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<td></td>
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</tbody>
</table>
The 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, 2006, 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, 2006, 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, 2006, 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 September 26, 2006 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.

September 26, 2006

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An Independent Member of The Leading Edge Alliance, an International Association of Accounting Firms
### Pima County
Development Services Enterprise Fund
Statement of Assets
June 30, 2006

#### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$16,816,507</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>169</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,620</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>16,818,296</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>1,738,400</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(666,024)</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>1,072,376</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>17,890,672</strong></td>
</tr>
</tbody>
</table>

#### Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued employee compensation</td>
<td>1,008,796</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,158,003</td>
</tr>
<tr>
<td>Due to other Pima County funds</td>
<td>6,988</td>
</tr>
<tr>
<td>Due to other governments</td>
<td>2,221</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>2,176,008</strong></td>
</tr>
</tbody>
</table>

#### Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets</td>
<td>1,072,376</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>14,642,288</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$15,714,664</strong></td>
</tr>
</tbody>
</table>

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, 2006

Operating revenues:
  Charges for services $17,140,882
  Other 247,519
  Total operating revenues 17,388,401

Operating expenses:
  Employee compensation 9,817,311
  Operating supplies and services 1,172,560
  Utilities 136,768
  Repairs and maintenance 351,360
  General and administrative 1,822,986
  Consultants and professional services 916,233
  Depreciation 120,708
  Total operating expenses 14,337,926
  Operating income 3,050,475

Nonoperating revenues (expenses):
  Interest income 554,989
  Loss on disposal of equipment (1,903)
  Net nonoperating revenues 553,086

Increase in net assets 3,603,561

Net assets, July 1, 2005 12,111,103

Net assets, June 30, 2006 $15,714,664

See accompanying notes to financial statements
Pima County
Development Services Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2006

Cash flows from operating activities:

Receipts from customers for goods and services $17,158,323
Receipts from other Pima County funds for reimbursement of personnel services 78,074
Receipts from miscellaneous operations 247,350
Payments to employees (9,087,442)
Payments to suppliers for goods and services (1,715,741)
Payments to other Pima County funds for goods and services (2,889,390)

Net cash provided by operating activities 3,791,174

Cash flows from capital and related financing activities:

Purchases of capital assets (842,566)

Cash used for capital and related financing activities (842,566)

Cash flows from investing activities:

Interest received on investments 581,324

Cash provided by investing activities 581,324

Net increase in cash and cash equivalents 3,529,932

Cash and cash equivalents, July 1, 2005 13,286,575

Cash and cash equivalents, June 30, 2006 $16,816,507

(continued)
Reconciliation of operating income to net cash provided by operating activities:

Operating income $3,050,475

Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation 120,708

Changes in assets and liabilities:
  Decrease (increase) in assets:
    Accounts receivable (169)
    Due from other governments 17,441
    Prepaid expenses (927)
  Increase (decrease) in liabilities:
    Accrued employee compensation (101,567)
    Accounts payable 697,275
    Due to other Pima County funds 6,775
    Due to other governments 1,163

Net cash provided by operating activities $3,791,174

Noncash investing, capital and noncapital financing activities:

During the year ended June 30, 2006, the Development Services Enterprise Fund disposed of equipment with an original cost of $56,954 and accumulated depreciation of $55,051 for a loss on disposal of equipment of $1,903.
Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Pima County Development Services Enterprise Fund (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 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 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.

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 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.
Note 1 - Summary of Significant Accounting Policies (continued)

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, 2006. 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.

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 of 4 to 10 years using the straight-line method.

G. 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 service, 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 unforgone forfeiture vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate a limited number of sick leave 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 an estimate is made for non-vested sick leave. Employees who are eligible to retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued.
Note 2 - Cash and Investments

Cash and cash equivalents consist of $850 of cash on hand and $16,815,657 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 22 days at June 30, 2006.

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.

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, 2006, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>July 1, 2005</th>
<th>Increases</th>
<th>Decreases</th>
<th>June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance</td>
<td></td>
<td></td>
<td>Balance</td>
</tr>
<tr>
<td>Equipment</td>
<td>$952,788</td>
<td>$842,566</td>
<td>$(56,954)</td>
<td>$1,738,400</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(600,367)</td>
<td>(120,708)</td>
<td>55,051</td>
<td>(666,024)</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$352,421</td>
<td>$721,858</td>
<td>$(1,903)</td>
<td>$1,072,376</td>
</tr>
</tbody>
</table>

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, 2006, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling $2,615,860. Of that amount, $831,436 was for temporary or part-time staffing, $318,179 was for motor pool charges, $620,306 was for the allocation of overhead, $420,384 was for supplies, $181,804 was for self-insurance premiums, $74,872 was for printing and microfilming, and $168,879 was for other miscellaneous charges. In addition, the Fund provided goods and services to other Pima County departments totaling $78,075. 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, 2006, rent expense for the Fund totaled $280,306.

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 (ASRS). 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 ASRS 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, 2006, active plan members and the Fund were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 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, 2006, 2005, and 2004, were $537,009, $357,606, and $336,821, respectively, which were equal to the required contributions for the year.
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
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, 2006, and have issued our report thereon dated September 26, 2006. 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 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.

September 26, 2006