

Single Audit

Coconino County
Year Ended June 30, 2006

Coconino County
Single Audit Reporting Package
Year Ended June 30, 2006

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The Auditor General of the State of Arizona

The Board of Supervisors of
Coconino County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Coconino County as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through viii, the Budgetary Comparison Schedules on pages 38 through 42, and the Schedule of Agent Retirement Plan's Funding Progress on page 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, on our consideration of the County's internal control over financial reporting and on our testes 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 internal control over financial reporting or on compliance. 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.

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Foster & Chapman P.C.

June 8, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Coconino County's basic financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the County's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2006

- The County's net assets increased 11.89 percent to \$174.90 million as a result of this year's operations.
- During the year, the County's governmental funds revenues exceeded expenditures by \$744 thousand. Last year expenditures exceeded revenue by \$848 thousand.
- Total expenditures of County governmental funds increased \$10.71 million from the prior year.
- The General Fund reported excess revenues over expenditures of \$9.39 million, however the fund balance only increased \$2.05 million due to transfers to other funds.

USING THIS REPORT

This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements providing information about the County's most significant funds.

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include *all non-fiduciary* assets and liabilities using the *accrual basis of accounting*.

Management's Discussion and Analysis

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets are one indicator of whether the County's financial condition is improving or deteriorating. In addition to this change, other non-financial factors will need to be considered.

The following table reflects the condensed Statement of Net Assets of the County at June 30, 2006 compared to the prior year:

	Governmental Activities (in millions)	
	2006	2005
Current and other assets	\$ 111.19	\$ 107.48
Capital assets	114.90	100.74
Total assets	226.09	208.22
Current liabilities	10.32	7.28
Long-term liabilities outstanding	40.87	44.63
Total liabilities	51.19	51.91
Net assets:		
Invested in capital assets, net of related debt	77.94	59.71
Restricted	39.76	42.60
Unrestricted	57.20	54.00
Total net assets	\$ 174.90	\$ 156.31

The County's net assets from governmental activities at the end of the fiscal year were \$174.90 million. The increase of \$18.59 million comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. A large portion of the County's net assets (44.57%) reflects its investment in capital assets net of accumulated depreciation and related debt. The County uses these assets to provide services and these assets are not available for future spending.

Investment in Capital Assets, net of related debt

44.57% of the County net assets (\$77.94 million) are invested in invested in capital assets and are not available to fund day-to-day operations. The County's capital assets, net of related debt, increased by 30.53% (\$18.23 million) in the current fiscal year. This increase was the result of the continuation of the parks and open space programs, the completion of several road projects and the purchase of land and a building for the transit program.

Management's Discussion and Analysis

Restricted Net Assets

22.73% of the County net assets (\$39.76 million) are subject to restrictions on how they may be used. The County's restricted net assets decreased by 6.67% (\$2.84 million) in the current fiscal year.

Unrestricted Net Assets

32.70% (\$57.20 million) of the County's net assets are unrestricted and can be used to finance the day-to-day operations without constraints established by debt covenants or other legal requirements.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

All of the County's basic services are considered to be governmental activities, including general government, health and welfare, public safety, highways and streets, transportation, culture and recreation, education and sanitation. Sales taxes, property taxes, intergovernmental revenues and user fees finance most of these activities.

Management's Discussion and Analysis

The following table reflects the condensed Statement of Activities of the County for the fiscal year 2006 compared to the prior year.

	Governmental Activities (in millions)	
	2006	2005
Revenues		
Program revenues:		
Charges for services	\$ 17.97	\$ 16.53
Operating grants and contributions	39.36	31.80
Capital grants and contributions	1.94	4.31
Total program revenue	59.27	52.64
General revenues:		
State-shared revenue	22.23	20.35
Sales taxes	21.66	19.27
Property taxes	10.42	8.98
Grants and contributions not restricted to specific programs	1.81	1.72
Investment earnings	0.75	1.89
Gain on disposal of capital assets	0.75	0.21
Miscellaneous	0.05	0.08
Total general revenue	57.67	52.50
Total revenues	116.94	105.14
Program expenses:		
General government	26.87	25.09
Public safety	27.58	25.41
Highways and streets	9.55	11.82
Sanitation	3.01	2.71
Health	11.16	10.52
Welfare	5.59	4.52
Culture and recreation	4.93	4.58
Education	3.73	2.92
Transportation	4.17	3.01
Interest on long-term debt	1.76	1.93
Total program expenses	98.35	92.51
Change in net assets	18.59	12.63
Net assets, beginning	156.31	143.68
Net assets, ending	\$ 174.90	\$ 156.31

Management's Discussion and Analysis

Revenues increased by 11.22% and expenses increased by 6.31% in the current fiscal year.

Operating grants and contributions increased by \$7.56 million or 23.77%. The primary reason for this increase, \$4.16 million, was the major change in the Mountain Line Transit program, which included the purchase of land and a building for the program. The balance of the change was due to a number of increases in various grants. Capital grants and contributions decreased by \$2.36 million or 54.88%, primarily due to the completion of the construction and funding for the Accommodation School.

Sales taxes increased 12.40% due to increased sales. Property taxes increased by 16.04% primarily due to an increase in the tax rate for the County Flood Control District. Investment earnings received in 2006 increased by 48% because of the increase in the average earnings rate from 4.38% to 5.34% and an increase in the average monthly investment of \$2.80 million, however these gains were offset by declines in market values versus cost, which caused investment earnings to decrease by 60.32%. Gain on disposal of capital assets increased by 257.14% as a result of the auction of heavy equipment.

Transportation expenses increased by 38.54% as a result of a major change in the Mountain Line Transit program. Highways and Streets expenses decreased by 19.20% primarily due to the capitalization of additional road infrastructure in the current fiscal year. Education expenses increased by 27.74% primarily because so much of those expenditures were capitalized in the prior fiscal year. Welfare expenditures increased 23.67% primarily due to salary increases and increased funding for the Workforce Investment Act program.

Reporting the County's Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Supervisors establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The County's two kinds of funds—*governmental and proprietary*—use different accounting approaches.

- *Governmental funds*—Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash.

Management's Discussion and Analysis

The governmental fund statements provide a detailed *short-term view* of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. A description of the differences between governmental *activities* as reported in the Statement of Net Assets and the Statement of Activities and the governmental *funds* as reported in the fund financial statements is reported in a reconciliation following each fund financial statement.

- *Proprietary funds*—When a County charges its own department for certain services it provides, these services are generally reported in proprietary funds. Coconino County uses an internal service fund, fleet services, to report activities that provide services for the County's other programs and activities. The County's internal service fund only provides services to County departments, so it is reported as a governmental activity in the Statement of Net Assets and the Statement of Activities.

The County reported four major funds for this fiscal year – General Fund, Public Works/HURF, Jail District, and Debt Service. In this fiscal year the Toho Tolani Improvement District is no longer considered a major fund. At year-end the County's governmental funds reported combined fund balances of \$90.69 million, which is an increase of \$1.06 million from last year or change of 1.18 percent.

The General Fund is the County's primary operating fund. At the end of the current fiscal year the unreserved fund balance of the General Fund was \$29.67 million. Unreserved fund balances represents 61.56% of total General fund expenditures and transfers out. This ratio indicates a strong fund balance position in comparison to expenditures. The General Fund's fund balance increased by \$2.06 million primarily because actual revenues exceeded budget revenues by \$4.19 million and the General Fund transferring \$2 million dollars to the Debt Service Fund to fund future debt service. It is one of the County's fiscal policies to conservatively estimate annual revenues.

The Public Works/HURF Fund's fund balance increased by \$1.12 million over the prior fiscal year. The primary factor in this increase was increased Highway User Fund revenue and auto-in lieu revenue.

The Jail District Fund's fund balance decreased by \$628 thousand in the current fiscal year. The decrease was primarily the result of increased operational expenditures in the current fiscal year.

The Toho Tolani Improvement was a major fund in the prior year due to a large road construction project that was complete in fiscal year 2005.

Management's Discussion and Analysis

The Debt Service Fund's fund balance only decreased by \$567 thousand in the current year as a result of \$2 million in additional funding provided by the General Fund for future debt service.

