

Single Audit

Coconino County
Year Ended June 30, 2007

Coconino County
Single Audit Reporting Package
Year Ended June 30, 2007

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Single Audit Reporting Package
Year Ended June 30, 2007

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Independent Auditors' Report

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, 2007, 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, 2007, 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.

As described in Note 1, the County retroactively reported all major general infrastructure assets as part of the phased implementation requirements of GASB statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The Management's Discussion and Analysis on pages i through xi, 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 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2008, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Fester & Chapman P.C.

August 4, 2008



COCONINO COUNTY ARIZONA

FINANCE DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Coconino County (the County) offers the following narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2007 and is designed to give the reader an easy-to-understand discussion of the County's financial position and results of operations for current fiscal year. Please consider this information in conjunction with the County's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2007

- The assets of the County exceeded its liabilities at the close of fiscal year 2007 by \$208.01 million (net assets). Of these \$64.11 million (unrestricted net assets) may be used to meet the governments ongoing obligations to citizens and creditors.
- The total increase in the County's net assets was \$1.31 million in fiscal year 2007. Normal operations increased net assets by \$10.11 million. However, the transition of the County's transportation program to the Northern Arizona Intergovernmental Public Transportation Authority (NAIPTA), a separate legal entity in fiscal 2007, and the settlement of a tax judgment reduced net assets by \$8.80 million.
- The County completed adding retroactive infrastructure and associated land to capital assets in fiscal year 2007, increasing beginning net assets by \$31.79 million.
- At the close of fiscal year 2007, the County's governmental funds reported combined ending fund balances of \$95.84 million, an increase of \$5.16 million. Approximately 78.78% of the fund balance, \$75.51 million, is unreserved fund balance available for spending at the County's discretion.
- The General Fund reported an unreserved fund balance of \$33.99 million at the close of fiscal year 2007, an increase of \$4.37 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private sector business.

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*.

The Statement of Net Assets presents information on 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 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, such as revenues pertaining to uncollected taxes and expense pertaining to earned but unused vacation and sick 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. *The government-wide financial statements can be found on pages 1-2 of this report.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant County funds—not the County as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law or 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. All of the County's funds can be divided into three categories: *governmental, proprietary and fiduciary*.

Governmental funds—Most of the County's basic services are reported in governmental funds, which focus on near-term inflows and outflows of spendable resources and the balances of spendable resources available at year-end. 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. The governmental fund statements provide a detailed *short-term view* of the County's 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.

Because the focus of the governmental funds is narrower than that of the government-wide statements it is useful to compare the information presented for the governmental funds with similar information presented for the governmental activities in the government-wide financial statements. Reconciliations 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 provided to facilitate this comparison.

The County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, and the Public Works/HURF Fund, Jail District Fund, and Debt Service Fund, considered to be major funds. Data from the other governmental funds are combined into a single aggregate presentation. *The basic governmental fund financial statements can be found on pages 3-8 of this report.*

Proprietary funds—The County uses one type of proprietary fund, an internal service fund, to report fleet service activities provided 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 basic proprietary fund financial statements can be found on pages 9-11 of this report.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiduciary Funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. *The basic fiduciary funds financial statements can be found on pages 12-13 of this report.*

Notes to the financial statements—The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. *The notes to the financial statements can be found on pages 14-37 of this report.*

Required supplementary information—In addition to the basic statements and accompanying notes the report presents required supplementary information on the County's budgeting and budgetary control and the County's progress in funding its obligation to provide pension benefits to its employees. *Required supplementary information can be found on pages 38-43 of this report.*

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets may serve over time as a useful indicator of a County's financial position. The following table reflects the condensed Statement of Net Assets of the County for June 30, 2007 compared to the prior year.

	Governmental Activities (in millions)	
	2007	2006
Current and other assets	\$ 114.59	\$ 111.19
Capital assets	139.69	114.90
Total assets	254.28	226.09
Current liabilities	9.32	10.32
Long-term liabilities outstanding	36.95	40.87
Total liabilities	46.27	51.19
Net assets:		
Invested in capital assets, net of related debt	106.91	77.94
Restricted	36.99	39.76
Unrestricted	64.11	57.20
Total net assets	\$ 208.01	\$ 174.90

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's net assets from governmental activities at the end of the fiscal year were \$208.01 million. The increase of \$33.11 million comes from the change in net assets as recorded in the Statement of Activities of \$1.32 million, and the restatement of beginning net assets for retroactive infrastructure of \$31.79 million. A large portion of the County's net assets (51.40%) 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

51.40% of the County net assets (\$106.91 million) are invested in capital assets (e.g. land, buildings, equipment, and infrastructure), net of related debt. These assets are used to provide services to citizens and are not available for future spending. The County's capital assets, net of related debt, increased by 37.17% (\$28.97 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, the addition of retroactive infrastructure, and the deletion of the transportation programs capital assets.

Restricted Net Assets

17.78% of the County's net assets (\$36.99 million) are subject to external restrictions on how they may be used. The County's restricted net assets decreased by 6.91% (\$2.77 million) in the current fiscal year.

Unrestricted Net Assets

The remaining balance of the County's net assets, 30.82% (\$64.11 million), is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants or other legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities

The Statement of Activities presents information on how the County's net assets changed during the most current fiscal year. The following table reflects the condensed Statement of Activities of the County for the fiscal year 2007 compared to the prior year.

Governmental Activities		
(in millions)		
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 17.77	\$ 17.97
Operating grants and contributions	33.70	39.36
Capital grants and contributions	0.13	1.94
Total program revenue	<u>51.60</u>	<u>59.27</u>
General revenues:		
State shared revenue	23.82	22.23
Sales taxes	25.40	21.66
Property taxes	11.13	10.42
Grants and contributions not restricted to specific programs	1.64	1.81
Investment earnings	4.49	0.75
Gain on disposal of capital assets	0.16	0.75
Miscellaneous	0.02	0.05
Total general revenue	<u>66.66</u>	<u>57.67</u>
Total revenues	<u>118.26</u>	<u>116.94</u>
Special item - loss on closure of activity	7.28	
Program Expenses		
General government	30.14	26.87
Public safety	29.17	27.58
Highways and streets	18.70	9.55
Sanitation	3.14	3.01
Health	11.58	11.16
Welfare	5.90	5.59
Culture and recreation	5.63	4.93
Education	3.81	3.73
Transportation	-	4.17
Interest on long-term debt	1.60	1.76
Total program expenses	<u>109.67</u>	<u>98.35</u>
Change in net assets	<u>1.31</u>	<u>18.59</u>
Net assets, beginning, as restated	<u>206.70</u>	<u>156.31</u>
Net assets, ending	<u>\$ 208.01</u>	<u>\$ 174.90</u>

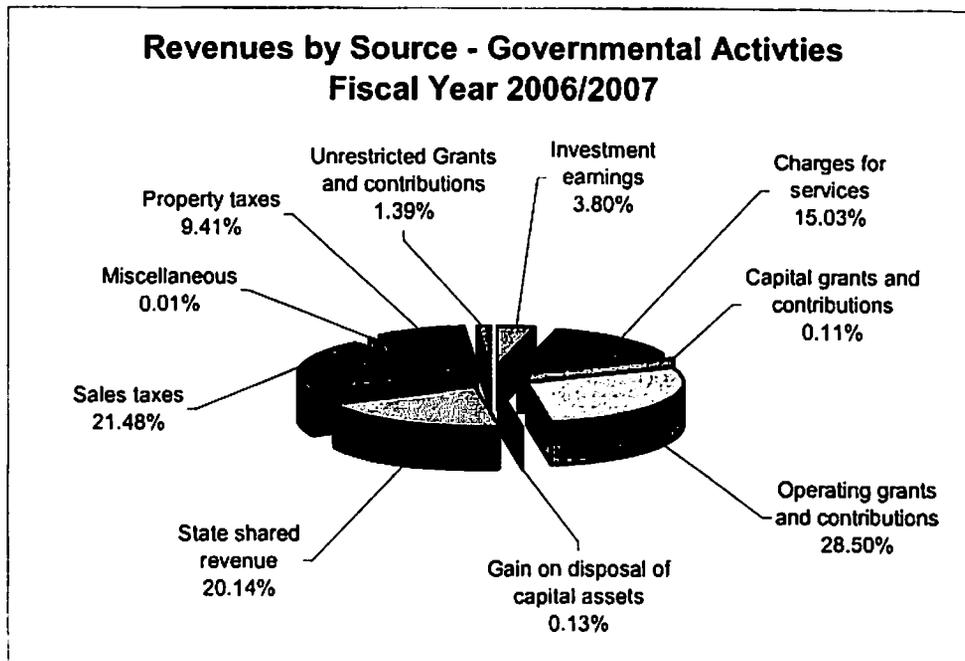
Overall revenues increased by 1.13% and program expenses increased by 11.51% in the current fiscal year.

