



**PIMA COUNTY, ARIZONA**

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*Pima County Development Services  
Enterprise Fund*

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**For the Fiscal Year Ended  
June 30, 2005**

Pima County  
Development Services Enterprise Fund  
Report on Audit of Financial Statements  
June 30, 2005

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## Independent Auditors' Report

The Board of Supervisors of Pima County, Arizona  
Tucson, Arizona

We have audited the accompanying financial statements of Pima County Development Services Enterprise Fund as of June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of 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 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 also 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 the 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 financial statements present only the Pima County Development Services Enterprise Fund and do not purport to, and do not, present fairly the financial position of the Pima County, Arizona, as of June 30, 2005, the changes in its financial position, or, where applicable, 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 Pima County Development Services Enterprise Fund as of June 30, 2005, and changes in financial position and its cash flows for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2005 on our consideration of Pima County Development Services Enterprise Fund'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 the internal control over financial reporting or on compliance. Accordingly, we express no such opinion. 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.

Pima County Development Services Enterprise Fund previously adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* which requires that Management's Discussion and Analysis be presented as required supplementary information to the financial statements. Pima County Development Services Enterprise Fund has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Beach, Fleischer & Co., P.C.*

September 27, 2005

Pima County  
 Development Services Enterprise Fund  
 Statement of Net Assets  
 June 30, 2005

**Assets**

Current assets:

Cash and cash equivalents	\$13,286,575
Interest receivable	26,335
Due from other governments	17,441
Prepaid expenses	<u>693</u>
Total current assets	<u>13,331,044</u>

Noncurrent assets:

Equipment	952,788
Less accumulated depreciation	<u>(600,367)</u>
Total noncurrent assets	<u>352,421</u>

Total assets	<u>13,683,465</u>
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**Liabilities**

Current liabilities:

Accrued employee compensation	1,110,363
Accounts payable	460,728
Due to other Pima County funds	213
Due to other governments	<u>1,058</u>

Total current liabilities	<u>1,572,362</u>
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**Net Assets**

Invested in capital assets	352,421
Unrestricted	<u>11,758,682</u>
Total net assets	<u>\$12,111,103</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, 2005

Operating revenues:	
Charges for services	\$14,729,991
Other	<u>200,884</u>
Total operating revenues	<u>14,930,875</u>
Operating expenses:	
Employee compensation	7,738,027
Operating supplies and services	1,062,869
Utilities	126,416
Repairs and maintenance	218,651
General and administrative	1,129,516
Consultants and professional services	371,711
Depreciation	<u>117,522</u>
Total operating expenses	<u>10,764,712</u>
Operating income	<u>4,166,163</u>
Nonoperating revenues (expenses):	
Interest income	205,565
Loss on disposal of equipment	<u>(12,331)</u>
Net nonoperating revenues	<u>193,234</u>
Increase in net assets	4,359,397
Net assets, July 1, 2004	<u>7,751,706</u>
Net assets, June 30, 2005	<u>\$12,111,103</u>

See accompanying notes to financial statements.

Pima County  
 Development Services Enterprise Fund  
 Statement of Cash Flows  
 Year Ended June 30, 2005

Cash flows from operating activities:	
Receipts from customers for goods and services	\$14,729,494
Receipts from other Pima County funds for reimbursement of personnel services	408,101
Receipts from miscellaneous operations	200,884
Payments to employees	(6,834,242)
Payments to suppliers for goods and services	(1,034,673)
Payments to other Pima County funds for goods and services	<u>(3,006,559)</u>
Net cash provided by operating activities	<u>4,463,005</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(153,239)</u>
Cash used for capital and related financing activities	<u>(153,239)</u>
Cash flows from investing activities:	
Interest received on investments	<u>187,053</u>
Cash provided by investing activities	<u>187,053</u>
Net increase in cash and cash equivalents	4,496,819
Cash and cash equivalents, July 1, 2004	<u>8,789,756</u>
Cash and cash equivalents, June 30, 2005	<u>\$13,286,575</u>
	(continued)

See accompanying notes to financial statements.