General Fund Budgetary Highlights

- The final appropriations for the General Fund at year-end were \$307,480 less than the adopted budget. This decrease was primarily to offset additions in other funds to ensure that the total final budget did not exceed the adopted budget. For the General Fund actual revenues exceeded final budget by \$4.19 million while actual expenditures were \$8.16 million less than budget.
- The budget variance for revenues in the General Fund was primarily due to state shared sales tax and general county sales tax. County sales tax revenues were conservatively estimated because of shortfalls in the prior years and uncertainty regarding the speed of any economic recovery. The expenditures variance was primarily unexpended contingency funds and fiscal reserves.

The County as Trustee

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or *fiduciary*, for certain amounts held on behalf of other local government agencies—including school districts, cities and special districts. The County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the County's other financial statements because the County cannot use these assets to finance its operations.

Capital Assets and Debt Administration

Capital Assets

During the fiscal year, the County completed and continued various construction projects that added \$175 thousand to the County's construction in progress, \$4.83 million to the County's building inventory, and 8.31 million to the County's infrastructure inventory. The County also added \$2.09 million to the County's land inventory primarily for the transportation facility.

Management's Discussion and Analysis

The following table reflects the changes in capital assets for the County for the fiscal year 2006 compared to the prior year:

	Governmental Activities (Net of depreciation) (in millions)	
	<u>2006</u>	<u>2005</u>
Land	\$ 13.75	\$ 11.66
Buildings	63.04	60.28
Machinery and equipment	14.23	12.79
Infrastructure	13.41	5.72
Construction in progress	<u>10.47</u>	<u>10.29</u>
Total	<u>\$114.90</u>	<u>\$100.74</u>

ECONOMIC FACTORS

The State of Arizona and Coconino County's economy is heavily dependent on tourism. The County receives over 37.57% of its general revenues from various sales taxes. Any slumps in the economy or events that could affect tourism have a significant impact on Coconino County.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County's Finance Department, Coconino County, 219 East Cherry Avenue, Flagstaff, Arizona 86001.

Coconino County
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 84,555,570
Investments	727,333
Cash and investments held by trustee	6,114,012
Receivables (net of allowance for uncollectibles):	
Property taxes	238,556
Accounts	578,739
Special assessments	3,395,955
Jail district sales tax	1,318,855
Accrued interest	783,534
Due from other governments	13,165,231
Inventories	259,655
Prepaid items	48,430
Capital assets, not being depreciated	24,225,392
Capital assets, being depreciated, net	90,678,452
Total assets	226,089,714
Liabilities	
Accounts payable	6,606,025
Accrued payroll and employee benefits	2,392,862
Due to other governments	375,026
Deposits held for others	143,994
Bond interest payable	801,947
Noncurrent liabilities	
Due within 1 year	6,971,497
Due in more than 1 year	33,894,823
Total liabilities	51,186,174
Net Assets	
Invested in capital assets, net of related debt	77,942,895
Restricted for:	
Highways and streets	23,967,654
Education	560,232
Debt service	12,728,403
Capital projects	1,362,678
Culture and recreation	1,142,305
Unrestricted	57,199,373
Total net assets	\$ 174,903,540

See accompanying notes to financial statements.

Coconino County
Statement of Activities
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets
					Total
Primary government:					
Governmental activities:					
General government	\$ 26,858,863	\$ 8,387,583	\$ 1,947,151		\$ (16,524,129)
Public safety	27,583,478	3,643,195	4,510,908		(19,429,375)
Highways and streets	9,551,859	298,492	14,206,889	\$ 93,098	5,046,620
Sanitation	3,014,199	1,138,057	1,054,636	8,437	(813,069)
Health	11,160,577	1,403,315	4,278,957		(5,478,305)
Welfare	5,590,510	1,455,946	2,726,734		(1,407,830)
Culture and recreation	4,933,059	1,031,838	326,061	457,877	(3,117,283)
Education	3,730,202	71,232	3,438,897	331,683	111,610
Transportation	4,163,891	542,003	6,868,819	1,046,066	4,292,997
Interest on long-term debt	1,761,726				(1,761,726)
Total governmental activities	<u>\$ 98,348,364</u>	<u>\$ 17,971,661</u>	<u>\$ 39,359,052</u>	<u>\$ 1,937,161</u>	<u>\$ (39,080,490)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					6,806,423
Property taxes, levied for library					2,539,393
Property taxes, levied for flood control					1,077,540
General county sales tax					11,580,757
Jail district sales tax					6,946,353
Parks and open spaces sales tax					2,894,657
Excise tax					100,295
Franchise tax					141,758
Shared revenue - state sales tax					16,684,292
Shared revenue - state vehicle license tax					5,547,275
Grants and contributions not restricted to specific programs					1,809,330
Investment earnings					745,407
Gain on disposal of capital assets					749,146
Miscellaneous					47,325
Total general revenues					<u>57,669,951</u>
Change in net assets					18,589,461
Net assets, July 1, 2005					156,314,079
Net assets, June 30, 2006					<u>\$ 174,903,540</u>

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Public Works/Hurf Fund	Jail District Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 29,374,117	\$ 19,945,395	\$ 787,052	\$ 14,195,662	\$ 18,140,905	\$ 82,443,131
Investments					727,333	727,333
Cash and investments held by trustee			2,274,456	2,397,564	1,441,992	6,114,012
Receivables (net of allowances for uncollectibles):						
Property taxes	148,791				89,765	238,556
Accounts	31,296	4,933	13,594		511,882	561,705
Special assessments					3,395,955	3,395,955
Jail district sales tax			1,318,855			1,318,855
Accrued interest	230,319	162,123	11,570	131,322	229,581	764,915
Advances to other funds					1,087,620	1,087,620
Due from:						
Other funds	1,290,310	395,617	45,647		6,107,467	7,839,041
Other governments	6,275,799	2,635,737	475,024		3,778,671	13,165,231
Inventories	7,011					7,011
Prepaid items	41,348				7,082	48,430
Total assets	<u>\$ 37,398,991</u>	<u>\$ 23,143,805</u>	<u>\$ 4,926,198</u>	<u>\$ 16,724,548</u>	<u>\$ 35,518,253</u>	<u>\$ 117,711,795</u>

(Continued)

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2006
(Continued)

	General Fund	Public Works/Hurf Fund	Jail District	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 2,174,143	\$ 2,197,476	\$ 292,549		\$ 1,833,217	\$ 6,497,385
Accrued payroll and employee benefits	1,091,995	233,949	266,224		725,534	2,317,702
Advances from other funds					1,087,620	1,087,620
Due to:						
Other funds	4,294,523	456,698	457,069		3,163,835	8,372,125
Other governments			25,853		349,173	375,026
Deposits held for others	39,980				104,014	143,994
Bond interest payable			322,824	\$ 472,292	6,831	801,947
Certificates of participation and revenue bonds payable			1,925,000	1,920,000		3,845,000
Special assessments payable					44,142	44,142
Deferred revenue	123,976				3,416,385	3,540,361
Total liabilities	<u>7,724,617</u>	<u>2,888,123</u>	<u>3,289,519</u>	<u>2,392,292</u>	<u>10,730,751</u>	<u>27,025,302</u>
Fund balances:						
Reserved for:						
Inventories	7,011					7,011
Prepaid items	41,348					41,348
Unreserved, reported in:						
General fund	29,626,015					29,626,015
Special revenue funds		20,255,682	1,636,679		17,053,992	38,946,353
Capital projects funds					2,097,854	2,097,854
Debt service funds				14,332,256	5,635,656	19,967,912
Fund Balances	<u>29,674,374</u>	<u>20,255,682</u>	<u>1,636,679</u>	<u>14,332,256</u>	<u>24,787,502</u>	<u>90,686,493</u>
Total liabilities and fund balances	<u>\$ 37,398,991</u>	<u>\$ 23,143,805</u>	<u>\$ 4,926,198</u>	<u>\$ 16,724,548</u>	<u>\$ 35,518,253</u>	<u>\$ 117,711,795</u>

See accompanying notes to financial statements.

