <u>2,413,118</u> | <u>4,104,922</u> |
| Net change in fund balances | <u>2,883,499</u> | <u>1,652,848</u> | <u>249,781</u> | <u>(2,923,868)</u> | <u>3,629,534</u> | <u>(2,801,097)</u> | <u>2,097,182</u> | <u>4,787,879</u> |
| Fund balances, July 1, 2003, as restated | <u>20,335,176</u> | <u>16,555,668</u> | <u>2,465,946</u> | <u>10,268,449</u> | <u>8</u> | <u>21,975,668</u> | <u>13,049,718</u> | <u>84,650,633</u> |
| Fund balances, June 30, 2004 | <u>\$23,218,675</u> | <u>\$18,208,516</u> | <u>\$ 2,715,727</u> | <u>\$ 7,344,581</u> | <u>\$3,629,542</u> | <u>\$19,174,571</u> | <u>\$15,146,900</u> | <u>\$89,438,512</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, 2004

| | | |
|--|--------------------|----------------------|
| Net change in fund balances—total governmental funds | | \$ 4,787,879 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | | |
| Capital outlay | \$ 9,160,783 | |
| Depreciation expense | <u>(4,105,203)</u> | 5,055,580 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| | | 3,149,314 |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | | |
| Debt issued or incurred | (2,932,274) | |
| Principal repaid | <u>3,773,042</u> | 840,768 |
| 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. | | |
| | | (500,616) |
| Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance, to individual funds. The net revenue of the internal service fund is reported with governmental activities. | | |
| | | <u>143,736</u> |
| Change in net assets of governmental activities | | <u>\$ 13,476,661</u> |

See accompanying notes to financial statements.

Coconino County
Statement of Net Assets
Proprietary Funds
June 30, 2004

| | <u>Governmental Activities— Internal Service Fund</u> |
|---|---|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,877,523 |
| Receivables (net of allowances for uncollectibles): | |
| Accounts | 8,071 |
| Accrued interest | 18,809 |
| Due from other funds | 309,531 |
| Inventories | <u>179,587</u> |
| Total current assets | <u>2,393,521</u> |
| Noncurrent assets: | |
| Capital assets, net of accumulated depreciation: | |
| Buildings, net | 96,630 |
| Equipment, net | <u>1,415,867</u> |
| Capital assets, net | <u>1,512,497</u> |
| Total noncurrent assets | <u>1,512,497</u> |
| Total assets | <u>3,906,018</u> |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 62,114 |
| Accrued payroll and employee benefits | 49,290 |
| Due to other funds: | <u>3,208</u> |
| Total current liabilities | <u>114,612</u> |
| Total liabilities | <u>114,612</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 1,512,497 |
| Unrestricted | <u>2,278,909</u> |
| Total net assets | <u>\$ 3,791,406</u> |

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2004

| | Governmental Activities— Internal Service Fund |
|---|---|
| | |
| Operating revenues: | |
| Charges for services | \$ 2,777,730 |
| Total operating revenues | 2,777,730 |
| Operating expenses: | |
| Personal services | 600,955 |
| Professional services | 76,398 |
| Supplies | 1,339,065 |
| Utilities | 25,171 |
| Repairs and maintenance | 122,289 |
| Travel | 4,211 |
| Depreciation | 509,470 |
| Total operating expenses | 2,677,559 |
| Operating income | 100,171 |
| Nonoperating revenues: | |
| Investment income | 5,712 |
| Gain on disposal of capital assets | 37,853 |
| Total nonoperating revenues | 43,565 |
| Increase in net assets | 143,736 |
| Total net assets, July 1, 2003, as restated | 3,647,670 |
| Total net assets, June 30, 2004 | \$ 3,791,406 |

See accompanying notes to financial statements.

Coconino County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

| | <u>Governmental Activities— Internal Service Fund</u> |
|---|---|
| Cash flows from operating activities: | |
| Receipts from other funds for services provided | \$ 2,721,230 |
| Receipts from other governments | 4,649 |
| Payments to suppliers and providers of goods and services | (1,571,586) |
| Payments to employees | (588,301) |
| Payments to other funds for goods and services | <u>(20,002)</u> |
| Net cash provided by operating activities | <u>545,990</u> |
| Cash flows from capital and related financing activities: | |
| Proceeds from sale of capital assets | 81,075 |
| Purchases of capital assets | <u>(552,011)</u> |
| Net cash used for capital and related financing activities | <u>(470,936)</u> |
| Cash flows from investing activities: | |
| Interest received on investments | <u>(1,423)</u> |
| Net cash used for investing activities | <u>(1,423)</u> |
| Net increase in cash and cash equivalents | 73,631 |
| Cash and cash equivalents, July 1, 2003 | <u>1,803,892</u> |
| Cash and cash equivalents, June 30, 2004 | <u>\$ 1,877,523</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 100,171 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 509,470 |
| Changes in assets and liabilities: | |
| Increase in: | |
| Due from other funds | (56,500) |
| Accrued payroll and employee benefits | 16,865 |
| Decrease in: | |
| Accounts receivable | 4,649 |
| Inventories | 16,552 |
| Accounts payable | (25,215) |
| Due to other funds | <u>(20,002)</u> |
| Net cash provided by operating activities | <u>\$ 545,990</u> |

See accompanying notes to financial statements.

Coconino County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

| | Investment Trust Funds | Agency Funds |
|---|---------------------------|-----------------|
| Assets | | |
| Cash and cash equivalents | \$ 83,250,920 | \$ 1,915,416 |
| Cash and investments held by trustee | | 757,401 |
| Interest and dividends receivable | 700,820 | |
| Total assets | 83,951,740 | \$ 2,672,817 |
| Liabilities | | |
| Deposits held for others | | \$ 1,863,497 |
| Due to other governments | 9,857 | 809,320 |
| Total liabilities | 9,857 | \$ 2,672,817 |
| Net Assets | | |
| Held in trust for investment trust participants | \$ 83,941,883 | |

See accompanying notes to financial statements.

Coconino County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2004

| | Investment Trust Funds |
|---------------------------------|---------------------------|
| Additions: | |
| Contributions from participants | \$ 290,845,317 |
| Investment income | <u>1,485,708</u> |
| Total additions | <u>292,331,025</u> |
| Deductions: | |
| Distributions to participants | <u>281,240,983</u> |
| Total deductions | <u>281,240,983</u> |
| Change in net assets | 11,090,042 |
| Net assets, July 1, 2003 | <u>72,851,841</u> |
| Net assets, June 30, 2004 | <u>\$ 83,941,883</u> |

See accompanying notes to financial statements.

Coconino County
Notes to Financial Statements
June 30, 2004

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:

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

Coconino County
Notes to Financial Statements
June 30, 2004

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

B. Basis of Presentation

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

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

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

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

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

Coconino County
Notes to Financial Statements
June 30, 2004

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

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

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

The County reports the following major governmental funds:

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

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

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

The Forest Fees Fund is used to account for forest fees restricted to the construction, repair, and maintenance of county roads.

