

**Coconino County, Arizona**  
**Single Audit Reporting Package**  
**Year Ended June 30, 2003**

**Coconino County, Arizona  
Single Audit Reporting Package  
Year Ended June 30, 2003**

<b>Table of Contents</b>	<b>Page</b>
<b>Financial Section</b>	
Independent Auditors' Report .....	1
Required Supplementary Information – Management's Discussion and Analysis.....	3-8
<b>Basic Financial Statements</b>	
Government-Wide Statements	
Statement of Net Assets.....	9
Statement of Activities .....	10
Fund-Based Financial Statements	
Governmental Funds:	
Balance Sheet .....	11
Reconciliation of the Balance Sheet to the Statement of Net Assets .....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	14
Proprietary Funds:	
Statement of Net Assets.....	15
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	16
Statement of Cash Flows .....	17
Fiduciary Funds:	
Statement of Fiduciary Net Assets .....	18
Statement of Changes in Fiduciary Net Assets .....	19
Notes to Financial Statements.....	20-37
<b>Other Required Supplementary Information</b>	
Budgetary Comparison Schedules .....	38-40
Notes to Budgetary Comparison Schedules.....	41
Schedule of Agent Retirement Plans' Funding Progress .....	42

**Coconino County, Arizona**  
**Single Audit Reporting Package**  
**Year Ended June 30, 2003**  
**(Continued)**

**Table of Contents**

**Page**

**Supplementary Information**

Schedule of Expenditures of Federal Awards .....	43-45
Notes to Schedule of Expenditures of Federal Awards.....	46

**Single Audit Section**

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	47-48
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	49-50
Schedule of Findings and Questioned Costs	
Summary of Auditor's Results.....	51
Financial Statement Findings and Federal Award Findings and Questioned Costs.....	52
Summary Schedule of Prior Audit Findings .....	53

## **FINANCIAL SECTION**

## Independent Auditors' Report

Members of the Arizona State Legislature

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, 2003, as listed in the table of contents, which collectively comprise the County's basic financial statements. 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 opinion.

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, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for the year ended June 30, 2003, to implement a new financial reporting model. Also, as described in Note 6, the County raised its capitalization threshold from \$1,000 to \$5,000 for capital assets. This represents a change in the application of an accounting principle.

The Management's Discussion and Analysis on pages 3 through 8, the Budgetary Comparison Schedules on pages 38 through 41, and the Schedule of Agent Retirement Plans' Funding Progress on page 42 are not a required part 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2004, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

January 30, 2004

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of Coconino County's basic financial performance provides an overview of the County's financial activities for the year ended June 30, 2003. Please read it in conjunction with the County's basic financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS FOR FY 2003**

- The County's net assets increased 8.71% to \$124.24 million as a result of this year's operations.
- During the year, the County's governmental funds revenues exceeded expenditures by \$3.78 million. This is a change from last year when expenditures exceeded revenues by \$336 thousand.
- Total expenditures of County governmental funds decreased \$41 thousand from the prior year.
- The General Fund reported excess revenues over expenditures of \$7.24 million, however the fund balance only increased \$1.99 million due to transfers to other funds.

### **USING THIS REPORT**

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

#### **Reporting the County as a Whole**

##### **The Statement of Net Assets and the Statement of Activities**

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

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

### Net Assets

The County's net assets from governmental activities at the end of the fiscal year were \$124.24 million. The increase of \$9.82 million comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. The 8.71% increase was primarily from a \$3.81 million increase in current assets from increased revenues, depreciation expense of \$3.62 million, a \$3.22 million decrease in long-term debt and a \$6.62 million increase in capital assets. A large portion of the County's net assets (30.45%) 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.

Statement of Net Assets (in millions)	Governmental <u>Activities</u>
Assets	
Current assets	\$ 94.46
Capital assets	<u>84.14</u>
Total assets	178.60
Liabilities	
Current liabilities	10.02
Long-term liabilities	<u>44.34</u>
Total liabilities	54.36
Net Assets	
Invested in capital assets, net of related debt	37.82
Restricted	9.91
Unrestricted	<u>76.51</u>
Total net assets	<u>\$ 124.24</u>

In the future, when information is available for both the current and prior years, a comparative analysis of government-wide data will be presented.

### Restricted Net Assets

8% of the County net assets (\$9.9 million) are subject to restrictions on how they may be used.

### Unrestricted Net Assets

61.58% (\$ 76.51 million) of the County's net assets are unrestricted and can be used to finance the day-to-day operations without constraints established by debt covenants or other legal requirements.

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

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

Statement of Activities (in millions)	Governmental <u>Activities</u>
Revenues	
Program revenues	
Charges for services	\$ 14.66
Operating grants and contributions	28.62
Capital grants and contributions	<u>0.92</u>
Total program revenue	44.20
General revenues	
State shared revenue	13.90
Sales taxes	20.32
Property taxes	7.77
Grants and contributions not restricted to specific programs	0.55
Investment earnings	2.64
Gain on disposal of capital assets	0.40
Miscellaneous	<u>0.11</u>
Total general revenue	<u>45.69</u>
Total revenues	89.89
Program expenses	
General government	22.21
Public safety	22.43
Highways and streets	10.42
Sanitation	2.61
Health	9.34
Welfare	4.47
Culture and recreation	3.64
Education	0.69
Transportation	2.14
Interest on long-term debt	<u>2.12</u>
Total program expenses	<u>80.07</u>
Change in net assets	<u>9.82</u>
Net assets, July 1, 2002, as restated	<u>114.42</u>
Net assets, June 30, 2003	<u>\$ 124.24</u>

## Reporting the County's Funds

### Fund Financial Statements

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

- *Governmental funds*—Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. A description of the differences between governmental *activities* as reported in the Statement of Net Assets and the Statement of Activities and the governmental *funds* as reported in the fund financial statements is reported in a reconciliation following each fund financial statement.
- *Proprietary funds*—When a County charges its own department for certain services it provides, these services are generally reported in proprietary funds. Coconino County uses an internal service fund, fleet services, to report activities that provide services for the County's other programs and activities. The County's internal service fund only provides services to County departments so it is reported as a governmental activity in the Statement of Net Assets and the Statement of Activities.

The County reported six major funds for this fiscal year – General Fund, Public Works/HURF, Jail District, Forest Fees, Parks Capital Projects, and Debt Service. At year-end the County's governmental funds reported combined fund balances of \$80.76 million, which is an increase of \$3.78 million or 4.69% from last year. This increase was due primarily to increases in sales taxes and revenue generated from new building construction. Major funds collected \$5.21 million dollars more than was budgeted and expended \$19.77 million less than was budgeted. Excess revenues were collected primarily in sales taxes, building permits, payments in lieu of taxes and state shared sales tax. Various highway projects, capital projects and unspent contingency funding accounted for the major portion of the difference between budgeted and actual expenditures.

## **General Fund Budgetary Highlights**

- The final appropriations for the General Fund at year-end were \$94 thousand less than the adopted budget.
- For the General Fund actual revenues exceeded final budget by \$2.79 million while actual expenditures were \$6.34 million less than budget.
- The budget variance for revenues in the General Fund was primarily due to general county sales tax, state-shared sales tax, auto lieu, building permits, recording fees, and payments in lieu of taxes (PILT) significantly exceeding our budget. With the exception of PILT, which was under-estimated, these 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 \$3.8 million of unexpended contingency funds and fiscal reserves.

## **The County as Trustee**

### Reporting the County's Fiduciary Responsibilities

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

## **Capital Assets and Debt Administration**

### Capital Assets

During the fiscal year, the County completed several construction projects that added \$8.3 million to the County's building inventory. The largest project was a \$7.8 million renovation and addition to the County's historic courthouse.

