



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statement Audit

Pima County
Development Services
Enterprise Fund
June 30, 2004



Debra K. Davenport
Auditor General

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Pima County
Development Services Enterprise Fund
Report on Audit of Financial Statements
June 30, 2004

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of Pima County, Arizona

We have audited the accompanying financial statements of the Pima County Development Services Enterprise Fund as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 opinion.

As discussed in Note 1, the Pima County Development Services Enterprise Fund's financial statements are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and the aggregate remaining fund information of Pima County that is attributable to the Pima County Development Services Enterprise Fund. They do not purport to, and do not, present fairly the financial position of Pima County as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pima County Development Services Enterprise Fund as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Debbie Davenport
Auditor General

December 3, 2004

Pima County
 Development Services Enterprise Fund
 Statement of Net Assets
 June 30, 2004

Assets

Current assets:

Cash and cash equivalents	\$8,789,756
Interest receivable	7,824
Due from other governments	16,944
Prepaid expenses	<u>20,492</u>
Total current assets	<u>8,835,016</u>

Noncurrent assets:

Equipment	859,661
Less accumulated depreciation	<u>(519,957)</u>
Total noncurrent assets	<u>339,704</u>

Total assets	<u>9,174,720</u>
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Liabilities

Current liabilities:

Accrued employee compensation	899,950
Accounts payable	173,062
Due to other Pima County funds	349,869
Deferred revenues	<u>133</u>
Total current liabilities	<u>1,423,014</u>

Net Assets

Invested in capital assets	339,704
Unrestricted	<u>7,412,002</u>
Total net assets	<u>\$7,751,706</u>

See accompanying notes to financial statements.

Pima County
Development Services Enterprise Fund
Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Year Ended June 30, 2004

Operating revenues:	
Charges for services	\$11,829,550
Other	<u>163,405</u>
Total operating revenues	<u>11,992,955</u>
Operating expenses:	
Employee compensation	7,087,452
Operating supplies and services	977,711
Utilities	108,173
Repairs and maintenance	128,674
General and administrative	1,049,843
Consultants and professional services	170,768
Depreciation	<u>106,964</u>
Total operating expenses	<u>9,629,585</u>
Operating income	<u>2,363,370</u>
Nonoperating revenues (expenses):	
Interest income	84,033
Loss on disposal of equipment	<u>(1,088)</u>
Net nonoperating revenues	<u>82,945</u>
Income before transfers	<u>2,446,315</u>
Transfers out	<u>(303,244)</u>
Increase in net assets	2,143,071
Net assets, July 1, 2003	<u>5,608,635</u>
Net assets, June 30, 2004	<u>\$ 7,751,706</u>

See accompanying notes to financial statements.

Pima County
 Development Services Enterprise Fund
 Statement of Cash Flows
 Year Ended June 30, 2004

Cash flows from operating activities:	
Receipts from customers for goods and services	\$11,812,606
Receipts from other Pima County funds for reimbursement of personal services	503,453
Receipts from miscellaneous operations	184,017
Payments to employees	(6,341,026)
Payments to suppliers for goods and services	(826,659)
Payments to other Pima County funds for goods and services	<u>(2,624,341)</u>
Net cash provided by operating activities	<u>2,708,050</u>
Cash flows from noncapital financing activities:	
Cash transfers to other Pima County funds	<u>(13,662)</u>
Cash used for noncapital financing activities	<u>(13,662)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(153,570)</u>
Cash used for capital and related financing activities	<u>(153,570)</u>
Cash flows from investing activities:	
Interest received on investments	<u>91,771</u>
Cash provided by investing activities	<u>91,771</u>
Net increase in cash and cash equivalents	2,632,589
Cash and cash equivalents, July 1, 2003	<u>6,157,167</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 8,789,756</u>
	(continued)

See accompanying notes to financial statements.

Pima County
 Development Services Enterprise Fund
 Statement of Cash Flows
 Year Ended June 30, 2004
 (Continued)

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$2,363,370
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	106,964
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	20,612
Due from other governments	(16,944)
Prepaid expenses	(4,975)
Increase in liabilities:	
Accrued employee compensation	96,083
Accounts payable	84,099
Due to other Pima County funds	<u>58,841</u>
Net cash provided by operating activities	<u>\$2,708,050</u>

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2004, the Development Services Enterprise Fund disposed of equipment with an original cost of \$36,082 and accumulated depreciation of \$34,994 for a loss on disposal of equipment of \$1,088.

At June 30, 2004, the Development Services Enterprise Fund had unpaid transfers of \$289,582.

See accompanying notes to financial statements.

Pima County
Development Services Enterprise Fund
Notes to Financial Statements
Year Ended June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Pima County Development Services Enterprise Fund conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Fund's more significant accounting policies follows.