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

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

Coconino County
Notes to Financial Statements
June 30, 2004

The County reports the following fund types:

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

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

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

C. Basis of Accounting

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

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

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

D. Cash and Investments

For purposes of its statement of cash flows, the County considers 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, 2004

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

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

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

F. Property Tax Calendar

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

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

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

G. Capital Assets

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

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

Coconino County
Notes to Financial Statements
June 30, 2004

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

H. Investment Income

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

I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

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

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

Note 2 - Beginning Balances Restated

As a result of various corrections for prior years, the County's fund balances and net assets as of June 30, 2003, have been restated. The reconciliation below summarizes these changes.

Coconino County
Notes to Financial Statements
June 30, 2004

| | |
|--|----------------------|
| Aggregate fund balances of governmental fund types as of June 30, 2003, as previously reported | \$ 80,763,546 |
| Corrections for understatement of intergovernmental revenues | <u>3,887,087</u> |
| Restated aggregate fund balances of governmental fund types as of July 1, 2003 | <u>\$ 84,650,633</u> |
| | |
| Fund balance of the Internal Service Fund as of June 30, 2003, as previously reported | \$ 3,698,082 |
| Corrections for understatement of accumulated depreciation | <u>(50,412)</u> |
| Restated fund balance of the Internal Service Fund as of July 1, 2003 | <u>\$ 3,647,670</u> |
| | |
| Net assets of governmental activities as of June 30, 2003, as previously reported | \$124,236,161 |
| Corrections for understatement of intergovernmental revenues | 3,906,566 |
| Corrections to capital asset balances | (1,578,992) |
| Corrections to long-term liabilities | (181,678) |
| Corrections for overstatement of accumulated depreciation | <u>1,273,112</u> |
| Restated net assets of governmental activities as of July 1, 2003 | <u>\$127,655,169</u> |

Note 3 - Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2004, the following funds reported deficits in fund balances:

| Fund | Deficit |
|-----------------------------------|-------------|
| Improvement Districts | \$1,397,916 |
| Special District Management Funds | 49,133 |
| Health | 48,730 |
| Welfare | 3 |

The County expects the fund deficits listed above to be corrected through normal operations or for the Improvement Districts from General Fund transfers in fiscal year 2005.

Note 4 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Coconino County
Notes to Financial Statements
June 30, 2004

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. Those monies are pooled with the County's monies for investment purposes.

Deposits—At June 30, 2004, the investment pool's cash on hand was \$417,279. The carrying amount of the investment pool's total cash in bank was (\$58,126), and the bank balance was \$1,718,544. Of the bank balance, \$200,000 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name; \$1,518,544 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Investments—At June 30, 2004, the investments in the County Treasurer's investment pool consisted of the following:

| | Fair Value |
|---|-----------------------|
| Investment in State Treasurer's investment pool | \$ 95,329 |
| U.S. government securities | 148,895,355 |
| Corporate bonds | <u>2,127,213</u> |
| Total | <u>\$151,117,897</u> |

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of the participant's pool shares.

The investment pool's investments at June 30, 2004, are categorized below to give an indication of the level of risk the County assumed at year end.

Category 1—Insured or registered in the County's name, or securities held by the County or its agent in the County's name.

Category 2—Uninsured and unregistered with securities held by the counterparty's trust department or agent in the County's name.

Category 3—Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the County's name.

| | Category | | | Fair Value |
|--|-----------------|---|----------------------|-----------------------|
| | 1 | 2 | 3 | |
| U.S. government securities | | | \$148,895,355 | \$148,895,355 |
| Corporate bonds | | | <u>2,127,213</u> | <u>2,127,213</u> |
| | | | <u>\$151,022,568</u> | 151,022,568 |
| Investments not subject to categorization: | | | | |
| State Treasurer's investment pool | | | | <u>95,329</u> |
| Total | | | | <u>\$151,117,897</u> |

Coconino County
Notes to Financial Statements
June 30, 2004

Other deposits—At June 30, 2004, the County's nonpooled cash on hand was \$455,384. The carrying amount of the County's total nonpooled cash in bank was \$3,085,040, and the bank balance was \$3,174,346. Of the bank balance, \$734,783 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name; \$2,093,699 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name; and \$345,864 was uninsured and uncollateralized.

Other investments—At June 30, 2004, the County's nonpooled investments consisted of the following:

| | Fair Value |
|---|----------------------------|
| Investment in State Treasurer's investment pool | \$11,424,486 |
| U.S. government securities | <u>7,403,745</u> |
| Total | <u><u>\$18,828,231</u></u> |

The County's nonpooled investments are categorized below to give an indication of the level of risk assumed by the County at year end:

| | Category | | | Fair Value |
|--|-----------------|---|--------------------|----------------------------|
| | 1 | 2 | 3 | |
| U.S. government securities | | | <u>\$7,403,745</u> | <u>\$ 7,403,745</u> |
| | | | <u>\$7,403,745</u> | 7,403,745 |
| Investments not subject to categorization: | | | | |
| State Treasurer's Investment Pool | | | | <u>11,424,486</u> |
| Total | | | | <u><u>\$18,828,231</u></u> |

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

Cash and investments:

| | County Treasurer's Investment Pool | Other | Total |
|--------------------------------|---|----------------------------|-----------------------------|
| Cash on hand | \$ 417,279 | \$ 455,384 | \$ 872,663 |
| Carrying amount of deposits | (58,126) | 3,085,040 | 3,026,914 |
| Reported amount of investments | <u>151,117,897</u> | <u>18,828,231</u> | <u>169,946,128</u> |
| Total | <u><u>\$151,477,050</u></u> | <u><u>\$22,368,655</u></u> | <u><u>\$173,845,705</u></u> |

Coconino County
Notes to Financial Statements
June 30, 2004

Statement of Net Assets:

| | Total Primary Government | Total Fiduciary Funds | Total |
|--------------------------------------|--------------------------------|-----------------------------|----------------------|
| Cash and cash equivalents | \$80,612,890 | \$85,166,336 | \$165,779,226 |
| Investments | 878,040 | | 878,040 |
| Cash and investments held by trustee | <u>6,431,038</u> | <u>757,401</u> | <u>7,188,439</u> |
| Total | <u>\$87,921,968</u> | <u>\$85,923,737</u> | <u>\$173,845,705</u> |

Note 5 - Receivables

Due from other governments

Amounts due from other governments at June 30, 2004, include \$2,623,247 and \$1,724,194 in state-shared revenue from sales taxes and fuel taxes, respectively; \$452,954 from the State of Arizona for state vehicle license tax; \$1,860,148 in county sales tax; \$461,214 in capital projects sales tax; and \$2,225,978 in grants from the federal government; and \$712,511 in grants from various state agencies. The balance of \$898,278 is composed of miscellaneous receivables from federal, state, and local governments.