### Long-term Debt

The County did not have any significant long-term debt activity this fiscal year. The only addition to our long-term debt was a \$231,215 special assessment bond issue for a County road improvement district.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The State of Arizona and Coconino County's economy is heavily dependent on tourism. The County receives over 43.8% of its revenues from various sales taxes. Any slumps in the economy or events that could affect tourism have a significant impact on Coconino County. In FY 2002 both the State and the County sales taxes collections were negatively impacted by the events of September 11, 2001 and the national recession. The State has cut shared revenues to Counties because of shortfalls caused by these events as

well as reductions in Federal funding to states. In response to this loss of revenue the County cut its operating budget by 6% in FY 2004 and plans to continue that reduction in FY 2005.

### **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.

## **BASIC FINANCIAL STATEMENTS**

**Coconino County**  
**Statement of Net Assets**  
**June 30, 2003**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 77,205,359
Investments	780,522
Cash and investments held by trustee	7,005,045
Receivables (net of allowances for uncollectibles):	
Property taxes	353,750
Accounts	435,573
Special assessments	454,219
Jail district sales tax	520,046
Notes	231,214
Accrued interest	498,858
Due from other governments	6,679,891
Inventories	199,704
Prepaid items	102,733
Capital assets, not being depreciated	13,066,391
Capital assets, being depreciated, net	<u>71,070,512</u>
Total assets	<u>178,603,817</u>
<b>Liabilities</b>	
Accounts payable	3,347,582
Accrued payroll and employee benefits	1,122,776
Due to other governments	861,821
Deposits held for others	87,221
Claims and judgments payable	190,000
Certificates of participation payable	1,690,000
Revenue bonds payable	1,675,000
Bond interest payable	1,046,381
Noncurrent liabilities:	
Due within one year	5,135,698
Due in more than one year	<u>39,211,177</u>
Total liabilities	<u>54,367,656</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	37,824,308
Restricted for:	
Debt service	4,952,797
Capital projects	4,647,228
Other purposes	302,437
Unrestricted	<u>76,509,391</u>
Total net assets	<u><u>\$ 124,236,161</u></u>

See accompanying notes to financial statements.

**Coconino County**  
**Statement of Activities**  
**Year Ended June 30, 2003**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 22,208,018	\$ 6,330,030	\$ 1,551,142		\$ (14,326,846)
Public safety	22,427,039	3,743,388	3,843,494	\$ 13,877	(14,826,280)
Highways and streets	10,424,490	536,340	12,838,612	610	2,951,072
Sanitation	2,607,577	1,087,542	568,705	9,925	(941,405)
Health	9,339,836	1,026,224	3,881,895		(4,431,717)
Welfare	4,474,322	839,345	2,884,741		(750,236)
Culture and recreation	3,643,292	881,328		899,636	(1,862,328)
Education	689,086	26,395	676,047		13,356
Transportation	2,142,540	190,007	2,370,514		417,981
Interest on long-term debt	2,120,561				(2,120,561)
Total governmental activities	<u>\$ 80,076,761</u>	<u>\$ 14,660,599</u>	<u>\$ 28,615,150</u>	<u>\$ 924,048</u>	<u>(35,876,964)</u>

General revenues:

Taxes:	
Property taxes, levied for general purposes	7,765,083
Share of state sales taxes	13,908,270
General county sales tax	9,467,920
Jail district sales tax	5,692,968
Parks and open spaces sales tax	864,263
Franchise tax	84,311
Auto lieu	4,215,758
Grants and contributions not restricted to specific programs	550,035
Investment earnings	2,636,671
Gain on disposal of capital assets	399,985
Miscellaneous	107,258
Total general revenues	<u>45,692,522</u>
Change in net assets	9,815,558
Net assets, July 1, 2002, as restated	<u>114,420,603</u>
Net assets, June 30, 2003	<u>\$124,236,161</u>

See accompanying notes to financial statements.

**Coconino County  
Balance Sheet  
Governmental Funds**

**June 30, 2003**

	<b>General Fund</b>	<b>Public Works/ HURF Fund</b>	<b>Jail District Fund</b>	<b>Forest Fees Fund</b>	<b>Parks Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>								
Cash and cash equivalents	\$ 19,119,709	\$ 14,934,439	\$ 1,219,167	\$ 10,868,813	\$ 5,368,071	\$ 17,710,310	\$ 6,180,958	\$ 75,401,467
Investments							780,522	780,522
Cash and investments held by trustee			2,123,730		2,219,271	2,279,402	382,642	7,005,045
Receivables (net of allowances for uncollectibles):								
Property taxes	221,151						132,599	353,750
Accounts	124,385	239	24,342		1,107		272,780	422,853
Special assessments							454,219	454,219
Jail district sales tax			520,046					520,046
Accrued interest	121,122	96,631	8,918	70,345	35,638	115,278	39,252	487,184
Notes							231,214	231,214
Due from:								
Other funds	2,226,235	710,863	28,907		1,392	4,214,444	4,148,273	11,330,114
Other governments	2,604,323	1,228,622	597,292				2,249,654	6,679,891
Inventories	3,565							3,565
Prepaid items	87,038						15,696	102,734
Total assets	<u>\$ 24,507,528</u>	<u>\$ 16,970,794</u>	<u>\$ 4,522,402</u>	<u>\$ 10,939,158</u>	<u>\$ 7,625,479</u>	<u>\$ 24,319,434</u>	<u>\$ 14,887,809</u>	<u>\$ 103,772,604</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 1,328,543	\$ 817,976	\$ 274,679		\$ 59,738	\$ 65,815	\$ 713,502	\$ 3,260,253
Accrued payroll and employee benefits	511,162	105,532	134,622		4,836		334,199	1,090,351
Due to:								
Other funds	3,465,834	226,729	61,722	\$ 670,709	4,669,650		2,465,291	11,559,935
Other governments	7,975		31,137				822,709	861,821
Deposits held for others	18,436						68,785	87,221
Claims and judgments payable	190,000							190,000
Bond interest payable			447,017			587,951	11,413	1,046,381
Certificates of participation bonds payable			1,675,000			1,690,000		3,365,000
Deferred revenue	1,006,070						542,026	1,548,096
Total liabilities	<u>6,528,020</u>	<u>1,150,237</u>	<u>2,624,177</u>	<u>670,709</u>	<u>4,734,224</u>	<u>2,343,766</u>	<u>4,957,925</u>	<u>23,009,058</u>
<b>Fund balances:</b>								
<b>Reserved for:</b>								
Inventories	3,565							3,565
Prepaid items	87,038						15,696	102,734
Debt service						21,975,668	1,422,101	23,397,769
<b>Unreserved, reported in:</b>								
General fund	17,888,905							17,888,905
Special revenue funds		15,820,557	1,898,225	10,268,449			9,373,622	37,360,853
Capital projects funds					2,891,255		(881,535)	2,009,720
Total fund balances	<u>17,979,508</u>	<u>15,820,557</u>	<u>1,898,225</u>	<u>10,268,449</u>	<u>2,891,255</u>	<u>21,975,668</u>	<u>9,929,884</u>	<u>80,763,546</u>
Total liabilities and fund balance:	<u>\$ 24,507,528</u>	<u>\$ 16,970,794</u>	<u>\$ 4,522,402</u>	<u>\$ 10,939,158</u>	<u>\$ 7,625,479</u>	<u>\$ 24,319,434</u>	<u>\$ 14,887,809</u>	<u>\$ 103,772,604</u>

See accompanying notes to financial statements.

