

December 4, 1998

The Honorable Board of Supervisors

Pima County, Arizona

We are pleased to submit, in accordance with state statutes, the Comprehensive Annual Financial Report of Pima County, prepared by the Financial and Information Services Department, for the fiscal year ended June 30, 1998. This report presents comprehensive financial and operating information about the County's activities during the fiscal year ended June 30, 1998 that is useful to its property owners, business persons and other resource providers. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to openly disclose the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

This report has been prepared following the standards adopted and promulgated by the Governmental Accounting Standards Board. The Government Finance Officers Association (GFOA) awards Certificates of Achievement for excellence in financial reporting to those governments whose annual financial statements are judged to meet high standards of public financial reporting. Pima County was awarded the Certificate of Achievement for its annual financial report for all fiscal years ending June 30, 1984 through 1997 except fiscal year ended June 30, 1990 as we were late in submitting our comprehensive annual financial report to GFOA because of the implementation of a new financial management system. We believe that the accompanying financial report for the fiscal year ended June 30, 1998 continues to meet GFOA program standards and the report will be submitted to the GFOA for the Certificate of Achievement program review.

The accompanying report consists of three sections: An **INTRODUCTORY** section, which contains this letter of transmittal and the most recent organizational chart for the County; the **FINANCIAL** section, which begins with the general purpose financial statements, providing an overview of the County's financial position and operations, followed by combining statements by fund type and other schedules that provide additional detailed information relative to the general purpose financial statements; and the **STATISTICAL** section, which includes a number of statistical tables and charts that present various financial, economic, social and demographic data about the County for the last ten years.

The Reporting Entity and its Services

Historical background: Pima County is situated in the southern part of Arizona with a portion of its southern boundary bordering Mexico. The County was organized in 1864 by the Arizona Territorial Legislature as one of the State's four original counties.

Organization: The governmental and administrative affairs of the County are carried out by a five-member Board of Supervisors with each member elected from a designated district to serve a four-year term. The chair is selected by the Board from among its members. The Board is responsible for establishing the policies of the County which provide guidance to the various County departments.

The Board appoints a County Administrator who is responsible for the general administrative and overall operations of the various departments of the County.

Entity defined: In accordance with the Governmental Accounting Standards Board Statement 14, The Financial Reporting Entity, Pima County includes in its financial statements all funds, account groups, agencies, boards, commissions, and authorities for which the Pima County Board of Supervisors is financially accountable. As the primary government, Pima County is financially accountable if it appoints a voting majority of an organization's governing body and 1) it is able to impose its will on that organization or 2) there is a potential for that organization to provide specific benefits to or impose specific financial burdens on the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government.

The Municipal Property Corporation is a nonprofit corporation created by the Pima County Board of Supervisors to assist in the development of the County, among other things, by acquiring, constructing and improving any facilities, including real property and improvements and personal property, for use by the County. The Corporation undertook its first bond issue in October 1992. The Corporation is governed by a five member board elected by the Pima County Board of Supervisors to one year terms. The Corporation is reported as a special revenue fund (blended component unit) in this report.

The Metropolitan Domestic Water Improvement District of Pima County was formed by the Pima County Board of Supervisors on July 7, 1992. The initial Board of Directors of the District was comprised of five members appointed by the Pima County Board of Supervisors to varying terms. In November 1994 three members were elected to four-year terms. The Board of Directors of the District has all the powers and duties of the Board of Supervisors of Pima County sitting as the board of directors of a county improvement district that are not in conflict with the provisions of the law. The Pima County Board of Supervisors reviews and has veto authorization over all financial transactions of the Board of Directors of the District. Additionally, the Pima County Board of Supervisors may at any time revoke the authority of the Board of Directors of the District in order to protect the residents of the District. If this should occur, the Pima County Board of Supervisors would govern the District. Based on these factors, the District is reported as a component unit (discrete presentation) in this report.

The Southwestern Fair Commission, Inc. is a nonprofit corporation which manages and maintains the fairgrounds owned by the County and conducts an annual fair and other events at the fairgrounds. The Commission's members are appointed by the Pima County Board of Supervisors. The Commission is reported as a component unit (discrete presentation) in this report.

The Pima County Stadium District was formed to promote and establish major league baseball spring training in Pima County. The Board of Directors of the District is comprised of the same individuals who constitute the Pima County Board of Supervisors. Also, the Pima County Board of Supervisors is able to impose its will on the District as it levied the car rental surcharge rates for the District. The District is reported as a special revenue fund (blended component unit) in this report.