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

| | Balance July 1, 2003, as restated | Increases | Decreases | Balance June 30, 2004 |
|---|---|--------------------|--------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 8,479,115 | \$ 113,803 | \$ 11,445 | \$ 8,581,473 |
| Construction in progress (estimated cost to complete \$9,195,529) | <u>4,604,298</u> | <u>4,642,014</u> | <u>4,551,375</u> | <u>4,694,937</u> |
| Total capital assets not being depreciated | <u>13,083,413</u> | <u>4,755,817</u> | <u>4,562,820</u> | <u>13,276,410</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 72,565,552 | 2,018,144 | 113,196 | 74,470,500 |
| Machinery and equipment | 26,053,548 | 4,722,735 | 2,620,638 | 28,155,645 |
| Infrastructure | <u>373,784</u> | <u>2,767,475</u> | | <u>3,141,259</u> |
| Total | <u>98,992,884</u> | <u>9,508,354</u> | <u>2,733,834</u> | <u>105,767,404</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 13,483,393 | 1,926,058 | 90,557 | 15,318,894 |
| Machinery and equipment | 14,761,881 | 2,673,664 | 2,324,011 | 15,111,534 |
| Infrastructure | | <u>14,951</u> | | <u>14,951</u> |
| Total | <u>28,245,274</u> | <u>4,614,673</u> | <u>2,414,568</u> | <u>30,445,379</u> |
| Total capital assets being depreciated, net | <u>70,747,610</u> | <u>4,893,681</u> | <u>319,266</u> | <u>75,322,025</u> |
| Governmental activities capital assets, net | <u>\$83,831,023</u> | <u>\$9,649,498</u> | <u>\$4,882,086</u> | <u>\$ 88,598,435</u> |

Coconino County
Notes to Financial Statements
June 30, 2004

The July 1, 2003, governmental activities capital assets balances for land, construction in progress, buildings, machinery and equipment, and accumulated depreciation were restated to correct prior years' errors.

Infrastructure assets reported included assets for which construction was started or completed during the year ended June 30, 2004. Infrastructure assets that were started or completed prior to July 1, 2002, are not included and will retroactively be added to the County's capital assets listing within the next 3 years.

Depreciation expense was charged to functions as follows:

| | |
|--|--------------------|
| Governmental activities: | |
| General government | \$ 872,089 |
| Public safety | 1,017,883 |
| Highways and streets | 1,280,374 |
| Sanitation | 236,304 |
| Health | 153,741 |
| Welfare | 72,488 |
| Culture and recreation | 96,108 |
| Transportation | 376,216 |
| Internal service fund | <u>509,470</u> |
| Total governmental activities depreciation expense | <u>\$4,614,673</u> |

Note 7 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2004:

| | Balance July 1, 2003, as restated | Additions | Reductions | Balance June 30, 2004 | Due within 1 year |
|--|---|--------------------|--------------------|--------------------------|----------------------|
| Governmental activities | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | \$17,970,000 | | \$1,760,000 | \$16,210,000 | \$1,840,000 |
| Special assessment bonds with governmental commitment | <u>594,887</u> | <u>\$2,932,274</u> | <u>153,741</u> | <u>3,373,420</u> | <u>404,224</u> |
| Total bonds payable | <u>18,564,887</u> | <u>2,932,274</u> | <u>1,913,741</u> | <u>19,583,420</u> | <u>2,244,224</u> |
| Certificates of participation payable | 23,700,000 | | 1,760,000 | 21,940,000 | 1,840,000 |
| Installment purchase contracts payable | 60,857 | | 60,857 | | |
| Capital leases payable | 120,821 | | 38,444 | 82,377 | 40,245 |
| Compensated absences payable | 1,691,283 | 1,745,514 | 1,252,060 | 2,184,737 | 1,646,897 |
| Claims and judgments payable | <u>390,705</u> | <u>91,002</u> | <u>83,840</u> | <u>397,867</u> | <u>79,008</u> |
| Governmental activities long-term liabilities | <u>\$44,528,553</u> | <u>\$4,768,790</u> | <u>\$5,108,942</u> | <u>\$44,188,401</u> | <u>\$5,850,374</u> |

The July 1, 2003, governmental activities balances for installment purchase contracts payable and capital leases payable were restated to correct prior years' errors.

Coconino County
Notes to Financial Statements
June 30, 2004

Bonds—The County’s bonded debt consists of various issues of revenue and special assessment bonds that are generally noncallable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Revenue bonds are repaid from a voter-approved sales tax in the Jail District Fund. Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The original amounts of revenue bonds and special assessment bonds issued in prior years were \$24,760,000 and \$1,649,515, respectively. During the year, the County issued special assessment bonds totaling \$2,932,274 to build a road.

Bonds outstanding at June 30, 2004, were as follows:

| Description | Original Amount | Maturity Ranges | Interest Rates | Outstanding Principal |
|---|-----------------|-----------------|----------------|-----------------------|
| Revenue bonds | \$24,760,000 | 7/1/2005-12 | 4.25-5.00% | \$16,210,000 |
| Special assessment bonds with governmental commitment | 4,581,789 | 7/1/2005-14 | 2.47-7.50% | <u>3,373,420</u> |
| | | | | <u>\$19,583,420</u> |

The following schedule details debt service requirements to maturity for the County’s bonds payable at June 30, 2004:

| Year ending June 30 | Governmental Activities | | | |
|---------------------|-------------------------|--------------------|--------------------------|------------------|
| | Revenue Bonds | | Special Assessment Bonds | |
| | Principal | Interest | Principal | Interest |
| 2005 | \$ 1,840,000 | \$ 729,969 | \$ 404,224 | \$149,485 |
| 2006 | 1,925,000 | 645,649 | 307,763 | 131,439 |
| 2007 | 2,010,000 | 561,236 | 320,048 | 117,297 |
| 2008 | 2,095,000 | 472,286 | 312,372 | 103,242 |
| 2009 | 2,195,000 | 378,320 | 324,660 | 89,276 |
| 2010-14 | <u>6,145,000</u> | <u>541,075</u> | <u>1,704,353</u> | <u>225,880</u> |
| Total | <u>\$16,210,000</u> | <u>\$3,328,535</u> | <u>\$3,373,420</u> | <u>\$816,619</u> |

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

Certificates outstanding at June 30, 2004, were as follows:

| Description | Original Amount | Maturity Ranges | Interest Rates | Outstanding Principal |
|-------------|-----------------|-----------------|----------------|-----------------------|
| Series 1998 | \$19,000,000 | 7/1/2005-13 | 4.4-5.0% | \$12,935,000 |
| Series 2001 | 11,650,000 | 7/1/2005-15 | 4.25-5.50% | <u>9,005,000</u> |
| Total | | | | <u>\$21,940,000</u> |

