NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Historical perspective: 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.

Pima County defined: 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 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.

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 (MPC) 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, entirely 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 these financial statements. Complete financial statements for the MPC can be obtained from the Pima County Financial and Information Services Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Pima County Stadium District, a legally separate entity, was formed to promote and establish major league baseball spring training in Pima County. The Board of Directors of the District comprises the same individuals who constitute the Pima County Board of Supervisors. Acting in the capacity of the Board of Directors, the Pima County Board of Supervisors is able to impose its will on the District. The Board of Directors levies the car rental surcharge rates and the recreational vehicle (RV) park tax for the District. The District is reported as a special revenue fund (blended component unit) in these financial statements. Complete financial statements for the District can be obtained from the Pima County Financial and Information Services Department located at 130 West Congress Street, Tucson, Arizona 85701.

The Metropolitan Domestic Water Improvement District (MDWID) of Pima County, a legally separate entity, was formed by the Pima County Board of Supervisors on July 7, 1992. The initial Board of Directors of the District comprised 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 may review 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 separate component unit (discrete presentation) in these financial statements. Complete financial statements of the District can be obtained from their administrative offices located at 6265 N. La Cañada Drive, Tucson, Arizona 85704.

The Southwestern Fair Commission, Inc. (SFC) 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, and can be removed at any time, by the Pima County Board of Supervisors. Based on these factors, SFC is reported as a separate component unit (discrete presentation) in these financial statements. Complete financial statements for SFC can be obtained from the Pima County Financial and Information Services Department located at 130 West Congress Street, Tucson, Arizona 85701.Pima County includes the financial activity of various improvement districts in its financial statements. Improvement districts are established to finance specific construction projects that benefit a limited geographic area. The improvement districts are Los

Reales, North 1st Avenue Sewer, North La Cholla Sewer, Country Club Estates and Shadow Roc. The Pima County Board of Supervisors is also designated the Board of Directors of those improvement districts. The Pima County Board of Supervisors is able to impose its will on the districts by levying special assessments against the benefitting property owners to finance the construction.

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 or agency capacity by the County Treasurer.

Services provided: Pima County offers a wide variety of governmental services. Medical Services are provided by Pima Health Care System, Medical Assistance and the Health Department (including Health and Animal Control, and Medical Examiner). Public Works are performed by Development Services (including Planning and Zoning), Transportation, Flood Control, Wastewater Management (including Solid Waste Management), Environmental Quality, Capital Projects, Automotive Services, Facilities Management, Communications and Parking Garages. Justice and Law Enforcement are provided by the Sheriff's Department, Superior, Juvenile and Justice Courts, Public Defender, Clerk of the Superior Court, County Attorney, Public Fiduciary, Constables, Legal Defender and Indigent Defense. Community Resources are provided by Parks & Recreation, Community Services, County Free Library, Superintendent of Schools, Southwestern Fair Commission, Rillito Park and Stadium District. Pima County also provides a full range of general government and administrative services.

Accounting policies: The accounting policies of Pima County are established by the State of Arizona Auditor General through the Uniform Accounting Manual for Arizona Counties. The policies conform to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board and provide a consistent basis for presenting financial information of the County.

The purpose of the Summary of Significant Accounting Policies is to identify and describe accounting principles followed by the County and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations. It is not the intent of the Summary to duplicate details presented elsewhere as part of the financial statements, but rather to enlighten and complement the information on the statements themselves.

B. BASIS OF PRESENTATION

Fund accounting: The financial transactions of the County are recorded in individual funds and account groups, each of which is considered a separate fiscal entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Total columns on the Combined Statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

The various funds and account groups are classified by category and type as follows:

GOVERNMENTAL FUNDS

General Fund

To account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

To account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund

To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund

To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

PROPRIETARY FUNDS

Enterprise Funds

To account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, management control, public policy, accountability or other purposes.

Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust Funds

To account for assets held by the County in an external investment pool and individual investment accounts for the benefit of outside jurisdictions.

Agency Funds

To account for assets held by the County as an agent for individuals, private organizations, other governmental units or other funds. The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus.

ACCOUNT GROUPS

General Fixed Assets

To account for the general fixed assets of the County, excluding fixed assets of the Proprietary Funds.

General Long-term Debt

To account for the general long-term debt of the County, excluding long-term debt of the Proprietary Funds.

C. MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All Proprietary Funds and Trust Funds are accounted for using the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements of the Governmental and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred except for principal and interest on general long-term debt which is recognized when due. However, since debt service resources are provided during the current year for payment of general long-term debt principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Those revenues susceptible to accrual prior to receipt are property taxes, franchise taxes, special assessments, licenses and permits, intergovernmental aid, grants and reimbursements, interest revenue, charges for services, and sales taxes collected and held by the State at year-end on behalf of the County. Fines and forfeits, rents, contributions and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Proprietary Funds and the Trust Funds are presented on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Only those applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, are applied unless those pronouncements conflict with or contradict GASB pronouncements.

E. BUDGETARY ACCOUNTING

On or before the third Monday in July of each year, the Board of Supervisors adopts a tentative budget for the fiscal year. A public hearing and special board meeting is scheduled at which time the final budget is adopted.

The County adopts, on a modified accrual basis, budgets for all governmental fund types (General, Special Revenue, Debt Service, and Capital Projects Fund). Operating plans for all Enterprise funds are also adopted as part of the budget document. Per state statute, expenditures may not exceed appropriations at the department or elected official level. Each Special Revenue Fund maintains budgetary control at the fund or sub-fund level where applicable. Budgetary control for the Capital Projects Fund and the Debt Service Fund are at the fund level.