The Board of Supervisors is also designated the Board of Directors of the Pima County Flood Control District, Kino Hospital and of various improvement districts. The improvement districts are Los Reales, North 1st Avenue Sewer, North La Cholla Sewer, Country Club Estates, and Shadow Roc. The financial activity of these districts are included herein.

There are various school districts, irrigation districts, and fire districts within the County governed by independently elected boards. In addition, there are other entities for which the County is not financially accountable such as

the Industrial Development Authority, various lighting districts, the Pima Association of Governments, Pima Council on Aging and the Private Industry Council. The financial statements of such districts and entities are not included in this report except to reflect amounts held in a trust and agency capacity by the County Treasurer.

Services provided: Pima County offers a wide variety of governmental services as follows:

| | |
|----------------------------------|---|
| Justice and - Law Enforcement | Clerk of the Superior Court, Constables, County Attorney, Superior, Juvenile and Justice Courts, Public Defender, Legal Defender, Sheriff Department, Indigent Defense, Public Fiduciary |
| Medical - Services | Pima Health Care System (including Kino Hospital and Pima Health System), Medical Assistance, Health Department (including Health and Animal Control, and Medical Examiner) |
| Community - Resources | Superintendent of Schools, Parks & Recreation, Community Services, County Free Library, Southwestern Fair Commission, Rillito Park, Stadium District |
| Public Works - | Flood Control, Planning and Zoning , Development Services, Transportation, Wastewater Management (including Solid Waste Management), Environmental Quality, Capital Projects, Automotive Services, Facilities Management, Communications |
| County - Administration | Board of Supervisors, Assessor, Clerk of the Board, County Administrator, Elections, Financial and Information Services, Human Resources, Non-Departmental (including Contingency), Printing, Procurement, Recorder, Risk Management, Treasurer |

Economic Condition and Outlook

Pima County's economy appears to be in a stable equilibrium, growing at a rate equal to long-term averages. Employment growth over the year was 3.9%. Retail sales increased 5.7% and the population count is some 817,851 which represents an increase of approximately 2.3%.

The outlook for Pima County is "trend line" growth. Look for our economy to generate approximately 13,000 new jobs this coming year, which represents a growth rate of 4%. Population will grow 20,000 and the growth in residential permits could increase in 1998 as construction of apartments resumes and single family building increases over 1997. Retail sales will grow by 4.4%.

Major Program Initiatives

Current Year Projects

As a result of the County's successful 1997 Bond Elections, the County issued the following bonds , expressed in thousands, in June 1998 - \$42,420 General Obligation Improvement and Refunding Bonds, \$40,000 Street and Highway Revenue

Bonds, and \$29,185 Sewer Improvement and Refunding Revenue Bonds.

The \$42,420 General Obligation Improvement and Refunding Bond proceeds were allocated \$7,571 to the refunding bonds (to advance refund \$4,605 of the 1991 Series Bonds issued on December 1, 1991 and \$2,440 of the Series 1992 Bonds issued on March 1, 1992), and \$34,849 for new projects.

The \$40,000 Street and Highway Revenue Bond proceeds will be used for the purposes of improving, constructing, reconstructing, and acquiring rights-of-way for or maintaining streets and highways of the County.

The \$29,185 Sewer Improvement and Refunding Revenue Bond proceeds were allocated \$8,830 to the refunding bonds (to advance refund \$7,980 of the 1991 Series Refunding Bonds issued on August 1, 1991), and \$20,355 for various sewer improvement projects.

Future Projects / Department Focus -

On October 27, 1998 the Pima County Board of Supervisors accepted a draft report entitled the Sonoran Desert Conservation Plan. The draft Plan contains six elements which could form the basis of the natural resource component of a comprehensive plan for Pima County. These elements are:

- | | |
|---------------------------------------|--|
| 1. Ranch Conservation | 4. Mountain Park Expansion |
| 2. Cultural and Historic Preservation | 5. Biological Corridors and Habitat Linkages |
| 3. Riparian Restoration | 6. Critical and Sensitive Habitat Protection |

This plan is designed to preserve and protect those lands in Pima County that are of environmental, cultural, or historic importance. Given Pima County's and Arizona's rapid growth rate, it is essential that steps be taken to preserve these lands now. When fully implemented, the proposed plan will dramatically effect regional urban form, arrest urban sprawl, and protect those lands that contain the highest quantity and quality of regional resources.