Operating grants and contributions decreased by \$5.66 million or 14.38% and capital grants decreased by \$1.81 million or 93.30% as a result of the transportation program becoming a separate governmental entity in the current fiscal year. Sales taxes increased

MANAGEMENT'S DISCUSSION AND ANALYSIS

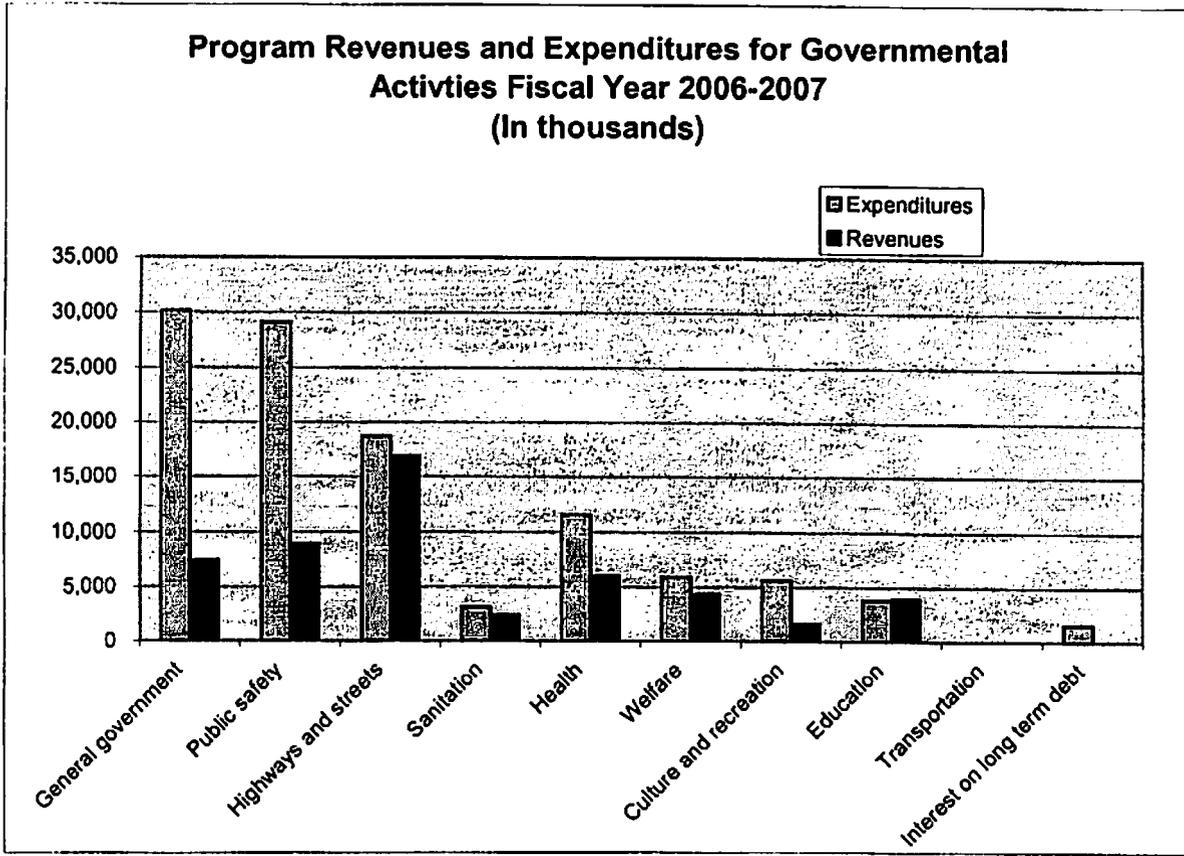
17.27% primarily due to increasing the Jail District sales tax rate from .33% to .50%. Investment earnings received in the current fiscal year increased by 32.37% because of an increase in the average earnings rate from 2.87% to 3.89% and a decrease in the average monthly investment of \$1.04 million; however, the reversal of capital losses in fiscal year 2006, due to declines in market values versus cost, caused investment earnings reported to increase by 498.67%. Gain on disposal of capital assets decreased by 78.67% because very little heavy equipment was disposed of this year.

As mentioned earlier the County's transportation program was transitioned to the Northern Arizona Intergovernmental Public Transportation Authority (NAIPTA), a separate governmental entity in fiscal 2007, which was recorded in the Statement of Activities as a special item resulting in a \$7.28 million loss.



Highways and Streets expenditures in the current fiscal year were for road repairs and minor reconstructions rather than major road reconstructions and new road construction and included an increase in depreciation expense with the addition of depreciation for retroactive infrastructure resulting in a combined increase of 95.81% in expenses. Culture and recreation expense increased 14.20% in the current fiscal year due to increases in depreciation expense and increased funding for libraries. There were no transportation expenses in the current fiscal year because the transportation program became a separate governmental entity.

MANAGEMENT'S DISCUSSION AND ANALYSIS



As shown in the “Revenues by Source for Governmental Activities” chart and “Program Revenues and Expenditures for Governmental Activities” chart, for governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (28.50%), followed by sales tax (21.48%), and state shared revenue (20.14%). General government is the largest function in expense (27.48%), followed by Public safety (26.60%), and highways and streets (17.05%).

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County reported four major funds for this fiscal year – General Fund, Public Works/HURF, Jail District, and Debt Service. At year-end the County's governmental funds reported combined fund balances of \$95.84 million, which is an increase of \$5.16 million from last year or a change of 5.69%. Of the total, \$75.51 million constitutes unreserved fund balance. Substantially all of the remainder of fund balance, \$20.33 million, is reserved to pay debt service.

Revenues for governmental functions overall increased by \$1.80 million, an increase of 1.54%, and expenditures for governmental functions decreased by \$3.03 million, a decrease of 2.61%, in the current fiscal year. Governmental function revenues exceeded governmental fund expenditures by \$5.58 million in the current fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$33.99 million. Unreserved fund balances represents 68.09% 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 \$4.37 million primarily because actual revenues exceeded budgeted revenues by \$3.84 million and transfers out were under budget by \$1.91 million. The General Fund also had an expenditure of \$1.44 million dollars to settle a tax judgment.

The Public Works/HURF Fund's fund balance decreased by \$2.48 million in the current fiscal year. The primary factor in this decrease was increased expenditures for road repair projects.

The Jail District Fund's fund balance increased by \$2.21 million in the current fiscal year. The increase was primarily the result of increasing the Jail District sales tax rate from .33% to .50%.

The Debt Service Fund's fund balance decreased by \$2.01 million in the current year as a result of normal payments for debt service.

General Fund Budgetary Highlights

- The final budgeted expenditures for the General Fund at year-end were \$2.07 million less than the original adopted budget. This decrease offset increases in other fund's budgets keeping the overall County budget from exceeding the adopted budget ceiling. For the General Fund actual revenues exceeded final budget by \$3.84 million while actual expenditures were \$20.62 million less than budget.
- The budget variance for revenues in the General Fund was primarily due to unanticipated growth in state shared sales tax and general county sales tax. 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.

Capital Assets and Debt Administration

Capital Assets

During the current fiscal year, the County completed and continued various construction projects that added \$1.88 million to the County's building inventory, \$2.46 million to the County's machinery and equipment inventory, and \$11.26 million to the County's infrastructure inventory. The County added \$31.79 to the County's capital asset inventory for retroactive infrastructure and associated land assets that were started and/or completed prior to July 1, 2002, and deleted \$6.49 million for the transportation program which became a separate governmental entity in the current fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reflects the changes in capital assets for the County for the fiscal year 2007 compared to fiscal year 2006, prior to restatement.