Coconino County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2006

Fund balances—total governmental funds	\$ 90,686,493
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	113,510,849
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	3,540,361
Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	4,143,012
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(36,977,175)</u>
Net assets of governmental activities	<u><u>\$ 174,903,540</u></u>

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 6,816,178				\$ 3,611,457	\$ 10,427,635
Other taxes	15,158,377	\$ 2,211,928	\$ 6,946,353		2,894,745	27,211,403
Special assessments					1,055,453	1,055,453
Licenses and permits	1,818,926	13,800			961,973	2,794,699
Fees, fines, and forfeits	1,448,766				446,118	1,894,884
Intergovernmental	20,033,497	11,808,029			27,398,390	59,239,916
Charges for services	3,281,971		2,492,592		6,036,627	11,811,190
Investment earnings	316,068	214,474	60,578	\$ 259,034	466,174	1,316,328
Contributions	148,192				137,380	285,572
Miscellaneous	422,645	4,874	3,527		457,175	888,221
Total revenues	<u>49,444,620</u>	<u>14,253,105</u>	<u>9,503,050</u>	<u>259,034</u>	<u>43,465,492</u>	<u>116,925,301</u>
Expenditures:						
Current:						
General government	23,814,925				2,310,051	26,124,976
Public safety	10,978,685		9,729,291		6,060,116	26,768,092
Highways and streets	645,366	14,979,546			4,272,978	19,897,890
Sanitation					2,769,470	2,769,470
Health	3,194,858				7,834,510	11,029,368
Welfare	274,002				5,242,863	5,516,865
Culture and recreation	699,398				4,931,983	5,631,381
Education	406,410				3,643,439	4,049,849
Transportation					8,351,299	8,351,299
Debt service:						
Principal	42,129		1,925,000	1,920,000	393,571	4,280,700
Interest and other charges	1,976		647,789	956,555	155,405	1,761,725
Total expenditures	<u>40,057,749</u>	<u>14,979,546</u>	<u>12,302,080</u>	<u>2,876,555</u>	<u>45,965,685</u>	<u>116,181,615</u>
Excess (deficiency) of revenues over expenditures	<u>9,386,871</u>	<u>(726,441)</u>	<u>(2,799,030)</u>	<u>(2,617,521)</u>	<u>(2,500,193)</u>	<u>743,686</u>

(Continued)

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006
(Continued)

	<u>General Fund</u>	<u>Public Works/HURF Fund</u>	<u>Jail District Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):						
Sale of capital assets	\$ 1,575	\$ 303,367			\$ 9,600	\$ 314,542
Transfers in	814,092	1,754,048	\$ 2,184,576	\$ 2,050,214	7,309,156	14,112,086
Transfers out	<u>(8,147,494)</u>	<u>(205,596)</u>	<u>(13,215)</u>		<u>(5,745,781)</u>	<u>(14,112,086)</u>
Total other financing sources and uses	<u>(7,331,827)</u>	<u>1,851,819</u>	<u>2,171,361</u>	<u>2,050,214</u>	<u>1,572,975</u>	<u>314,542</u>
Net change in fund balances	2,055,044	1,125,378	(627,669)	(567,307)	(927,218)	1,058,228
Fund balances, July 1, 2005	<u>27,619,330</u>	<u>19,130,304</u>	<u>2,264,348</u>	<u>14,899,563</u>	<u>25,714,720</u>	<u>89,628,265</u>
Fund balances, June 30, 2006	<u>\$ 29,674,374</u>	<u>\$ 20,255,682</u>	<u>\$ 1,636,679</u>	<u>\$ 14,332,256</u>	<u>\$ 24,787,502</u>	<u>\$ 90,686,493</u>

See accompanying notes to financial statements.

Coconino County
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 June 30, 2006

Net change in fund balances—total governmental funds		\$ 1,058,228
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	\$ 19,013,636	
Depreciation expense	<u>(5,143,654)</u>	13,869,982
<p>Governmental funds only report the proceeds on the sale of capital assets. However, in the Statement of Activities, the gain or loss on the disposal of capital assets is reported. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold.</p>		
		434,604
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net</p>		
Principal repaid		4,280,700
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>		
		(330,281)
<p>Revenues in the Statement of Activities that were recognized in a prior year which are reported as current financial resources of governmental funds.</p>		
		(802,746)
<p>Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance, to individual funds. The net revenue of the internal service fund is reported with governmental activities.</p>		
		<u>78,974</u>
Change in net assets of governmental activities		<u>\$ 18,589,461</u>

See accompanying notes to financial statements.

Coconino County
Statement of Net Assets
Proprietary Fund
June 30, 2006

	Governmental Activities - Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,112,439
Receivables (net of allowances for uncollectibles):	
Accounts	17,034
Accrued interest	18,619
Due from Other funds	551,618
Inventories	252,644
Total current assets	<u>2,952,354</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation:	
Buildings, net	86,967
Equipment, net	1,306,028
Capital assets, net	<u>1,392,995</u>
Total noncurrent assets	<u>1,392,995</u>
Total assets	<u>4,345,349</u>
Liabilities	
Current liabilities:	
Accounts payable	108,641
Accrued payroll and employee benefits	75,161
Due to other funds	18,535
Total current liabilities	<u>202,337</u>
Total liabilities	<u>202,337</u>
Net Assets	
Invested in capital assets, net of related debt	1,392,995
Unrestricted	2,750,017
Total net assets	<u>\$ 4,143,012</u>

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Year Ended June 30, 2006

	Governmental Activities- Internal Service Fund
Operating revenues:	
Charges for services	\$ 2,950,990
Total operating revenues	2,950,990
Operating expenses:	
Personal services	590,773
Professional services	94,909
Supplies	1,625,330
Utilities	24,562
Repairs and maintenance	125,908
Travel	7,083
Depreciation	492,303
Total operating expenses	2,960,868
Operating loss	(9,878)
Nonoperating revenues:	
Investment earnings	30,192
Gain on disposal of capital assets	58,660
Total nonoperating revenues	88,852
Increase in net assets	78,974
Total net assets, July 1, 2005	4,064,038
Total net assets, June 30, 2006	\$ 4,143,012

See accompanying notes to financial statements.

Coconino County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	<u>Governmental Activities- Internal Service Fund</u>
Cash flows from operating activities:	
Receipts from other funds for services provided	\$ 2,713,291
Payments to suppliers and providers of goods and services	(1,878,726)
Payments to employees	(595,204)
Net cash provided by operating activities	<u>239,361</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	70,785
Purchases of capital assets	(385,634)
Net cash used for capital and related financing activities	<u>(314,849)</u>
Cash flows from investing activities:	
Interest received on investments	32,144
Net cash provided by investing activities	<u>32,144</u>
Net decrease in cash and cash equivalents	(43,344)
Cash and cash equivalents, July 1, 2005	<u>2,155,783</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 2,112,439</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (9,878)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	492,303
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(8,168)
Due from other funds	(225,064)
Inventories	(47,671)
Accounts payable	38,369
Accrued payroll and employee benefits	2,653
Decrease in:	
Prepaid items	1,284
Due to other funds	(4,467)
Net cash provided by operating activities	<u>\$ 239,361</u>

See accompanying notes to financial statements.

Coconino County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 79,992,930	\$ 1,345,670
Cash and investment held by trustee		640,802
Interest and dividends receivable	<u>912,880</u>	
Total assets	<u>80,905,810</u>	<u>\$ 1,986,472</u>
 Liabilities		
Deposits held for others		\$ 1,765,848
Due to other governments		<u>220,624</u>
Total liabilities		<u>\$ 1,986,472</u>
 Net Assets		
Held in trust for investment participants	<u>\$ 80,905,810</u>	

See accompanying notes to financial statements.

Coconino County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2006

	<u>Investment Trust Funds</u>
Additions:	
Contribution from participants	\$ 325,798,782
Investment earnings	985,029
Total additions	<u>326,783,811</u>
Deductions:	
Distributions to participants	<u>325,267,532</u>
Total deductions	325,267,532
Change in net assets	1,516,278
Net assets, July 1, 2005	<u>79,389,532</u>
Net assets, June 30, 2006	<u><u>\$ 80,905,810</u></u>

See accompanying notes to financial statements.

Coconino County
Notes to Financial Statements
June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Coconino County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of five county supervisors. The accompanying financial statements present the activities of the County (the primary government) and its component units.

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each blended component unit discussed below has a June 30 year end. The County has no discretely presented component units.

The following table describes the County's component units:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Coconino County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Coconino County Library District	Provides and maintains library services for County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Coconino County
Notes to Financial Statements
June 30, 2006

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Coconino County Special Assessment Districts	Constructs or improves sidewalks, curbs and gutters, irrigation systems, and street lighting within the County; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Coconino County Street Lighting Districts	Operates and maintains street lighting in areas outside local city jurisdictions; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Coconino County Jail District	A tax-levying district that acquires, constructs, operates, maintains, and finances county jails and jail systems; the County's Board of Supervisors serves as the governing board	Blended	911 East Sawmill Road Flagstaff, AZ 86001- 5827 Attn: Cathy Allen

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the County as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

Coconino County
Notes to Financial Statements
June 30, 2006

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund revenues are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as user charges, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

Coconino County
Notes to Financial Statements
June 30, 2006

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Works/HURF Fund is used to account for highway user fees restricted to the construction, repair and maintenance of county roads.