A. Reporting Entity

The Fund is accounted for as an enterprise fund of Pima County, Arizona, and is responsible for issuing zoning permits and enforcing and administering building and zoning codes and land development ordinances in Pima County. The financial statements present only the financial position, changes in financial position, and cash flows of the Development Services Enterprise Fund. The Fund's management has the day-to-day financial accountability for the Fund and is directed by an administrator appointed by the Pima County Board of Supervisors. However, ultimate financial accountability for the Fund remains with Pima County.

B. Fund Accounting

The Fund's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Fund's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. A fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The Fund's financial transactions are recorded and reported as an enterprise fund because its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at

Pima County
Development Services Enterprise Fund
Notes to Financial Statements
Year Ended June 30, 2004

the time liabilities are incurred, regardless of when the related cash flows take place. When both restricted and unrestricted net assets are available to finance Fund expenses, restricted resources are used before unrestricted resources. Interfund transactions that would be treated as revenues or expenses if they involved parties external to Pima County are recorded in the appropriate revenue or expense accounts.

The Fund follows those Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Fund has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of the Fund at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external restrictions or availability of assets to satisfy the Fund's obligations. Invested in capital assets represents the value of capital assets, net of accumulated depreciation. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in fund net assets provides information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported. Generally, charges for services and other fees generated for issuing zoning permits and enforcing building, zoning, and land development rules and regulations are considered to be operating revenues. Other revenues, such as investment income, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include employee compensation, general and administrative expenses, and depreciation on capital assets. Other expenses, such as the loss on disposal of equipment, are considered to be nonoperating expenses.

A statement of cash flows provides information about the Fund's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

Pima County
Development Services Enterprise Fund
Notes to Financial Statements
Year Ended June 30, 2004

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand and cash and investments held by the Pima County Treasurer. All investments are stated at fair value.

F. Capital Equipment

Capital equipment is recorded at cost. Donated equipment is reported at estimated fair value at the time received. The Fund capitalizes equipment valued at \$5,000 and above. Depreciation of such assets is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives range from 4 to 25 years.

G. Compensated Absences

Compensated absences consist of annual leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of annual leave, but must forfeit any annual leave hours in excess of the maximum that are unused at the end of the payroll period in which the employee's anniversary date falls. Upon termination, all unused and unforfeited annual leave benefits are paid to employees. Accordingly, annual leave benefits are accrued as a liability in the financial statements. Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but do not vest with employees and, therefore, are not accrued in the financial statements. However, for employees who retire with 20 years or more of continuous service or who have a combined total of age and years of service equal to 80 points, and who retire from service into the Arizona State Retirement System, sick leave benefits do vest and, therefore, are accrued.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consist of \$600 of cash on hand and \$8,789,156 of cash on deposit with the County Treasurer and are available on demand. The Treasurer pools these deposits with other County monies for investment. The Fund's deposits are included in the Treasurer's investment pool but are not identified with specific investments and, therefore, are not subject to custodial credit risk.

Pima County
 Development Services Enterprise Fund
 Notes to Financial Statements
 Year Ended June 30, 2004

Note 3 - Capital Asset Activity

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

	July 1, 2003			June 30, 2004
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Equipment	\$ 742,173	\$ 153,570	\$(36,082)	\$ 859,661
Accumulated depreciation	<u>(447,987)</u>	<u>(106,964)</u>	<u>34,994</u>	<u>(519,957)</u>
Total capital assets, net	<u>\$ 294,186</u>	<u>\$ 46,606</u>	<u>\$ (1,088)</u>	<u>\$ 339,704</u>

Note 4 - Related Party Transactions

Administrative and Fiscal Services—For the year ended June 30, 2004, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$2,152,355. Of that amount, \$650,476 was for temporary or part-time staffing, \$233,222 was for motor pool charges, \$601,011 was for the allocation of overhead, \$295,151 was for supplies, \$107,024 was for self-insurance premiums, \$126,129 was for printing and microfilming, and \$139,342 was for other miscellaneous charges. In addition, the Fund provided goods and services to other Pima County departments totaling \$503,320. Those departments reimbursed the Fund for these services and the reimbursements were recorded as reductions to expenses.

Public Works Center—The Fund occupies a portion of the Public Works Center and pays rent equivalent to its pro rata share of the building expenses incurred by the Pima County Facilities Management Department. For the year ended June 30, 2004, rent expense for the Fund totaled \$530,827.

Note 5 - Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund is a participant in Pima County's self-insurance program, and in the opinion of the Fund's management, that program would cover any unfavorable outcomes from these risks. Accordingly, the Fund has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. All estimated losses for unsettled claims and actions of Pima County are determined on an actuarial basis and are included in the *Pima County Comprehensive Annual Financial Report*.

Pima County
Development Services Enterprise Fund
Notes to Financial Statements
Year Ended June 30, 2004

Note 6 - Retirement Plan

Plan Description—The Fund contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes its financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Fund's contribution rates. For the year ended June 30, 2004, active plan members and the Fund 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 Fund's contributions to the ASRS for the years ended June 30, 2004, 2003, and 2002, were \$336,821, \$141,685, and \$128,607, respectively, which were equal to the required contributions for the year.