The board also directed staff to pursue a cooperative agreement for regional multi-species conservation plan in compliance with the Federal Endangered Species Act. By formulating a regional multi-species conservation plan within this context, Pima County will be in a position to redesign the basic approach to regional land use decision making by placing cultural and natural resource values at the forefront of the comprehensive planning process. Through a planning process defined under the Endangered Species Act, the various environmental and economic interests of stakeholders in the community will be balanced and a conservation program will be formulated by members of the community within the next few years. The Sonoran Desert Conservation Plan will achieve conservation goals across the region and will provide certainty to the development community as to where population growth and development will occur within the region while protecting our most important historic, cultural and environmental assets.

The County Administrator's Office is coordinating the initial stages of the process. Other affected County departments will include Development Services, Transportation, Flood Control, and Parks and Recreation.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

In developing and evaluating the County's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the County's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the department or Elected Official level and is aided during the fiscal year by the use of encumbrances of estimated purchases. Open encumbrances lapse at year-end and are rebudgeted as needed in the next fiscal year.

Fund Descriptions

The various fund types of the County have been classified into fund categories as follows:

| <u>Fund Category</u> | <u>Fund Type</u> |
|----------------------|--|
| Governmental | General Special Revenue Capital Projects Debt Service |
| Proprietary | Enterprise Internal Service |
| Fiduciary | Trust and Agency |

The measurement focus for each of the three fund categories is explained below.

Governmental Funds: These funds are used to account for the County's expendable financial resources and related current liabilities, except those accounted for in proprietary funds. Governmental funds are essentially accounting segregations of financial resources. Measurement focus is on determination of financial position (sources, uses and balances of resources) rather than on net income determination. Basic financial statements necessary to fairly present financial position and operating results for these funds are the Balance Sheet, and the Statement of Revenues, Expenditures and Changes in Fund Balance.

Proprietary Funds: These funds are used to account for the County's ongoing activities which are similar to those found in the private sector, and the financial activity is reported in essentially the same manner as in commercial accounting where net income and capital maintenance are measured. Measurement focus is on determination of net income, financial position and cash flows. The basic financial statements required by generally accepted accounting principles for these funds are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Fund Equity, and the Statement of Cash Flows.

Fiduciary Funds: These funds are used to account for assets held by the County as an agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. Trust funds are used for the County's external investment pool and individual investment accounts as required by Governmental Accounting Standards Board Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Trust funds

are accounted for using the flow of economic resources measurement focus.

In addition to the various fund types, a fourth category of accounting entities, account groups, is used to establish accounting control and accountability for the County's general fixed assets and general long-term debt. The County's general fixed assets (all fixed assets except those accounted for in proprietary funds) are not financial resources available for expenditure. The unmatured principal of the County's general long-term debt (long-term liabilities not accounted for in proprietary funds) does not require use of financial resources during the current accounting period. Accordingly, these are not accounted for in the governmental funds, but in self-balancing account groups.

General Government Functions

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, which is presented in Exhibit A-2 in this report, is the primary operating statement of the County. This statement presents the acquisition and use of expendable financial resources and the amounts available for the next year. The recurring operations of the County are accounted for in the General, Special Revenue and Debt Service Funds. The following is an analysis of the acquisition (revenues) and uses (expenditures) of the expendable financial resources of these funds:

Revenues: Revenues, expressed in thousands, totaled \$ 403,595 in fiscal year 1997-98, an increase of 6.5 percent over the previous year. Property taxes accounted for 45.2 percent of revenues in the latest year compared to 44.4 percent in the previous year. The amounts of revenues from various sources and the changes since last year are shown in the following tabulation:

| Revenue Source | Amount (\$ 000's) | % of Total | | Incr (Decr) (\$ 000's) |
|----------------------|----------------------|--------------|--------------|----------------------------|
| | | 97-98 | 96-97 | |
| Taxes | \$ 182,323 | 45.2 | 44.4 | \$ 13,973 |
| Licenses and permits | 3,389 | .9 | .9 | 114 |
| Intergovernmental | 179,512 | 44.5 | 43.5 | 14,662 |
| Charges for services | 18,714 | 4.6 | 5.9 | (3,569) |
| Fines and forfeits | 3,411 | .8 | 1.0 | (391) |
| Interest | 2,801 | .7 | 1.0 | (889) |
| Miscellaneous | 13,445 | 3.3 | 3.3 | 821 |
| TOTAL | \$ 403,595 | 100.0 | 100.0 | \$ 24,721 |