The Jail District Fund—is used to account for jail operations and jail capital improvements that are funded by a one-third cent sales tax.

The Debt Service Fund is used to account for debt service on certificates of participation and is funded by appropriations.

The County reports the following fund types:

The internal service fund accounts for automotive maintenance and operation provided to the County's departments or to other governments on a cost-reimbursement basis.

The investment trust funds account for pooled assets held and invested by the County Treasurer on behalf of the County's departments and other governmental entities.

The agency funds account for assets held by the County as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, community college district, and special districts.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of agency funds, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take

Coconino County
Notes to Financial Statements
June 30, 2006

place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The County's major revenue sources that are susceptible to accrual are state-shared sales taxes and fuel taxes, county sales tax, property taxes and grants from the federal government. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

D. Cash and Investments

For purposes of its statement of cash flows, the County considers cash on hand, demand deposits, cash on deposit with the County Treasurer, and only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

Coconino County
Notes to Financial Statements
June 30, 2006

E. Inventories

The County accounts for its inventories in the governmental funds using the consumption method. Inventories of the governmental funds are recorded as assets when purchased and expensed when consumed. Amounts on hand at year end are shown on the balance sheet as an asset for informational purposes only and are offset by a fund balance reserve to indicate that they do not constitute “available spendable resources.” These inventories are stated at cost using the first-in, first-out method of valuation.

Inventories of the proprietary funds are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the moving weighted average method of valuation.

F. Property Tax Calendar

The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

G. Capital Assets

Capital assets are reported at actual cost, or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

Coconino County
Notes to Financial Statements
June 30, 2006

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Construction in progress	\$ 5,000	N/A	N/A
Buildings	5,000	Straight-Line	25-40 Years
Machinery and equipment	5,000	Straight-Line	3-25 Years
Infrastructure	5,000	Straight-Line	15-25 Years

H. Investment Earnings

Investment earnings is composed of interest, dividends, and net changes in the fair value of applicable investments.

I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation. 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.

Non-exempt, eligible employees may accumulate up to 60-hours of compensatory time. Accruals beyond 60 hours require approval by the county manager. The Fair Labor Standards Act requires that the County pay off any compensatory time balance above 240 hours for most non-exempt positions and 480 hours for public safety positions. The County does this periodically throughout the year. Upon termination all unused compensatory time is paid to the employee. Accordingly, compensatory time is accrued as a liability in the financial statements.

Coconino County
Notes to Financial Statements
June 30, 2006

Employees may accumulate up to 1,040 of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who terminate with a minimum of 20 years of continuous service, sick leave benefits do vest and, therefore, are accrued. Such eligible terminating employees are compensated at the rate of 1 day for each 4 sick days accrued.

Note 2 – Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2006, the following funds reported deficits in fund balances.

Fund	Deficit
Improvement districts	\$ 763,199
Parks and recreation	51,855
Health	40,624
Welfare	13,325

The County expects the fund deficits listed above to be corrected through normal operations, or for the Improvement Districts Fund, from National Forest Fees Fund transfers in fiscal year 2007.

Note 3 – Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County 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.

Coconino County
Notes to Financial Statements
June 30, 2006

Credit Risk

Statutes gave the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investor's 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 required collateral or 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. Investment in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk

Statutes do not allow for foreign investments.

Deposits—At June 30, 2006, the carrying amount of the County's deposits was \$2,241,328 and the bank balance was \$3,908,664 The County does not have a formal policy with respect to custodial credit risk.

Coconino County
Notes to Financial Statements
June 30, 2006

At June 30, 2006, \$111,132 of the County's bank balance was exposed to custodial risk as follows:

Uninsured and Uncollateralized	\$111,332
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Investments— The County's investments at June 30, 2006, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 159,660,681
Money market mutual funds	6,568,678
Repurchase agreements (implicitly guaranteed)	900,000
State treasurer's investment pools	693,130
Corporate bonds	628,686
Guaranteed investment contract	66,008
Mutual funds-equity	23,371
	\$ 168,540,554

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of the participant's pool shares and the participant's shares are not identified with specific investments.

Credit risk— The County does not have a formal investment policy with respect to credit risk. At June 30, 2006, credit risk for the County's investments was as follows:

Credit risk				
Investment type	Rating	Rating agency		Amount
U.S. agency securities	Aaa	Moody's	\$	152,754,961
U.S. agency securities	AAA	Fitch		6,905,720
Mutual funds-debt	Aaa	Moody's		6,100,148
Mutual funds-debt	Unrated	Not applicable		468,530
Corporate bonds	Aa3	Moody's		628,686
Repurchase agreements (implicitly guaranteed)	Aaa	Moody's		900,000
State treasurer's investment pools	Unrated	Not applicable		693,130
			\$	168,451,175

Coconino County
Notes to Financial Statements
June 30, 2006

Custodial credit risk— For an investment, custodial risk is the risk that, in the event of the counterparty’s failure, the County will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The County does not have a formal policy with respect to custodial credit risk. At June 30, 2006, the County had \$900,000 of repurchase agreements (implicitly guaranteed), \$159,660,681 of U.S. agency securities, \$6,100,148 of mutual funds-debt, and \$628,686 of corporate bonds uninsured and held by the counterparty.

Concentration of credit risk— The County does not have a formal policy with respect to concentration of credit risk. More than 5 percent of the County’s investments as of June 30, 2006, were in Federal Home Loan Bank, Federal National Mortgage Association and Federal Loan Mortgage Corporation. These investments were 61.1 percent, 17.5 percent and 16.1 percent, respectively, of the County’s total investments.

Interest rate risk— The County does not have a formal policy with respect to interest rate risk. At June 30, 2006, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity in years
U.S. agency securities	\$ 159,660,681	3.619
Mutual funds-debt	6,100,148	0.003
Corporate bonds	628,686	3.258
Repurchase agreements (implicitly guaranteed)	900,000	0.008
Mutual funds-debt	468,530	7.500
State treasurer's investment pools #5	583,362	0.140
State treasurer's investment pools #7	109,768	0.101
	<u>\$ 168,451,175</u>	

Coconino County
Notes to Financial Statements
June 30, 2006

A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows:

Cash, deposits, and investments:

Cash on hand	\$ 2,595,140
Amount of deposits	2,240,623
Amount of investments	168,540,554
Total	<u>\$ 173,376,317</u>

Statement of Net Assets:	Governmental activities	Investment trust funds	Agency funds	Total
Cash and cash equivalents	\$ 84,555,570	\$ 79,992,930	\$ 1,345,670	\$ 165,894,170
Investments	727,333			727,333
Cash and investments held by trustee	6,114,012		640,802	6,754,814
Total	<u>\$ 91,396,915</u>	<u>\$ 79,992,930</u>	<u>\$ 1,986,472</u>	<u>\$ 173,376,317</u>

Note 4— Receivables

Due from other governments

Amounts due from other governments at June 30, 2006, include \$3,084,618 and \$1,992,913 in state-shared revenue from sales taxes and fuel taxes, respectively; \$542,423 from the State of Arizona for state vehicle license tax; \$2,199,119 in county sales tax; \$548,011 in parks and open space sales tax; and \$2,155,670 in grants from the federal government; and \$631,579 in grants from various state agencies. The balance of \$2,010,898 is composed of miscellaneous receivables from federal, state, and local governments.