**Coconino County**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**June 30, 2003**

Fund balances—total governmental funds	\$	80,763,546
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.		82,573,313
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.		1,548,096
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.		3,698,082
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		(44,346,876)
		(44,346,876)
Net assets of governmental activities	\$	124,236,161

See accompanying notes to financial statements.

**Coconino County**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2003**

	General Fund	Public Works/ HURF Fund	Jail District Fund	Forest Fees Fund	Parks Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:								
Property taxes	\$ 4,316,121						\$ 2,456,938	\$ 6,773,059
Other taxes	12,080,551		\$ 5,692,968				864,266	18,637,785
Special assessments							378,246	378,246
Licenses and permits	1,154,067	\$ 18,335					672,186	1,844,588
Fees, fines, and forfeits	1,102,062						617,227	1,719,289
Intergovernmental	17,250,834	11,937,054		\$ 1,408,766	\$ 50,800		15,946,974	46,594,428
Charges for services	2,139,235	96,726	2,798,542				4,723,308	9,757,811
Investment income	1,264,624	532,260	68,367	358,820	219,305	\$ 600,069	393,707	3,437,152
Contributions	80,547						153,464	234,011
Miscellaneous	268,803	441,499	84,648				254,552	1,049,502
Total revenues	<u>39,656,844</u>	<u>13,025,874</u>	<u>8,644,525</u>	<u>1,767,586</u>	<u>270,105</u>	<u>600,069</u>	<u>26,460,868</u>	<u>90,425,871</u>
Expenditures:								
Current:								
General government	19,767,616						2,261,395	22,029,011
Public safety	8,497,037		7,978,098				5,009,204	21,484,339
Highways and streets	479,319	13,053,468					291,831	13,824,618
Sanitation							2,442,070	2,442,070
Health	2,917,989						6,324,975	9,242,964
Welfare							4,423,207	4,423,207
Culture and recreation	439,227				765,600		3,289,393	4,494,220
Education	370,025						319,454	689,479
Transportation							2,450,514	2,450,514
Debt service:								
Principal			1,675,000			1,690,000	133,472	3,498,472
Interest and other charges			900,260			1,184,126	36,175	2,120,561
Total expenditures	<u>32,471,213</u>	<u>13,053,468</u>	<u>10,553,358</u>		<u>765,600</u>	<u>2,874,126</u>	<u>26,981,690</u>	<u>86,699,455</u>
Excess (deficiency) of revenues over expenditures	<u>7,185,631</u>	<u>(27,594)</u>	<u>(1,908,833)</u>	<u>1,767,586</u>	<u>(495,495)</u>	<u>(2,274,057)</u>	<u>(520,822)</u>	<u>3,726,416</u>
Other financing sources (uses):								
Transfers in	771,109	1,300,204	2,058,592		275,000	4,444,454	4,102,310	12,951,669
Transfers out	(6,023,457)	(124,456)		(1,900,204)	(3,901,128)		(1,002,424)	(12,951,669)
Total other financing sources and uses	<u>(5,252,348)</u>	<u>1,175,748</u>	<u>2,058,592</u>	<u>(1,900,204)</u>	<u>(3,626,128)</u>	<u>4,444,454</u>	<u>3,099,886</u>	
Net change in fund balances	1,933,283	1,148,154	149,759	(132,618)	(4,121,623)	2,170,397	2,579,064	3,726,416
Fund balances, July 1, 2002	15,987,443	14,689,095	1,748,466	10,401,067	7,012,878	19,805,271	7,335,124	76,979,344
Decrease in reserve for inventories	(706)							(706)
Increase (decrease) in reserve for prepaid items	59,488	(16,692)					15,696	58,492
Fund balances, June 30, 2003	<u>\$ 17,979,508</u>	<u>\$ 15,820,557</u>	<u>\$ 1,898,225</u>	<u>\$ 10,268,449</u>	<u>\$ 2,891,255</u>	<u>\$ 21,975,668</u>	<u>\$ 9,929,884</u>	<u>\$ 80,763,546</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, 2003**

Net change in fund balances—total governmental funds		\$ 3,726,416
Amounts reported for governmental activities in the Statement of Activities are different because:		
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.		
Capital outlay	6,616,133	
Depreciation expense	<u>(3,622,747)</u>	2,993,386
Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities.		
		(445,383)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt issued or incurred	(231,214)	
Principal repaid	<u>3,498,473</u>	3,267,259
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.		
		(105,190)
Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.		
Decrease in inventories	(706)	
Increase in prepaid items	<u>58,492</u>	57,786
Internal service funds are used by management to charge the costs of certain activities, such as automotive maintenance, to individual funds. The net revenue of the internal service fund is reported with governmental activities.		
		<u>321,284</u>
Change in net assets of governmental activities		<u><u>\$ 9,815,558</u></u>

See accompanying notes to financial statements.

**Coconino County**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2003**

	<b>Governmental Activities — Internal Service Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,803,892
Receivables (net of allowances for uncollectibles):	
Accounts	12,720
Accrued interest	11,674
Due from:	
Other funds	253,031
Inventories	196,139
Total current assets	2,277,456
Noncurrent assets:	
Capital assets, net of accumulated depreciation:	
Buildings, net	101,461
Equipment, net	1,462,129
Capital assets, net	1,563,590
Total noncurrent assets	1,563,590
Total assets	3,841,046
<b>Liabilities</b>	
Current liabilities:	
Accounts Payable	87,329
Accrued payroll and employee benefits	32,425
Due to:	
Other funds	23,210
Total current liabilities	142,964
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,563,590
Unrestricted	2,134,492
Total net assets	\$ 3,698,082

See accompanying notes to financial statements.

**Coconino County**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Fund**  
**Year Ended June 30, 2003**

	<b>Governmental Activities — Internal Service Fund</b>
Operating revenues:	
Charges for services	\$ 2,675,396
Total operating revenues	2,675,396
Operating expenses:	
Personal services	479,434
Professional services	70,158
Supplies	1,247,949
Utilities	21,524
Repairs and maintenance	128,343
Travel	3,285
Depreciation	546,458
Total operating expenses	2,497,151
Operating income	178,245
Nonoperating revenues:	
Investment income	64,219
Gain on disposal of capital assets	78,820
Total nonoperating revenues	143,039
Increase in net assets	321,284
Total net assets, July 1, 2002	3,376,798
Total net assets, June 30, 2003	\$ 3,698,082

See accompanying notes to financial statements.

**Coconino County**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended June 30, 2003**

	<b>Governmental Activities — Internal Service Fund</b>
Cash flows from operating activities:	
Receipts from other funds	\$ 2,871,426
Receipts from other governments	5,456
Payments to suppliers and providers of goods and services	(1,869,311)
Payments to employees	(482,651)
Other payments	18,467
Net cash provided by operating activities	<u>543,387</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	94,813
Purchases of capital assets	(508,680)
Net cash used for capital and related financing activities	<u>(413,867)</u>
Cash flows from investing activities:	
Interest received on investments	69,067
Net cash provided by investing activities	<u>69,067</u>
Net increase in cash and cash equivalents	198,587
Cash and cash equivalents, July 1, 2002	1,605,305
Cash and cash equivalents, June 30, 2003	<u>\$ 1,803,892</u>
Operating income	\$ 178,245
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	546,458
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(12,720)
Inventories	(276)
Due to other funds	18,467
Decrease in:	
Accrued payroll and employee benefits	(3,217)
Due from other funds	208,750
Due from other governments	5,456
Accounts payable	(397,776)
Net cash provided by operating activities	<u>\$ 543,387</u>

See accompanying notes to financial statements.

