



Development Services
Enterprise Fund

For the Fiscal Year Ended June 30, 2008
Pima County, Arizona

2008



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Enterprise Fund

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Pima County, Arizona

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
June 30, 2008

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BEACH, FLEISCHMAN & CO., P.C.
Certified Public Accountants/Financial & Business Advisors

Bruce D. Beach, CPA
Peter F. Beahan, CPA, ABV
Richard A. Bratt, CPA
David J. Cohen, CPA
Jo DeChatelet, CPA, CFP®
Kevin J. Donovan, CPA, EA, MSPA
Bryan S. Eto, CPA
Marc D. Fleischman, CPA, ABV
Robert G. Harbour, CPA, CVA

George Henderson, CPA
David M. Iaconis, CPA
Jimmy J. Lovelace, CPA
Kathryn M. Ludwig, CPA
Karen K. McCloskey, CPA, MST
Kim D. Paskal, CPA, MBA
Cynthia A. Schroeder, CPA
Jay J. Senkerik, CPA

Independent Auditors' Report

Board of Supervisors of Pima County, Arizona
Tucson, Arizona

We have audited the accompanying basic financial statements of Pima County Development Services Enterprise Fund as of June 30, 2008, 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 established by the AICPA Auditing Standards Board 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2008, or 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, 2008, and changes in its 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 October 28, 2008 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 the State and Local Governments which requires that Management's Discussion and Analysis be presented 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.

October 28, 2008

Beach, Fleischman & Co., P.C.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Net Assets
June 30, 2008

Assets

Current assets:

Cash and cash equivalents	\$	5,479,463
Interest receivable		12,450
Due from other Pima County funds		2,641,074
Accounts receivable		10,249
Prepaid expense		6,310
Total current assets		8,149,546

Noncurrent assets:

Capital assets:

Equipment		1,456,402
Less accumulated depreciation		(909,154)
Total capital assets (net)		547,248
Total noncurrent assets		547,248
Total assets		8,696,794

Liabilities

Current liabilities:

Accrued employee compensation		1,389,086
Accounts payable		68,974
Due to other Pima County funds		8,295
Total current liabilities		1,466,355

Total liabilities

1,466,355

Net assets

Invested in capital assets		547,248
Unrestricted		6,683,191
Total net assets	\$	7,230,439

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2008

Operating revenues:	
Charges for services	\$ 8,992,664
Other	210,233
Total operating revenues	9,202,897
 Operating expenses:	
Employee compensation	11,380,239
Operating supplies and services	294,548
Utilities	200,454
Repair and maintenance	102,310
General and administrative	2,043,438
Consultants and professional services	617,647
Depreciation	283,292
Total operating expenses	14,921,928
Operating loss	(5,719,031)
 Nonoperating revenues:	
Interest income	555,768
Gain on disposal of capital assets	4,598
Total nonoperating revenues	560,366
Loss before transfers	(5,158,665)
Transfers in	2,550,512
Transfers (out)	(2,627,586)
Decrease in net assets	(5,235,739)
Net assets, July 1, 2007	12,466,178
Net assets, June 30, 2008	\$ 7,230,439

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
 Development Services Enterprise Fund
 Statement of Cash Flows
 Year Ended June 30, 2008

Cash flows from operating activities:	
Receipts from customers for goods and services	\$ 8,992,664
Receipts from other Pima County Funds for reimbursement of personnel services	100,481
Receipts from miscellaneous operations	224,390
Payments to employees	(10,028,400)
Payments to suppliers for goods and services	(1,346,450)
Payments to other Pima County funds for goods and services	<u>(3,367,637)</u>
Net cash used for operating activities	<u>(5,424,952)</u>
 Cash flows from noncapital financing activities:	
Loans with other funds	<u>(2,710,890)</u>
Net cash used for noncapital financing activities	<u>(2,710,890)</u>
 Cash flows from capital and related financing activities:	
Proceeds from sale of equipment	<u>38,593</u>
Cash provided by capital and related financing activities	<u>38,593</u>
 Cash flows from investing activities:	
Interest received on investments	<u>586,823</u>
Cash provided by investing activities	<u>586,823</u>
Net decrease in cash and cash equivalents	(7,510,426)
Cash and cash equivalents, July 1, 2007	<u>12,989,889</u>
Cash and cash equivalents, June 30, 2008	<u>\$ 5,479,463</u>