Coconino County
Notes to Financial Statements
June 30, 2006

Note 5– Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance 7/1/2005	Increases	Decreases	Balance 6/30/2006
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 11,661,118	\$ 2,094,338		\$ 13,755,456
Construction in progress	10,294,857	8,006,591	\$ 7,831,512	10,469,936
Total capital assets not being depreciated	<u>21,955,975</u>	<u>10,100,929</u>	<u>7,831,512</u>	<u>24,225,392</u>
Capital assets being depreciated:				
Buildings	77,706,618	4,829,326		82,535,944
Machinery and equipment	29,691,088	4,558,761	2,711,423	31,538,426
Infrastructure	6,044,442	8,309,175		14,353,617
Total capital assets being depreciated	<u>113,442,148</u>	<u>17,697,262</u>	<u>2,711,423</u>	<u>128,427,987</u>
Less accumulated depreciation for:				
Buildings	17,423,069	2,072,320		19,495,389
Machinery and equipment	16,904,800	2,947,429	2,542,712	17,309,517
Infrastructure	328,421	616,208		944,629
Total accumulated depreciation	<u>34,656,290</u>	<u>5,635,957</u>	<u>2,542,712</u>	<u>37,749,535</u>
Total capital assets being depreciated, net	<u>78,785,858</u>	<u>12,061,305</u>	<u>168,711</u>	<u>90,678,452</u>
Governmental activities capital assets, net	<u>\$ 100,741,833</u>	<u>\$ 22,162,234</u>	<u>\$ 8,000,223</u>	<u>\$ 114,903,844</u>

Infrastructure assets reported included assets that construction was started and/or completed during the year ended June 30, 2006. Infrastructure assets that were started and/or completed prior to July 1, 2002 are not included and will retroactively be added to the County's capital assets listing within the next year.

Coconino County
Notes to Financial Statements
June 30, 2006

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 886,832
Public safety	1,011,638
Highways and streets	2,097,149
Sanitation	243,476
Health	143,207
Welfare	61,027
Culture and recreation	240,063
Education	44,788
Transportation	415,474
Internal service fund	492,303
Total governmental activities depreciation expenses	<u>\$ 5,635,957</u>

Construction commitments

Coconino County has active construction projects as of June 30, 2006. The projects include new street construction, reconstruction and improvements to existing streets, public parks, public trails and paths, and water wastewater improvements. At year end the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Residential street construction-public purpose portion	\$ 1,967,469	\$ 3,170,448
Trails and paths-public purpose	20,575	254,882
Park-public purpose	<u>148,162</u>	<u>2,340,651</u>
Total	<u>\$ 2,136,206</u>	<u>\$ 5,765,981</u>

Coconino County
Notes to Financial Statements
June 30, 2006

Note 6 – Long-Term Liabilities

The following schedule details the County’s long-term liability and obligation activity for the year ended June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due within 1 year</u>
Governmental activities					
Bonds payable:					
Revenue bonds	\$ 16,210,000		\$ 1,840,000	\$ 14,370,000	\$ 1,925,000
Special assessment bonds with governmental commitment	<u>2,840,377</u>		<u>349,429</u>	<u>2,490,948</u>	<u>321,498</u>
Total bonds payable	<u>19,050,377</u>		<u>2,189,429</u>	<u>16,860,948</u>	<u>2,246,498</u>
Certification of participation payable	21,940,000		1,840,000	20,100,000	1,920,000
Compensated absences payable	3,072,444	\$ 2,757,697	2,401,898	3,428,243	2,679,816
Capital leases payable	42,131		42,131		
Claims and judgments payable	<u>526,424</u>	<u>12,000</u>	<u>61,295</u>	<u>477,129</u>	<u>125,183</u>
Governmental activities long-term liabilities	<u>\$ 44,631,376</u>	<u>\$ 2,769,697</u>	<u>\$ 6,534,753</u>	<u>\$ 40,866,320</u>	<u>\$ 6,971,497</u>

Bonds—The County’s bonded debt consists of various issues of revenue and special assessment bonds that are generally noncallable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. Revenue bonds are repaid from a voter-approved sales tax in the Jail District Fund. Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The original amounts of revenue bonds and special assessment bonds issued in prior years were \$24,760,000 and \$4,391,217, respectively.

Bonds outstanding at June 30, 2006, were as follows:

<u>Description</u>	<u>Original amount</u>	<u>Maturity ranges</u>	<u>Interest rates</u>	<u>Outstanding principal</u>
Revenue bonds	\$ 24,760,000	7/1/2006-12	4.25-5.0%	\$ 14,370,000
Special assessment bonds with governmental commitment	4,391,217	7/1/2006-15	2.47-7.50%	<u>2,490,948</u>
				<u>\$ 16,860,948</u>

Coconino County
Notes to Financial Statements
June 30, 2006

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2006:

Year ending June 30	Governmental Activities			
	Revenue Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 1,925,000	\$ 603,443	\$ 321,498	\$ 116,290
2008	2,010,000	516,761	270,442	103,090
2009	2,095,000	425,303	281,342	90,027
2010	2,195,000	328,635	292,119	76,449
2011	2,290,000	226,213	302,690	62,635
2012-2015	3,855,000	175,388	1,022,857	99,130
Total	\$ 14,370,000	\$ 2,275,743	\$ 2,490,948	\$ 547,621

Certificates of participation—The County has issued certificates of participation that are generally noncallable with interest payable semiannually to purchase or construct buildings, building improvements, parks, and park improvements.

Certificates outstanding at June 30, 2006, were as follows:

Description	Original amount	Maturity ranges	Interest rates	Outstanding principal
Series 1998	\$ 19,000,000	7/1/2006-13	4.4-5.0%	\$ 11,745,000
Series 2001	11,650,000	7/1/2006-15	4.25-5.5%	8,355,000
				\$ 20,100,000

Coconino County
Notes to Financial Statements
June 30, 2006

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2006:

Year ending June 30	Governmental Activities	
	Principal	Interest
2007	\$ 1,920,000	\$ 902,234
2008	2,000,000	812,528
2009	2,100,000	714,521
2010	2,200,000	609,091
2011	2,310,000	501,283
2012-16	9,570,000	922,464
Total	<u>\$ 20,100,000</u>	<u>\$ 4,462,121</u>

Insurance claims—The County provides life, health and disability benefits to its employees and their dependents through the Northern Arizona Public Employee Benefit Trust currently composed of five members. The Trust provides benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and requires its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

Compensated absences and claims and judgments—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2006, the County paid for compensated absences as follows: 51.49 percent from the General Fund, 20.77 percent from major funds, and 27.74 percent from other funds. The County paid for claims and judgments from the General Fund.

Coconino County
Notes to Financial Statements
June 30, 2006

Note 7 – Risk Management

The County 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 others; and natural disasters. These risks of loss are accounted for and financed by the following described insurance coverage and internal risk management program.

The County contracts with the State of Arizona Workers' Compensation Fund to provide workers compensation coverage for employees. There is no deductible associated with this coverage, and the maximum coverage is \$500,000 per occurrence. Claims over this amount are covered by the County's liability insurance policy up to \$40 million.

The County self-insures on commercial general liability for the first \$125,000 per occurrence. A self-insurance retention fund is set up for these losses. The County then purchases coverage from insurers up to \$40 million. For real property and business personal property damage coverage, the County has a \$25,000 deductible with blanket coverage up to the property values. Crime coverage is also a \$25,000 deductible with limits of \$1,000,000. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past 3 fiscal years.

Note 8 – Retirement Plans

Plan Descriptions—The County contributes to four plans, two of which are described below. The other two, the Elected Officials Retirement Plan and the Corrections Officer Retirement Plan, are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers employees of the State of Arizona and participating political subdivisions and school districts. 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.

Coconino County
Notes to Financial Statements
June 30, 2006

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or (800) 621-3778

PSPRS

3010 E. Camelback Road, Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

Cost-sharing plan—For the year ended June 30, 2006, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2006, 2005, and 2004, were \$2,568,755, \$1,792,752, and \$1,663,268, respectively, which were equal to the required contributions for the year.

Agent plan—For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 20.84 percent.

Coconino County
Notes to Financial Statements
June 30, 2006

Annual Pension Cost—The County’s pension cost for the agent plan for the year ended June 30, 2006, and related information follows.

PSPRS

Contribution rates:

County	20.84%
Plan members	7.65%
Annual pension cost	\$597,694
Contributions made	\$597,694

The current-year annual required contributions for PSPRS was determined as part of its June 30, 2004, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 8.75 percent investment rate of return and (b) projected salary increases of 6.25 percent to 9.25 percent per year. Both (a) and (b) included an inflation component of 5.25 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 7-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2004, was 20 years.