**Coconino County**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 74,106,873	\$ 11,634,010
Investments		170,987
Cash and investments held by trustee		373,725
Interest and dividends receivable	605,199	3,208
Total assets	74,712,072	\$ 12,181,930
<b>Liabilities</b>		
Due to other governments	1,860,231	\$ 12,181,930
Total liabilities	1,860,231	\$ 12,181,930
<b>Net Assets</b>		
Held in trust for investment participants	\$ 72,851,841	

See accompanying notes to financial statements.

**Coconino County**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2003**

	<b>Investment Trust Funds</b>
<b>Additions:</b>	
Contributions from participants	\$ 244,253,749
Investment income:	
Interest and dividends	5,064,506
Total additions	249,318,255
<b>Deductions:</b>	
Distributions to participants	245,507,417
Total deductions	245,507,417
Change in net assets	3,810,838
Net assets, July 1, 2002	70,840,747
Net assets, June 30, 2003	\$ 74,651,585

See accompanying notes to financial statements.

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**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). During the year ended June 30, 2003, the County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

**A. Reporting Entity**

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

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

The following table describes the County’s component units:

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

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Coconino County Special Assessment Districts	Constructs or improves sidewalks, curbs and gutters, irrigation systems, and street lighting within the County; County board of supervisors serves as board of directors	Blended	Not available
Coconino County Street Lighting Districts	Operates and maintains street lighting in areas outside local city jurisdictions; County board of supervisors serves as 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; County board of supervisors serves as governing board	Blended	911 E. Sawmill Rd. Flagstaff, AZ 86001-5827 Attn: Janet LaDuke

**B. Basis of Presentation**

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

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

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 1 – Summary of Significant Accounting Policies – Continued**

**B. Basis of Presentation – Continued**

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-based 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 operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and 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.

The County reports the following major governmental funds:

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

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

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

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 1 – Summary of Significant Accounting Policies – Continued**

**B. Basis of Presentation – Continued**

*The Forest Fees Fund*—is used to account for forest fees restricted to the construction, repair and maintenance of county roads.

*The Parks Capital Projects Fund*—is used to account for capital additions and improvements to County parks and is funded by State grants, the issuance of certificates of participation, and investment income.

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

The County reports the following fund types:

*The internal service fund*—accounts for automotive maintenance and operation provided to County 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 County 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.

**C. Basis of Accounting**

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. 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-based 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. 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. Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 1 – Summary of Significant Accounting Policies – Continued**

**C. Basis of Accounting – Continued**

Under the terms of grant agreements, the County funds certain programs with a combination of grants and general revenues. Therefore, when a program expense is 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 only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

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

**E. Inventories**

Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. 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 for the governmental funds.

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

**F. Property Tax Calendar**

The County levies real 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.

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 1 – Summary of Significant Accounting Policies – Continued**

**F. Property Tax Calendar – Continued**

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

**G. Capital Assets**

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

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:

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

**H. Investment Income**

Investment income 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 160 hours of vacation. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally employees may accumulate up to 60 hours of compensatory time. Accruals beyond that require approval by the County Manager. Upon termination all unused compensatory time is paid to the employee. Accordingly, compensatory time is accrued as a liability in the financial statements.

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 1 – Summary of Significant Accounting Policies – Continued**

**I. Compensated Absences – Continued**

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 twenty years of continuous service, sick leave benefits do vest and, therefore, are accrued. Such eligible terminating employees are compensated at the rate of one day for each four sick days accrued.

**Note 2 – Beginning Balances Restated**

As a result of implementing GASB Statement No. 34, the County’s governmental fund-type fund balances as of June 30, 2002, have been restated as net assets as of July 1, 2002, on the government-wide Statement of Activities and its Internal Service Fund’s fund equity has been relabeled net assets as of July 1, 2002, on the Internal Service Fund’s Statement of Revenues, Expenses, and Changes in Fund Net Assets. The reconciliation below summarizes the differences between governmental fund-type fund balances as of June 30, 2002, as previously reported, to net assets as of July 1, 2002, reported on the government-wide Statement of Activities.

Aggregate fund balances of governmental fund types as of June 30, 2002	\$ 76,979,344
Add: Capital assets, net of accumulated depreciation	79,637,052
Revenues earned but not yet available	1,936,353
Internal Service Funds net assets	3,376,798
Less: Long-term liabilities	<u>(47,508,944)</u>
Net assets of governmental activities as of July 1, 2002	<u>\$114,420,603</u>

**Note 3 – Stewardship, Compliance, and Accountability**

**Deficit fund balances**—At June 30, 2003, the following funds reported deficits in fund balances.

Fund	Deficit
Governmental funds:	
Facilities	\$ 1,372,693
Various Career Center	239,519
Parks and Recreation	217,273
Various Health	49,243
Sheriff	4,272
Information Systems	2,649
Various Special District	2,037
County Attorney	28
Superior Court/Juvenile Probation	22

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 4 – Deposits and Investments**

Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer’s investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

**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. Those monies are pooled with County monies for investment purposes.

*Deposits*—At June 30, 2003, the total investment pool’s cash on hand was \$149,665. The carrying amount of the investment pool’s total cash in bank was \$12,404,411 and the bank balance was \$12,755,586. Of the bank balance, \$370,000 was covered by federal deposit insurance or by collateral held by the County or its agent in the County’s name and \$12,385,586 was covered by collateral held by the pledging financial institution’s trust department or agent in the County’s name.

*Investments*—At June 30, 2003, the investments in the County Treasurer’s investment pool consisted of the following:

	<b>Fair Value</b>
Investment in State Treasurer’s investment pool	\$ 4,585,567
U.S. government securities	131,623,329
Total	\$136,208,896

Investments – The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of the participant’s pool shares.

The investment pool’s investments at June 30, 2003, are categorized below to give an indication of the level of risk the County assumed at year-end.

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 4 – Deposits and Investments – Continued**

Category 1—insured or registered in the County’s name, or securities held by the County or its agent in the County’s name.

Category 2—uninsured and unregistered with securities held by the counterparty’s trust department or agent in the County’s name.

Category 3—uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the County’s name.

	Category			Fair Value
	1	2	3	
U.S. government securities			\$131,623,329	\$ 131,623,329
			\$131,623,329	131,623,329
Investments not subject to categorization:				
State Treasurer’s investment pool				4,585,567
Total				\$ 136,208,896

**Other deposits**—The County’s nonpooled deposits at June 30, 2003, were entirely covered by federal depository insurance or by collateral held by the County’s custodial bank in the County’s name.

**Other investments**—At June 30, 2003, the County’s nonpooled investments consisted of the following:

	Fair Value
Investment in State Treasurer’s investment pool	\$12,156,947
U.S. government securities	7,859,216
Total	\$20,016,163

The County’s nonpooled investments are categorized below to give an indication of the level of risk assumed by the County at year-end.