Taxes and intergovernmental receipts are the major components of the County's revenues. Tax revenues had an increase of \$ 13,973 as a result of increases in the primary and secondary assessed valuations. Intergovernmental revenues increased \$ 14,662 mainly related to increases in sales taxes of \$ 2,658, various grants totaling \$ 3,116, highway user revenues of \$ 6,162, and auto lieu taxes of \$ 3,773. Interest income decreased \$ 889 as there were less investable funds during fiscal year 1997-98. Charges for services decreased \$ 3,569 as the County's Solid Waste Department was transferred to the Wastewater Management Enterprise Fund effective July 1, 1997.

Assessed valuations: Primary assessed valuations in 1997 increased 8.1 percent to \$3.468 billion, while the secondary valuation increased 13.9 percent to \$3.700 billion. The primary valuation is a legislated valuation on which taxes for normal operations are levied. The secondary valuation reflects market conditions and is the base on which taxes for debt service are levied.

Tax collections: Current real property tax collections were 95.37 percent of the adjusted tax levy, slightly less than last year. Historically, collections

against the year's levy have been approximately 94 percent.

Intergovernmental revenues: Major items included in intergovernmental revenue are sales tax, highway user revenue received from the State of Arizona and Federal grants.

Expenditures: Expenditures, expressed in thousands, for general operations totaled \$ 389,942, a decrease of 8.8 percent from the previous year. Changes in levels of expenditures for major functions of the County over the preceding year are shown in the following tabulation:

| <u>Function</u> | <u>Amount</u> <u>(\$ 000's)</u> | <u>% of Total</u> | | <u>Incr (Decr)</u> <u>(\$ 000's)</u> |
|---------------------------------------|------------------------------------|-------------------|--------------|---|
| | | <u>97-98</u> | <u>96-97</u> | |
| General government | \$ 101,156 | 25.9 | 30.9 | \$(31,084) |
| Public safety | 91,835 | 23.6 | 21.4 | 272 |
| Highways and streets | 21,166 | 5.4 | 5.3 | (1,549) |
| Sanitation | | | 1.1 | (4,754) |
| Health | 18,763 | 4.8 | 4.4 | 131 |
| Welfare | 68,101 | 17.5 | 14.9 | 4,293 |
| Culture and recreation | 18,605 | 4.8 | 4.1 | 1,241 |
| Education and economic opportunity | 29,486 | 7.6 | 6.7 | 766 |
| Debt service | 40,830 | 10.4 | 11.2 | (7,094) |
| TOTAL | \$ 389,942 | 100.0 | 100.0 | \$(37,778) |

Total expenditures for fiscal year 1997-98 decreased \$ 37,778 over fiscal year 1996-97. General government decreased \$ 31,084 mainly from the recording in fiscal year 1996-97 of a capital lease for \$ 35,660 for the County Jail. This was part of the sale/leaseback of the County Jail, whereby the sale proceeds were used for construction of the Kino Veterans Memorial Sportspark and Baseball Stadium. Highways and Streets decreased \$ 1,549 resulting from lower expenditures in the transportation areas of maintenance and engineering. Sanitation decreased \$ 4,754 as the County's Solid Waste Department was transferred to the Wastewater Management Enterprise Fund effective July 1, 1997. Welfare increased \$ 4,293 mainly due to higher ALTCS premiums of \$ 2,552, and \$ 1,244 in indigent legal services. Culture and Recreation increased \$ 1,241 mainly due to higher operating costs of our recreation centers and Kino Sportspark and Baseball Stadium. Debt Service decreased \$ 7,094 as the 1974 Series D general obligation bond was paid in full in fiscal year 1996-97 from related sinking fund monies.

Fund Balances

Fund balances were maintained at adequate levels. Following is a comparison of fund balances (expressed in thousands) for Governmental Funds with related increases and decreases from the prior year:

| <u>Fund</u> | <u>Fiscal Year</u> | | <u>Increase</u> <u>(Decrease)</u> |
|-----------------------|--------------------|----------------|--------------------------------------|
| | <u>1997-98</u> | <u>1996-97</u> | |
| General Fund | \$ 3,934 | \$ 7,392 | \$ (3,458) |
| Special Revenue Funds | 18,500 | 21,847 | (3,347) |
| Debt Service Fund | 11,844 | 8,032 | 3,812 |
| Capital Projects Fund | 77,252 | 25,906 | 51,346 |

