Cochise County

Annual Financial Report and Single Audit Report

Year Ended June 30, 2018

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

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Audit Staff

Donna Miller, Director
John Faulk, Manager and Contact Person

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St.
Ste. 410
Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov

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DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority Fund and the discretely presented component unit, which account for the following percentages of the assets and deferred outflows, liabilities and deferred inflows, revenues, and expenses of the opinion units affected.

Opinion units affected	Assets and deferred outflows	Liabilities and deferred inflows	Revenues	Expenses
Government-wide statements				
Business-type activities				
Housing Authority	8%	11%	38%	41%
Discretely presented component unit				
Cochise Private Industry Council, Inc.	100%	100%	100%	100%
Fund statements				
Aggregate remaining fund information				
Housing Authority	2%	10%	9%	9%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities are based solely on the other auditors' reports. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of Cochise County as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-9, budgetary comparison schedules on pages 46 through 48, schedule of the County's proportionate share of the net pension liability—cost-sharing plans on page 49, schedule of changes in the County's net pension liability and related ratios—agent plans on pages 50 and 51, and the schedule of County pension contributions on pages 52 and 53. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information—schedule of expenditures of federal awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost*

Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The County's schedule of expenditure of federal awards did not include $2,406,499 in federal awards expended by Cochise Private Industry Council, Inc., because Cochise County engaged other auditors to perform their audit.

The schedule of expenditures of federal awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Compliance over the use of Highway User Revenue Fund and other dedicated State transportation revenue monies

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the authorized transportation purposes, insofar as they relate to accounting matters, for Highway User Revenue Fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated State transportation revenues it received. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the authorized transportation purposes referred to above, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated State transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Lindsey, Perry, CPA, CFE
Auditor General

March 28, 2019

Cochise County
Management's Discussion and Analysis
June 30, 2018

As management of Cochise County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cochise County for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

- Cochise County's assets and deferred outflows of resources exceed its liabilities and deferred inflows of resources at the close of the fiscal year by $107.7 million (net position). Of the net position amount, $137.3 million is the net investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, infrastructure and construction in progress); $14.5 million is restricted for specific purposes (restricted net position); and $(44.1) million is the unrestricted net position deficit balance that is primarily a result of recognizing long-term liabilities related to pensions.

- At June 30, 2018, total assets were $220.3 million, an increase of $3.5 million or 1.6 percent in comparison with the prior fiscal year's balance of $216.8 million.

- At June 30, 2018, total liabilities were $120.0 million, an increase of $6.5 million or 5.7 percent in comparison with the prior fiscal year's balance of $113.5 million.

- At June 30, 2018, the County reported total deferred outflows of resources related to pensions and other postemployment benefits (OPEB) of $14.9 million and deferred inflows of resources related to pensions/OPEB of $7.5 million.

- At June 30, 2018, the governmental funds reported combined fund balances of $67.7 million, a decrease of $0.5 million or 0.7 percent in comparison with the prior year's combined fund balances of $68.2 million.

- At June 30, 2018, $14.3 million or 21.1 percent of governmental fund balances were restricted, $24.7 million or 36.5 percent were assigned, and $28.5 million or 42.1 percent were unassigned. Restricted fund balances have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations; or by constitutional language or enabling legislation. The assigned and unassigned fund balances are considered unrestricted. The unrestricted fund balances are available for spending at the County's discretion. However, the assigned fund balances are designated by management.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Required supplementary information is included in addition to the basic financial statements.

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

The *Statement of Net Position* presents information on all of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows (full accrual accounting). Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish the County's functions that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities)*. The County's governmental activities include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, and education. The business-type activities include the Cochise County Solid Waste Operations, the Cochise County Housing Authority, and the Bisbee-Douglas International Airport.

The government-wide statements not only include Cochise County itself (the primary government) but also the legally separate Flood Control District, Library District and various other special assessment districts. These districts function for all practical purposes as departments of the County, and therefore have been included as an integral part of the County.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the County's funds can be divided into three categories: g*overnmental funds, proprietary funds, and fiduciary funds.*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund statements focus on near-term inflows and outflows of spendable resources as well as the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financial position.

Because the focus of governmental funds statements is narrower than the government-wide statements, it is useful to compare the information presented for governmental funds with similar information for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances include a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and those funds designated as major funds including the Highway and Streets Fund and the Capital Projects Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

The Highway and Streets Fund provides for the construction and maintenance of the County's surface transportation system in a reasonably safe and cost-effective manner. The primary source of revenue for the fund is the Arizona highway user revenue fund.

The Capital Projects Fund provides resources for the acquisition or construction of major facilities and automation and communications projects. The major source of revenue for the fund is the County's local excise tax.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report.

Proprietary funds include two types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Cochise County Solid Waste Operations, the Cochise County Housing Authority, and the Bisbee-Douglas International Airport. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for fleet operations, the computer replacement program, and the County's participation in the Cochise Combined Trust for providing health insurance and other benefits to the County's employees. Because these services predominately benefit governmental rather than business-type activities, the net result of the operations has been included within the governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Solid Waste Operations is considered to be a major fund and therefore reported separately. The other proprietary funds, comprised of the Housing Authority Fund and the Bisbee-Douglas International Airport, are combined into a single, aggregated presentation. They, along with the internal service funds, are also presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 7 through 11 of this report.

Fiduciary funds are used to account for resources the County holds for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 12 and 13 of this report.

Notes to the financial statements provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements.

The notes to financial statements can be found on pages 14 through 44 of this report.

Required supplementary information presents budgetary comparison schedules for the general and major special revenue fund and the County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 46 through 55 of this report.

Government-wide Financial Analysis

Below is a comparative analysis between fiscal years for the government-wide statements. Capital assets, net of accumulated depreciation, had a net increase of $1.8 million. The County's increase is due to the completion of roads and culverts infrastructure by $2.9 million The current year's depreciation of capital assets totaled $7.5 million.

Statement of Net Position—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Cochise County's assets exceeded liabilities by $107.7 million.