	Governmental Activities (net of depreciation) (in millions)	
	2007	2006
Land	\$ 22.41	\$ 13.75
Buildings	60.07	63.04
Machinery and Equipment	11.77	14.23
Infrastructure	43.31	13.41
Construction in Progress	2.13	10.47
Total	<u>\$ 139.69</u>	<u>\$ 114.90</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County utilizes a Ten-Year Financial Plan, which is updated quarterly, to forecast the County's financial future. Various sales taxes constitute over 64.91% of the County's government-wide general revenues and over 57.42% of General Fund revenues. This makes the County's revenues sensitive to slumps in the economy. Based on historical trends, local economic trends and national and global economic trends the County's fiscal 2008 budget is forecasting county sales taxes to increase 4% and state shared sales tax to increase 5% in fiscal 2008, smoothing to 3% and 2% respectively by the end of the ten-year forecast period. Overall revenues and General Fund revenues are estimated to increase by approximately 7.0% and 3.75% respectively in fiscal 2008. Expenditures were planned on a recessionary growth scenario of 2% for the next two years. Revenue increases above a 2% increase in sales taxes will be used to fund one-time mission critical type projects.

The major issues addressed in the fiscal 2008 budget are:

- Phase I of a multi-year comprehensive pay plan
- Addressing health insurance and retirement plan increases
- Funding for increased mandated costs and revenue shifts
- Increased funding for and possible defecasance of existing County debt
- Increased funding for capital repair and replacement
- Increase funding for Information Technology infrastructure
- Implementation of a Facilities Master Plan
- Matching recurring expenditures with recurring revenue streams

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's financial planning is based on conservative revenue estimates and the use of a strategic planning process to focus the expenditure of limited resources on meeting the current and future needs of its citizens.

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, 2007

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 87,069,631
Investments	725,292
Cash and investments held by trustee	6,207,936
Receivables (net of allowance for uncollectibles):	
Property taxes	245,064
Accounts	1,562,990
Special assessments	2,620,996
Jail district sales tax	2,323,170
Accrued interest	680,299
Due from other governments	12,833,170
Inventories	291,138
Prepaid items	35,883
Capital assets, not being depreciated	24,549,125
Capital assets, being depreciated, net	115,142,592
Total assets	254,287,286
 Liabilities	
Accounts payable	4,276,078
Accrued payroll and employee benefits	2,526,281
Tax judgment payable	1,513,706
Due to other governments	186,122
Deposits held for others	111,613
Bond interest payable	710,560
Noncurrent liabilities	
Due within 1 year	7,042,449
Due in more than 1 year	29,908,418
Total liabilities	46,275,227
 Net Assets	
Invested in capital assets, net of related debt	106,913,167
Restricted for:	
Highways and streets	21,419,503
Education	858,623
Debt service	12,184,053
Capital projects	1,390,410
Culture and recreation	1,142,305
Unrestricted	64,103,998
Total net assets	\$ 208,012,059

See accompanying notes to financial statements.

Coconino County
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Primary government:					
Governmental activities:					
General government	\$ 30,137,861	\$ 4,322,299	\$ 3,082,827		\$ (22,732,735)
Public safety	29,170,427	4,132,207	4,819,722		(20,218,498)
Highways and streets	18,699,298	3,459,682	13,390,888	\$ 41,206	(1,807,522)
Sanitation	3,138,878	1,437,621	972,053	11,889	(717,315)
Health	11,575,909	1,520,902	4,460,531		(5,594,476)
Welfare	5,902,878	1,599,249	2,756,325		(1,547,304)
Culture and recreation	5,628,042	1,188,201	376,601	81,025	(3,982,215)
Education	3,816,081	107,301	3,836,522		127,742
Interest on long-term debt	1,602,303				(1,602,303)
Total governmental activities	\$ 109,671,677	\$ 17,767,462	\$ 33,695,469	\$ 134,120	(58,074,626)

General revenues:

Taxes:		
Property taxes, levied for general purposes		7,011,847
Property taxes, levied for library		1,263,035
Property taxes, levied for flood control		2,860,021
General county sales tax		12,384,595
Jail district sales tax		9,691,689
Parks and open spaces sales tax		3,076,949
Excise tax		111,593
Franchise tax		134,640
Shared revenue - state sales tax		18,125,003
Shared revenue - state vehicle license tax		5,695,838
Grants and contributions not restricted to specific programs		1,646,585
Investment earnings		4,489,537
Gain on disposal of capital assets		158,415
Miscellaneous		23,279
Special item		(7,282,396)
Total general revenues and special item		59,390,630
Change in net assets		1,316,004
Net assets, July 1, 2006, as restated		206,696,055
Net assets, June 30, 2007	\$	208,012,059

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Public Works/Hurf Fund	Jail District Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 33,938,840	\$ 16,784,877	\$ 1,228,389	\$ 12,220,091	\$ 20,565,839	\$ 84,738,036
Investments					725,292	725,292
Cash and investments held by trustee			2,327,294	2,429,942	1,450,700	6,207,936
Receivables (net of allowances for uncollectibles):						
Property taxes	149,620				95,444	245,064
Accounts	116,198	1,976	785,295		644,390	1,547,859
Special assessments					2,620,996	2,620,996
Jail district sales tax			2,323,170			2,323,170
Accrued interest	231,863	121,953	14,656	98,653	197,302	664,427
Advances to other funds					725,634	725,634
Due from:						
Other funds	1,484,635	160,312	161,435		6,688,597	8,494,979
Other governments	6,919,082	2,099,938	420,114		3,394,036	12,833,170
Inventories	30,780					30,780
Prepaid items	29,843				6,040	35,883
Total assets	\$ 42,900,861	\$ 19,169,056	\$ 7,260,353	\$ 14,748,686	\$ 37,114,270	\$ 121,193,226

(Continued)

See accompanying notes to financial statements.

Coconino County
Balance Sheet
Governmental Funds
June 30, 2007
(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>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,649,199	\$ 746,485	\$ 312,700		\$ 1,393,207	\$ 4,101,591
Accrued payroll and employee benefits	1,165,330	263,414	305,248		706,066	2,440,058
Advances from other funds					725,634	725,634
Due to:						
Other funds	4,431,424	388,629	478,336		3,494,008	8,792,397
Other governments	3,164		26,370		156,588	186,122
Tax judgements payable	1,447,293				66,413	1,513,706
Deposits held for others	41,023				70,590	111,613
Bond interest payable			280,618	\$ 429,942		710,560
Certificates of participation and revenue bonds payable			2,010,000	2,000,000		4,010,000
Deferred revenue	115,968				2,641,200	2,757,168
Total liabilities	<u>8,853,401</u>	<u>1,398,528</u>	<u>3,413,272</u>	<u>2,429,942</u>	<u>9,253,706</u>	<u>25,348,849</u>
Fund balances:						
Reserved for:						
Inventories	30,780					30,780
Prepaid items	29,843				6,040	35,883
Debt service					7,948,353	7,948,353
Unreserved, reported in:						
General fund	33,986,837					33,986,837
Special revenue funds		17,770,528	3,847,081		17,937,414	39,555,023
Capital projects funds					1,968,757	1,968,757
Debt service fund				12,318,744		12,318,744
Total fund balances	<u>34,047,460</u>	<u>17,770,528</u>	<u>3,847,081</u>	<u>12,318,744</u>	<u>27,860,564</u>	<u>95,844,377</u>
Total liabilities and fund balances	<u>\$ 42,900,861</u>	<u>\$ 19,169,056</u>	<u>\$ 7,260,353</u>	<u>\$ 14,748,686</u>	<u>\$ 37,114,270</u>	<u>\$121,193,226</u>

See accompanying notes to financial statements.

Coconino County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2007

Fund balances—total governmental funds	\$ 95,844,377
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.	138,118,242
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	2,757,166
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.	4,233,141
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(32,940,867)</u>
Net assets of governmental activities	<u>\$ 208,012,059</u>

See accompanying notes to financial statements.