Coconino County
Notes to Financial Statements
June 30, 2004

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2004:

| Year ending June 30 | <u>Governmental Activities</u> | |
|---------------------|--------------------------------|--------------------|
| | Principal | Interest |
| 2005 | \$ 1,840,000 | \$1,026,194 |
| 2006 | 1,920,000 | 944,584 |
| 2007 | 2,000,000 | 859,884 |
| 2008 | 2,100,000 | 765,171 |
| 2009 | 2,200,000 | 663,871 |
| 2010-14 | 10,865,000 | 1,652,183 |
| 2015 | <u>1,015,000</u> | <u>48,720</u> |
| Total | <u>\$21,940,000</u> | <u>\$5,960,607</u> |

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

Compensated absences and claims and judgments—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2004, the County paid for compensated absences as follows: 50.81 percent from the General Fund, 21.64 percent from major funds, and 27.55 percent from other funds. The County paid for claims and judgments from the General Fund.

Note 8 - Risk Management

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

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

Coconino County
Notes to Financial Statements
June 30, 2004

The County self-insures on commercial general liability for the first \$100,000 per occurrence. A self-insurance retention fund is set up for these losses. The County then purchases coverage from insurers up to \$40,000,000. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past 3 fiscal years.

Note 9 - Retirement Plans

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

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

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

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

ASRS

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

PSPRS

1020 E. Missouri Ave.
Phoenix, AZ 85014
(602) 255-5575

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

Cost-sharing plan—For the year ended June 30, 2004, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2004, 2003, and 2002, were \$1,663,268, \$1,445,564, and \$1,334,113, respectively, which were equal to the required contributions for the year.

Coconino County
Notes to Financial Statements
June 30, 2004

Agent plan—For the year ended June 30, 2004, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 20.84 percent.

Annual Pension Cost—The County's pension cost for the agent plan for the year ended June 30, 2004, and related information follows:

| | PSPRS |
|---------------------|-----------|
| Contribution rates: | |
| County | 20.84% |
| Plan members | 7.65% |
| Annual pension cost | \$329,549 |
| Contributions made | \$329,549 |

The current-year annual required contributions for PSPRS was determined as part of its June 30, 2002, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002, was 20 years.

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

| Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-----------------------|------------------------------|-------------------------------------|---------------------------|
| 2004 | \$329,549 | 100% | \$0 |
| 2003 | 209,070 | 100 | 0 |
| 2002 | 275,460 | 100 | 0 |

Note 10 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2004, were as follows:

Coconino County
Notes to Financial Statements
June 30, 2004

| Payable from | Payable to | | | | | | | Total |
|-----------------------------|--------------------|------------------------|--------------------|------------------|---------------------------------------|-----------------------------|-----------------------|---------------------|
| | General Fund | Public Works/HURF Fund | Jail District Fund | Forest Fees Fund | Toho Tolani Improvement District Fund | Nonmajor Governmental Funds | Internal Service Fund | |
| General Fund | | \$ 150,275 | \$35,962 | \$100,000 | | \$3,298,671 | \$137,541 | \$ 3,722,449 |
| Public Works/HURF Fund | \$ 89,599 | | | | | 9,607 | 117,151 | 216,357 |
| Jail District Fund | 16,203 | | | | | 7,054 | 9,455 | 32,712 |
| Forest Fees Fund | | 3,415,805 | | | | | | 3,415,805 |
| Nonmajor Governmental Funds | 2,762,209 | 23,396 | 492 | | \$2,122 | | 45,384 | 2,833,603 |
| Internal Service Fund | | 3,208 | | | | | | 3,208 |
| Total | <u>\$2,868,011</u> | <u>\$3,592,684</u> | <u>\$36,454</u> | <u>\$100,000</u> | <u>\$2,122</u> | <u>\$3,315,332</u> | <u>\$309,531</u> | <u>\$10,224,134</u> |

The interfund balances resulted from time lag 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, 2004, were as follows:

| Transfer from | Transfer to | | | | | | Total |
|-----------------------------|------------------|------------------------|--------------------|---------------------------------------|-------------------|-----------------------------|---------------------|
| | General Fund | Public Works/HURF Fund | Jail District Fund | Toho Tolani Improvement District Fund | Debt Service Fund | Nonmajor Governmental Funds | |
| General Fund | | | \$2,053,676 | | | \$3,373,657 | \$ 5,427,333 |
| Public Works/HURF Fund | \$ 89,446 | | | | | | 89,446 |
| Jail District Fund | | | | | | 9,004 | 9,004 |
| Forest Fees Fund | | \$4,292,832 | | | | | 4,292,832 |
| Nonmajor Governmental Funds | 825,249 | 665,174 | | \$30,000 | \$10,320 | | 1,530,743 |
| Total | <u>\$914,695</u> | <u>\$4,958,006</u> | <u>\$2,053,676</u> | <u>\$30,000</u> | <u>\$10,320</u> | <u>\$3,382,661</u> | <u>\$11,349,358</u> |

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, 2004

Note 11 - Condensed Financial Statements of 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 monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

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

Details of each major investment classification follow:

| Investment Type | Principal | Interest Rates | Maturities | Fair Value |
|---|-------------|----------------|-------------|-------------|
| Investment in State Treasurer's investment pool | \$ 95,329 | None stated | None stated | \$ 95,329 |
| U.S. government securities | 148,895,355 | 1.85-6.0% | 2004-2009 | 148,895,355 |
| Corporate bonds | 2,127,213 | 3.625 – 7.80% | 2004-2005 | 2,127,213 |

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

Statement of Net Assets

| | |
|-------------|----------------------|
| Assets | \$152,954,748 |
| Liabilities | <u>9,857</u> |
| Net assets | <u>\$152,944,891</u> |

Net assets held in trust for:

| | |
|--------------------------------|----------------------|
| Internal participants | \$ 80,177,709 |
| External participants | <u>72,767,182</u> |
| Total net assets held in trust | <u>\$152,944,891</u> |

Statement of Changes in Net Assets

| | |
|------------------|--------------------|
| Total additions | \$411,692,086 |
| Total deductions | <u>406,255,135</u> |
| Net increase | <u>5,436,951</u> |

Net assets held in trust:

| | |
|---------------|----------------------|
| July 1, 2003 | <u>147,507,940</u> |
| June 30, 2004 | <u>\$152,944,891</u> |

Coconino County
Notes to Financial Statements
June 30, 2004

Note 12 - Maintenance of Effort Payments

In accordance with A.R.S. §48-4024, Coconino County is required to make annual maintenance of effort payments (MOE) to the Coconino County Jail District, a special revenue fund type. The payments will be made through fiscal year 2012 and are determined by first establishing a base expenditure, which is used as the initial fiscal year 1998 MOE payment. Subsequent payments are determined by adjusting the base expenditure by the annual change in the Gross Domestic Product price deflator, obtained from the State of Arizona Economic Estimates Commission. These payments are recorded by the jail district as transfers in. The MOE payment for fiscal year 2004 was \$2,053,676.