Governmental and Business-type Activities
Summary Comparison Statement of Net Position
June 30, 2017 and 2018

	Governmental Activities		Business-type Activities		Total	
	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018
Assets:						
Current and other assets	$ 81,109,193	$ 81,844,221	$ 216,979	$ 1,183,044	$ 81,326,172	$ 83,027,265
Capital assets, net	127,872,271	130,061,648	7,606,531	7,233,363	135,478,802	137,295,011
Total assets	208,981,464	211,905,869	7,823,510	8,416,407	216,804,974	220,322,276
Deferred outflows	19,653,800	14,609,589	440,933	299,080	20,094,733	14,908,669
Liabilities:						
Other liabilities	5,980,244	5,799,484	502,047	183,052	6,482,291	5,982,536
Long-term liabilities	101,087,371	108,005,475	5,912,281	6,005,688	106,999,652	114,011,163
Total liabilities	107,067,615	113,804,959	6,414,328	6,188,740	113,481,943	119,993,699
Deferred inflows	9,732,217	7,246,275	435,811	246,253	10,168,028	7,492,528
Net position:						
Net investment in capital assets	127,872,271	130,061,648	7,606,531	7,233,363	135,478,802	137,295,011
Restricted	13,849,218	14,283,772	24,260	232,277	13,873,478	14,516,049
Unrestricted	(29,886,057)	(38,881,196)	(6,216,487)	(5,185,146)	(36,102,544)	(44,066,342)
Total net position	$111,835,432	$105,464,224	$ 1,414,304	$ 2,280,494	$113,249,736	$107,744,718

A large portion of Cochise County's net position (127.4 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure and construction in progress). This amount is presented less accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the fiscal year, unrestricted net assets were negative in both governmental activities and business-type activities primarily due to the County's net pension/OPEB liability, and landfill closure and postclosure care costs payable.

Statement of Activities—The County's total net position decreased by $5.5 million during the fiscal year, primarily due to an increase in expenses. The following table summarizes the results of operations and accounts for the changes in net position for governmental and business-type activities:

Governmental and Business-type Activities
Summary Comparison Statement of Activities
Years Ended June 30, 2017 and 2018

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
Revenues						
Program revenues:						
Charges for services	$ 7,126,542	$ 7,212,204	$ 4,842,204	$ 5,236,031	$ 11,968,746	$ 12,448,235
Operating grants and contributions	22,750,866	24,282,836	3,180,189	3,222,495	25,931,055	27,505,331
Capital grants and contributions	3,333,245	582,173			3,333,245	582,173
General revenues:						
Property taxes	29,443,735	30,460,821			29,443,735	30,460,821
State shared sales tax	12,744,829	13,485,202			12,744,829	13,485,202
State shared unrestricted vehicle license tax	3,807,321	3,977,611			3,807,321	3,977,611
County excise tax	6,420,439	6,523,845	267,826	280,977	6,688,265	6,804,822
Other	5,210,359	4,774,021	60,953	83,779	5,271,312	4,857,800
Total revenues	90,837,336	91,298,713	8,351,172	8,823,282	99,188,508	100,121,995
Expenses						
General government	39,307,272	41,013,956			39,307,272	41,013,956
Public safety	27,789,335	28,669,780			27,789,335	28,669,780
Highways and streets	9,788,763	13,224,321			9,788,763	13,224,321
Sanitation	507,185	525,811			507,185	525,811
Health and welfare	11,430,554	12,440,943			11,430,554	12,440,943
Culture and recreation	1,115,109	1,165,904			1,115,109	1,165,904
Education	650,745	751,465			650,745	751,465
Solid waste operations			6,222,914	4,127,789	6,222,914	4,127,789
Airport			432,007	456,433	432,007	456,433
Housing authority			3,184,478	3,250,611	3,184,478	3,250,611
Total expenses	90,588,963	97,792,180	9,839,399	7,834,833	100,428,362	105,627,013
Increase/(decrease) in net position before transfers	248,373	(6,493,467)	(1,488,227)	988,449	(1,239,854)	(5,505,018)
Transfers	(1,542,553)	122,259	1,542,553	(122,259)		
Increase/(decrease) in net position	$ (1,294,180)	$ (6,371,208)	$ 54,326	$ 866,190	$ (1,239,854)	$ (5,505,018)

Overall, revenues increased $0.9 million or 0.9 percent and expenses increased by $5.2 million or 5.2 percent in the current fiscal year. The following summarizes the significant changes in both revenues and expenses:

- Operating grants and contributions increased by $1.6 million or 6.1 percent in the current year primarily due to an increase in operating grants from different federal and state grantors.

- General government expenses increased by $1.7 million or 4.3 percent due increases in employee salaries and employer related expenses and overall pension expense incurred by the County.

- Highways and streets expenses increased by $3.4 million or 35.1 percent, due to an increase in road improvement work throughout the County.

Financial Analysis of the County's Funds

The County reported three major governmental funds for this fiscal year; the General Fund, Capital Projects Fund and Highway and Streets Fund. At the end of the current fiscal year, the County's governmental funds reported combined fund balances of $67.7 million, which is a decrease of $463 thousand or 0.7 percent. Of the total, $14.3 million constitutes restricted fund balances.

For governmental funds, overall revenues decreased by $363 thousand or 0.4 percent and expenditures decreased by $2.1 million or 2.2 percent. Governmental expenditures exceeded revenues by $649 thousand in the current fiscal year.

The General Fund is the County's primary operating fund. At June 30, 2018, the total fund balance was $29.7 million. None of the General Fund balance is restricted for any purpose. As a measure of the General Fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. As of June 30, 2018, the fund balance represents 52.8 percent of total General Fund expenditures.

The following provides an explanation of the major fund's activities that changed significantly over the prior year:

General Fund

- Cash and investments held by County Treasurer increased by $1.3 million or 5.0 percent in the current year largely due to an increase in expenses incurred by the County at June 30, 2018, but not paid, and due to an increase in amounts due to other governments at fiscal year-end.