Coconino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 6,895,879				\$ 4,049,045	\$ 10,944,924
Other taxes	16,083,722	\$ 2,243,784	\$ 9,691,689		3,077,307	31,096,502
Special assessments					800,422	800,422
Licenses and permits	1,445,839	23,485			942,946	2,412,270
Fees, fines, and forfeits	1,459,662	1,000			497,381	1,958,043
Intergovernmental	21,705,060	10,980,999			20,238,394	52,924,453
Charges for services	3,258,684		2,956,912		6,197,434	12,413,030
Investment earnings	1,819,120	959,442	84,630	\$ 787,186	1,426,423	5,076,801
Contributions	152,131				268,564	420,695
Miscellaneous	317,117	5,196	9,447		349,561	681,321
Total revenues	<u>53,137,214</u>	<u>14,213,906</u>	<u>12,742,678</u>	<u>787,186</u>	<u>37,847,477</u>	<u>118,728,461</u>
Expenditures:						
Current:						
General government	26,466,590				3,130,275	29,596,865
Public safety	10,931,766		10,697,777		6,409,607	28,039,150
Highways and streets	611,183	19,039,997			246,929	19,898,109
Sanitation					2,909,863	2,909,863
Health	3,384,015				8,019,841	11,403,856
Welfare	297,411				5,695,817	5,993,228
Culture and recreation	908,616				4,819,367	5,727,983
Education	418,076				3,255,032	3,673,108
Debt service:						
Principal			2,010,000	2,000,000	293,256	4,303,256
Interest and other charges			566,908	867,065	168,330	1,602,303
Total expenditures	<u>43,017,657</u>	<u>19,039,997</u>	<u>13,274,685</u>	<u>2,867,065</u>	<u>34,948,317</u>	<u>113,147,721</u>
Excess (deficiency) of revenues over expenditures	<u>10,119,557</u>	<u>(4,826,091)</u>	<u>(532,007)</u>	<u>(2,079,879)</u>	<u>2,899,160</u>	<u>5,580,740</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, 2007
(Continued)

	General Fund	Public Works/HURF Fund	Jail District Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):						
Sale of capital assets	\$ 363,082	\$ 5,234			\$ 378	\$ 368,694
Special item - loss on closure of activity					(791,550)	(791,550)
Transfers in	788,313	2,556,574	\$ 2,753,042	\$ 66,367	6,770,699	12,934,995
Transfers out	(6,897,866)	(220,871)	(10,633)		(5,805,625)	(12,934,995)
Total other financing sources and uses	<u>(5,746,471)</u>	<u>2,340,937</u>	<u>2,742,409</u>	<u>66,367</u>	<u>173,902</u>	<u>(422,856)</u>
Net change in fund balances	4,373,086	(2,485,154)	2,210,402	(2,013,512)	3,073,062	5,157,884
Fund balances, July 1, 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>
Fund balances, June 30, 2007	<u>\$ 34,047,460</u>	<u>\$ 17,770,528</u>	<u>\$ 3,847,081</u>	<u>\$ 12,318,744</u>	<u>\$ 27,860,564</u>	<u>\$ 95,844,377</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
 Year Ended June 30, 2007

Net change in fund balances—total governmental funds		\$ 5,157,884
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	\$ 6,572,310	
Depreciation expense	<u>(7,030,074)</u>	(457,764)
<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>		
		(236,519)
<p>Governmental funds only report the net effect on current assets and liabilities for the closure of an activity. However, in the Statement of Activities the effect of the closure on capital assets is reported. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets of the closed activity.</p>		
		(6,490,846)
<p>Revenues in the Statement of Activities that were recognized in a prior year which are reported as current financial resources of government funds.</p>		
		(783,193)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
Principal repaid		4,303,256
<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>		
		(266,943)
<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 internal service fund is reported with governmental activities in the Statement of Activities.</p>		
		<u>90,129</u>
Change in net assets of governmental activities		<u>\$ 1,316,004</u>

See accompanying notes to financial statements.

Coconino County
Statement of Net Assets
Proprietary Fund
June 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,331,595
Receivables (net of allowances for uncollectibles):	
Accounts	15,132
Accrued interest	15,872
Due from other funds:	310,585
Inventories	260,358
Total current assets	<u>2,933,542</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation:	
Buildings, net	82,136
Equipment, net	<u>1,491,339</u>
Capital assets, net	<u>1,573,475</u>
Total noncurrent assets	<u>1,573,475</u>
Total assets	<u>4,507,017</u>
Liabilities	
Current liabilities:	
Accounts payable	174,486
Accrued payroll and employee benefits	86,223
Due to other funds	<u>13,167</u>
Total current liabilities	<u>273,876</u>
Total liabilities	<u>273,876</u>
Net Assets	
Invested in capital assets, net of related debt	1,573,475
Unrestricted	<u>2,659,666</u>
Total Net Assets	<u><u>\$ 4,233,141</u></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, 2007

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 3,163,769
Total operating revenues	3,163,769
 Operating expenses:	
Personal services	614,896
Professional services	99,120
Supplies	1,786,634
Utilities	26,662
Repairs and maintenance	150,100
Travel	6,159
Depreciation	550,659
Total operating expenses	3,234,230
Operating loss	(70,461)
 Nonoperating revenues:	
Investment earnings	120,299
Gain on disposal of capital assets	40,291
Total nonoperating revenues	160,590
Increase in net assets	90,129
 Total net assets, July 1, 2006	4,143,012
 Total net assets, June 30, 2007	\$ 4,233,141

See accompanying notes to financial statements.

Coconino County
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2007

	<u>Governmental Activities- Internal Service Fund</u>
Cash flows from operating activities:	
Receipts from other funds for services provided	\$ 3,401,336
Payments to suppliers and providers of goods and services	(2,004,387)
Payments to employees	(609,992)
Net cash provided by operating activities	<u>786,957</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	48,561
Purchases of capital assets	(739,408)
Net cash used for capital and related financing activities	<u>(690,847)</u>
Cash flows from investing activities:	
Interest received on investments	<u>123,046</u>
Net cash provided by investing activities	<u>123,046</u>
Net increase in cash and cash equivalents	219,156
Cash and cash equivalents, July 1, 2006	<u>2,112,439</u>
Cash and cash equivalents, June 30, 2007	<u>\$ 2,331,595</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (70,461)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	550,659
Changes in assets and liabilities:	
Increase in:	
Inventories	(7,714)
Accounts payable	65,843
Accrued payroll and employee benefits	11,063
Decrease in:	
Accounts Receivable	1,902
Due from other funds	241,033
Due to other funds	(5,368)
Net cash provided by operating activities	<u>\$ 786,957</u>

See accompanying notes to financial statements.

Coconino County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Investment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 89,187,586	\$ 589,381
Cash and investment held by trustee		1,580,256
Interest and dividends receivable	771,822	
Total assets	89,959,408	\$ 2,169,637
Liabilities		
Deposits held for others		\$ 1,944,005
Due to other governments		225,632
Total liabilities		\$ 2,169,637
Net Assets		
Held in trust for investment trust participants	\$ 89,959,408	

See accompanying notes to financial statements.

Coconino County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2007

	Investment Trust Funds
Additions:	
Contribution from participants	\$ 327,473,980
Investment earnings	8,280,642
Total additions	335,754,622
Deductions:	
Distributions to participants	326,701,024
Total deductions	326,701,024
Change in net assets	9,053,598
Net assets, July 1, 2006	80,905,810
Net assets, June 30, 2007	\$ 89,959,408

See accompanying notes to financial statements.

Coconino County
Notes to Financial Statements
June 30, 2007

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).

For the year ended June 30, 2007, the County implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments* that requires at the applicable transition date the retroactive capitalization and reporting of all major general infrastructure assets.

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 government-wide 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	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
Notes to Financial Statements
June 30, 2007

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
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 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	Not available

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.

Coconino County
Notes to Financial Statements
June 30, 2007

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.

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 and expenses 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

Coconino County
Notes to Financial Statements
June 30, 2007

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.

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 accounts for highway user fees restricted to the construction, repair and maintenance of county roads.

The Jail District Fund accounts for jail operations and jail capital improvements that are funded by a one-half cent sales tax.

The Debt Service Fund accounts 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 districts, and special districts.

Coconino County
Notes to Financial Statements
June 30, 2007

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 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 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 subject 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.

Coconino County
Notes to Financial Statements
June 30, 2007

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.

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 in the government-wide and proprietary funds' financial statements 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.

Coconino County
Notes to Financial Statements
June 30, 2007

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.

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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	15-50 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 government-wide and proprietary fund's financial statements.

Coconino County
Notes to Financial Statements
June 30, 2007

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. This is done 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.