Trend Information—Annual pension cost information for the current and 2 preceding years follows for the PSRS:

Year Ended	Annual Pension	Percentage	Net Pension
June 30,	Cost (APC)	of APC	Obligation
_____	_____	Contributed	_____
2006	\$597,694	100%	\$ 0
2005	463,276	100	0
2004	329,549	100	0

Coconino County
Notes to Financial Statements
June 30, 2006

Note 9 – Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2006, were as follows:

	Payable to					Total
	General Fund	Public Works/HURF Fund	Jail District Fund	Nonmajor Governmental Funds	Internal Service Fund	
Payable from						
General Fund		\$ 1,864	\$ 45,557	\$ 4,036,913	\$ 210,189	\$ 4,294,523
Public Works/HURF Fund	\$ 116,729			101,312	238,657	456,698
Jail District Fund	426,364			13,360	17,345	457,069
Nonmajor Governmental Funds	747,217	378,319	90	1,952,782	85,427	3,163,835
Internal Service Fund		15,434		3,100		18,534
Total	\$ 1,290,310	\$ 395,617	\$ 45,647	\$ 6,107,467	\$ 551,618	\$ 8,390,659

The interfund balances resulted from time lags between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers—Interfund transfers for the year ended June 30, 2006, were as follows:

	Transfer to					Total
	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Nonmajor Governmental Funds	
Transfer from						
General Fund		\$ 25,000	\$ 2,184,576	\$ 2,000,000	\$ 3,937,918	\$ 8,147,494
Public Works/HURF Fund	\$ 116,499				89,097	205,596
Jail District Fund					13,215	13,215
Nonmajor Governmental Funds	697,593	1,729,048		50,214	3,268,926	5,745,781
Total	\$ 814,092	\$ 1,754,048	\$ 2,184,576	\$ 2,050,214	\$ 7,309,156	\$ 14,112,086

Interfund transfers are used to move revenues from the fund that collects them to the fund that expends them.

Coconino County
Notes to Financial Statements
June 30, 2006

Advances from/to other funds—Advances from/to other funds represent monies owed from various County Road Improvement Districts (nonmajor governmental funds) to the Forest Fee Revolving Fund (nonmajor governmental fund) to assist citizens with road improvements. The amount of advances as of June 30, 2006 was \$1,087,620. The County Road Improvement Districts are paying interest on the advances. The interest rates range from 2.51% to 4.03%.

Advances to	Advances from the Forest Fees Revolving Fund
Buckboard trail	\$ 106,282
Kiowa-Commance	224,681
Lupine	243,105
Oakwood Pines	93,500
Pawnee	178,197
Pinon improvement	120,594
Shoshone	52,250
Tonawanda	69,011
Total advances from	<u>\$ 1,087,620</u>

Note 10 – County Treasurer’s Investment Pool

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

The County Treasurer’s investment pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. The pool’s structure does not provide for shares, and the County has not provided or obtained any legally binding guarantees to support the value of the participants’ investments.

The Treasurer allocates interest earnings to each of the pool’s participants.

Coconino County
Notes to Financial Statements
June 30, 2006

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$2,872,570 of deposits (bank balances), \$6,568,678 of investments in mutual funds-debt, \$404,585 in the State Treasurer's Investment Pool, \$66,008 of investments in guaranteed investment contracts, and \$23,371 of investments in equities; therefore, the deposit and investment risks of the Treasurer's investment pool are the same as the County's deposit and investment risks, see Note 3 for the disclosure of the County's deposit and investment risks.

Details of each major investment classification follow.

Investment Type	Principal	Interest Rates	Maturities	Amount
State Treasurer's investment pools	\$ 288,545	None stated	None stated	\$ 288,545
U.S. agency securities	163,340,941	3.000-7.250%	11/8/2006-5/25/2011	159,660,681
Corporate securities	664,686	7.350%	10/1/2009	628,686
Repurchase agreements	900,000	4.800%	7/3/2006	900,000

A condensed statement of the investment pool's net assets and changes in net assets follows:

Statement of net assets

Assets	\$ 164,692,318
Net assets	<u>\$ 164,692,318</u>

Net assets held in trust for:

Internal participants	\$ 83,902,668
External participants	80,789,650
Total net assets held in trust	<u>\$ 164,692,318</u>

Statement of changes in net assets

Total additions	\$ 360,673,508
Total deletions	356,120,689
Net decrease	<u>4,552,819</u>
Net assets held in trust	
July 1, 2005	<u>160,139,499</u>
June 30, 2006	<u>\$ 164,692,318</u>

Coconino County
Notes to Financial Statements
June 30, 2006

Note 11 – Maintenance of Effort Payments

In accordance with Arizona Revised Statute Section 48-4024, Coconino County is required to make annual maintenance of effort payments (MOE) to the Coconino County Jail District, a special revenue fund type. The payments will be made through fiscal year 2012 and are determined by first establishing a base expenditure, which is used as the initial fiscal year 1998 MOE payment. Subsequent payments are determined by adjusting the base expenditure by the annual change in the GDP price deflator, obtained from the State of Arizona Economic Estimates Commission. These payments are recorded by the jail district as transfers in. The MOE payment for fiscal year 2006 was \$2,184,576.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 6,006,745	\$ 6,006,745	\$ 6,816,178	\$ 809,433
Other taxes	13,881,968	13,881,968	15,158,377	1,276,409
Licenses and permits	1,615,191	1,615,191	1,818,926	203,735
Fees, fines, and forfeits	1,265,243	1,265,243	1,448,766	183,523
Intergovernmental	18,559,322	18,575,872	20,033,497	1,457,625
Charges for services	3,034,028	3,034,028	3,281,971	247,943
Investment earnings	573,334	573,334	316,068	(257,266)
Contributions	171,500	171,500	148,192	(23,308)
Miscellaneous	135,000	135,000	422,645	287,645
Total revenues	45,242,331	45,258,881	49,444,620	4,185,739
Expenditures:				
Current				
Adult probation	1,342,792	1,342,792	1,311,601	31,191
Assessor	1,309,905	1,309,905	1,304,174	5,731
Board of Supervisors	990,575	990,575	904,794	85,781
Clerk of Superior Court	954,243	954,243	938,923	15,320
Community development	1,414,326	1,414,326	1,326,736	87,590
Community initiatives	350,170	363,909	258,219	105,690
Constable	71,597	71,597	65,747	5,850
County Attorney	2,425,989	2,425,989	2,496,672	(70,683)
County Manager	681,402	800,610	783,752	16,858
Facilities	2,835,463	2,830,587	2,359,029	471,558
Finance / budget	1,272,821	1,272,821	1,198,112	74,709
Flagstaff Justice Court	974,263	974,263	966,069	8,194
Fredonia Justice Court	124,985	124,985	125,012	(27)
Geographic information systems	777,414	768,576	645,366	123,210
Health	3,204,128	3,204,128	3,194,858	9,270
Human resources	836,377	836,377	734,388	101,989
Information technology	1,881,810	1,884,876	1,762,952	121,924

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Juvenile probation	\$ 2,203,350	\$ 2,203,350	\$ 1,795,469	\$ 407,881
Legal defender	643,528	643,528	746,412	(102,884)
Medical Examiner	355,125	355,125	389,979	(34,854)
Nondepartmental	8,395,603	7,976,751	1,185,597	6,791,154
Page Justice Court	286,249	286,249	286,903	(654)
Parks and recreation	874,034	874,034	699,398	174,636
Public Defender	1,935,469	1,935,469	1,823,779	111,690
Public Fiduciary	266,459	266,459	274,002	(7,543)
Public works	35,000	35,000		35,000
Recorder	1,285,148	1,301,698	1,614,258	(312,560)
School Superintendent	382,330	382,330	406,410	(24,080)
Sheriff	7,341,775	7,314,298	7,415,890	(101,592)
Superior Court	2,220,936	2,220,936	2,252,807	(31,871)
Treasurer	587,027	587,027	531,668	55,359
Williams Justice Court	264,410	264,410	258,773	5,637
Total expenditures	<u>48,524,703</u>	<u>48,217,223</u>	<u>40,057,749</u>	<u>8,159,474</u>
Excess (deficiency) of revenues over expenditures	(3,282,372)	(2,958,342)	9,386,871	12,345,213
Other financing sources (uses):				
Sale of capital assets			1,575	1,575
Transfers in	957,278	957,278	814,092	(143,186)
Transfers out	<u>(9,324,788)</u>	<u>(9,349,792)</u>	<u>(8,147,494)</u>	<u>1,202,298</u>
Total other financing sources and (uses)	<u>(8,367,510)</u>	<u>(8,392,514)</u>	<u>(7,331,827)</u>	<u>1,060,687</u>
Net changes in fund balances	(11,649,882)	(11,350,856)	2,055,044	13,405,900
Fund balances, July 1, 2005	<u>16,246,868</u>	<u>16,246,868</u>	<u>27,619,330</u>	<u>11,372,462</u>
Fund balances, June 30, 2006	<u>\$ 4,596,986</u>	<u>\$ 4,896,012</u>	<u>\$ 29,674,374</u>	<u>\$ 24,778,362</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works/HURF Fund
Year Ended June 30, 2006