(continued)

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2008
(continued)

Reconciliation of operating loss to net cash used for operating activities

Operating loss	\$	(5,719,031)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation		283,292
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable		14,157
Prepaid expenses		50,830
Increase (decrease) in liabilities:		
Accrued employee compensation		304,215
Accounts payable		(358,415)
		<hr/>
Net cash used for operating activities	\$	<u>(5,424,952)</u>

Noncash investing, capital and noncapital financing activities:

During the year ended June 30, 2008, the Development Services Enterprise Fund disposed of equipment with an original cost of \$135,219 and accumulated depreciation of \$101,224 and \$38,593 of proceeds of other capital assets for a gain on disposal of \$4,598.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Development Services Enterprise Fund (Fund) conform to U.S. generally accepted accounting principles (GAAP) applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB) and the regulatory requirements of the State of Arizona. A summary of the County's significant accounting policies affecting the Fund follows.

During the year ended June 30, 2008, the Fund implemented the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. GASB Statement No. 45 requires systematic measurement and recognition of other postemployment benefits' (OPEB) cost over employees' years of service and provides information about actuarial accrued liabilities associated with OPEB. Although OPEB is not required to be funded, whether and to what extent progress is being made in funding the liabilities must be disclosed. GASB 45 requires prospective application upon adoption and as a result the Fund has recorded a net OPEB obligation offset by OPEB expense in the accompanying financial statements, related to the postemployment healthcare benefit participation by Fund retirees and their beneficiaries in Pima County's healthcare benefit plan. Further information regarding this measurement and disclosure is available in Note 8. The Fund has implemented GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations for the fiscal year ended June 30, 2008.

A. Reporting Entity

The Fund is accounted for as an enterprise fund of Pima County, Arizona, and the ultimate financial accountability for the Fund remains with Pima County. The Fund's management 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 Development Services Enterprise Fund as one of the funds of Pima County and are not intended to present the balances and activity of Pima County in its entirety.

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. Each 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. It is the intent of the Board of Supervisors that the costs (expenses, including depreciation) of goods or services provided by the Fund 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, 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 are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of the related cash flow. 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 County are recorded in the appropriate revenue or expense accounts. Intrafund transactions within the fund are eliminated for the consolidated financial statement presentation.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

Unless in conflict with GASB pronouncements, the Fund follows Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions, and Accounting Research Bulletins.

D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in 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. 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 the cost of providing services, administrative expenses, and depreciation on capital assets.

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 operating, noncapital financing, capital and related financing, or investing.

E. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer, investments with the State Treasurer, and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool and deposits held in escrow accounts. All investments are stated at fair value.

F. Accounts Receivable

Accounts receivable consist primarily of amounts due from customers for services provided. These balances are stated at the amount management expects to collect. Management provided for probable uncollectible amounts through charge to earnings and credit to a valuations allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

G. Capital Assets

Purchased capital assets are recorded at cost. Donated assets are capitalized at their estimated fair market value on the date received. The Fund capitalizes all land regardless of cost, buildings valued at \$100,000 and all machinery and equipment valued at \$5,000 and above. Depreciation of assets is charged as an expense against operations.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

Assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Leasehold improvements	7-10 years
Machinery and equipment	5-15 years

H. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending upon years of services, but any vacation hours in excess of the maximum amount that are unused at year end are forfeited. 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.

Employees may accumulate up to 1,920 of sick hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Sick leave benefits do not vest with employees; however employees who are eligible to retire from County service into the Arizona State Retirement System, may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability.

Note 2 - Cash and Investments

Cash and cash investments consist of \$950 of cash on hand and \$5,478,513 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 262 days at June 30, 2008.