	Category			Fair Value
	1	2	3	
U.S. government securities		\$480,446	\$7,378,770	\$ 7,859,216
		\$480,446	\$7,378,770	7,859,216
Investment not subject to categorization:				
State Treasurer’s investment pool				12,156,947
Total				\$ 20,016,163

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 4 – Deposits and Investments – Continued**

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

	<b>County Treasurer's Investment Pool</b>	<b>Other</b>	<b>Total</b>
Cash on hand	\$ 149,665	\$ 228,190	\$ 377,855
Carrying amount of deposits	12,404,411	2,269,196	14,673,607
Reported amount of investments	136,208,896	20,016,163	156,225,059
<b>Total</b>	<b>\$ 148,762,972</b>	<b>\$22,513,549</b>	<b>\$ 171,276,521</b>

Statement of Net Assets:

	<b>Total Primary Government</b>	<b>Total Fiduciary Funds</b>	<b>Total</b>
Cash and cash equivalents	\$ 77,205,359	\$ 85,740,883	\$ 162,946,242
Investments	780,522	170,987	951,509
Cash and investments held by trustee	7,005,045	373,725	7,378,770
<b>Total</b>	<b>\$ 84,990,926</b>	<b>\$ 86,285,595</b>	<b>\$ 171,276,521</b>

**Note 5 – Receivables**

**Due from other governments**

Amounts due from other governments at June 30, 2003, include \$1,102,109 and \$761,700 in state-shared revenue from sales taxes and fuel taxes, respectively; \$364,767 from the State of Arizona for auto lieu of taxes; \$867,151 in County sales tax; and \$1,342,380 and \$697,553 in various federal and state grants. The balance of \$1,544,231 is composed of miscellaneous receivables from federal, state, and local governments.

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 6 – Capital Assets**

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002 (as restated)	Primary Government		Balance June 30, 2003
		Increases	Decreases	
<b><u>Governmental activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 7,848,793	\$ 142,118		\$ 7,990,911
Construction in progress (estimated cost to complete \$5,551,805)	10,286,211	3,486,097	\$ 8,696,828	5,075,480
Total capital assets not being depreciated	18,135,004	3,628,215	8,696,828	13,066,391
Capital assets being depreciated:				
Buildings	65,090,455	8,323,043		73,413,498
Machinery and equipment	24,740,067	3,496,598	1,435,049	26,801,616
Infrastructure		373,784		373,784
Total capital assets being depreciated	89,830,522	12,193,425	1,435,049	100,588,898
Less accumulated depreciation for:				
Buildings	12,573,317	1,636,764		14,210,081
Machinery and equipment	14,137,797	2,532,441	1,361,933	15,308,305
Total accumulated depreciation	26,711,114	4,169,205	1,361,933	29,518,386
Total capital assets being depreciated, net	63,119,408	8,024,220	73,116	71,070,512
Total	\$81,254,412	\$11,652,435	\$ 8,769,944	\$84,136,903

The July 1, 2002, governmental activities capital assets balances were restated (decreased \$5,854,370) to record the effect of the change in the County's capitalization threshold for capital assets from \$1,000 to \$5,000. In addition, the County restated the governmental activities beginning balances of land (increased \$898,175), buildings (decreased \$878,487), and machinery and equipment (decreased \$1,860,433) to correct prior years' errors.

Infrastructure assets reported included assets that construction was started and/or completed during the year ended June 30, 2003. Infrastructure assets that were started and/or completed prior to July 1, 2002 are not included and will retroactively be added to the County's capital assets listing within the next four years.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 480,903
Public safety	1,073,713
Highways and streets	1,230,748
Sanitation	228,697
Health	162,851
Welfare	58,870
Culture and recreation	98,127
Transportation	288,838
Internal service fund	546,458
Total governmental activities depreciation expense	<u>\$4,169,205</u>

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 7 – Restricted Assets**

Certain proceeds of the Jail District Fund’s Revenue Bonds, the Parks Capital Project Fund Certificates of Participation and the County-wide Capital Project Fund Certificates of Participation are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by bond covenants. The amount of restricted assets at June 30, 2003 was \$7,005,045.

**Note 8 – Long-Term Liabilities**

The following schedule details the County’s long-term liability and obligation activity for the year ended June 30, 2003.

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2003</u>	<u>Due within 1 year</u>
<b><u>Governmental activities</u></b>					
Bonds payable:					
Revenue bonds	\$19,645,000		\$1,675,000	\$17,970,000	\$1,760,000
Special assessment bonds with governmental commitment	497,144	\$231,215	133,472	594,887	153,741
Total bonds payable	20,142,144	231,215	1,808,472	18,564,887	1,913,741
Certificates of participation payable	25,390,000		1,690,000	23,700,000	1,760,000
Compensated absences payable	1,666,482	1,332,486	1,307,685	1,691,283	1,353,028
Claims and judgments payable	310,318	180,422	100,035	390,705	108,929
Governmental activities long-term liabilities	<u>\$47,508,944</u>	<u>\$1,744,123</u>	<u>\$4,906,192</u>	<u>\$44,346,875</u>	<u>\$5,135,698</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 \$1,218,300, respectively. During the year, the County issued special assessment bonds totaling \$231,215 to build a road.

Bonds outstanding at June 30, 2003, 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	7/1/01-2012	4.00-5.00%	\$17,970,000
Special assessment bonds with governmental commitment	1,218,300	7/1/97-2010	3.17-7.50%	594,887
	<u>\$25,978,300</u>			<u>\$18,564,887</u>

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 8 – Long-Term Liabilities – Continued**

The following schedule details debt service requirements to maturity for the County’s bonds payable at June 30, 2003.

Year Ending June 30,	Governmental Activities			
	Revenue Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2004	\$ 1,760,000	\$ 810,629	\$ 153,741	\$ 29,895
2005	1,840,000	729,969	163,057	19,045
2006	1,925,000	645,649	54,350	12,008
2007	2,010,000	561,236	55,835	9,025
2008	2,095,000	472,286	37,348	6,619
2009-12	8,340,000	919,395	130,556	9,860
Total	<u>\$17,970,000</u>	<u>\$ 4,139,164</u>	<u>\$ 594,887</u>	<u>\$ 86,452</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. The original amount of certificates issued in prior years was \$30,650,000.

Certificates outstanding at June 30, 2003, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Series 1998	\$ 19,000,000	7/1/98-13	4.10-5.50%	\$ 14,075,000
Series 2001	11,650,000	7/1/01-15	4.25-5.50%	9,625,000
Total				<u>\$ 23,700,000</u>

The following schedule details debt service requirements to maturity for the County’s certificates of participation payable at June 30, 2003.

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2004	\$ 1,760,000	\$ 1,103,684
2005	1,840,000	1,026,194
2006	1,920,000	944,584
2007	2,000,000	859,884
2008	2,100,000	765,171
2009-13	12,095,000	2,221,743
2014-15	1,985,000	143,030
Total	<u>\$23,700,000</u>	<u>\$ 7,064,290</u>

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 8 – Long-Term Liabilities – Continued**

**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 2003, the County paid for compensated absences as follows: 51.67 percent from the General Fund, 21.32 percent from major funds, and 27.01 percent from other funds. The County paid for claims and judgments from the General Fund.

**Note 9 – Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. These risks of loss are accounted for and financed by the following described insurance coverage and internal risk management program.

The County participates in the State of Arizona Workers' Compensation Fund to reduce the risk of loss relating to employees who are injured while working on County business. There are no limits or deductibles related to workers' compensation claims unless the County was grossly negligent. If an employee's workers' compensation claim is caused by the County's gross negligence, the State of Arizona Workers' Compensation Fund limits coverage to a maximum of \$500,000 for bodily injury for each accident, and \$500,000 for bodily injury by disease for each employee, with an aggregate per-year disease limit of \$500,000.

The County maintains a limited risk management program for theft and damage to property, and general liability to finance uninsured risks of loss up to \$50,000 for each occurrence. The County purchases commercial insurance to cover claims in excess of this amount up to \$40,000,000 for each occurrence and \$40,000,000 in aggregate for each year. The County retains liability for covered losses that exceed these limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. The amount of insurance coverage in all categories remained consistent or increased over the prior fiscal year.