- Accounts receivable decreased by $209 thousand or 13.2 percent in the current year largely due to less revenue being due to several departments at fiscal year-end.

- Property tax receivable increased by $436 thousand or 49.6 percent in the current year largely due to a decrease in both real and personal property tax collections for the 2017 tax year.

- Due from other funds increased by $217 thousand or 11.7 percent in the current year largely due to the timing of other departments reimbursing the general fund for their share of expenses that are paid centrally, i.e., phones, credit cards, etc.

- Due from other governments decreased by $484 thousand or 13.2 percent in the current year largely due to the decrease in expended amounts from the State of Arizona for highway user fees, state shared revenue, and other revenue from both the State of Arizona and federal government.

- Accounts payable increased by $178 thousand or 29.6 percent in the current year largely due to invoices being paid later than in the prior year.

- Current expenditures for general government increased by $689 thousand or 2.6 percent in the current year largely due to an increase in employee salaries and employee related expenditures.

Capital Projects Fund

- Due from other governments increased by $207 thousand or 47.7 percent in the current year largely due to an increase in half cent excise tax revenue that was due to the County from the State of Arizona.

- Accounts payable decreased by $384 thousand or 74.2 percent in the current year largely due to expenses on projects being paid prior to year-end.

- Tax revenue decreased by $153 thousand or 6.5 percent in the current year because more excise tax was used for non-capital projects purposes.

- Intergovernmental revenues decreased by $987 thousand or 61.3 percent due to other governments no longer contributing funds for the creation of the South Eastern Arizona Communications Center (SEACOM).

- Expenditures for capital outlay decreased by $3.3 million or 56.5 percent in the current year largely due to the completion of projects that had been continuing for several years and no new projects beginning.

Highways and Streets Fund

- Cash and investments held by the County Treasurer decreased by $1.2 million or 11.5 percent in the current year largely due to an increase in Highway User Revenue Fund (HURF) expenses paid prior to fiscal year-end and a decrease in accounts payable of $739 thousand.

- Accounts payable decreased by $739 thousand or 73.1 percent in the current year largely due to the purchase and receipt of road materials throughout the year instead of at year-end, providing enough time to pay invoices prior to June 30, 2018.

- Due to Other Funds decreased by $158 thousand or 23.0 percent in the current year largely due to less expenditures incurred for fleet and heavy fleet that were unpaid at June 30, 2018.

- Intergovernmental revenues increased by $557 thousand or 5.0 percent in the current year largely due to an increase in the receipt of HURF revenues.

- Current expenditures for highways and streets increased by $890 thousand or 7.7 percent in the current year largely due to an increase in the completion of road improvement work throughout the County.

Proprietary Funds

For proprietary funds, the County reported one major fund for the fiscal year, Solid Waste Operations. Other funds considered proprietary funds are the Housing Authority Fund, Bisbee-Douglas International Airport and the internal service funds used to account for fleet operations, the computer replacement program, and the County's participation in the Cochise Combined Trust for providing health insurance and other benefits to the County's employees. At the end of the current fiscal year, the County's proprietary funds reported combined net position of $19.5 million, which is an increase of $.1.1 million or 6.2 percent. Of the total, ($398) thousand constitutes unrestricted net position.

For proprietary funds, overall operating revenues increased $423 thousand or 1.9 percent and operating expenses decreased by $1.6 million or 6.9 percent. Proprietary operating revenues exceeded operating expenses by $551 thousand in the current fiscal year.

The following provides an explanation of the major fund's activities that changed significantly over the prior year.

Solid Waste Operations

- Accounts receivables increased by $131 thousand or 26.6 percent in the current year due to an increase in accounts billed for services for which payment had not yet been received.

- Capital assets decreased by $233 thousand or 6.3 percent largely due to depreciation expense.

- Deferred outflows of resources related to pensions/OPEB decreased by $104 thousand or 30.4 percent in the current year due to a decrease in the estimated amount needed in the future for employee pensions, and other postemployment benefits.

- Due to other funds decreased by $905 thousand or 66.1 percent in the current year due to a decrease in the amount owed to the General Fund and other funds for expenses incurred but not yet paid at fiscal year-end.

- Long-term landfill closure and postclosure care costs payable increased by $214 thousand or 6.9 percent in the current year due to an increase in the future costs for closure and postclosure of landfill sites.

- Deferred inflows of resources related to pensions/OPEB decreased by $145 thousand or 43.5 percent in the current year due to a decrease in the estimated amount needed for future employee pension and other postemployment benefits payouts.

- Net position increased by $816 thousand or 32.5 percent in the current year due to an increase in revenue collected for services delivered and a decrease in the expenses to deliver those services.

Capital Asset and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2018, totaled $137.3 million (net of accumulated depreciation). This investment in capital assets includes, land, construction in progress, buildings and improvements, infrastructure, and equipment. The following provides the major changes in capital assets during the current fiscal year.

- Construction in progress decreased by $1.8 million for completed new infrastructure.

- Net equipment increased $4.2 million for new equipment.

- Net infrastructure increased $1.3 million for completed infrastructure.

- Accumulated depreciation increased by $5.9 million due to annual depreciation expense less capital asset disposals.

Additional information on the County's capital assets can be found in Note 5 on pages 23 and 24 of this report.

Long-term Debt

At June 30, 2018, the County had no long-term debt outstanding and the County had no general obligation or revenue bonds outstanding.

Budgetary Comparison—General Fund

For the General Fund, actual revenues were more than final budgeted amounts by $3.3 million, and the actual expenditures were $26.2 million less than the final budgeted amounts. The budget variance for revenues was due to increase in unexpected tax collections. Increases in intergovernmental revenues and charges for services were also experienced. The budget variance for expenses was due to conservative budgeting and vacancy savings from a hiring freeze. $21.2 million of the favorable variance was due to unspent general government contingency funds.