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.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 2 - Cash and Investments (continued)

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.

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 Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	July 1, 2007			June 30, 2008
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Equipment	\$1,591,621		\$ (135,219)	\$1,456,402
Accumulated depreciation	<u>(727,084)</u>	<u>\$(283,292)</u>	<u>101,222</u>	<u>(909,154)</u>
Total capital assets, net	<u>\$ 864,537</u>	<u>\$(283,292)</u>	<u>\$ (33,997)</u>	<u>\$ 547,248</u>

Note 4 - Claims, Judgments and 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 5 - Related Party Transactions

Administrative and Fiscal Services—For the year ended June 30, 2008, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$3,094,341. Of that amount, \$1,047,624 was for temporary or part-time staffing, \$484,037 was for motor pool charges, \$856,137 was for the allocation of overhead, \$252,388 was for supplies, \$182,658 was for self-insurance premiums, \$59,194 was for printing and microfilming, and \$212,303 was for other miscellaneous charges. In addition, the Fund provided goods and services to other Pima County departments totaling \$100,481. 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, 2008, rent expense for the Fund totaled \$273,296.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 6 - Due To/From Other Pima County Funds

Due to other Pima County funds represents payables for goods and services. At June 30, 2008, the payables included \$8,295 due to the General Fund. Due from other Pima County funds represents previously transferred amounts to the CIP fund for project X6PWB1CON3 returned to the Department in fiscal year 2007 - 2008.

Note 7 - Retirement Plan

Plan Description

The County contributes to the Arizona State Retirement System (**ASRS**). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The **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 **ASRS** issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by contacting the **ASRS** at 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000.

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates. For the year ended June 30, 2008, active **ASRS** members and the County were each required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 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, 2008, 2007, and 2006, were \$771,018, \$728,979, and \$537,009, respectively, which were equal to the required contributions for the applicable year.

Note 8 – Postemployment Healthcare Benefits

In compliance with GASB Statement No. 45, the Fund reported an accrued actuarial liability or *Net OPEB obligation* and related OPEB expense at June 30, 2008. The short-term portion is reported with accrued employee compensation. The long-term portion is reported separately.

Retiree Insurance Program

Employees retiring from Pima County service, who receive monthly income from one of the Arizona State Retirement Plans, are eligible to continue medical and dental insurance coverage at group rates through the County (the Program). It is a single-employer plan and the benefits and premium rates are approved by the Board of Supervisors on an annual basis for active and retired members. Although Pima County does not explicitly pay a portion of the retiree's premiums, because of the inclusion of this risk class in the insured pool, there is an implicit rate subsidy or "premium rate differential" that is incurred by the County. No separate financial report is provided for the Program.

Funding Policy

The Program is currently funded on a pay-as-you-go basis.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 8 – Postemployment Healthcare Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual healthcare pension cost and net pension obligation as of and for the year ended June 30, 2008 were as follows:

Annual healthcare pension contribution	\$ 365,870
Interest on net pension obligation	14,069
Annual implicit pension cost	<u>379,939</u>
Implicit contributions made	<u>(51,340)</u>
Increase in net pension obligation	328,599
Net pension obligation at beginning of year	<u> </u>
Net pension obligation at end of year	<u><u>\$ 328,599</u></u>
Current portion	<u>(72,929)</u>
Non-current portion	<u><u>\$ 255,670</u></u>

Actuarial Methods and Assumptions

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the Retiree Insurance Program for the year ended June 30, 2008 are as follows:

Method/Assumption

Valuation date	July 1, 2007
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	30 years open
Actuarial cost method	Projected unit credit
Investment rate of return	4.50%
Medicare coverage age	65
Retirement and disability age	Based on EORP, CORP, ASRS, and PSRS pension valuations
Salary increases	2.50%
Payroll growth	2.50%
Active members	152
LTD/Retiree and spouses currently receiving benefits	20



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

Members of the Arizona State Legislature
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, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pima County Development Services Enterprise Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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.

October 28, 2008

Heard, Fuschman & Co., P.C.