**Insurance claims**—The insurance claims payable liability of the County totaling \$390,705 at June 30, 2003, is the estimated ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. This estimate is based on historical data for settling claims reported but not settled and claims incurred but not reported. Changes in the County's insurance claims payable for the years ended June 30, 2002 and 2003, were as follows:

	<u>2002</u>	<u>2003</u>
Claims payable, beginning of year	\$ 225,000	\$310,318
Current-year claims and changes in estimates	106,209	180,422
Claim payments	(20,891)	(100,035)
Claims payable, end of year	<u>\$ 310,318</u>	<u>\$390,705</u>

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 10 – 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 general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *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 one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

**ASRS**

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

**PSPRS**

1020 E. Missouri Ave.  
Phoenix, AZ 85014  
(602) 255-5575

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

*Cost-sharing plan*—For the year ended June 30, 2003, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members’ annual covered payroll. The County’s contributions to ASRS for the years ended June 30, 2003, 2002, and 2001, were \$1,445,564, \$1,334,113, and \$1,345,999, respectively, which were equal to the required contributions for the year.

*Agent plan*—For the year ended June 30, 2003, 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 7.96 percent, consisting of 10.44 percent for normal cost and (2.48) percent for amortization of unfunded actuarial accrued liability.

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 10 – Retirement Plans – Continued**

**Annual Pension Cost**—The County’s pension cost for the agent plan for the year ended June 30, 2003, and related information follows.

<u><b>PSPRS</b></u>	
Contribution rates:	
County	7.96%
Plan members	7.65%
Annual pension cost	\$209,070
Contributions made	\$209,070

The current-year annual required contributions for PSPRS was determined as part of their June 30, 2001, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 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 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001, was 20 years.

**Trend Information**—Annual pension cost information for the current and two preceding years for the agent plan follows:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 209,070	100%	\$ -
2002	275,460	100%	\$ -
2001	302,022	100%	\$ -

**Note 11 – Interfund Balances and Activity**

**Interfund receivables and payables**—interfund balances at June 30, 2003, were as follows:

	Payable to						Total	
	General Fund	Public Works/HURF Fund	Jail District Fund	Parks Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds		Internal Service Fund
<b>Payable from</b>								
General Fund		\$ 4,643	\$ 25,855	\$ 1,350		\$ 3,348,981	\$ 85,005	\$ 3,465,834
Public Works/HURF Fund	\$ 112,647					12,445	101,837	226,729
Jail District Fund	49,155					1,172	11,395	61,722
Forest Fees Fund		670,709						670,709
Parks Capital Projects Fund	7,093				\$ 3,876,882	785,675		4,669,650
Nonmajor Governmental Funds	2,039,166	30,475	3,052	42	337,562		54,994	2,465,291
<b>Total Governmental Funds</b>	<b>\$ 2,208,061</b>	<b>\$ 705,827</b>	<b>\$ 28,907</b>	<b>\$ 1,392</b>	<b>\$ 4,214,444</b>	<b>\$ 4,148,273</b>	<b>\$ 253,031</b>	<b>\$ 11,559,935</b>
Internal Service Fund	\$ 18,174	\$ 5,036						\$ 23,210

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 11 – Interfund Balances and Activity – Continued**

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

**Interfund transfers**—interfund transfers for the year ended June 30, 2003, were as follows:

	Transfer to						Total
	General Fund	Public Works/HURF Fund	Jail District Fund	Parks Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	
<b>Transfer from</b>							
General Fund			\$ 2,058,592	\$ 275,000	\$ 200,000	\$ 3,489,865	\$ 6,023,457
Public Works/HURF Fund	\$ 112,011					12,445	124,456
Forest Fees Fund		\$ 1,300,204				600,000	1,900,204
Parks Capital Projects Fund					3,901,128		3,901,128
Nonmajor Governmental Funds	659,098				343,326		1,002,424
Total Governmental Funds	\$ 771,109	\$ 1,300,204	\$ 2,058,592	\$ 275,000	\$ 4,444,454	\$ 4,102,310	\$ 12,951,669

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

**Note 12 – Condensed Financial Statements of County Treasurer’s Investment Pool**

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

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

Details of each major investment classification follow.

Investment Type	Principal	Interest Rates	Maturities	Fair Value
Investment in State				
Treasurer’s Investment Pool	\$ 4,585,567	6.0617%	n/a	\$ 4,585,567
U.S. Government securities	131,623,329	2.11-7.375%	6/1/01-6/18/04	131,623,329

**Coconino County**  
**Notes to Financial Statements**  
**June 30, 2003**

**Note 12 – Condensed Financial Statements of County Treasurer’s Investment Pool – Continued**

A condensed statement of the investment pool’s net assets and changes in net assets follows.

**Statement of Net Assets**

Assets	\$ 149,368,171
Liabilities	1,860,231
Net assets	<u>\$ 147,507,940</u>
Net assets held in trust for:	
Internal participants	\$ 74,656,099
External participants	72,851,841
Total net assets held in trust	<u>\$ 147,507,940</u>

**Statement of Changes in Net Assets**

Total additions	\$ 473,766,562
Total deductions	470,671,303
Net increase	<u>3,095,259</u>
Net assets held in trust:	
July 1, 2002	144,412,681
June 30, 2003	<u>\$ 147,507,940</u>

**Note 13 – Maintenance of Effort Payments**

In accordance with Arizona Revised Statute Section 48-4024, Coconino County is required to make annual maintenance of effort payments (MOE) to the Coconino County Jail District, a special revenue fund type. The payments will be made through fiscal year 2012, and are determined by first establishing a base expenditure which is used as the initial fiscal year 1998 MOE payment. Subsequent payments are determined by adjusting the base expenditure by the annual change in the GDP price deflator, obtained from the State of Arizona Economic Estimates Commission. These payments are recorded by the jail district as intergovernmental revenue. The MOE payment for fiscal year 2003 was \$2,010,092.

**OTHER REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**Coconino County  
Required Supplementary  
Information  
Budgetary Comparison Schedule  
Major Funds  
Year Ended June 30, 2003**

	General Fund				Public Works/HURF Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final			Original	Final		
Revenues:								
Property taxes	\$ 4,354,424	\$ 4,354,424	\$ 4,316,121	\$ (38,303)				
Other taxes	11,326,000	11,326,000	12,080,551	754,551				
Licenses and permits	983,500	983,500	1,154,067	170,567	\$ 12,000	\$ 12,000	\$ 18,335	\$ 6,335
Fees, fines, and forfeits	1,090,291	1,090,291	1,102,062	11,771				
Intergovernmental	16,136,480	16,136,480	17,250,834	1,114,354	12,114,125	12,114,125	11,937,054	(177,071)
Charges for services	1,722,365	1,722,365	2,139,235	416,870	50,000	50,000	96,726	46,726
Investment income	1,069,406	1,069,406	1,264,624	195,218	400,000	400,000	532,260	132,260
Contributions	72,000	72,000	80,547	8,547				
Miscellaneous	108,133	108,133	268,803	160,670	423,200		441,499	441,499
Total revenues	<u>36,862,599</u>	<u>36,862,599</u>	<u>39,656,844</u>	<u>2,794,245</u>	<u>12,999,325</u>	<u>12,576,125</u>	<u>13,025,874</u>	<u>449,749</u>
Expenditures:								
Current:								
Sheriff	6,461,772	6,374,729	5,689,854	684,875				
Public Works	160,000	160,000	23,900	136,100	23,788,797	23,788,797	13,053,468	10,735,329
Parks and Recreation	495,808	485,808	439,227	46,581				
Board of Supervisors	706,118	706,118	669,599	36,519				
Facilities	2,089,729	2,099,729	1,895,351	204,378				
Community Development	1,240,226	1,238,895	1,102,051	136,844				
Recorder	1,197,558	1,197,558	1,081,597	115,961				
Non-Departmental	3,359,523	3,342,067	271,683	3,070,384				
Finance	774,202	774,202	817,900	(43,698)				
Budget	318,833	318,833	267,770	51,063				
Human Resources	1,614,056	1,614,056	1,185,477	428,579				
Assessor	971,585	971,585	933,346	38,239				
Treasurer	542,153	542,153	468,535	73,618				
Information Technology	1,594,738	1,594,738	1,665,117	(70,379)				
Constable	58,796	58,796	53,572	5,224				
Adult Probation	933,729	933,729	931,857	1,872				
Flagstaff Justice Court	852,576	852,576	859,065	(6,489)				
Superior Courts	1,787,792	1,787,792	1,829,431	(41,639)				
Clerk of Superior Court	830,329	830,329	769,108	61,221				
Juvenile Probation	1,649,156	1,649,156	1,498,660	150,496				
County Attorney	2,060,175	2,060,175	2,007,388	52,787				
Public Defender	1,730,759	1,730,759	1,576,813	153,946				

(Continued)

See accompanying notes to budgetary comparison schedules.