Economic Factors

Cochise County continues to lag in recovering from the significant downturn in the national and state economies that began in the later part of 2008. While the U.S. and the State are experiencing an increase in economic activity, Cochise County continues a slow recovery in property valuations leading to stagnant property tax revenue. However, the County is beginning to see a slight increase in revenue from its excise tax. The County closely monitors revenues, expenditures and certain economic indicators to ensure that the County remains fiscally strong.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cochise County Finance Department, 1415 Melody Lane, Building G, Bisbee, AZ 85603.

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Cochise County
Statement of net position
June 30, 2018

	Primary government			
	Governmental activities	Business-type activities	Total	Component unit
Assets				
Cash in bank and on hand	$ 476,405	$ 610,587	$ 1,086,992	$ 71,212
Cash and investments held by County Treasurer	68,523,276	349,293	68,872,569	
Receivables (net of allowances for uncollectibles):				
Property taxes	1,563,959		1,563,959	
Accounts	2,174,972	795,455	2,970,427	
Accrued interest	75,565	2,715	78,280	
Internal balances	654,731	(654,731)		
Due from other governments	7,286,539	53,945	7,340,484	267,640
Cash—restricted		17,348	17,348	
Prepaid items	184,563		184,563	
Other assets	135,246		135,246	4,564
Net other postemployment benefits asset	768,965	8,432	777,397	
Capital assets, not being depreciated	8,347,206	1,599,900	9,947,106	
Capital assets, being depreciated, net	121,714,442	5,633,463	127,347,905	36,719
Total assets	211,905,869	8,416,407	220,322,276	380,135
Deferred outflows of resources				
Deferred outflows related to pensions and other postemployment benefits	14,609,589	299,080	14,908,669	
Liabilities				
Accounts payable	1,868,757	34,334	1,903,091	91,747
Accrued payroll and employee benefits	2,408,478	86,530	2,495,008	
Due to other governments	1,165,485	883	1,166,368	
Due to related party				75,770
Unearned revenue		59,705	59,705	
Deposits held for others	356,764	1,600	358,364	
Noncurrent liabilities				
Due within 1 year	2,789,791	125,923	2,915,714	
Due in more than 1 year	105,215,684	5,879,765	111,095,449	37,876
Total liabilities	113,804,959	6,188,740	119,993,699	205,393
Deferred inflows of resources				
Deferred inflows related to pensions and other postemployment benefits	7,246,275	246,253	7,492,528	
Net position				
Net investment in capital assets	130,061,648	7,233,363	137,295,011	36,719
Restricted for:				
Education	173,032		173,032	
Flood	4,462,468		4,462,468	
Health	1,040,292		1,040,292	
Judicial	3,619,683		3,619,683	
Public safety	2,973,391		2,973,391	
Library	1,001,884		1,001,884	
Other	1,013,022	232,277	1,245,299	
Workforce development				93,137
Unrestricted (deficit)	(38,881,196)	(5,185,146)	(44,066,342)	44,886
Total net position	$ 105,464,224	$ 2,280,494	$ 107,744,718	$ 174,742

See accompanying notes to financial statements.

Cochise County
Statement of activities
Year ended June 30, 2018

		Program revenues			Net (expense) revenue and changes in net position			
					Primary government			
Functions/programs	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	Component unit
Primary government:								
Governmental activities:								
General government	$ 41,013,956	$ 5,008,991	$ 7,048,403		$ (28,956,562)		$ (28,956,562)	
Public safety	28,669,780	860,003	2,360,074	$ 580,023	(24,869,680)		(24,869,680)	
Highways and streets	13,224,321	865,047	11,701,407		(657,867)		(657,867)	
Sanitation	525,811	172,920	224,204		(128,687)		(128,687)	
Health and welfare	12,440,943	303,626	2,384,582	2,000	(9,750,735)		(9,750,735)	
Culture and recreation	1,165,904		53,215	150	(1,112,539)		(1,112,539)	
Education	751,465	1,617	510,951		(238,897)		(238,897)	
Total governmental activities	97,792,180	7,212,204	24,282,836	582,173	(65,714,967)		(65,714,967)	
Business-type activities:								
Solid Waste Operations	4,127,789	4,585,121				$ 457,332	457,332	
Bisbee-Douglas International Airport	456,433	551,954				95,521	95,521	
Housing Authority	3,250,611	98,956	3,222,495			70,840	70,840	
Total business-type activities	7,834,833	5,236,031	3,222,495			623,693	623,693	
Total primary government	$ 105,627,013	$ 12,448,235	$ 27,505,331	$ 582,173	(65,714,967)	623,693	(65,091,274)	
Component unit:								
Cochise Private Industry Council, Inc.	$ 2,496,400		$ 2,479,597					$ (16,803)
General revenues:								
Taxes								
Property taxes, levied for general purposes					27,053,564		27,053,564	
Property taxes, levied for flood control					2,060,837		2,060,837	
Property taxes, levied for library					1,346,420		1,346,420	
County excise taxes					6,523,845	280,977	6,804,822	
Share of state sales taxes					13,485,202		13,485,202	
Share of state unrestricted vehicle license tax					3,977,611		3,977,611	
Grants and contributions not restricted to specific programs					2,960,835		2,960,835	
Investment income					90,717	23,934	114,651	
Miscellaneous					1,533,675	59,845	1,593,520	4,826
Gain on sale of capital assets					188,794		188,794	
Transfers					122,259	(122,259)		
Total general revenues and transfers					59,343,759	242,497	59,586,256	4,826
Change in net position					(6,371,208)	866,190	(5,505,018)	(11,977)
Net position, July 1, 2017					111,835,432	1,414,304	113,249,736	186,719
Net position, June 30, 2018					$ 105,464,224	$ 2,280,494	$ 107,744,718	$ 174,742

See accompanying notes to financial statements.