Proprietary Operations

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is for the costs of providing services to the general public be financed primarily through user charges. The following summary (expressed in thousands) reflects certain selected operating results for the Enterprise Funds and Discretely Presented Component Units for the current fiscal year:

| | <u>Operating Revenues</u> | <u>Operating Expenses</u> | <u>Net Income (Loss)</u> |
|---|-------------------------------|-------------------------------|------------------------------|
| Development Services | \$ 5,485 | \$ 4,320 | \$ 1,422 |
| Parking Garages | 1,225 | 1,149 | 146 |
| Rillito Park | 7 | 91 | (43) |
| Pima Health Care System | 138,400 | 148,114 | (6,439) |
| Wastewater Management | 36,200 | 45,496 | 1,127 |
| Metropolitan Domestic Water Improvement District (a discretely presented component unit) | 7,646 | 6,081 | 565 |
| S. W. Fair Commission (a discretely presented component unit) | 3,332 | 3,315 | 37 |

Internal Service Funds are used to account for the financing of goods and services provided by one department to other departments of the County or to other governmental units on a cost reimbursement basis. The following is a summary of certain selected operating results of the Internal Service Funds (expressed in thousands) for the current fiscal year:

| | <u>Operating Revenues</u> | <u>Operating Expenses</u> | <u>Net Income (Loss)</u> |
|---------------------------------|-------------------------------|-------------------------------|----------------------------------|
| Self Insurance Trust | \$ 10,534 | \$ 13,552 | \$ (621) |
| Other Internal Service Funds | 10,358 | 9,694 | 724 |

Fiduciary Operations

Agency funds are non-budgetary funds established to account for assets held by the County as agent for employees, fire districts, cities and towns, the State and other agencies. Total assets held by the County for the various agency funds at June 30, 1998 and 1997 were as follows (expressed in thousands):

Increase

| | <u>1998</u> | <u>1997</u> | (Decrease) over <u>1997</u> |
|----------------------|------------------|------------------|-----------------------------------|
| Payroll Clearing | 2,627 | 1,073 | 1,554 |
| Treasurer's Clearing | 477 | 1,388 | (911) |
| School Districts | | 146,170 | (146,170) |
| Other | <u>19,705</u> | <u>19,747</u> | (<u>42</u>) |
| TOTAL | <u>\$ 22,809</u> | <u>\$168,378</u> | \$(<u>145,569</u>) |

As a result of Governmental Accounting Standards Board Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, Investment Trust Funds became effective on July 1, 1997 and represent the County's external investment pool and individual investment accounts for school districts which have a balance of \$ 202,137 at June 30, 1998.

Long-term Obligations

The ratio of net bonded debt to assessed value and the amount of net bonded debt per capita are useful indicators of the County's debt position to county management, citizens, investors, and bond rating agencies. This data at fiscal year-end was as follows:

| | |
|---|------------|
| Net bonded debt (\$ 000's): | \$ 175,146 |
| Ratio of net bonded debt to assessed value: | 4.73 % |
| Net bonded debt per capita: | \$ 214.15 |

County general obligation bonds outstanding at June 30, 1998, expressed in thousands, totaled \$ 186,990. Note 10 to the financial statements presents more detailed information about the debt position of the County. The following tabulation presents County general obligation bonds issued in recent years:

| <u>Date of Issue</u> | <u>Amount</u> <u>(\$ 000's)</u> | <u>Average</u> <u>Life</u> <u>In Years</u> | <u>Effective</u> <u>Interest</u> <u>Rate</u> | <u>Interest</u> <u>Cost Per</u> <u>Borrowed</u> <u>Dollar</u> |
|----------------------|------------------------------------|--|--|--|
| NOV 1979 | \$ 37,610 | 14.72 | 6.98% | \$1.03 |
| OCT 1980 | 21,000 | 6.71 | 7.59 | .51 |
| JUN 1982 | 35,370 | 8.05 | 10.91 | .88 |
| APR 1984 | 17,330 | 9.66 | 9.11 | .88 |
| DEC 1984 | 29,300 | 9.98 | 9.56 | .95 |
| JUN 1985 | 50,640 | 9.21 | 8.39 | .77 |
| APR 1986 | 20,000 | 12.68 | 6.87 | .87 |
| OCT 1986 | 60,000 | 10.90 | 6.58 | .72 |
| MAR 1988 | 16,000 | 10.32 | 6.76 | .70 |
| MAY 1989 | 54,000 | 11.90 | 7.31 | .87 |
| DEC 1991 | 36,160 | 5.55 | 5.87 | .33 |
| MAR 1992 | 20,000 | 9.62 | 6.11 | .59 |
| NOV 1992 | 94,065 | 5.79 | 5.51 | .32 |
| JAN 1993 | 15,000 | 11.97 | 5.65 | .68 |