Note 13 - Subsequent Events

Special assessment bonds totaling \$382,917 were issued on January 13, 2005, for the Rio-Arroyo County Improvement District. The estimated total cost of this road project is \$721,453. Additionally, there are four other road improvements for county improvement districts scheduled, totaling \$633,139.

Coconino County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Major Funds
 Year Ended June 30, 2004

| | General Fund | | | | Public Works/HURF Fund | | | |
|---------------------------|-------------------|-------------------|-------------------|-------------------------------|------------------------|-------------------|-------------------|-------------------------------|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
| | Original | Final | | | Original | Final | | |
| Revenues: | | | | | | | | |
| Property taxes | \$ 5,307,525 | \$ 5,307,525 | \$ 5,922,056 | \$ 614,531 | | | | |
| Other taxes | 9,441,625 | 11,766,625 | 13,231,828 | 1,465,203 | \$ 1,659,000 | \$ 1,659,000 | \$ 1,876,389 | \$ 217,389 |
| Licenses and permits | 1,274,500 | 1,274,500 | 1,902,358 | 627,858 | 8,000 | 8,000 | 15,430 | 7,430 |
| Fees, fines, and forfeits | 1,122,291 | 1,122,291 | 1,051,221 | (71,070) | | | | |
| Intergovernmental | 19,128,572 | 16,873,850 | 16,910,934 | 37,084 | 9,256,561 | 9,256,561 | 10,349,100 | 1,092,539 |
| Charges for services | 2,020,380 | 2,020,380 | 2,375,674 | 355,294 | 70,000 | 70,000 | | (70,000) |
| Investment income | 936,440 | 936,440 | 51,281 | (885,159) | 300,000 | 300,000 | 23,315 | (276,685) |
| Contributions | 64,800 | 64,800 | 180,870 | 116,070 | | | | |
| Miscellaneous | 128,250 | 128,250 | 179,774 | 51,524 | 1,200 | 1,200 | 1,323 | 123 |
| Total revenues | <u>39,424,383</u> | <u>39,494,661</u> | <u>41,805,996</u> | <u>2,311,335</u> | <u>11,294,761</u> | <u>11,294,761</u> | <u>12,265,557</u> | <u>970,796</u> |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Sheriff | 6,155,775 | 6,104,145 | 6,309,155 | (205,010) | | | | |
| Public Works | 150,000 | 150,000 | 158,968 | (8,968) | 27,062,165 | 27,114,095 | 16,075,607 | 11,038,488 |
| Parks and Recreation | 622,667 | 657,667 | 647,779 | 9,888 | | | | |
| Board of Supervisors | 735,963 | 735,963 | 720,872 | 15,091 | | | | |
| Facilities | 2,692,186 | 2,722,186 | 2,126,450 | 595,736 | | | | |
| Community Development | 1,255,187 | 1,255,187 | 1,162,289 | 92,898 | | | | |
| Recorder | 1,162,838 | 1,162,838 | 1,149,390 | 13,448 | | | | |
| Nondepartmental | 5,012,201 | 5,012,201 | 507,317 | 4,504,884 | | | | |
| Finance | 824,109 | 824,109 | 792,222 | 31,887 | | | | |
| Budget | 339,625 | 339,625 | 253,268 | 86,357 | | | | |
| Human Resources | 1,587,180 | 1,570,787 | 1,116,942 | 453,845 | | | | |
| Assessor | 1,117,916 | 1,117,916 | 1,049,497 | 68,419 | | | | |

(Continued)

See accompanying notes to budgetary comparison schedule.

Coconino County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Major Funds
 Year Ended June 30, 2004
 (Continued)

| | General Fund | | | | Public Works/HURF Fund | | | |
|--|--------------------|--------------------|-------------------|-------------------------------|------------------------|----------------------|----------------------|-------------------------------|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
| | Original | Final | | | Original | Final | | |
| Treasurer | \$ 543,564 | \$ 543,564 | \$ 476,522 | \$ 67,042 | | | | |
| Information Technology | 1,488,733 | 1,529,299 | 1,459,956 | 69,343 | | | | |
| Constable | 61,923 | 61,923 | 62,373 | (450) | | | | |
| Adult Probation | 1,100,264 | 1,100,264 | 1,084,063 | 16,201 | | | | |
| Flagstaff Justice Court | 729,007 | 729,007 | 754,728 | (25,721) | | | | |
| Superior Court | 2,118,053 | 2,118,053 | 1,944,853 | 173,200 | | | | |
| Clerk of Superior Court | 841,901 | 849,901 | 823,191 | 26,710 | | | | |
| Juvenile Probation | 1,845,077 | 1,845,077 | 1,614,224 | 230,853 | | | | |
| County Attorney | 2,048,565 | 2,058,024 | 2,080,989 | (22,965) | | | | |
| Public Defender | 1,775,915 | 1,775,915 | 1,701,877 | 74,038 | | | | |
| Legal Defender | 653,873 | 653,873 | 616,406 | 37,467 | | | | |
| Health | 3,524,578 | 3,061,278 | 3,086,270 | (24,992) | | | | |
| Community Initiatives | 648,612 | 648,612 | 393,612 | 255,000 | | | | |
| County Manager | 1,029,739 | 1,015,789 | 906,983 | 108,806 | | | | |
| Community Services | 189,119 | 189,119 | 187,595 | 1,524 | | | | |
| Fredonia Justice Court | 112,942 | 112,942 | 116,496 | (3,554) | | | | |
| Page Justice Court | 266,205 | 266,205 | 265,076 | 1,129 | | | | |
| GIS | 786,499 | 764,294 | 561,995 | 202,299 | | | | |
| Williams Justice Court | 239,202 | 239,202 | 242,819 | (3,617) | | | | |
| Schools Superintendent | 452,932 | 452,932 | 394,214 | 58,718 | | | | |
| Total expenditures | <u>42,112,350</u> | <u>41,667,897</u> | <u>34,768,391</u> | <u>6,899,506</u> | <u>\$ 27,062,165</u> | <u>\$ 27,114,095</u> | <u>\$ 16,075,607</u> | <u>\$ 11,038,488</u> |
| Excess (deficiency) of revenues over expenditures | <u>(2,687,967)</u> | <u>(2,173,236)</u> | <u>7,037,605</u> | <u>9,210,841</u> | <u>(15,767,404)</u> | <u>(15,819,334)</u> | <u>(3,810,050)</u> | <u>12,009,284</u> |

(Continued)