Cochise County
Balance sheet
Governmental funds
June 30, 2018

	Major Funds				
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other governmental funds	Total governmental funds
Assets					
Cash in bank and on hand	$ 84,255			$ 391,950	$ 476,205
Cash and investments held by County Treasurer	26,928,290	$ 12,907,113	$ 9,111,403	14,752,644	63,699,450
Receivables (net of allowances for uncollectibles):					
Property taxes	1,313,820			250,139	1,563,959
Accounts	1,379,638	598	415,074	364,249	2,159,559
Accrued interest	28,611	15,902		24,460	68,973
Due from:					
Other funds	2,063,238	148,602	7,327	689,908	2,909,075
Other governments	3,192,811	641,020	2,027,769	1,400,737	7,262,337
Prepaid items	184,563				184,563
Other assets				135,246	135,246
Total assets	$ 35,175,226	$ 13,713,235	$ 11,561,573	$ 18,009,333	$ 78,459,367
Liabilities					
Accounts payable	$ 777,589	$ 133,274	$ 271,834	$ 449,016	$ 1,631,713
Accrued payroll and employee benefits	1,855,617		228,886	267,607	2,352,110
Due to:					
Other funds	554,826	14,660	527,892	2,657,914	3,755,292
Other governments	816,775			348,710	1,165,485
Deposits held for others	329,857			26,907	356,764
Total liabilities	4,334,664	147,934	1,028,612	3,750,154	9,261,364
Deferred inflows of resources					
Unavailable revenue - property taxes	1,096,316			357,374	1,453,690
Fund balances					
Nonspendable	184,563				184,563
Restricted				14,283,772	14,283,772
Assigned	576,980	13,565,301	10,532,961	67,208	24,742,450
Unassigned	28,982,703			(449,175)	28,533,528
Total fund balances	29,744,246	13,565,301	10,532,961	13,901,805	67,744,313
Total liabilities, deferred inflows of resources and fund balances	$ 35,175,226	$ 13,713,235	$ 11,561,573	$ 18,009,333	$ 78,459,367

See accompanying notes to financial statements.

Cochise County
Reconciliation of the governmental funds balance sheet to the government-wide statement of net position
June 30, 2018

Fund balances—total governmental funds		$ 67,744,313
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		117,608,197
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		1,453,690
Long-term liabilities, such as net pension/OPEB liabilities, and compensated absences payable are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Net pension liability	(102,028,153)	
Compensated absences payable	(4,639,028)	(106,667,181)
Net OPEB assets held in trust for future benefits are not available resources for county operations and, therefore, are not reported in the funds.		
Net OPEB asset		764,749
Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions/OPEB	14,443,492	
Deferred inflows of resources related to pensions/OPEB	(7,123,149)	7,320,343
Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.		17,240,113
Net position of governmental activities		$ 105,464,224

See accompanying notes to financial statements.

Cochise County
Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2018

	Major funds				
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other governmental funds	Total governmental funds
Revenues:					
Taxes	$ 33,159,803	$ 2,178,651	$ 300,000	$ 4,272,517	$ 39,910,971
Licenses and permits	39,372				39,372
Fees, fines, and forfeits	1,564,529			88,946	1,653,475
Intergovernmental	16,913,997	622,219	11,606,935	11,585,722	40,728,873
Charges for services	2,454,481		863,994	2,200,882	5,519,357
Donations				582,173	582,173
Investment income	27,911	30,899	36,350	(30,097)	65,063
Miscellaneous	1,380,944	4,832		153,451	1,539,227
Total revenues	55,541,037	2,836,601	12,807,279	18,853,594	90,038,511
Expenditures:					
Current:					
General government	26,987,809	648,432		8,139,916	35,776,157
Public safety	18,959,690			5,562,861	24,522,551
Highways and streets			12,447,174	3,405	12,450,579
Sanitation	304,501			221,310	525,811
Health and welfare	9,630,721			2,372,388	12,003,109
Culture and recreation				1,113,460	1,113,460
Education	384,032			349,497	733,529
Capital outlay	78,520	2,509,562	588,985	385,552	3,562,619
Total expenditures	56,345,273	3,157,994	13,036,159	18,148,389	90,687,815
Excess (deficiency) of revenues over expenditures	(804,236)	(321,393)	(228,880)	705,205	(649,304)
Other financing sources (uses):					
Sale of capital assets	17,116		47,415		64,531
Transfers in	630,197	148,602		1,269,716	2,048,515
Transfers out	(382,902)		(16,073)	(1,527,281)	(1,926,256)
Total other financing sources and uses	264,411	148,602	31,342	(257,565)	186,790
Net change in fund balances	(539,825)	(172,791)	(197,538)	447,640	(462,514)
Fund balances, July 1, 2017	30,284,071	13,738,092	10,730,499	13,454,165	68,206,827
Fund balances, June 30, 2018	$ 29,744,246	$ 13,565,301	$ 10,532,961	$ 13,901,805	$ 67,744,313

See accompanying notes to financial statements.

Cochise County

Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities
Year ended June 30, 2018

Net change in fund balances—total governmental funds		$ (462,514)
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	6,745,027	
Depreciation expense	(5,244,122)	1,500,905
In the statement of activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.		(6,147)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		851,307
County pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension/OPEB liability is measured a year before the County's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for the changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the statement of activities.		
County pension/OPEB contributions	6,548,647	
Pension OPEB expense	(15,018,146)	(8,469,499)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.		
Increase in compensated absences		(338,633)
Decrease in judgements and claims		275,510
Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The net revenue of internal service funds is reported with governmental activities in the statement of activities.		277,863
Change in net position of governmental activities		$ (6,371,208)

See accompanying notes to financial statements.