**Coconino County  
Required Supplementary  
Information  
Budgetary Comparison Schedule  
Major Funds  
Year Ended June 30, 2003**

	General Fund				Public Works/HURF Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final			Original	Final		
Legal Defender	631,391	631,391	570,535	60,856				
Medical Assistance	2,840,439	2,840,439	2,917,989	(77,550)				
Medical Examiner	331,283	337,533	323,094	14,439				
Community Initiatives	609,852	609,852	208,017	401,835				
County Manager	1,131,994	1,131,994	830,374	301,620				
Public Fiduciary	161,130	161,131	164,526	(3,395)				
Fredonia Justice Court	115,528	115,528	109,252	6,276				
Page Justice Court	267,637	267,637	265,174	2,463				
GIS	700,184	705,901	455,419	250,482				
Williams Justice Court	219,614	219,614	219,507	107				
School Superintendent	406,170	406,170	370,025	36,145				
<b>Total expenditures</b>	<b>38,844,835</b>	<b>38,750,973</b>	<b>32,471,213</b>	<b>6,279,760</b>	<b>23,788,797</b>	<b>23,788,797</b>	<b>13,053,468</b>	<b>10,735,329</b>
Excess (deficiency) of revenues over expenditures	(1,982,236)	(1,888,374)	7,185,631	9,074,005	(10,789,472)	(11,212,672)	(27,594)	11,185,078
Other financing sources (uses):								
Transfers in	578,097	634,347	771,109	136,762			1,300,204	1,300,204
Transfers out	(6,391,147)	(6,392,436)	(6,023,457)	368,979	(112,305)	(124,513)	(124,456)	57
Total other financing sources and (uses)	(5,813,050)	(5,758,089)	(5,252,348)	505,741	(112,305)	(124,513)	1,175,748	1,300,261
Net change in fund balances	(7,795,286)	(7,646,463)	1,933,283	9,579,746	(10,901,777)	(11,337,185)	1,148,154	12,485,339
Fund balances, July 1, 2002	7,795,286	15,987,443	15,987,443		14,689,095	14,689,095	14,689,095	
Decrease in reserve for inventories			(706)	(706)				
Increase (decrease) in reserve for prepaid items			59,488	59,488			(16,692)	(16,692)
Fund balances, June 30, 2003	<b>\$ 8,340,980</b>	<b>\$ 17,979,508</b>	<b>\$ 9,638,528</b>	<b>\$ 3,787,318</b>	<b>\$ 3,351,910</b>	<b>\$ 15,820,557</b>	<b>\$ 12,468,647</b>	

See accompanying notes to budgetary comparison schedules.

**Coconino County**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Major Funds**  
**Year Ended June 30, 2003**

	<b>Jail District Fund</b>				<b>Forest Fees Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>			<b>Original</b>	<b>Final</b>		
Revenues:								
Other taxes	\$ 5,477,603	\$ 5,477,603	\$ 5,692,968	\$ 215,365				
Intergovernmental					\$ 200,000	\$ 200,000	\$ 1,408,766	\$ 1,208,766
Charges for services	2,191,100	2,191,100	2,798,542	607,442				
Investment income	40,302	40,302	68,367	28,065	400,000	400,000	358,820	(41,180)
Miscellaneous	400	400	84,648	84,248				
Total revenues	<u>7,709,405</u>	<u>7,709,405</u>	<u>8,644,525</u>	<u>935,120</u>	<u>600,000</u>	<u>600,000</u>	<u>1,767,586</u>	<u>1,167,586</u>
Expenditures:								
Current:								
Public safety	7,597,420	7,597,420	7,978,098	(380,678)				
Debt service:								
Principal	1,323,354	1,323,354	1,675,000	(351,646)				
Interest and other charges	1,250,349	1,250,349	900,260	350,089				
Total expenditures	<u>10,171,123</u>	<u>10,171,123</u>	<u>10,553,358</u>	<u>(382,235)</u>				
Excess (deficiency) of revenues over expenditures	(2,461,718)	(2,461,718)	(1,908,833)	552,885	600,000	600,000	1,767,586	1,167,586
Other financing sources (uses):								
Transfers in	2,097,398	2,097,398	2,058,592	(38,806)				
Transfers out							(1,900,204)	(1,900,204)
Total other financing sources and (uses)	<u>2,097,398</u>	<u>2,097,398</u>	<u>2,058,592</u>	<u>(38,806)</u>			<u>(1,900,204)</u>	<u>(1,900,204)</u>
Net change in fund balances	(364,320)	(364,320)	149,759	514,079	600,000	600,000	(132,618)	(732,618)
Fund balances, July 1, 2002	1,748,466	1,748,466	1,748,466		10,401,067	10,401,067	10,401,067	
Fund balances, June 30, 2003	<u>\$ 1,384,146</u>	<u>\$ 1,384,146</u>	<u>\$ 1,898,225</u>	<u>\$ 514,079</u>	<u>\$ 11,001,067</u>	<u>\$ 11,001,067</u>	<u>\$ 10,268,449</u>	<u>\$ (732,618)</u>

See accompanying notes to budgetary comparison schedules.

**Coconino County**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2003**

**Note 1 – Budgeting and Budgetary Control**

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

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

Encumbrance accounting, under which purchase order, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

**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, 2003, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

**Fund/Department**  
**Special Revenue Funds:**

Public Safety	\$ 380,678
Debt Service - Principal	351,646

**Coconino County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans'  
 Funding Progress  
 June 30, 2003**

**Public Safety Personnel Retirement System**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Funding (Liability) Excess (a-b)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</b>
6/30/03	\$ 13,192,645	\$ 15,814,122	\$ (2,621,477)	83.4%	\$ 2,433,521	(107.7)%
6/30/02	13,401,246	14,329,961	(928,715)	93.5	2,658,275	(34.9)
6/30/01	13,708,581	12,718,662	989,919	107.8	2,498,703	-