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Major Funds
Year Ended June 30, 2004
(Continued)

| | General Fund | | | | Public Works/HURF Fund | | | |
|---|--------------------|--------------------|----------------------|-------------------------------|------------------------|---------------------|----------------------|-------------------------------|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
| | Original | Final | | | Original | Final | | |
| Other financing sources (uses): | | | | | | | | |
| Sale of capital assets | | | \$ 358,532 | \$ 358,532 | \$ 30,000 | \$ 30,000 | \$ 594,338 | \$ 564,338 |
| Transfers in | \$ 1,312,446 | \$ 1,056,816 | 914,695 | (142,121) | | 4,958,010 | 4,958,006 | (4) |
| Transfers out | <u>(5,786,401)</u> | <u>(5,786,401)</u> | <u>(5,427,333)</u> | <u>359,068</u> | <u>(116,812)</u> | <u>(116,812)</u> | <u>(89,446)</u> | <u>27,366</u> |
| Total other financing sources and uses | <u>(4,473,955)</u> | <u>(4,729,585)</u> | <u>(4,154,106)</u> | <u>575,479</u> | <u>(86,812)</u> | <u>4,871,198</u> | <u>5,462,898</u> | <u>591,700</u> |
| Net change in fund balances | (7,161,922) | (6,902,821) | 2,883,499 | 9,786,320 | (15,854,216) | (10,948,136) | 1,652,848 | 12,600,984 |
| Fund balances, July 1, 2003, as restated | <u>7,161,922</u> | <u>7,161,922</u> | <u>20,335,176</u> | <u>13,173,254</u> | <u>12,319,996</u> | <u>12,319,996</u> | <u>16,555,668</u> | <u>4,235,672</u> |
| Fund balances, June 30, 2004 | <u>\$ -</u> | <u>\$ 259,101</u> | <u>\$ 23,218,675</u> | <u>\$ 22,959,574</u> | <u>\$ (3,534,220)</u> | <u>\$ 1,371,860</u> | <u>\$ 18,208,516</u> | <u>\$ 16,836,656</u> |

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Major Funds
Year Ended June 30, 2004

| | Jail District Fund | | | | Forest Fees Fund | | | |
|--|---------------------|---------------------|---------------------|-------------------------------|----------------------|---------------------|---------------------|-------------------------------|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
| | Original | Final | | | Original | Final | | |
| Revenues: | | | | | | | | |
| Other taxes | \$ 5,545,203 | \$ 5,545,203 | \$ 6,086,834 | \$ 541,631 | | | | |
| Intergovernmental | | | 5,000 | 5,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 2,811,335 | \$ 1,811,335 |
| Charges for services | 3,100,365 | 3,100,365 | 2,895,093 | (205,272) | | | | |
| Investment income | 42,500 | 42,500 | (537) | (43,037) | 400,000 | 400,000 | (1,703) | (401,703) |
| Miscellaneous | 200 | 200 | 372 | 172 | | | | |
| Total revenues | <u>8,688,268</u> | <u>8,688,268</u> | <u>8,986,762</u> | <u>298,494</u> | <u>1,400,000</u> | <u>1,400,000</u> | <u>2,809,632</u> | <u>1,409,632</u> |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Public safety-Sheriff | 8,221,384 | 8,164,325 | 8,205,622 | (41,297) | | | | |
| Education | | | | | | | 1,440,668 | (1,440,668) |
| Debt Service: | | | | | | | | |
| Principal | 1,740,000 | 1,740,000 | 1,760,000 | (20,000) | | | | |
| Interest and other charges | 791,194 | 791,194 | 816,031 | (24,837) | | | | |
| Total expenditures | <u>10,752,578</u> | <u>10,695,519</u> | <u>10,781,653</u> | <u>(86,134)</u> | | | <u>1,440,668</u> | <u>(1,440,668)</u> |
| Excess (deficiency) of revenues over expenditures | (2,064,310) | (2,007,251) | (1,794,891) | 212,360 | 1,400,000 | 1,400,000 | 1,368,964 | (31,036) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 2,064,310 | 2,064,310 | 2,053,676 | (10,634) | | | | |
| Transfers out | | (3,961) | (9,004) | (5,043) | | (4,292,835) | (4,292,832) | 3 |
| Total other financing sources and uses | <u>2,064,310</u> | <u>2,060,349</u> | <u>2,044,672</u> | <u>(15,677)</u> | | <u>(4,292,835)</u> | <u>(4,292,832)</u> | <u>3</u> |
| Net change in fund balances | | 53,098 | 249,781 | 196,683 | 1,400,000 | (2,892,835) | (2,923,868) | (31,033) |
| Fund balances, July 1, 2003, as restated | <u>2,252,187</u> | <u>2,252,187</u> | <u>2,465,946</u> | <u>213,759</u> | <u>11,902,086</u> | <u>11,902,086</u> | <u>10,268,449</u> | <u>(1,633,637)</u> |
| Fund balances, June 30, 2004 | <u>\$ 2,252,187</u> | <u>\$ 2,305,285</u> | <u>\$ 2,715,727</u> | <u>\$ 410,442</u> | <u>\$ 13,302,086</u> | <u>\$ 9,009,251</u> | <u>\$ 7,344,581</u> | <u>\$ (1,664,670)</u> |

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2004

Note 1 - Budgeting and Budgetary Control

A.R.S. require 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. prohibit expenditures or liabilities in excess of the amounts budgeted.

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

Note 2 - Budgetary Basis of Accounting

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

Note 3 - Expenditures in Excess of Appropriations

For the year ended June 30, 2004, expenditures exceeded final budget amounts at the department level (the level of budgetary control) as follows:

| Fund/Department | Excess |
|-------------------------|---------------|
| General Fund: | |
| Sheriff | \$ 205,010 |
| Public Works | 8,968 |
| Constable | 450 |
| Flagstaff Justice Court | 25,721 |
| County Attorney | 22,965 |
| Health | 24,992 |
| Fredonia Justice Court | 3,554 |
| Williams Justice Court | 3,617 |
| Jail District Fund: | |
| Public safety-Sheriff | 41,297 |
| Debt service-principal | 20,000 |
| Debt service-interest | 24,837 |
| Forest Fees Fund: | |
| Education | 1,440,668 |

The excess expenditures were primarily the result of unexpected and/or additional unanticipated revenues.