Cochise County
Statement of net position
Proprietary funds
June 30, 2018

	Business-type activities—enterprise funds			Governmental activities—Internal service funds
	Major fund Solid Waste Operations Fund	Other enterprise funds	Total	
Assets				
Current assets:				
Cash in bank and on hand	$ 2,250	$ 608,337	$ 610,587	$ 200
Cash and investments held by County Treasurer		349,293	349,293	4,823,826
Restricted cash		17,348	17,348	
Receivables (net of allowances for uncollectibles):				
Accounts	621,770	173,685	795,455	15,413
Accrued interest	2,269	446	2,715	6,592
Due from:				
Other funds	355		355	1,512,133
Other governments	34,410	19,535	53,945	24,202
Total current assets	661,054	1,168,644	1,829,698	6,382,366
Noncurrent assets:				
Net other postemployment benefits asset	6,465	1,967	8,432	4,216
Capital assets, net of accumulated depreciation, where applicable:				
Land	24,900	1,575,000	1,599,900	
Infrastructure		1,580,897	1,580,897	
Buildings, net	2,781,832	7,289	2,789,121	102,503
Improvements other than buildings, net	570,852	546,981	1,117,833	
Equipment, net	94,082	51,530	145,612	12,350,948
Total net capital assets	3,471,666	3,761,697	7,233,363	12,453,451
Total noncurrent assets	3,478,131	3,763,664	7,241,795	12,457,667
Total assets	4,139,185	4,932,308	9,071,493	18,840,033
Deferred outflows of resources				
Deferred outflows related to pensions/OPEB	239,467	59,613	299,080	166,097

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of net position
Proprietary funds
June 30, 2018
(Concluded)

	Business-type activities—enterprise funds			Governmental activities—
	Major fund			
	Solid Waste Operations Fund	Other enterprise funds	Total	Internal service funds
Liabilities				
Current liabilities:				
Accounts payable	$ 11,683	$ 22,651	$ 34,334	$ 237,044
Accrued payroll and employee benefits	84,056	2,474	86,530	56,368
Due to:				
Other funds	463,736	191,350	655,086	11,185
Other governments		883	883	
Compensated absences payable, current portion	99,707	6,619	106,326	78,843
Landfill closure and postclosure care costs payable, current portion	19,597		19,597	
Deposits held for others		1,600	1,600	
Unearned revenue		59,705	59,705	
Total current liabilities	678,779	285,282	964,061	383,440
Noncurrent liabilities:				
Compensated absences payable	37,794	13,123	50,917	55,028
Landfill closure and postclosure care costs payable	3,322,180		3,322,180	
Funds held for others		97,823	97,823	
Net pension liability/OPEB	1,846,781	562,064	2,408,845	1,204,423
Total noncurrent liabilities	5,206,755	673,010	5,879,765	1,259,451
Total liabilities	5,885,534	958,292	6,843,826	1,642,891
Deferred inflows of resources				
Deferred inflows related to pensions/OPEB	188,794	57,459	246,253	123,126
Net position				
Net investment in capital assets	3,471,666	3,761,697	7,233,363	12,453,451
Restricted		232,277	232,277	
Unrestricted (deficit)	(5,167,342)	(17,804)	(5,185,146)	4,786,662
Total net position (deficit)	$ (1,695,676)	$ 3,976,170	$ 2,280,494	$ 17,240,113

See accompanying notes to financial statements.

Cochise County
Statement of revenues, expenses, and changes in fund net position
Proprietary funds
Year ended June 30, 2018

	Business-type activities—enterprise funds			Governmental activities—Internal service funds
	Major fund Solid Waste Operations Fund	Other enterprise funds	Total	
Operating revenues:				
Charges for services	$ 4,585,121	$ 650,910	$ 5,236,031	$ 6,230,575
Charges for health insurance				8,066,827
Intergovernmental		3,222,495	3,222,495	
Total operating revenues	4,585,121	3,873,405	8,458,526	14,297,402
Operating expenses:				
Personal services	1,730,839	311,417	2,042,256	1,160,948
Professional services	1,584,763	290,498	1,875,261	7,936,852
Supplies	104,499	105,542	210,041	3,271,282
Landfill closure and postclosure care costs	215,393		215,393	
Housing assistance payments		2,848,761	2,848,761	
Depreciation	232,993	140,175	373,168	1,918,119
Other	259,302	10,651	269,953	82,850
Total operating expenses	4,127,789	3,707,044	7,834,833	14,370,051
Operating income (loss)	457,332	166,361	623,693	(72,649)
Nonoperating revenues (expenses):				
County excise taxes	280,977		280,977	200,000
Investment income	20,417	3,517	23,934	25,654
Miscellaneous	56,663	2,882	59,545	(5,552)
Other licenses and permits	300		300	
Gain on disposal of capital assets				130,410
Total nonoperating revenues	358,357	6,399	364,756	350,512
Income before capital contribution	815,689	172,760	988,449	277,863
Transfers out		(122,259)	(122,259)	
Increase in net position	815,689	50,501	866,190	277,863
Total net position, July 1, 2017	(2,511,365)	3,925,669	1,414,304	16,962,250
Total net position, June 30, 2018	$ (1,695,676)	$ 3,976,170	$ 2,280,494	$ 17,240,113

See accompanying notes to financial statements.

Cochise County
Statement of cash flows
Proprietary funds
Year ended June 30, 2018

	Business-type activities—enterprise funds			Governmental activities—
	Major fund Solid Waste Operations Fund	Other enterprise funds	Total	Internal service funds
Cash flows from operating activities:				
Receipts from customers	$ 4,599,506	$ 548,759	$ 5,148,265	
Operating grants		3,150,344	3,150,344	
Receipts from other funds for goods and services provided				$ 13,452,008
Other receipts		100,699	100,699	
Payments to suppliers and providers of goods and services	(3,356,723)	(3,233,180)	(6,589,903)	(11,159,774)
Payments to employees	(1,856,554)	(288,900)	(2,145,454)	(1,245,534)
Net cash provided by (used for) operating activities	(613,771)	277,722	(336,049)	1,046,700
Cash flows from noncapital financing activities:				
Miscellaneous receipts	337,941	2,882	340,823	194,448
Loan payments received from other funds	256,333		256,333	
Cash transfers to other funds		(122,259)	(122,259)	
Net cash provided by (used for) noncapital financing activities	594,274	(119,377)	474,897	194,448
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets				142,236
Purchases of capital assets				(2,624,564)
Net cash used for capital and related financing activities				(2,482,328)
Cash flows from investing activities:				
Proceeds from the sale and maturity of investments		434	434	
Investment income received on cash and investments held by County Treasurer	19,547	2,807	22,354	24,386
Net cash provided by investing activities	19,547	3,241	22,788	24,386
Net increase (decrease) in cash and cash equivalents	50	161,586	161,636	(1,216,794)
Cash and cash equivalents, July 1, 2017	2,200	813,392	815,592	6,040,820
Cash and cash equivalents, June 30, 2018	$ 2,250	$ 974,978	$ 977,228	$ 4,824,026