Adopted budgets provide that the beginning unreserved fund balance plus revenues and other financing sources equal expenditures and other uses. State statute requires that amendments to the budget, including transfers of appropriations between departments or funds, are not permissible unless the Board of Supervisors determines that it is in the public interest and it is based on a demonstrated need. During fiscal year ended June 30, 2001, there were amendments to the budget and transfers of appropriations between various departments and funds. These were approved by the Board of Supervisors. As state statute prohibits the County from exceeding the final adopted budget, there were no supplemental appropriations during the year ended June 30, 2001.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders for specific items are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Appropriation balances, including all outstanding encumbrances, lapse at the end of the fiscal year. Any item ordered in a fiscal year but not received is charged against an appropriation in the year that the item is received.

F. ASSETS, LIABILITIES AND FUND EQUITY

Significant unusual accounting treatments: Noncurrent portions of certain long-term receivables, primarily property taxes and interest due to governmental funds, are reported on their balance sheets despite their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables.

Cash and cash equivalents: Cash and cash equivalents include deposits with the County Treasurer, deposits with the State Treasurer, amounts in demand deposits, and short-term investments with a maturity date within three months of the date acquired by the County.

Short-term Interfund Receivables/Payables: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "interfund receivables/payables" on the balance sheet. Short-term interfund loans and unpaid operating transfers are classified as "due from/due to other funds."

Investments: Nonparticipating interest-earning investment contracts are stated at cost. All other investments are stated at fair value.

Inventories: Inventories of the governmental funds are valued at cost on the first-in, first-out method or average cost method and consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventory of Pima Health Care System, an enterprise fund, is valued at the lower of cost or market, cost being determined on the first-in, first-out method.

The inventories of Wastewater Management, an enterprise fund, are valued at the lower of cost or market, cost being determined using the moving average method.

The inventories of Automotive Services, an internal service fund, are valued at the lower of cost or market, cost being determined using the moving average method.

Deferred charges: Deferred charges represent financing costs for Wastewater Management and the Metropolitan Domestic Water Improvement District which are being amortized over the related life of the bond issue or 20 years, respectively, using the straight-line method.

Deferred Interest Expense: For advance refundings resulting in defeasance of debt reported by proprietary activities, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the deferred amount is reported as a deduction from or an addition to the new debt liability.

Fixed assets and long-term liabilities: Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, and drainage and lighting systems, are not capitalized.

Purchased fixed assets of the Proprietary Funds are capitalized in those funds at cost. Major outlays for assets or improvements to them are capitalized as projects are constructed. Interest incurred during the construction phase of the project is capitalized net of interest earned on the invested proceeds over the same period. Donated fixed assets are capitalized at their estimated fair market value at the time received. Depreciation of fixed assets in the Proprietary Funds is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	7 to 40 Years
Furniture and equipment	3 to 25 Years
Wastewater treatment facilities, transfer stations and other property and equipment	5 to 50 Years
Sewage conveyance system	50 Years

MDWID - Water reservoirs, transmission and distribution mains, hydrants and valves	50 to 55 Years
MDWID - Water wells, pumping equipment, water treatment equipment and meters	25 to 30 Years
MDWID - Other water plant equipment	15 to 25 Years

Vehicles owned by Automotive Services, an Other Internal Service Fund, are depreciated on the units-of-production method based on the number of miles or hours used.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, rather than in the separate funds.

Restricted assets: The restricted assets shown for the Capital Projects Fund and the Enterprise Funds consist of cash and cash equivalents at fair value, and are restricted in accordance with the terms of contracts, agreements, and restrictive covenants pertaining to revenue bonds.

G. REVENUES, EXPENDITURES AND EXPENSES

Property Tax and Special Assessment Revenues: Property tax and special assessment revenues are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 30 days subsequent to fiscal year end. Property taxes and special assessments not collected within 30 days subsequent to fiscal year end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.

Grants, Entitlements and Shared Revenues: In governmental funds, grants which are awarded for a specific purpose are considered to be earned when the related expenditure occurs. If the grant is awarded on a cost reimbursable basis, the amount spent is shown as due from other governments until the cash is received. If cash is received in advance, the revenue recognition is deferred until the related expenditure occurs.

Grants received in enterprise funds for capital acquisition are recorded as contributed capital.

Entitlements and shared revenues which are not restricted to specific uses are recognized as revenue when measurable and available.

Sewer Connection Fees: Sewer connection fees are assessed to land developers based upon the type and number of fixtures attached to the conveyance system. Fees are established at a level to provide for the recovery of Wastewater Management's operating expenses that are not recovered by the sewer utility service fees. Accordingly, fees collected are classified as nonoperating revenues rather than operating revenues or contributed capital.

Miscellaneous Revenues: Miscellaneous revenues in the General Fund include $704 in rents and royalties, $657 in refunds and reimbursements and $642 in various miscellaneous fees. Miscellaneous revenues in the Other Special Revenue Fund include $1,625 of anti-racketeering monies and $1,333 in rents and royalties. Miscellaneous revenues in the Other Special Revenue Grants Fund include $1,073 in various program fees and reimbursements. Miscellaneous revenues in the Capital Projects Fund include various miscellaneous fees and reimbursements totaling $1,199.

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at the end of the payroll period in which the employee's anniversary date falls are forfeited. Upon termination, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number 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 have twenty or more years of continuous service with the County or who have a combined total of age and years of service equal to eighty points, and who retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan, sick leave benefits do vest and, therefore, are accrued.

The amount of compensated absences expected to be paid by available financial resources is recorded as a current liability at June 30 in the Governmental Funds. The remaining noncurrent amount of compensated absences of the Governmental Funds is recorded in the General Long-Term Debt Account Group. Vested compensated absences of the Proprietary Funds are recorded as expenses and liabilities of those funds as the benefits accrue to employees.