Coconino County
 Required Supplementary Information
 Schedule of Agent Retirement Plan's Funding Progress
 June 30, 2004

Public Safety Personnel Retirement System

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 6/30/04 | \$12,735,847 | \$17,648,766 | \$(4,912,919) | 72.2% | \$2,548,745 | (192.8)% |
| 6/30/03 | 13,192,645 | 15,814,122 | (2,621,477) | 83.4 | 2,433,521 | (107.7) |
| 6/30/02 | 13,401,246 | 14,329,961 | (928,715) | 93.5 | 2,658,275 | (34.9) |

Supplementary Information

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|--|----------------|--|------------------|
| U.S. Department of Agriculture | | | |
| Passed through the Arizona Department of Education | | | |
| Food Donation | 10.550 | ED05-0001 | \$ 6,694 |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | ED05-0001 | 9,939 |
| National School Lunch Program | 10.555 | ED05-0001 | <u>14,285</u> |
| Total Child Nutrition Cluster | | | <u>24,224</u> |
| Passed through the Arizona Department of Health Services | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | HG361074 | 497,954 |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | HG361089 | 362,024 |
| Commodity Supplemental Food Program | 10.565 | HG361100 | 7,596 |
| Passed through the Arizona State Land Department | | | |
| Cooperative Forestry Assistance | 10.664 | SFA2036 | 101,891 |
| Passed through the Arizona State Treasurer | | | |
| Schools and Roads—Grants to States | 10.665 | None | <u>7,035,179</u> |
| Total U.S. Department of Agriculture | | | <u>8,035,562</u> |
| U.S. Department of Housing and Urban Development | | | |
| Passed through the City of Flagstaff | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | 88C-02, 88C-03 | 56,568 |
| Passed through the Arizona Department of Housing | | | |
| Community Development Block Grants/State's Program | 14.228 | 184-04, 075-02H, 078-02H, 076-02H,077-02H | 245,557 |
| Passed through the Arizona Department of Economic Security | | | |
| Emergency Shelter Grants Program | 14.231 | E6301004 | <u>19,182</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>321,307</u> |
| U.S. Department of the Interior | | | |
| Payments in Lieu of Taxes | 15.226 | | <u>858,124</u> |
| U.S. Department of Justice | | | |
| Southwest Border Prosecution Initiative | 16.unknown | | 10,000 |
| Drug Court Discretionary Grant Program | 16.585 | | 14,045 |
| Local Law Enforcement Block Grants Program | 16.592 | | 19,004 |
| Bulletproof Vest Partnership Program | 16.607 | | 795 |
| Passed through the Arizona Governor's Division for Children | | | |
| Juvenile Accountability Incentive Block Grants | 16.523 | 00JAIBG-03, JB-GRA-02-4182-03 | 49,911 |
| Passed through the Arizona Criminal Justice Commission | | | |
| National Criminal History Improvement Program (NCHIP) | 16.554 | NCH-03-099 | 87,928 |
| Byrne Formula Grant Program | 16.579 | CRI-04-072, PC-090-04 | <u>125,128</u> |
| Total U.S. Department of Justice | | | <u>306,811</u> |

(Continued)

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|---|----------------|----------------------------------|------------------|
| U.S. Department of Labor | | | |
| Passed through the Arizona Department of Economic Security | | | |
| Senior Community Service Employment Program | 17.235 | E6204072 | \$ 100,948 |
| WIA Cluster: | | | |
| WIA Adult Program | 17.258 | E5704003, E5705003 | 211,128 |
| WIA Youth Activities | 17.259 | E5704003, E5705003 | 138,701 |
| WIA Dislocated Workers | 17.260 | E5704003 | <u>289,290</u> |
| Total WIA Cluster | | | <u>639,119</u> |
| Total U.S. Department of Labor | | | <u>740,067</u> |
| U.S. Department of Transportation | | | |
| Federal Transit-Formula Grants | 20.507 | | 1,232,132 |
| Passed through the Arizona Department of Transportation | | | |
| Highway Planning and Construction | 20.205 | JPA 98-199 | 77,303 |
| Passed through the Governor's Office of Highway Safety | | | |
| State and Community Highway Safety | 20.600 | 2003-PT-003 | 123,700 |
| Passed through the Arizona Emergency Response Commission | | | |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | None | <u>82</u> |
| Total U.S. Department of Transportation | | | <u>1,433,217</u> |
| U.S. Department of Education | | | |
| Passed through the Arizona Department of Education | | | |
| Adult Education—State Grant Program | 84.002 | None | 79,350 |
| Special Education—Grants to States | 84.027 | None | 17,926 |
| State Grants for Innovative Programs | 84.298 | 01-05-ED | 63,619 |
| Reading First State Grants | 84.357 | 04-03-ED | 21,756 |
| Improving Teacher Quality State Grants | 84.367 | 03-62-ED | 57,435 |
| Passed through the Arizona Department of Health Services | | | |
| Special Education—Grants for Infants and Families with Disabilities | 84.181 | 161004-6 | <u>31,305</u> |
| Total U.S. Department of Education | | | <u>271,391</u> |
| U.S. Department of Health and Human Services | | | |
| Passed through the Northern Arizona Council of Governments | | | |
| Aging Cluster | | | |
| Special Programs for the Aging—Title III, Part B - Grants for Supportive Services and Senior Centers | 93.044 | 866000441ba | 116,326 |
| Nutrition Services Incentive Program | 93.053 | 866000441ba | <u>138,416</u> |
| Total Aging Cluster | | | <u>254,742</u> |
| Social Services Block Grant | 93.667 | 866000441ba, 866000441bb | 131,790 |
| Passed through the Arizona Family Planning Council | | | |
| Family Planning-Services | 93.217 | None | 53,976 |
| Passed through the Arizona Department of Health Services | | | |
| Immunization Grants | 93.268 | HG352210-2, HG352210-1 | 113,560 |

(Continued)

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|--|----------------|--|---------------------|
| Centers for Disease Control and Prevention-Investigations and Technical Assistance | 93.283 | 252034 | \$ 391,919 |
| HIV Care Formula Grants | 93.917 | 152067 | 436,856 |
| HIV Prevention Activities—Health Department Based | 93.940 | 152021, 152028, HG454515, HP4547174-001, HG352237, 454174 | 194,036 |
| Prevention Health and Health Services Block Grant | 93.991 | HG354178, HG461341 | 81,124 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | HG361136, 961122 2#6, 261181, HP461323, 261197, HP361146 | 318,939 |
| Passed through the Arizona Department of Economic Security | | | |
| Temporary Assistance for Needy Families | 93.558 | E6301004 | 153,665 |
| Child Support Enforcement | 93.563 | E7203005 | 20,823 |
| Low-Income Home Energy Assistance | 93.568 | E6301004 | 147,141 |
| Community Services Block Grant | 93.569 | E6301004 | 128,529 |
| Social Services Block Grant | 93.667 | E6301004 | 15,540 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | E2308327 | 62,496 |
| Passed through the Arizona Governor's Office for Children, Youth and Families | | | |
| Children's Justice Grants to States | 93.643 | CJ-GRA-04- 4182-06 | 7,747 |
| Total U.S. Department of Health and Human Services | | | <u>2,512,883</u> |
| Corporation for National and Community Service | | | |
| Passed through the Arizona Governor's Office for Children, Youth and Families | | | |
| AmeriCorps | 94.006 | ACVSG-04-5031-001, AD030052 | 72,669 |
| U.S. Department of Homeland Security | | | |
| Passed through the Arizona Department of Emergency and Military Affairs | | | |
| State Domestic Preparedness Equipment Support Program | 97.004 | 2003-MU-T3-0034, 2002-TE-CZ-0142, 2002-TE-CX-0051/0142, 2003-TE-TX-0196 | 410,700 |
| State and Local Homeland Security Training Program | 97.005 | 2003-MU-T3-0034 | 4,126 |
| State and Local Homeland Security Exercise Support | 97.006 | 2003-TE-TX-0196 | 2,300 |
| Emergency Management Performance Grants | 97.042 | 20-0246-00, 21-0246-00 | 73,997 |
| State and Local All Hazards Emergency Operations Planning | 97.051 | None | 29,991 |
| Citizen Corps | 97.053 | None | 2,945 |
| Community Emergency Response Teams | 97.054 | None | 6,430 |
| Total U.S. Department of Homeland Security | | | <u>530,489</u> |
| Total Expenditures of Federal Awards | | | <u>\$15,082,520</u> |