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of cash flows
Proprietary funds
Year ended June 30, 2018
(Concluded)

	Business-type activities—enterprise funds			Governmental activities—Internal service funds
	Major fund Solid Waste Operations Fund	Other enterprise funds	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ 457,332	$ 166,361	$ 623,693	$ (72,649)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	232,993	140,175	373,168	1,918,119
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Net pension/OPEB liability	(119,472)	(10,388)	(129,860)	(77,915)
Deferred outflows-pension/OPEB	104,474	37,378	141,852	70,096
Deferred inflows-pension/OPEB	(145,329)	(44,230)	(189,559)	(94,780)
Net OPEB asset	(6,465)	(1,967)	(8,432)	(4,216)
Accounts receivable	(130,683)	(34,202)	(164,885)	(8,883)
Due from other funds	131,859	31,007	162,866	(819,462)
Due from other governments	13,208	(9,863)	3,345	(17,049)
Accounts payable	(245,453)	(22,420)	(267,873)	127,560
Accrued payroll and employee benefits	11,738	(533)	11,205	16,138
Accrued liabilities		(22,386)	(22,386)	
Unearned revenue		(62,967)	(62,967)	
Due to other funds	(1,161,601)	109,731	(1,051,870)	3,650
Compensated absences payable	29,340	2,026	31,366	6,091
Landfill closure and postclosure care costs payable	214,288		214,288	
Net cash provided by (used for) operating activities	$ (613,771)	$ 277,722	$ (336,049)	$ 1,046,700
Cash and cash equivalents, June 30, 2018, consisted of:				
Cash in bank and on hand	2,250	608,337	610,587	200
Cash—restricted		17,348	17,348	
Cash and investments held by County Treasurer		349,293	349,293	4,823,826
Total cash and cash equivalents	$ 2,250	$ 974,978	$ 977,228	$ 4,824,026

Noncash capital financing activities:

The Internal service funds sold equipment with a net book value of $11,826.

See accompanying notes to financial statements.

Cochise County
Statement of fiduciary net position
Fiduciary funds
June 30, 2018

	Investment trust funds	Agency funds
Assets		
Cash in bank and on hand		$ 1,186,112
Cash and investments held by County Treasurer	$ 72,883,374	
Interest receivable	1,210	
Total assets	$ 72,884,584	$ 1,186,112
Liabilities		
Due to other governments		$ 1,186,112
Total liabilities		$ 1,186,112
Net position		
Held in trust for investment trust participants	$ 72,884,584	

See accompanying notes to financial statements.

Cochise County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2018

	Investment trust funds
Additions:	
Contributions from participants	$ 214,157,725
Investment income	(960,947)
Total additions	213,196,778
Deductions:	
Distributions to participants	209,499,988
Total deductions	209,499,988
Change in net position	3,696,790
Net position, July 1, 2017	69,187,794
Net position, June 30, 2018	$ 72,884,584

See accompanying notes to financial statements.

Note 1 - Summary of significant accounting policies

Cochise County's accounting policies conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting entity

For the year ended June 30, 2018, the County implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

The County is a general purpose local government that is governed by a separately elected board of 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 so intertwined with the County that they are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. Each blended and discretely presented component unit discussed below has a June 30 year-end.

The following table describes the County's component units:

Component unit	Description; criteria for inclusion	Reporting method	For separate financial statements
Cochise County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors, and County management has operational responsibility for the component unit.	Blended	Not available
Cochise County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors, and County management has operational responsibility for the component unit.	Blended	Not available
Cochise Private Industry Council, Inc.	Administers and coordinates Workforce Innovation and Opportunity Act programs; the County's Board of Supervisors appoints all governing board members and is able to impose its will on the Private Industry Council, but the Private Industry Council does not provide services entirely to the County.	Discrete	Cochise Private Industry Council 900 Carmelita Dr. Sierra Vista, AZ 85635

B. Basis of presentation

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

Government-wide statements—Provide information about the primary government (the County) and its component unit. The statements include a statement of net position and a statement of activities. These statements report the overall government's financial activities, except for fiduciary activities. They also distinguish between the County's governmental and business-type activities and between the County and its discretely presented component unit. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type 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 the following:

- Charges to customers or applicants for goods, services, or privileges provided.
- Operating grants and contributions.
- Capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the County levies or imposes, are reported as general revenues.

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

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

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as charges for services, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as County excise taxes, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment income and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered nonoperating expenses.

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 Capital Projects Fund accounts for resources to be used for the acquisition or construction of major facilities and automation and communications projects other than those financed by proprietary funds. The Fund's most significant revenue source is the County's local excise tax.

The Highway and Streets Fund accounts for the construction and maintenance of the County's surface transportation system in a cost-effective manner. The Fund's most significant revenue source is highway user revenue fees.

The County reports the following major enterprise fund:

The Solid Waste Operations Fund accounts for the management of solid waste. The services include the operation of a regional solid waste landfill and transfer stations.

The County also reports the following fund types:

The internal service funds account for health insurance, automotive and machinery maintenance and operation, telecommunications, and information technology services provided to the County's departments on a cost-reimbursement basis.

The investment trust funds account for pooled assets held and invested by the County Treasurer on behalf of the Cochise County Community College District, local school districts, and other governmental entities.

The agency funds account for assets the County holds as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, special districts, and other governmental entities.

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. The agency funds are custodial in nature and do not have a measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities. 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.

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

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

D. Cash and investments

For the statement of cash flows, the County's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of 3 months or less when purchased. All investments are stated at fair value.