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts	Variance with Final Budget
Revenues:			
Other taxes	\$ 1,800,000	\$ 2,211,928	\$ 411,928
Licenses and permits	15,000	13,800	(1,200)
Intergovernmental	9,400,000	11,808,029	2,408,029
Investment earnings	200,000	214,474	14,474
Miscellaneous	1,200	4,874	3,674
Total revenues	<u>11,416,200</u>	<u>14,253,105</u>	<u>2,836,905</u>
Expenditures:			
Current:			
Public works	<u>23,763,165</u>	<u>14,979,546</u>	<u>8,783,619</u>
Total expenditures	<u>23,763,165</u>	<u>14,979,546</u>	<u>8,783,619</u>
Excess (deficiency) of revenues over expenditures	<u>(12,346,965)</u>	<u>(726,441)</u>	<u>11,620,524</u>
Other financing sources (uses):			
Gain on sales of net assets	190,000	303,367	113,367
Transfers in	1,700,000	1,754,048	54,048
Transfers out	<u>(213,730)</u>	<u>(205,596)</u>	<u>8,134</u>
Total other financing sources and (uses)	<u>1,676,270</u>	<u>1,851,819</u>	<u>175,549</u>
Net changes in fund balances	(10,670,695)	1,125,378	11,796,073
Fund balances, July 1, 2005	<u>16,194,209</u>	<u>19,130,304</u>	<u>2,936,095</u>
Fund balances, June 30, 2006	<u>\$ 5,523,514</u>	<u>\$ 20,255,682</u>	<u>\$ 14,732,168</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Jail District Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Other Taxes	\$ 6,427,192	\$ 6,427,192	\$ 6,946,353	\$ 519,161
Charges for services	2,828,500	2,828,500	2,492,592	(335,908)
Investment earnings	32,005	32,005	60,578	28,573
Miscellaneous			3,527	3,527
Total revenues	<u>9,287,697</u>	<u>9,287,697</u>	<u>9,503,050</u>	<u>215,353</u>
Expenditures:				
Current:				
Sheriff	9,797,528	9,825,005	9,729,291	95,714
Debt service:				
Principal	1,840,000	1,840,000	1,925,000	(85,000)
Interest and other charges	733,649	733,649	647,789	85,860
Total expenditures	<u>12,371,177</u>	<u>12,398,654</u>	<u>12,302,080</u>	<u>96,574</u>
Excess (deficiency) of revenues over expenditures	(3,083,480)	(3,110,957)	(2,799,030)	311,927
Other financing sources (uses):				
Transfers in	2,750,078	2,750,078	2,184,576	(565,502)
Transfers out	(14,755)	(14,755)	(13,215)	1,540
Total other financing sources and (uses)	<u>2,735,323</u>	<u>2,735,323</u>	<u>2,171,361</u>	<u>(563,962)</u>
Net changes in fund balances	(348,157)	(375,634)	(627,669)	(252,035)
Fund balances, July 1, 2005	<u>2,774,747</u>	<u>2,774,747</u>	<u>2,264,348</u>	<u>(510,399)</u>
Fund balances, June 30, 2006	<u>\$ 2,426,590</u>	<u>\$ 2,399,113</u>	<u>\$ 1,636,679</u>	<u>\$ (762,434)</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2006

Note 1 – Budgeting and Budgetary Control

A.R.S. require the County to prepare and adopt a balanced budget annually for each governmental fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfer of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

Note 2 – Budgetary Basis of Accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles.

Note 3 – Expenditures in Excess of Appropriations

For the year ended June 30, 2006 expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund	
Recorder	\$ 312,560
Legal Defender	102,884
Sheriff	101,592
County Attorney	70,683
Medical Examiner	34,854
Superior Courts	31,871
School Superintendent	24,080
Public Fiduciary	7,543
Page Justice Court	654
Fredonia Justice Court	27

Departments may exceed their department's budget for various reasons, including unexpected events. When departments exceed their budget then it is noted and this is addressed with the departments in their subsequent budget meetings with the County Manager and the Board of Supervisors.

Coconino County
Required Supplementary Information
Schedule of Agent Retirement Plan's Funding Progress
June 30, 2006

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
6/30/2006	\$ 12,709,298	\$ 21,437,667	\$ (8,728,369)	59.3%	\$ 2,938,962	-297.0%
6/30/2005	12,653,376	20,465,237	(7,811,861)	61.8%	2,690,586	-290.3%
6/30/2004	12,735,847	17,648,766	(4,912,919)	72.2%	2,548,745	-192.8%

SUPPLEMENTARY INFORMATION

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Food Donation, passed through the Arizona Department of Education	10.550	ED05-0001-01	\$ 6,299
Child Nutrition Cluster, passed through the Arizona Department of Education			
School Breakfast Program	10.553	ED05-0001-01	9,439
National School Lunch Program	10.555	ED05-0001-01	14,340
Total Child Nutrition Cluster			<u>23,779</u>
Special Supplemental Nutrition Program for Women, Infants and Children, passed through the Arizona Department of Health Services	10.557	HG361074 HP561153-002	637,932
State Administrative Matching Grants for Food Stamp Program, passed through the Arizona Department of Health Services	10.561	HG661045	410,518
Commodity Supplemental Food Program, passed through the Arizona Department of Health Services	10.565	HG361100	9,331
WIC Farmers' Market Nutrition Program (FMNP), passed through the Arizona Department of Health Services	10.572	HG561261-0	542
Cooperative Forestry Assistance, passed through the Arizona State Land Department	10.664	SF 4002	38,305
Cooperative Forestry Assistance, passed through the University of Arizona	10.664	02-CA-11031600-023	10,000
Total Cooperative Forestry Assistance			<u>48,305</u>
Schools and Roads-Grants to States, passed through the Arizona State Treasurer	10.665	None	5,322,590
Total U.S. Department of Agriculture			<u>6,459,296</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants, passed through the City of Flagstaff	14.218	88C-05	60,617
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	115-06/116-06	186,791
Emergency Shelter Grants Program, passed through the Arizona Department of Economic Security	14.231	E6306011	13,466
Total U.S. Department of Housing and Urban Development			<u>260,874</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>958,986</u>
U.S. Department of Justice			
Juvenile Accountability Block Grants, passed through the Arizona Governor's Division for Children	16.523	JB-GRA-03-5273-03; JB-GRA-04-6273-03	13,605
Supervised Visitation, Safe Havens for Children	16.527		7,000
Missing Children's Assistance, passed through the Phoenix Police Department	16.543	2005-MC-CX-K009	9,809
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-06-051	27,496
Edward Byrne Memorial Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	PC-090-06 CRI-06-096	86,077
Drug Court Discretionary Grant Program	16.585		55,904
Edward Byrne Memorial Justice Assistance Grant, passed through the City of Flagstaff	16.738	2005-DJ-BX-0828	7,590
Edward Byrne Memorial Justice Assistance Grant, passed through the Arizona Supreme Court	16.738	AD-041-07	28,723
Total Edward Byrne Memorial Justice Assistance Grant			<u>36,313</u>
Total U.S. Department of Justice			<u>236,204</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
Senior Community Service Employment Program, passed through the Arizona Department of Economic Security WIA Cluster, passed through the Arizona Department of Economic Security	17.235	E6205052	\$ 19,235
WIA Adult Program	17.258	E5704003/E5705003	383,934
WIA Youth Activities	17.259	E5704003/E5705003	317,332
WIA Dislocated Workers	17.260	E5704003/E5705003	343,334
Total WIA Cluster			<u>1,044,600</u>
Total U.S. Department of Labor			<u>1,063,835</u>
U.S. Department of Transportation			
Federal Transit Cluster			
Federal Transit - Capital Investment Grants	20.500		2,902,222
Federal Transit - Formula Grants	20.507		1,512,059
Total Federal Transit Cluster			<u>4,414,281</u>
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2005-163-013 2005-PT-007	36,925
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Emergency Response Commission	20.703	None	683
Total U.S. Department of Transportation			<u>4,451,889</u>
U.S. Department of Education			
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	06FAARCC-670669-04A	51,381
Title I Program for Neglected and Delinquent Children, passed through the Arizona Supreme Court	84.013	26700	10,018
Special Education - Grants to States, passed through the Arizona Department of Education	84.027	06FESCBG-660594-01A	903
Special Education - Grants for Infants and Families with Disabilities, passed through the Arizona Department of Health Services	84.181	161004-9	29,520
Fund for the Improvement of Education	84.215		107,948
State Grants for Innovative Programs, passed through the Arizona Department of Education	84.298	06FAATVE-670669-01A	49,781
Education Technology State Grants, passed through the Arizona Department of Education	84.318		97,385
Reading First State Grants, passed through the Arizona Department of Education	84.357	06FSASRS-670669-02A	52,455
English Language Acquisition Grants, passed through the Arizona Department of Education	84.365	06FAAENG-670669-08A	12,017
Mathematics and Science Partnerships, passed through the Arizona Department of Education	84.366	06FAAMS2-670669-05A	46,040
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	06FAAIEQ-670669-03A 26700	46,036
Total U.S. Department of Education			<u>503,484</u>
Elections Assistance Commission			
Help America Vote Act Requirements Payments, passed through the Arizona Secretary of State	90.401		541,415