See accompanying notes to schedule.

Coconino County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note 1 - Basis of Accounting

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

The amount reported on the schedule for Food Donation (CFDA Number 10.550) and \$66,781 of the Immunization Grants amount (CFDA Number 93.268) represent the value of noncash assistance expended from these federal programs.

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2004 *Catalog of Federal Domestic Assistance*. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "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 Provided to Subrecipients |
|-------------------------------------|----------------|--|
| Schools and Roads—Grants to States | 10.665 | \$1,440,668 |
| HIV Care Formula Grants | 93.917 | 135,414 |
| Children’s Justice Grants to States | 93.643 | 7,747 |



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter at a future date.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we will report to the County's management in a separate letter at a future date.

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

Debbie Davenport
Auditor General

August 23, 2005



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Coconino County, Arizona

Compliance

We have audited the compliance of Coconino County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. 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 item 04-101 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding Davis-Bacon Act that are applicable to its Schools and Roads—Grants to States program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to that program.

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, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 04-102 and 04-103.

Internal Control over Compliance

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

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-101, 04-102, and 04-103.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-101 to be a material weakness.

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

Debbie Davenport
Auditor General

August 23, 2005

Coconino County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004

Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 10.665 | Schools and Roads—Grants to States |
| 93.568 | Low-Income Home Energy Assistance |
| 93.569 | Community Services Block Grant |

| | | | |
|--|----------|-----------|--|
| Dollar threshold used to distinguish between Type A and Type B programs: | | \$452,476 | |
| Auditee qualified as low-risk auditee? | <u>X</u> | ___ | |

Other Matters

| | | | |
|---|-----|----------|--|
| Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? | ___ | <u>X</u> | |
|---|-----|----------|--|

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Federal Award Findings and Questioned Costs

04-101

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

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

Award Year: July 1, 2003 through June 30, 2004

Questioned Cost: Unknown

The County did not have policies and procedures to comply with the Davis-Bacon Act requirements for the Schools and Roads—Grants to States program. As a result, the County awarded two road construction contracts totaling \$2,588,484 and neither included the prevailing wage rate clause in the contracts nor required the contractors to submit certified payrolls as required by 29 Code of Federal Regulations (CFR) §5.5(a).

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

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

04-102

CFDA No.: 93.568 Low-Income Home Energy Assistance

CFDA No.: 93.569 Community Services Block Grant

U.S. Department of Health and Human Services passed through the Arizona Department of Economic Security, #E6301004

Award Year: July 1, 2003 through June 30, 2004

Questioned Cost: N/A

The Coconino County Community Services Department did not adequately enforce its internal control policies and procedures to ensure compliance with the activities allowed or unallowed and allowable costs/cost principles requirements. The department policy required that vouchers be reviewed by the senior program coordinator and approved by the administrative manager before being processed. However, for the Low-Income Home Energy Assistance program, auditors tested 39 transactions and noted that the senior program coordinator did not review two vouchers and the administrative manager did not approve five vouchers. Further, for the Community Services Block Grant program, auditors tested 15 transactions and noted that the senior program coordinator did not review one voucher and the administrative manager did not approve three vouchers.

Coconino County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

This finding is considered a reportable condition and immaterial noncompliance with the programs' activities allowed or unallowed and allowable costs/cost principles requirements.

To help ensure all grant monies are spent for allowable activities, the County should follow established internal control policies and procedures that require supervisors to review and approve vouchers for accuracy and eligibility. In emergency situations, the Department should establish procedures that provide a higher level of review before processing the vouchers.

04-103

CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
U.S. Department of Agriculture passed through the Arizona Department of Health Services, #HG361074
Award Year: October 1, 2002 through September 30, 2003 and
October 1, 2003 through September 30, 2004

Questioned Cost: None

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

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

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

Coconino County
Corrective Action Plan
Year Ended June 30, 2004

Federal Award Findings and Questioned Costs

04-101

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

Contact: Scott Richardson

Anticipated completion date: 60 days from issuance of the Single Audit

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

04-102

CFDA No.: 93.568 **Low-Income Home Energy Assistance**

CFDA No.: 93.569 **Community Services Block Grant**

Contact: Verna Fischer

Anticipated completion date: Completed

The identified weakness in internal controls for Community Services Block Grant and Low-Income Home Energy Assistance funding has been corrected. The Accounts Payable clerk will not process vouchers that have not been properly authorized. The Senior Program Manger will authorize vouchers in the event the Senior Program Coordinator is unavailable. The Department Director will approve the expenditure in the event the Administrative Manager is unavailable.

04-103

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

Contact: Jennifer Youngberg

Anticipated completion date: 60 days from issuance of the Single Audit

After discussing this issue with the compliance auditor at the Arizona Department of Health Services (ADHS), they recommend the County systematically go through the following steps:

1. Determine the applicable years in which the cash balance built up.
2. Identify expenses in the cost reimbursement contracts that the County hasn't recorded yet. For example, he suggested there may have been periods in which the indirect wasn't recorded/posted in the County's financial system or we didn't bill ADHS for the maximum allowable indirect rate (which is permissible).
3. Review and identify any exceptions attributed to timing issues. For example, he said non Women, Infants and Children (WIC) revenue may have been recorded into the WIC cost center or expenses and revenue were posted to an incorrect FY.

After researching each of the above steps, ADHS requests that we submit our response to them with the proper documentation (i.e., contracts, indirect rates, etc.) depicting the source of the error and our plan of correction. We have 60 days to submit our final response to ADHS. He advised us to not make any corrections/journal entries until ADHS approves our response and plan of correction.

If we can't explain the cash balance with any of the above 3 items, then we need to send ADHS a check for \$27,041.