**Coconino County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Agriculture</b>			
Passed through:			
Arizona Department of Education National School Lunch Program	10.555	KR00-0475	\$ 23,232
Arizona Department of Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	261054	491,843
State Administrative Matching Grants for Food Stamp Program	10.561	261087	399,105
Commodity Supplemental Food Program	10.565	76115 4	5,466
Northern Arizona Council of Governments Nutrition Services Incentive	10.570	866000441ba	141,994
Arizona State Land Department Cooperative Forestry Assistance	10.664	SFA 1015	25,222
Cooperative Forestry Assistance	10.664	None	83,850
Arizona State Treasurer Schools and Roads - Grants to States	10.665	None	<u>2,694,363</u>
Total U.S. Department of Agriculture			<u>3,865,075</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through:			
City of Flagstaff Community Development Block Grant/Entitlement Grant	14.218	88C-02	13,432
Arizona Department of Housing Community Development Block Grant/State's Program	14.228	075-02H/078-02H/076-02H/077-02H	41,153
Arizona Department of Economic Security Emergency Shelter Grants Program	14.231	E6301004	<u>58,431</u>
Total U.S. Department of Housing and Urban Development			<u>113,016</u>
<b>U.S. Department of the Interior</b>			
Payments in Lieu of Taxes	15.226		<u>1,329,731</u>
<b>U.S. Department of Justice</b>			
Drug Court Discretionary Grant Program	16.585		123,359
Local Law Enforcement Block Grant Program	16.592		24,202
Executive Office for Weed and Seed	16.595		56,721
Passed through:			
Arizona Governor's Division for Children Juvenile Accountability Incentive Block Grant	16.523	00JAIBG-03/JB-GRA-02-4182-03	68,884
Title V-Delinquency Prevention Program	16.548	AD020014-002	78,943
Arizona Criminal Justice Commission National Criminal History Improvement Program (NCHIP)	16.554	NCH-01-093	<u>22,469</u>
Total U.S. Department of Justice			<u>374,578</u>

(Continued)

**Coconino County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**  
**(Continued)**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Labor</b>			
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		\$ 29,074
Passed through:			
Arizona Department of Economic Security			
Senior Community Service Employment Program	17.235	E6201060	106,590
Welfare-to-Work Grants to States and Localities	17.253	E5709075	48,003
WIA Adult Program	17.258	E5701006/E5702003	509,574
WIA Youth Activities	17.259	E5701006/E5702003	597,507
WIA Dislocated Workers	17.260	E5701006/E5702003	354,630
Total U.S. Department of Labor			<u>1,645,378</u>
<b>U.S. Department of Transportation</b>			
Federal Transit - Formula Grants	20.507		766,913
Passed through:			
Arizona Department of Transportation			
Highway Planning and Construction	20.205	None	108,712
Passed through:			
Governor's Office of Highway Safety			
State and Community Highway Safety	20.600	2003-PT-003/2001-163-018/2003-410-007/2002-157AL-014	29,805
Passed through:			
Arizona Emergency Response Commission			
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	None	14,902
Total U.S. Department of Transportation			<u>920,332</u>
<b>Environmental Protection Agency</b>			
Passed through:			
National Association of Counties			
Environmental Protection Consolidated Research	66.500	028	10,000
<b>U.S. Department of Education</b>			
Passed through:			
Arizona Department of Health Services			
Special Education - Grants for Infants and Families with Disabilities	84.181	161004	32,973
<b>U.S. Department of Health and Human Services</b>			
Innovative Food Safety Projects	93.245		9,571
Passed through:			
Northern Arizona Council of Governments			
Cooperative Agreements to Improve the Health Status of Minority Populations	93.004	866000441ba	19,656
Special Programs for the Aging - Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	866000441ba	94,594
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	93.048	866000441ba	2,880
Social Services Block Grant	93.667	866000441ba	47,222
Social Services Block Grant	93.667	866000441bb	74,952
Passed through:			
Arizona Family Planning Council			
Family Planning Services	93.217	None	44,650

(Continued)

**Coconino County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**  
**(Continued)**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Health and Human Services</b>			
Passed through:			
Arizona Department of Health Services			
Immunization Grants	93.268	152037	\$ 49,212
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	252034	212,861
HIV Formula Grant	93.917	152067	422,164
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	1 PO6 HA 00283-01	13,929
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	152028 1	75,788
HIV Prevention Activities - Health Department Based	93.940	152011/152021 1	146,456
Preventive Health and Health Services Block Grant	93.991	952015	73,192
Maternal and Child Health Services Block Grant to the States	93.994	261197	80,346
Maternal and Child Health Services Block Grant to the States	93.994	261181	22,762
Maternal and Child Health Services Block Grant to the States	93.994	961122-1/761007-4/761103-4	140,553
Passed through:			
Arizona Department of Economic Security			
Temporary Assistance for Needy Families	93.558	E6301004	73,325
Child Support Enforcement	93.563	E7204005	15,511
Low-Income Home Energy Assistance	93.568	E2309036/E6301004	108,453
Community Services Block Grant	93.569	E6301004	19,386
Total U.S. Department of Health and Human Services			<u>1,747,463</u>
<b>U.S. Department of Homeland Security</b>			
Passed through:			
Arizona Department of Emergency and Military Affairs			
Domestic Preparedness Equipment Support Program	97.004	None	102,333
Emergency Management Performance Grant	97.042	20-0246-00	70,029
Total U.S. Department of Homeland Security			<u>172,362</u>
Total Expenditures of Federal Awards			<u>\$ 10,210,908</u>

See accompanying notes to schedule

**Coconino County**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**

**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 States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**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 *2003 Catalog of Federal Domestic Assistance Update*.

**Note 3 – Subrecipients**

The County did not award any federal monies to subrecipients.

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Coconino County, Arizona

We have audited the 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, 2003, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 30, 2004, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 34 and a change in the application of an accounting principle affecting the capitalization threshold. 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of basic 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the County's management in a separate letter dated January 30, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Page Two

We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, that we have reported to the County's management in a separate letter dated January 30, 2004.

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.

January 30, 2004

**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**

Members of the Arizona State Legislature

The Board of Supervisors of  
Coconino County, Arizona

Compliance

We have audited the compliance of Coconino County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. 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 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 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 on 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, 2003.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the 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 matter of public record, and its distribution is not limited.

January 30, 2004

**Coconino County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2003**

**A. Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:

**Unqualified**

**YES                  NO**

Material weakness identified in internal control over financial reporting?

\_\_\_\_\_           X          

Reportable condition identified not considered to be material weakness?

\_\_\_\_\_           X          

Noncompliance material to the financial statements noted?

\_\_\_\_\_           X            
(None Reported)

***Federal Awards***

Material weakness identified in internal control over major programs?

\_\_\_\_\_           X          

Reportable condition identified not considered to be material weakness?

\_\_\_\_\_           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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads – Grants to States
15.226	Payments in Lieu of Taxes
	Workforce Investment Act Cluster of Programs
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance

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

\$ 306,527

Auditee qualified as low-risk auditee?

          X           \_\_\_\_\_

**Other Matters**

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?

          X           \_\_\_\_\_

**Coconino County**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2003**  
**Continued**

**B. Financial Statements Findings**

None

**C. Federal Award Findings and Questioned Costs**

None

**COCONINO COUNTY**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2003**

**Status of Federal Award Findings and Questioned Costs**

**99-103**

**CFDA No. 16.590 – Grants to Encourage Arrest Policies**  
**U.S. Department of Justice, 1998 and 1999**

Finding: The Coconino County Attorney's Office (the County) did not establish policies and procedures to properly monitor the activities of Victim/Witness Services for Coconino County, Inc. (VWS), the subrecipient of the Grants to Encourage Arrest Policies program. Quarterly expenditure reports and program narratives were not obtained in a timely manner for the subrecipient. As a result, the County was not able to verify that federal funds drawn down by VWS were properly disbursed and federal monies were expended within budget limitations. Also, under the subrecipient agreement VWS was responsible for completing the County's quarterly financial status reports. However, the County failed to maintain a copy of these reports and we were unable to verify if they were accurately completed. Furthermore, the County failed to determine if VWS required a single audit.

We consider this to be a material instance of noncompliance and a material weakness.

**Status:** Although the County has no current subrecipients, the County has developed policies and procedures for subrecipient monitoring.