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, 2007, the following funds reported deficits in fund balances.

Fund	Deficit
Improvement districts	\$ 578,696
Sheriff	63,747
Parks and recreation	37,203
Health	28,267
Public works	744

The County expects the fund deficits listed above to be corrected through normal operations, or for the Improvement Districts from National Forest Fees Fund transfers in fiscal year 2008.

Coconino County
Notes to Financial Statements
June 30, 2007

Note 3 – Beginning Balances Restated

As a result of the addition of infrastructure assets that were started and/or completed prior to July 1, 2002, as required by GASB 34 the County’s net assets as of June 30, 2006, have been restated. The reconciliation below summarized these changes.

	<u>Governmental Activities</u>
Net assets as of June 30, 2006, as previously reported	\$ 174,903,540
Addition of infrastructure assets started and/or completed prior to July 1, 2002	<u>31,792,515</u>
Restated net assets as of July 1, 2006	<u><u>\$ 206,696,055</u></u>

Note 4 – 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.

Credit Risk

Statutes have 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.

Coconino County
Notes to Financial Statements
June 30, 2007

Custodial credit risk

Statutes required collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow for foreign investments.

Deposits—At June 30, 2007, the carrying amount of the County's deposits was \$1,592,031 and the bank balance was \$3,293,403. The County does not have a formal policy with respect to custodial credit risk.

Investments— The County's investments at June 30, 2007, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 153,937,402
Money market mutual funds	6,669,933
Repurchase agreements (implicitly guaranteed)	11,022,049
State treasurer's investment pools	8,076,376
Corporate bonds	2,583,606
Mutual funds-equity	23,005
	<u>\$ 182,312,371</u>

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.

Coconino County
Notes to Financial Statements
June 30, 2007

Credit risk— The County does not have a formal investment policy with respect to credit risk. At June 30, 2007, credit risk for the County’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	Aaa	Moody's	\$ 147,620,855
Repurchase agreements (implicitly guaranteed)	Aaa	Moody's	11,022,049
State treasurer's investment pools	Unrated	Not applicable	8,076,376
U.S. agency securities	AAA	Fitch	6,316,547
Mutual funds-debt	Aaa	Moody's	6,185,364
Corporate bonds	Unrated	Not applicable	2,583,606
Mutual funds-debt	Unrated	Not applicable	484,569
			<u>\$ 182,289,366</u>

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, 2007, the County had \$11,022,049 of repurchase agreements (implicitly guaranteed), \$153,937,402 of U.S. agency securities, \$6,669,933 of mutual funds-debt, and \$2,583,606 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, 2007, were in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Repurchase agreements. These investments were 48.9 percent, 20.7 percent, 14.8 percent and 6.0 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, 2007, the County had the following investments in debt securities:

Coconino County
Notes to Financial Statements
June 30, 2007

Investment Type	Amount	Weighted Average Maturity in Years
U.S. agency securities	\$ 153,937,402	3.613
Repurchase agreements (implicitly guaranteed)	11,022,049	0.055
State treasurer's investment pools #5	7,946,632	0.231
Mutual funds-debt	6,185,364	0.003
Corporate bonds	2,583,606	3.930
Mutual funds-debt	234,537	5.700
Mutual funds-debt	250,032	6.010
State treasurer's investment pools #7	129,744	0.136
	<u>\$ 182,289,366</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 1,455,680
Amount of deposits	1,592,031
Amount of investments	182,312,371
Total	<u>\$185,360,082</u>

Statement of Net Assets:	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and cash equivalents	\$ 87,069,631	\$ 89,187,586	\$ 589,381	\$176,846,598
Investments	725,292			725,292
Cash and investments held by trustees	6,207,936		1,580,256	7,788,192
Total	<u>\$ 94,002,859</u>	<u>\$ 89,187,586</u>	<u>\$ 2,169,637</u>	<u>\$185,360,082</u>

Note 5– Receivables

Due From Other Governments

Amounts due from other governments at June 30, 2007, include \$2,890,130 and \$1,853,519 in state-shared revenue from sales taxes and fuel taxes, respectively; \$535,165 from the State

Coconino County
Notes to Financial Statements
June 30, 2007

of Arizona for state vehicle license tax; \$2,345,195 in county sales tax; \$585,144 in parks and open space sales tax; and \$1,374,937 in grants from the federal government; and \$1,407,733 in grants from various state agencies. The balance of \$1,841,347 is composed of miscellaneous receivables from federal, state, and local governments.

Note 6– Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

<u>Governmental activities:</u>	Balance 7/1/2006	Increases	Decreases	Balance 6/30/2007
Capital assets not being depreciated:				
Land	\$ 24,438,512	\$ 65,675	\$ 2,089,131	\$ 22,415,056
Construction in progress	10,469,935	4,753,153	13,089,019	2,134,069
Total capital assets not being depreciated	<u>34,908,447</u>	<u>4,818,828</u>	<u>15,178,150</u>	<u>24,549,125</u>
Capital assets being depreciated:				
Buildings	81,337,151	1,878,725	2,476,710	80,739,166
Machinery and equipment	32,867,836	2,461,567	4,211,281	31,118,122
Infrastructure	67,082,857	11,255,669	-	78,338,526
Total capital assets being depreciated	<u>181,287,844</u>	<u>15,595,961</u>	<u>6,687,991</u>	<u>190,195,814</u>
Less accumulated depreciation for:				
Buildings	18,598,590	2,134,146	64,234	20,668,502
Machinery and equipment	18,361,959	2,950,976	1,963,209	19,349,726
Infrastructure	32,539,383	2,495,611	-	35,034,994
Total accumulated depreciation	<u>69,499,932</u>	<u>7,580,733</u>	<u>2,027,443</u>	<u>75,053,222</u>
Total capital assets being depreciated, net	<u>111,787,912</u>	<u>8,015,228</u>	<u>4,660,548</u>	<u>115,142,592</u>
Total	<u>\$ 146,696,359</u>	<u>\$ 12,834,056</u>	<u>\$ 19,838,698</u>	<u>\$ 139,691,717</u>

As described in Note 3, the July 1, 2006, governmental activities capital assets balances were restated (increased \$31.79 million) to record the affect of the inclusion of retroactive infrastructure and associated land assets.

Coconino County
Notes to Financial Statements
June 30, 2007

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 925,532
Public safety	1,021,471
Highways and streets	4,104,280
Sanitation	315,500
Health	137,290
Welfare	60,570
Culture and recreation	361,414
Education	104,017
Internal service fund	550,659
Total governmental activities depreciation expense	<u>\$ 7,580,733</u>

Construction Commitments

The County has active construction projects as of June 30, 2007. 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>
Buildings and improvements-public purpose	\$ 189,944	\$ 136,980
Park-public purpose	323,695	2,576,643
Total	<u>\$ 513,639</u>	<u>\$ 2,713,623</u>

Coconino County
Notes to Financial Statements
June 30, 2007

Note 7 – Long-Term Liabilities

The following schedule details the County’s long-term liability and obligation activity for the year ended June 30, 2007:

<u>Governmental Activities</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due within 1 year</u>
Bonds payable:					
Revenue bonds	\$ 14,370,000		\$ 1,925,000	\$ 12,445,000	\$ 2,010,000
Special assessment bonds with governmental commitment	<u>2,490,948</u>		<u>337,398</u>	<u>2,153,550</u>	<u>268,542</u>
Total bonds payable	<u>16,860,948</u>		<u>2,262,398</u>	<u>14,598,550</u>	<u>2,278,542</u>
Certificates of participation payable	20,100,000		1,920,000	18,180,000	2,000,000
Compensated absences payable	3,428,243	\$ 2,953,165	2,472,111	3,909,297	2,657,063
Claims and judgments payable	<u>477,129</u>	<u>54,981</u>	<u>269,090</u>	<u>263,020</u>	<u>106,844</u>
Governmental activities long-term liabilities	<u>\$ 40,866,320</u>	<u>\$ 3,008,146</u>	<u>\$ 6,923,599</u>	<u>\$ 36,950,867</u>	<u>\$ 7,042,449</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, 2007, 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	7/1/2007-12	4.25-5.0%	\$ 12,445,000
Special assessment bonds with governmental commitment	4,391,217	7/1/2007-15	2.47-7.50%	2,153,550
				<u>\$ 14,598,550</u>

