Pima County, Arizona

Development Services Enterprise Fund

For the Fiscal Year Ended June 30, 2007
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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, 2007, 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, 2007, 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, 2007, 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 29, 2007 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 29, 2007

[Signature]

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## PIMA COUNTY, ARIZONA

### Development Services Enterprise Fund

#### Statement of Net Assets

**June 30, 2007**

### Assets

<table>
<thead>
<tr>
<th>Current assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$12,989,889</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>43,503</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>24,406</td>
</tr>
<tr>
<td>Prepaid expense</td>
<td>57,140</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>13,114,938</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Noncurrent assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>1,591,621</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(727,084)</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>864,537</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>13,979,475</strong></td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th>Current liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued employee compensation</td>
<td>1,084,871</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>427,389</td>
</tr>
<tr>
<td>Due to other Pima County funds</td>
<td>1,037</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>1,513,297</strong></td>
</tr>
</tbody>
</table>

### Net assets

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets</td>
<td>864,537</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>11,601,641</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$12,466,178</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Year Ended June 30, 2007

**Operating revenues:**
- Charges for services: $11,238,414
- Other: 216,442

**Total operating revenues:** 11,454,856

**Operating expenses:**
- Employee compensation: 10,999,469
- Operating supplies and services: 894,556
- Utilities: 167,049
- Repair and maintenance: 66,118
- General and administrative: 2,003,532
- Consultants and professional services: 1,037,594
- Depreciation: 297,140

**Total operating expenses:** 15,465,458

**Operating loss:** (4,010,602)

**Nonoperating revenues (expenses):**
- Interest income: 762,901
- Loss on disposal of capital assets: (785)

**Net nonoperating revenues:** 762,116

**Decrease in net assets:** (3,248,486)

**Net assets, July 1, 2006:** 15,714,664

**Net assets, June 30, 2007:** $12,466,178

See accompanying notes to financial statements
PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2007

Cash flows from operating activities:
  Receipts from customers for goods and services $ 11,238,414
  Receipts from other Pima County funds for reimbursement
    of personnel services 117,068
  Receipts from miscellaneous operations 192,205
  Payments to employees (9,952,184)
  Payments to suppliers for goods and services (2,834,199)
  Payments to other Pima County funds for goods and
    services (3,217,233)
  Net cash used for operating activities (4,455,929)

Cash flows from capital and related financing activities:
  Proceeds from transfer of equipment 30,170
  Purchases of capital assets (120,257)
  Cash used for capital and related financing activities (90,087)

Cash flows from investing activities:
  Interest received on investments 719,398
  Cash provided by investing activities 719,398

Net decrease in cash and cash equivalents (3,826,618)

Cash and cash equivalents, July 1, 2006 16,816,507
Cash and cash equivalents, June 30, 2007 $ 12,989,889 (continued)

See accompanying notes to financial statements 4
Reconciliation of operating loss to net cash provided by operating activities:

Operating loss $ (4,010,602)

Adjustments to reconcile operating loss to net cash used for operating activities:

Depreciation 297,140

Changes in assets and liabilities:
  Decrease (increase) in assets:
    Accounts receivable (24,236)
    Prepaid expenses (55,520)
  Increase (decrease) in liabilities:
    Accrued employee compensation 76,075
    Accounts payable (730,614)
    Due to other Pima County funds (5,951)
    Due to other governments (2,221)

Net cash used for operating activities $ (4,455,929)

Noncash investing, capital and financing activities:

During the year ended June 30, 2007, the Fund disposed of equipment with an original cost of $174,847 and accumulated depreciation of $174,062 for a loss on disposal of equipment of $785.

During the year ended June 30, 2007, the Fund transferred the following completely depreciated capital assets: $31,907 to the County's general government, $7,527 to the Wastewater Management Enterprise Fund, and $22,585 to the Transportation Special Revenue Fund.
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.

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 a liability is incurred, regardless of the timing of the related cash flows. 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.

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

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 a charge to earnings and a credit to a valuation 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 account 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. 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: 4-15 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.
Note 1 - Summary of Significant Accounting Policies (continued)

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 equivalents consist of $850 of cash on hand and $12,989,039 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 119 days at June 30, 2007.

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 depositaries; 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.
Note 2 - Cash and Investments (continued)

*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, 2007, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>July 1, 2006 Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>June 30, 2007 Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$1,738,400</td>
<td>$ 120,256</td>
<td>$(267,035)</td>
<td>$1,591,621</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(666,024)</td>
<td>(297,140)</td>
<td>236,080</td>
<td>(727,084)</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$1,072,376</td>
<td>$(176,884)</td>
<td>$(30,955)</td>
<td>$ 864,537</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, 2007, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling $2,928,923. Of that amount, $971,210 was for temporary or part-time staffing, $400,536 was for motor pool charges, $770,342 was for the allocation of overhead, $410,113 was for supplies, $140,244 was for self-insurance premiums, $87,114 was for printing and microfilming, and $149,364 was for other miscellaneous charges. In addition, the Fund provided goods and services to other Pima County departments totaling $117,068. 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, 2007, rent expense for the Fund totaled $282,358.

Note 6 - Due To Other Pima County Funds

Due to other Pima County funds represents payables for goods and services. At June 30, 2007, the payables included $1,037 due to the General Fund.
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, 2007, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 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, 2007, 2006, and 2005, were $728,979, $537,009, and $357,606, respectively, which were equal to the required contributions for the applicable 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
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, 2007, and have issued our report thereon dated October 29, 2007. 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 29, 2007