| | | | | |
|----------|--------|------|------|-----|
| APR 1993 | 64,535 | 8.43 | 5.02 | .42 |
| APR 1994 | 10,495 | 8.00 | 5.48 | .44 |
| JUN 1998 | 42,420 | 7.76 | 4.54 | .36 |

The rating on the County general obligation bonds and sewer revenue bonds are:

| | <u>Moody's Investors Service</u> | <u>Standard & Poor's</u> |
|-----------------------------|----------------------------------|------------------------------|
| General obligation | A1 | A+ |
| Sewer revenue | A1 | A+ |
| Street & Highway revenue | A1 | A+ |

Capital Projects

Proceeds of general obligation bond issues are accounted for in the Capital Projects Fund until the projects are completed. Completed projects and uncompleted construction-in-progress at fiscal year-end, except for infrastructure fixed assets, are capitalized in the General Fixed Assets Account Group. During fiscal year 1997-98, expenditures in the Capital Projects Fund, expressed in thousands, totaled \$ 50,139 compared with fiscal year 1996-97 expenditures of \$ 39,596. Major projects under construction or completed during fiscal year 1997-98 include the Baseball Stadium Complex, Juvenile Detention Facility, and various highway and street improvements.

Most of the available balance of the Capital Projects Fund is invested on a short-term basis until needed for the various projects. Such investments, expressed in thousands, resulted in interest earnings of \$ 1,318 during the fiscal year.

General Fixed Assets

The general fixed assets of the County are those fixed assets used in the performance of general governmental functions and exclude the fixed assets of Enterprise and Internal Service Funds. Pima County also does not record the value of certain infrastructure fixed assets such as roads, bridges, drainage systems and street lighting systems. As of June 30, 1998, the general fixed assets of the County amounted to over \$ 327 million. This amount represents the original cost of the assets and is considerably less than their present value. Depreciation of general fixed assets is not recognized in the County's accounting system.

Cash Management

Most cash, other than imprest accounts, is on deposit with the County Treasurer or the State Treasurer. Amounts temporarily idle during the year are invested on a short-term basis. Such investments during the year benefited the General, Special Revenue, and Debt Service Funds by approximately \$ 2.8 million.

Risk Management

Pima County has an established Self Insurance Fund to account for the risk management function of the County. The Fund is administered by an appointed Board of Trustees and provides self-insurance coverage to the County for medical malpractice, workers' compensation, unemployment, general liability, property

damage, environmental damage and employee dental benefits as well as acquiring coverage for other risks. The Fund is financed by charges to specific user departments and to the General Fund.

OTHER INFORMATION

Independent Audit

Arizona Revised Statutes require an annual audit of the financial statements. This requirement has been complied with and the independent auditors' report is included in this report.

Single Audit

As a recipient of Federal and State financial assistance, the government also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management of Pima County.

As a part of Pima County's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that Pima County has complied with applicable laws and regulations. The results of the government's single audit for the fiscal year ended June 30, 1997 indicated that there were two instances of material noncompliance resulting from material weaknesses in the internal control over compliance related to the Supportive Housing Program, and the Housing Opportunities for Persons with AIDS Program. Pima County has instituted changes in its procedures to correct the reported deficiencies. The Single Audit for Pima County for the fiscal year ended June 30, 1998 has not begun.

As demonstrated by the statements and schedules included in the financial section of this report, Pima County continues to meet its responsibility for sound financial management.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Pima County, Arizona for its comprehensive annual financial report for all fiscal years ending June 30, 1984 through 1997 except for the fiscal year ending June 30, 1990 as we were unable to meet the filing deadline.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA.

Acknowledgments

The preparation of this report could not be accomplished without the efficient and dedicated services of the staff of the Financial Control and Reporting Division. We should like to express our appreciation to those who assisted in and contributed to the preparation of this report. We should also like to thank the Board of Supervisors for its interest and support in planning and conducting the financial operations of the County in a responsible manner.

Respectfully submitted,

C. H. Huckelberry
County Administrator

Carol Bonchalk
Director - Financial and Information
Services Department