Coconino County
Notes to Financial Statements
June 30, 2007

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2007:

Year Ending June 30	Governmental Activities			
	Revenue Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 2,010,000	\$ 516,761	\$ 268,542	\$ 102,440
2009	2,095,000	425,303	279,842	89,447
2010	2,195,000	328,635	288,419	75,958
2011	2,290,000	226,213	301,090	62,235
2012	1,885,000	131,062	316,682	47,853
2013-2015	1,970,000	44,326	698,975	50,542
Total	<u>\$ 12,445,000</u>	<u>\$ 1,672,300</u>	<u>\$ 2,153,550</u>	<u>\$ 428,475</u>

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, 2007, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Series 1998	\$ 19,000,000	7/1/2007-13	4.4-5.0%	\$ 10,505,000
Series 2001	11,650,000	7/1/2007-16	4.25-5.5%	7,675,000
				<u>\$ 18,180,000</u>

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2007:

Year Ending June 30	Governmental Activities	
	Principal	Interest
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	2,415,000	392,385
2013-2016	7,155,000	530,079
Total	<u>\$ 18,180,000</u>	<u>\$ 3,559,887</u>

Coconino County
Notes to Financial Statements
June 30, 2007

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 six members. The Trust provides the 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 2007, the County paid for compensated absences as follows: 49.60 percent from the General Fund, 21.94 percent from major funds, and 28.46 percent from other funds. The County paid for claims and judgments from the General Fund.

Note 8 – 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 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.

Coconino County
Notes to Financial Statements
June 30, 2007

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past 3 fiscal years.

Note 9 – 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.

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 North Central Avenue
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

Coconino County
Notes to Financial Statements
June 30, 2007

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, 2007, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2007, 2006, and 2005, were \$3,210,629, \$2,568,755, and \$1,792,752, respectively, which were equal to the required contributions for the year.

Agent plan—For the year ended June 30, 2007, 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 21.42 percent.

Annual Pension Cost—The County's pension cost for the agent plan for the year ended June 30, 2007, and related information follows.

	<u>PSPRS</u>
Contribution rates:	
County	21.42%
Plan members	7.65%
Annual pension cost	\$671,705
Contributions made	\$671,705

The current-year annual required contributions for PSPRS was determined as part of its June 30, 2005, actuarial valuations using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 percent to 8.50 percent per year. (B) included an inflation component of 5.00 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, 2005, was 30 years.

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

Coconino County
Notes to Financial Statements
June 30, 2007

follows for the PSPRS:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 671,205	100%	\$ 0
2006	597,694	100	0
2005	463,276	100	0

Note 10 – Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2007, 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	-		\$ 146,819	\$ 4,179,060	\$ 105,545	\$ 4,431,424
Public Works/HURF Fund	\$ 114,375			127,368	146,886	388,629
Jail District Fund	460,168			10,633	7,535	478,336
Nonmajor Governmental Funds	910,092	\$ 147,145	14,616	2,371,536	50,619	3,494,008
Internal Service Fund		13,167				13,167
Total	\$ 1,484,635	\$ 160,312	\$ 161,435	\$ 6,688,597	\$ 310,585	\$ 8,805,564

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.

Coconino County
Notes to Financial Statements
June 30, 2007

Interfund transfers—Interfund transfers for the year ended June 30, 2007, 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	\$ 2,753,042		\$ 4,119,824	\$ 6,897,866
Public Works/HURF Fund	\$ 114,207				106,664	220,871
Jail District Fund					10,633	10,633
Nonmajor Governmental Funds	674,106	2,531,574		\$ 66,367	2,533,578	5,805,625
Total	\$ 788,313	\$ 2,556,574	\$ 2,753,042	\$ 66,367	\$ 6,770,699	\$ 12,934,995

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

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, 2007 was \$725,634. The County Road Improvement Districts are paying interest on the advances. The interest rates range from 2.510% to 4.0299%.

Advances To	Advances From the Forest Fees Revolving Fund	
	\$	
Buckboard Trail	\$	89,931
Tonowanda		51,210
Shoshone		30,262
Pawnee		109,440
Kiowa Commanche		153,542
Pinon Improvement		91,581
Oakwood Pines		71,000
Lupine		128,668
Total advances from	\$	725,634

Coconino County
Notes to Financial Statements
June 30, 2007

Note 11 – 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’s 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.

Substantially, all deposits and investments of the County’s primary government are included in the County Treasurer’s investment pool, except for \$2,318,759 of deposits (bank balances), \$6,669,933 of investments in mutual funds-debt, \$1,022,049 in repurchase agreements, \$408,625 in the State Treasurer’s Investment Pool, and \$23,005 of investments in equities. Therefore, the deposit and investment risks of the Treasurer’s investment pool are substantially the same as the County’s deposit and investment risks. See Note 4 for 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	\$ 7,667,752	None stated	None stated	\$ 7,667,752
U.S. agency securities	154,073,742	3.840-7.250%	8/13/2007-6/12/2012	153,937,402
Corporate securities	2,664,686	5.000-7.350%	10/01/2009-12/15/2011	2,583,606
Repurchase agreements	10,000,000	4.900%	7/2/2007	10,000,000

Coconino County
Notes to Financial Statements
June 30, 2007

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

Statement of Net Assets

Assets	\$ 175,976,592
Net assets	<u>\$ 175,976,592</u>

Net assets held in trust for:

Internal participants	\$ 86,153,029
External participants	89,823,563
Total net assets held in trust	<u>\$ 175,976,592</u>

Statement of Changes in Net Assets

Total additions	\$ 385,653,224
Total deletions	<u>374,368,950</u>
Net increase	11,284,274
Net assets held in trust:	
July 1, 2006	<u>164,692,318</u>
June 30, 2007	<u>\$ 175,976,592</u>

Note 12 – 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 in the jail district fund as transfers. The MOE payment for fiscal year 2007 was \$2,253,042.

Note 13 – Tax Judgment Payable

Xanterra Parks and Resorts L.L.C. (Xanterra) filed a lawsuit against Coconino County with the Arizona Tax Court, claiming they had paid property taxes on property that was not subject to tax in the tax years 2000, 2001, 2002 and 2003. The Arizona Tax Court found in

Coconino County
Notes to Financial Statements
June 30, 2007

favor of Xanterra and the County filed an appeal with the Arizona Court of Appeals. On April 10, 2007, the Arizona Court of Appeals filed its opinion affirming the decision of the Arizona Tax Court. On September 28, 2007, the Arizona Tax Court ordered, judged and decreed that the judgment issued by the Court of Appeals was affirmed. The tax judgment payable by Coconino County totaled \$1,513,706.

Note 14 – Other Matters

On July 1, 2006, Coconino County's transportation program was transitioned to the Northern Arizona Intergovernmental Transportation Authority (NAIPTA), a separate legal entity. The County transferred net assets of \$7,282,396 to NAIPTA.

Note 15 – Subsequent Events

On December 13, 2007, the County completed the defeasance of Series 1998 and 2001 Certificates of participation in the amounts of \$9,210,000 and \$6,970,000 respectively. The defeasance of the debt was done with County monies.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 6,322,727	\$ 6,322,727	\$ 6,895,879	\$ 573,152
Other taxes	15,118,084	15,118,084	16,083,722	965,638
Licenses and permits	1,684,267	1,684,267	1,445,839	(238,428)
Fees, fines, and forfeits	1,302,458	1,302,458	1,459,662	157,204
Intergovernmental	20,551,329	20,666,735	21,705,060	1,038,325
Charges for services	3,074,939	3,074,939	3,258,684	183,745
Investment earnings	573,334	573,334	1,819,120	1,245,786
Contributions	171,500	171,500	152,131	(19,369)
Miscellaneous	378,600	378,600	317,117	(61,483)
Total revenues	<u>49,177,238</u>	<u>49,292,644</u>	<u>53,137,214</u>	<u>3,844,570</u>
Expenditures:				
Current				
Adult probation	1,349,370	1,349,370	1,304,517	44,853
Assessor	1,570,207	1,570,207	1,472,943	97,264
Board of Supervisors	982,289	977,421	931,021	46,400
Clerk of Superior Court	1,021,832	1,021,832	984,122	37,710
Community development	1,554,466	1,568,716	1,337,626	231,090
Community initiatives	414,073	339,091	228,728	110,363
Constable	78,492	78,492	69,756	8,736
County Attorney	2,561,223	2,597,634	2,651,696	(54,062)
County Manager	1,480,610	1,505,610	1,347,742	157,868
Facilities	2,560,754	3,122,119	2,487,811	634,308
Finance / budget	1,362,676	1,394,470	1,264,394	130,076
Flagstaff Justice Court	1,094,431	1,159,381	1,121,623	37,758
Fredonia Justice Court	148,798	148,798	141,712	7,086
Geographic information systems	704,472	704,472	611,011	93,461
Health	3,435,347	3,403,893	3,384,015	19,878
Human resources	1,203,638	1,227,638	1,115,872	111,766
Information technology	2,002,366	2,351,201	2,068,153	283,048