Pima County  
 Development Services Enterprise Fund  
 Statement of Cash Flows  
 Year Ended June 30, 2005  
 (Continued)

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

Operating income	\$4,166,163
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	117,522
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Due from other governments	(497)
Prepaid expenses	19,799
Increase (decrease) in liabilities:	
Accrued employee compensation	210,280
Accounts payable	298,336
Due to other Pima County funds	(349,656)
Due to other governments	1,058
Net cash provided by operating activities	<u>\$4,463,005</u>

Noncash investing, capital and noncapital financing activities:

During the year ended June 30, 2005, the Development Services Enterprise Fund disposed of equipment with an original cost of \$49,443 and accumulated depreciation of \$37,112 for a loss on disposal of equipment of \$12,331.

See accompanying notes to financial statements.

Pima County  
Development Services Enterprise Fund  
Notes to Financial Statements  
Year Ended June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Pima County Development Services Enterprise Fund conform to U.S. 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.

Pima County  
Development Services Enterprise Fund  
Notes to Financial Statements  
Year Ended June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred, regardless of when the related cash flow takes 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 cost of capital assets, net of accumulated depreciation. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. The Fund has no restricted net assets as of June 30, 2005. 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 including capital contributions and transfers. 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.

Pima County  
Development Services Enterprise Fund  
Notes to Financial Statements  
Year Ended June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

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.

**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 Assets**

Capital assets are 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 10 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.

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, except for the actual amount used during the thirty day period subsequent to the fiscal year end. 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.

Pima County  
Development Services Enterprise Fund  
Notes to Financial Statements  
Year Ended June 30, 2005

## Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consist of \$850 of cash on hand and \$13,285,725 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.

*Credit Risk*—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. The Pima County Treasurer's investment pool is unrated.

*Interest Rate Risk*—Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal investment policy with respect to interest rate risk. The Pima County Treasurer's investment pool had a weighted average maturity of 80 days at June 30, 2005.

*Legal Provisions*—Arizona Revised Statutes authorize counties 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.

Credit risk—Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk—Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Pima County  
Development Services Enterprise Fund  
Notes to Financial Statements  
Year Ended June 30, 2005

Note 2 - Cash and Cash Equivalents (continued)

Concentration of credit risk—Statutes do not include any requirements for concentration of credit risk.

Interest rate risk—Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk—Statutes do not allow foreign investments.

Note 3 - Capital Asset Activity

Capital asset activity for the year ended June 30, 2005, was as follows:

	July 1, 2004 <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	June 30, 2005 <u>Balance</u>
Equipment	\$859,661	\$153,239	\$ (60,112)	\$952,788
Accumulated Depreciation	<u>(519,957)</u>	<u>(117,522)</u>	<u>37,112</u>	<u>(600,367)</u>
Total capital assets, net	<u>\$339,704</u>	<u>\$ 35,717</u>	<u>\$ (23,000)</u>	<u>\$352,421</u>

Note 4 - Related Party Transactions

*Administrative and Fiscal Services*—For the year ended June 30, 2005, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$2,378,805. Of that amount, \$693,372 was for temporary or part-time staffing, \$254,429 was for motor pool charges, \$620,512 was for the allocation of overhead, \$375,282 was for supplies, \$162,738 was for self-insurance premiums, \$91,526 was for printing and microfilming, and \$180,946 was for other miscellaneous charges. In addition, the Fund provided goods and services to other Pima County departments totaling \$408,234. 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, 2005, rent expense for the Fund totaled \$278,098.

Pima County  
Development Services Enterprise Fund  
Notes to Financial Statements  
Year Ended June 30, 2005

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*.

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 at 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000. In addition, it is available on-line at <http://www.asrs.state.az.us/web/Aboutus.do>.

*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, 2005, 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, 2005, 2004, and 2003, were \$357,606, \$336,821, and \$141,685, respectively, which were equal to the required contributions for the year.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL  
CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Arizona State Legislature  
The Board of Supervisors of Pima County, Arizona

We have audited the financial statements of Pima County Development Services Enterprise Fund as of and for the year ended June 30, 2005, and have issued our report thereon dated September 27, 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 Pima County Development Services Enterprise Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the 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 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pima County Development Services Enterprise Fund's 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*.

This report is intended solely for the information and use of the management, members of the Arizona State Legislature and the Board of Supervisors of Pima County Arizona and is not intended to be and should not be used by anyone other than these specified parties.

*Beach, Fleischman + Co., P.C.*

September 27, 2005