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
Aging Cluster, passed through the Northern Arizona Council of Governments			
Special Programs for the Aging-Title III, Part B-Grants for			
Supportive Services and Senior Centers	93.044	866000441ba	\$ 127,241
Nutrition Services Incentive Program	93.053	866000441ba	169,753
Total Aging Cluster			<u>296,994</u>
Family Planning - Services, passed through the Arizona Family Planning Council	93.217	None	44,449
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG352210	140,433
Centers for Disease Control and Prevention - Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252034	386,148
Temporary Assistance for Needy Families, passed through the Arizona Department of Economic Security	93.558	E6306011	149,999
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	E7205005/E7205305	28,329
Low-Income Home Energy Assistance, passed through the Arizona Department of Economic Security	93.568	E6306011	144,713
Community Services Block Grant, passed through the Arizona Department of Economic Security	93.569	E6306011	151,846
Voting Access for Individuals with Disabilities - Grants to States, passed through the Arizona Secretary of State	93.617		16,550
Social Services Block Grant, passed through the Arizona Department of Economic Security	93.667	E6306011	16,536
Social Services Block Grant, passed through the Northern Arizona Council of Governments	93.667	866000441ba, 866000441bb	146,099
Total Social Services Block Grant			<u>162,635</u>
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations, passed through the Arizona Department of Economic Security	93.779	E2308327	38,931
HIV Care Formula Grants, passed through the Arizona Department of Health Services	93.917	HG552274	363,329
HIV Prevention Activities--Health Department Based, passed through the Arizona Department of Health Services	93.940	HG454515, HG352237, HP454174-001	210,373
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		19,579
Preventative Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	HG354178, HG461341	95,502
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HP461323-006, 261181,HG361136, HP461413-012	239,578
Total U.S. Department of Health and Human Services			<u>2,489,388</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Corporation for National and Community Service			
Americorps, passed through the Arizona Governor's Office for Children, Youth and Families	94.006	ACVSG-04-5031-001/ AD030052-002y2	\$ 246,681
U.S. Department of Homeland Security			
Emergency Food and Shelter National Board Program, passed through the United Way	97.024	None	19,572
Disaster Grants-Public Assistance (Presidentially Declared Disasters), passed through the Arizona Department of Emergency and Military Affairs	97.036	ADEM/FEMA-1581-DR- AZ-005-99005-00	991,857
Law Enforcement Terrorism Prevention Program (LETPP), passed through the Arizona Department of Emergency and Military Affairs	97.074	2004-GE-T4-0051	186,624
Total U.S. Department of Homeland Security			<u>1,198,053</u>
Homeland Security Grant Program Cluster			
U. S. Department of Justice:			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department of Emergency and Military Affairs	97.004	2003-TE-TX-0196, 2003-MU-T3-0034,	135,855
U.S. Department of Homeland Security:			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department of Emergency and Military Affairs	97.004	2004-GE-T4-0051	129,220
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	None	49,972
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	2004-GE-T4-0051	16,121
State Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.067	2005-GE-T5-0051	75,844
Total U.S. Department of Homeland Security			<u>271,157</u>
Total Homeland Security Grant Program Cluster			<u>407,012</u>
Total Expenditures of Federal Awards			<u>\$ 18,817,117</u>

See accompanying notes to schedule.

Coconino County, Arizona
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

NOTE 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Coconino County, Arizona, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The \$6,299 reported on the schedule for Food Donation (CFDA number 10.550) and \$140,433 of the Immunization Grants amount (CFDA number 93.268) represent the value of noncash assistance expended from these federal program.

NOTE 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2006 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - Subrecipients

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Schools and Roads - Grants to States	10.665	\$ 1,332,534
HIV Care Formula Grants	93.917	125,277
State Domestic Preparedness		
Equipment Support Program	97.004	20,874
Crime Victim Compensation	16.576	27,496

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards**

Auditor General of the State of Arizona

The Board of Supervisors of
Coconino County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coconino County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 8, 2007. 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 the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 basic 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 the County's basic 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*.

We noted certain other matters that we reported to management of the County in a separate letter dated June 8, 2007.

This report is intended solely for the information and use of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Festa & Chapman P.C.

June 8, 2007

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Auditor General of the State of Arizona

The Board of Supervisors of
Coconino County, Arizona

Compliance

We have audited the compliance of Coconino County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The County's major federal programs are identified in the summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Coconino County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Festa & Chapman P. C.

June 8, 2007

Coconino County, Arizona
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006

Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:

Unqualified

	Yes	No
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Material weaknesses identified in internal control over financial reporting?

X

Reportable conditions identified not considered to be material weaknesses?

X
(None Reported)

Noncompliance material to the financial statements noted?

X

Federal Awards

Material weakness identified in internal control over major programs?

X

Reportable conditions identified not considered to be material weaknesses?

X
(None Reported)

Type of auditors report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section Circular A-133 (section 510[a])?

X

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplement Nutrition Program for Women, Infants, and Children
10.665	Schools and Roads - Grants to States
15.226	Payments in Lieu of Taxes
	Workforce Investment Act Cluster
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
	Federal Transit Cluster
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 564,514

Auditee qualified as low-risk auditee?

X

Other Matters

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with Circular A-133 (section .315[b])?

X

Coconino County, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None

Coconino County, Arizona
 Summary Schedule of Prior Audit Findings
 Year Ended June 30, 2006

Status of Federal Award Findings and Questioned Costs

<p>CFDA No.: 10.665 Finding No.: 05-101 Status: Fully Corrected</p>	<p>Schools and Roads - Grants to States</p> <p>The County now includes Davis-Bacon requirements in its construction contracts.</p>
<p>Finding No.: 04-101 Status: Fully Corrected</p>	<p>Changes to the County's Purchasing Policy were approved by the Board of Supervisors on May 2, 2006.</p>
<p>CFDA No.: 93.917 16.007 97.004 97.042 97.053</p>	<p>HIV Care Formula Grants State Domestic Preparedness Equipment Support Program State Domestic Preparedness Equipment Support Program Emergency Management Performance Grants Citizen Corps</p>
<p>Finding No.: 05-102 Status: Partially Corrected</p>	<p>The County implemented internal control procedures to comply with federal requirements, and is in the process of obtaining audit reports from all subrecipients. In addition, CFDA numbers 97.004, 97.042, and 97.053 did not pass monies to subrecipients, therefore this finding is no longer applicable for these CFDA numbers.</p>
<p>CFDA No.: 20.500 20.507 Finding No.: 05-103 Status: Fully Corrected</p>	<p>Federal Transit - Capital Investment Grants Federal Transit - Formula Grants</p> <p>The County implemented a new account system to properly identify and account for federal expenditures.</p>
<p>CFDA No.: 10.557 Finding No.: 05-104 Status: Fully Corrected</p>	<p>Special Supplemental Nutrition Program for Women, Infants, and Children</p> <p>The County implemented a new account system to properly account for federal expenditures and the \$27,041 in WIC funds has been disbursed.</p>
<p>Finding No.: 04-103 Status: Fully Corrected</p>	<p>A transfer was made on December 27, 2005 to pay for prior-year unpaid indirects.</p>
<p>CFDA No.: 93.568 93.569 Finding No.: 04-102 Status: Fully Corrected</p>	<p>Low-Income Home Energy Assistance Community Services Block Grant</p> <p>The Community Services Department made changes to their procedures as of August 29, 2005.</p>