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007
(Continued)

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Juvenile probation	\$ 2,332,455	\$ 2,351,455	\$ 1,992,197	\$ 359,258
Legal defender	669,695	671,221	725,046	(53,825)
Medical Examiner	412,876	412,876	460,399	(47,523)
Nondepartmental	22,420,351	19,064,467	1,489,655	17,574,812
Page Justice Court	302,726	302,726	300,913	1,813
Parks and recreation	1,097,586	1,171,544	908,616	262,928
Public Defender	2,026,401	2,083,404	2,031,656	51,748
Public Fiduciary	336,524	336,524	297,411	39,113
Public works	35,000	35,000		35,000
Recorder	1,475,139	1,540,545	1,698,434	(157,889)
School Superintendent	440,166	440,166	418,076	22,090
Sheriff	7,462,063	7,535,093	7,104,897	430,196
Superior Court	2,234,288	2,234,288	2,200,786	33,502
Treasurer	632,540	632,540	578,060	54,480
Williams Justice Court	309,267	309,267	288,769	20,498
Total expenditures	<u>65,712,121</u>	<u>63,641,461</u>	<u>43,017,657</u>	<u>20,623,804</u>
Excess (deficiency) of revenues over expenditures	(16,534,883)	(14,348,817)	10,119,557	24,468,374
Other financing sources (uses):				
Sale of capital assets			363,082	363,082
Transfers in	926,088	926,088	788,313	(137,775)
Transfers out	(8,567,132)	(8,803,194)	(6,897,866)	1,905,328
Total other financing sources and (uses)	<u>(7,641,044)</u>	<u>(7,877,106)</u>	<u>(5,746,471)</u>	<u>2,130,635</u>
Net changes in fund balances	(24,175,927)	(22,225,923)	4,373,086	26,599,009
Fund balances, July 1, 2006	<u>25,569,445</u>	<u>25,569,445</u>	<u>29,674,374</u>	<u>4,104,929</u>
Fund balances, June 30, 2007	<u>\$ 1,393,518</u>	<u>\$ 3,343,522</u>	<u>\$ 34,047,460</u>	<u>\$ 30,703,938</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Public Works/HURF Fund
 Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other taxes	\$ 1,900,000	\$ 1,900,000	\$ 2,243,784	\$ 343,784
Licenses and permits	15,000	15,000	23,485	8,485
Fees, fines, and forfeits			1,000	1,000
Intergovernmental	10,435,500	10,435,500	10,980,999	545,499
Investment earnings	250,000	250,000	959,442	709,442
Miscellaneous	1,200	1,200	5,196	3,996
Total revenues	<u>12,601,700</u>	<u>12,601,700</u>	<u>14,213,906</u>	<u>1,612,206</u>
Expenditures:				
Current:				
Public works	23,688,304	23,708,811	19,039,997	4,668,814
Total expenditures	<u>23,688,304</u>	<u>23,708,811</u>	<u>19,039,997</u>	<u>4,668,814</u>
Excess (deficiency) of revenues over expenditures	(11,086,604)	(11,107,111)	(4,826,091)	6,281,020
Other financing sources (uses):				
Sale of capital assets			5,234	5,234
Transfers in	2,950,000	2,975,000	2,556,574	(418,426)
Transfers out	(257,852)	(257,852)	(220,871)	36,981
Total other financing sources and (uses)	<u>2,692,148</u>	<u>2,717,148</u>	<u>2,340,937</u>	<u>(376,211)</u>
Net changes in fund balances	(8,394,456)	(8,389,963)	(2,485,154)	5,904,809
Fund balances, July 1, 2006	<u>11,865,719</u>	<u>11,865,719</u>	<u>20,255,682</u>	<u>8,389,963</u>
Fund balances, June 30, 2007	<u>\$ 3,471,263</u>	<u>\$ 3,475,756</u>	<u>\$ 17,770,528</u>	<u>\$ 14,294,772</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Budgetary Comparison Schedule
Jail District Fund
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other taxes	\$ 6,587,872	\$ 6,587,872	\$ 9,691,689	\$ 3,103,817
Charges for services	2,828,500	2,828,500	2,956,912	128,412
Investment earnings	32,000	32,000	84,630	52,630
Miscellaneous			9,447	9,447
Total revenues	<u>9,448,372</u>	<u>9,448,372</u>	<u>12,742,678</u>	<u>3,294,306</u>
Expenditures:				
Current:				
Sheriff	10,188,051	10,188,051	10,697,777	(509,726)
Debt service:				
Principal	1,840,000	1,840,000	2,010,000	(170,000)
Interest	733,649	733,649	566,908	166,741
Total expenditures	<u>12,761,700</u>	<u>12,761,700</u>	<u>13,274,685</u>	<u>(512,985)</u>
Excess (deficiency) of revenues over expenditures	(3,313,328)	(3,313,328)	(532,007)	2,781,321
Other financing sources (uses):				
Transfers in	3,324,781	3,324,781	2,753,042	(571,739)
Transfers out	(11,453)	(11,453)	(10,633)	820
Total other financing sources and (uses)	<u>3,313,328</u>	<u>3,313,328</u>	<u>2,742,409</u>	<u>(570,919)</u>
Net changes in fund balances			2,210,402	2,210,402
Fund balances, July 1, 2006	<u>1,880,233</u>	<u>1,880,233</u>	<u>1,636,679</u>	<u>(243,554)</u>
Fund balances, June 30, 2007	<u>\$ 1,880,233</u>	<u>\$ 1,880,233</u>	<u>\$ 3,847,081</u>	<u>\$ 1,966,848</u>

See accompanying notes to budgetary comparison schedule.

Coconino County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2007

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, transfers 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, 2007 expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund:	
Recorder	\$ 157,889
Legal Defender	53,825
County Attorney	54,062
Medical Examiner	47,523
Jail District Fund-Sheriff	512,985

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, 2007

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)
6/30/2007	\$12,295,932	\$ 24,063,303	\$ (11,767,371)	51.1%	\$ 3,254,171	361.6%
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	20,110,895	(7,457,519)	62.9%	2,690,586	277.2%

SUPPLEMENTARY INFORMATION

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	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	\$ 5,030
Child Nutrition Cluster, passed through the Arizona Department of Education			
School Breakfast Program	10.553	ED05-0001-01	10,503
National School Lunch Program	10.555	ED05-0001-01	<u>16,575</u>
Total Child Nutrition Cluster			<u>27,078</u>
Special Supplemental Nutrition Program for Women, Infants and Children, passed through the Arizona Department of Health Services	10.557	HG361074 HP561153-002, HP661311-003	592,350
State Administrative Matching Grants for Food Stamp Program, passed through the Arizona Department of Health Services	10.561	HG 661045	413,276
Commodity Supplemental Food Program, passed through the Arizona Department of Health Services	10.565	HG361100	7,667
WIC Farmers' Market Nutrition Program (FMNP), passed through the Arizona Department of Health Services	10.572	HG561261	580
Cooperative Forestry Assistance, passed through the Arizona State Land Department	10.664	SFA 4002, SFA 5008	87,754
Schools and Roads-Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>4,194,353</u>
Total U.S. Department of Agriculture			<u>5,328,088</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants, passed through the City of Flagstaff	14.218	BC-MC-04-0150, B-06MC-05-0510	64,605
Community Development Block Grants/State's Program and Non-Entitlement Grant in Hawaii, passed through the Arizona Department of Housing	14.228	115-06/116-06	314,538
Emergency Shelter Grants Program, passed through the Arizona Department of Economic Security	14.231	E6306011	<u>13,471</u>
Total U.S. Department of Housing and Urban Development			<u>392,614</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>951,551</u>
U.S. Department of Justice			
Southwest Border Prosecution Initiative	16.unknown		444,763
Juvenile Accountability Incentive Block Grants, passed through the Arizona Governor's Division for Children	16.523	JB-GRA-04-6273-03, JB-IGA-05-7273-03	22,267
Missing Children's Assistance, passed through the Phoenix Police Department	16.543	None	10,410
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-07-051	19,264
Edward Byrne Memorial Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	PC-07-090/CRI-06-096	57,877
Drug Court Discretionary Grant	16.585		84,537
Local Law Enforcement Block Grant Program	16.592		11,918
Edward Byrne Memorial Justice Assistance Grant, passed through the Arizona Supreme Court	16.738	AD-041-07	<u>15,706</u>
Total U.S. Department of Justice			<u>666,742</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Labor			
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5706003	\$ 190,093
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5706003	244,086
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	E5706003	252,383
WIA Dislocated Workers, passed through Maricopa County	17.260	C-22-06-154-2	4,554
Total WIA Cluster			<u>691,116</u>
Incentive Grants-WIA Section 503, passed through the Arizona Department of Economic Security	17.267	dc071136	3,089
Total U.S. Department of Labor			<u>694,205</u>
U.S. Department of Transportation			
Highway Safety Cluster			
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2007-K8HV-010	23,352
Alcohol Traffic Safety and Drunk Driving Prevention Incentive, passed through the Governor's Office of Highway Safety	20.601	2007-K8-011	22,091
Total Highway Safety Cluster			<u>45,443</u>
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Emergency Response Commission	20.703	None	1,639
Total U.S. Department of Transportation			<u>47,082</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, 07FAAND2-760586-04A	35,322
Title I Grants to Local Educational Agencies, passed through the through the Arizona Supreme Court	84.013	28073	10,122
Special Education - Grants to States, passed through the Arizona Department of Education	84.027	06FESSCG-660594-02A, 07FESSCG-760594-03A, 07FESCBG-760594-02A	32,954
Special Education - Grants for Infants and Families with Disabilities, passed through the Arizona Department of Health Services	84.181	161004	21,411
Fund for the Improvement of Education	84.215		92,178
State Grants for Innovative Programs, passed through the Arizona Department of Education	84.298	07FAATVE-770669-02A	31,005
Education Technology State Grants, passed through Cochise County	84.318	07FBPSTP-770666-07A	26,379
English Language Acquisition Grants, passed through the Arizona Department of Education	84.365	07FAAENG-770669-06A	11,227
Mathematics and Science Partnerships, passed through the Arizona Department of Education	84.366	06FAAMS2-670669-05A, 07FSEMS2-770669-05A, 07FSDMSP-770669-07A, 07FSDMSP-770669-08A	254,237
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	06FAAIEQ-670669-03A, 074FAAAZE-770069-01A, 28073	85,502
Total U.S. Department of Education			<u>600,337</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Elections Assistance Commission			
Help America Vote Act of 2002, passed through the Arizona Secretary of State	90.401		<u>66,599</u>
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	\$ 117,883
Nutrition Services Incentive Program	93.053	866000441ba	<u>176,023</u>
Total Aging Cluster			<u>293,906</u>
Family Planning Services, passed through the Arizona Family Planning Council	93.217	None	45,100
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG 352210	263,325
Centers for Disease Control and Prevention-Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252034/HG754194, HM661263-0	552,171
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	E7203027/060673-1	32,931
Low-Income Home Energy Assistance, passed through the Arizona Department of Economic Security	93.568	E6306011	275,775
Community Services Block Grant, passed through the Arizona Department of Economic Security	93.569	E6306011	156,988
Voting Access for Individuals with Disabilities-Grant to States, passed through the Arizona Secretary of State	93.617	None	9,555
Social Services Block Grant, passed through the Arizona Department of Economic Security	93.667	E6306011	19,330
Social Services Block Grant, passed through the Northern Arizona Council of Governments	93.667	866000441ba	<u>151,100</u>
Total Social Services Block Grant			<u>170,430</u>
HIV Care Formula Grants, passed through the Arizona Department of Health Services	93.917	HP652141-003	85,828
HIV Prevention Activities - Health Department Based, passed through the Arizona Department of Health Services	93.940	HG352237, HG454515, HP 454174-001	136,184
Prevention and Treatment of Substance Abuse Block Grant, passed through The Guidance Center	93.959	None	6,915
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977		27,138
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	HG461341, HG354178	97,547
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG361136, HP 461413-012, HP461323-006, HG754060-006	<u>276,445</u>
Total U.S. Department of Health and Human Services			<u>2,580,237</u>
Corporation for National and Community Service			
Americorps, passed through the Arizona Governor's Office for Children, Youth and Families	94.006	AC-VSG-07-9273-02, 03AFHAZ0010002-2005/00	<u>222,367</u>

See accompanying notes to schedule.

Coconino County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Homeland Security			
Homeland Security Grant Program Cluster			
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	\$ 329,087
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	LETPP#2004-FE-T4-0051	57,813
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.067	2005-GE-T5-0051, 2005-GE-T5-0030	8,460
Total Homeland Security Grant Program Cluster			<u>395,360</u>
Emergency Food and Shelter National Board Program, passed through United Way	97.024	None	18,269
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	222115-01	12,608
Total U.S. Department of Homeland Security			<u>426,237</u>
Total Expenditures of Federal Awards			<u><u>\$ 11,976,059</u></u>

See accompanying notes to schedule.

Coconino County
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Note 1 – Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Coconino County 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 State, 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 amount reported on the schedule for Food Donation (CFDA Number 10.550) and \$198,208 of the Immunization Grants amounts (CFDA Number 93.268) represents the value of non-cash assistance expended from these federal programs.

Note 2 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2007 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program and there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

Note 3 – Subrecipients

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

Program Title	CFDA Number	Amount
Schools and Roads-Grants to States	10.665	\$1,322,600
Crime Victim Compensation	16.576	19,264

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*

The 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, Arizona as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 4, 2008. Our report was modified for an emphasis of a matter for the retroactive reporting of general infrastructure assets as part of the implementation of Governmental Accounting Standards Board Statement No. 34. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

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

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

Compliance 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*.

This report is intended solely for the information and use of the members 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.

A handwritten signature in cursive script that reads "Fester & Chapman P.C.".

August 4, 2008

**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**

The Auditor General of the State of Arizona

The Board of Supervisors of
Coconino County, Arizona

Compliance

We have audited the compliance of Coconino County, Arizona 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, 2007. 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, 2007.

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, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

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

This report is intended solely for the information and use of the members 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.

Fletcher & Chapman P.C.

August 4, 2008

Coconino County, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified
	Yes	No
Material weaknesses identified in internal control over financial reporting?		X
Significant deficiencies identified not considered to be material weaknesses?		X (None Reported)
Noncompliance material to the financial statements noted?		X

Federal Awards

Material weaknesses identified in internal control over major programs?		X
Significant deficiencies 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 Circular A-133 (section .510[a])? X

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
10.561	State Administrative Matching Grants for Food Stamp Program
10.665	Schools and Roads - Grants to States
16.unknown	Southwest Border Prosecution Initiative
93.283	Centers for Disease Control and Prevention -Investigations and Technical Assistance
93.568	Low-Income Home Energy Assistance Homeland Security Cluster
97.004	State Domestic Preparedness Equipment Support Program
97.042	Emergency Management Performance Grants
97.067	Homeland Security Grant Program

(continued)

Coconino County, Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007
 (continued)

	<u>Yes</u>	<u>No</u>
Dollar threshold used to distinguish between Type A and Type B programs:		\$ 359,282
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	
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Financial Statement Findings

No matters were identified that were required to be reported.

Federal Award Findings and Questioned Costs

No matters were identified that were required to be reported.

Coconino County, Arizona
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Status of Federal Award Findings and Questioned Costs

CFDA No.:	93.917	HIV Care Formula Grants
	16.007	State Domestic Preparedness Equipment Support Program
	97.004	State Domestic Preparedness Equipment Support Program
	97.042	Emergency Management Performance Grants
	97.053	Citizen Corps
Finding No.:	05-102	
Status:	Fully Corrected	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.