E. Property tax calendar

The County levies real and personal property taxes on or before the third Monday in August that become due and payable in 2 equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

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

F. Capital assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

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

	Capitalization threshold	Depreciation method	Estimated useful life
Land	All	N/A	N/A
Buildings and improvements	$10,000	Straight-line	15-50 years
Improvements other than buildings	10,000	Straight-line	10-45 years
Equipment	10,000	Straight-line	5-25 years
Infrastructure	50,000	Straight-line	10-50 years

G. Deferred outflows and inflows of resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

H. Fund balance classifications

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations the County's Board of Supervisors approved, which is the highest level of decision-making authority within the County. Only the Board can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the County's intent to be used for specific purposes, but that are neither restricted nor committed. The Board of Supervisors has authorized the County Administrator to make assignments of resources for specific purposes.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from any of the classifications, the County will use restricted fund balances first. For the disbursement of unrestricted fund balances, the County will use committed amounts first, followed by assigned amounts, and lastly unassigned fund balance.

I. Investment income

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

J. Compensated absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave employees earn 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 calendar year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

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 terminating employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 241 hours of sick leave receive some benefit payments. Benefit payments vary based on the number of hours accumulated up to 1,040 hours. Consequently, these sick leave benefits do vest and, therefore, are accrued as a liability in the government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

K. Postemployment benefits

For purposes of measuring the net pension liability and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2018, were as follows:

	General fund	Capital projects fund	Highway and streets fund	Other governmental funds	Total
Fund balances:					
Nonspendable:					
Prepaid items	$ 184,563				$ 184,563
Restricted for:					
Flood control				$ 4,462,468	4,462,468
Health services				1,040,292	1,040,292
Judicial services				3,619,683	3,619,683
Library services				1,001,884	1,001,884
Law enforcement				2,973,391	2,973,391
Education services				173,032	173,032
Other services				1,013,022	1,013,022
Total restricted				14,283,772	14,283,772

	General fund	Capital projects fund	Highway and streets fund	Other governmental funds	Total
Assigned to:					
Capital projects		$13,565,301			$13,565,301
Highways and streets			$10,532,961		10,532,961
Health services				$ 67,208	67,208
Other	$ 576,980				576,980
Total assigned	576,980	13,565,301	10,532,961	67,208	24,742,450
Unassigned:	28,982,703			(449,175)	28,533,528
Total fund balances	$29,744,246	$13,565,301	$10,532,961	$13,901,805	$67,744,313

Note 3 - Deposits and investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified State and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk
Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top 2 ratings by a nationally recognized rating agency.
2. Specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least 2 nationally recognized rating agencies.
3. Fixed income securities must carry 1 of the 2 highest ratings by Moody's investors service and Standard and Poor's rating service. If only 1 of the above–mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk
Statutes require collateral for deposits and certificates of deposit at 102 percent of all deposits not covered by federal depository insurance.

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

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

Foreign currency risk
Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Deposits—At June 30, 2018, the carrying amount of the County's deposits was $12,293,806, and the bank balance was $16,704,119. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2018, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

		Fair value measurement using	
	Amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Investment by fair value level			
U.S. Treasury securities	$ 1,994,060	$1,994,060	
U.S. agency securities	114,750,455		$114,750,455
Total investments by fair value level	$116,744,515	$1,994,060	$114,750,455
External investment pools measured at fair value			
State Treasurer's investment pool 7	$ 15,000,000		
Total investments measured at fair value	$131,744,515		

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. Investments categorized as Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments in the State Treasurer's investment pool are valued at the pool's share price multiplied by the number of shares the County held. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal policy with respect to credit risk.

At June 30, 2018, credit risk for the County's investments was as follows:

Investment type	Rating	Rating agency	Amount
State Treasurer's investment pool 7	Unrated	Not applicable	$ 15,000,000
U.S. agency securities	AA+	Standard & Poor's	93,405,060
U.S. agency securities	Unrated	Not applicable	21,345,395
Total			$129,750,455

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. The County does not have a formal policy with respect to custodial credit risk.

Concentration of credit risk—Concentration of credit risk is the risk of loss associated with the significance of investments in a single issuer. The County does not have a formal policy with respect to concentration of credit risk.

Five percent or more of the County's investments at June 30, 2018, were in debt securities of various U.S. agencies as follows:

U.S. agency	Amount	Percent of county investments
Federal Home Loan Mortgage Corporation	$ 43,374,190	32.9
Federal Home Loan Bank	27,070,875	20.5
Federal Farm Credit Bank	22,588,580	17.1
Federal Agriculture Mortgage Corporation	12,858,000	9.8
Federal National Mortgage Association	8,858,810	6.7
	$114,750,455	

Interest rate risk—Interest rate risk is the risk that changes in the interest rates will adversely affect an investment's fair value. The County does not have a formal policy with respect to interest rate risk.

At June 30, 2018, maturities of the County's investments were as follows:

		Investment maturities	
Investment type	Amount	Less than 1 Year	1-5 Years
State Treasurer's investment pool 7	$ 15,000,000	$15,000,000	
U.S. Treasury securities	1,994,060	1,994,060	
U.S. agency securities	114,750,455	18,439,405	$96,311,050
Total	$131,744,515	$35,433,465	$96,311,050

A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position and statement of fiduciary net position follows:

Cash, deposits, and investments:	
Cash on hand	$ 8,074
Amount of deposits	12,293,806
Amount of investments	131,744,515
Total	$144,046,395

	Statement of net position		Statement of fiduciary net position		
	Governmental activities	Business-type activities	Investment trust funds	Agency funds	Total
Cash in bank and on hand	$ 476,405	$610,587		$1,186,112	$ 2,273,104
Cash and investments held by County Treasurer	68,523,276	349,293	$72,883,374		141,755,943
Cash—restricted		17,348			17,348
Total	$68,999,681	$977,228	$72,883,374	$1,186,112	$144,046,395

Note 4 – Due from other governments

Due from other governments totaling $7,340,484 at June 30, 2018, included $1,592,352 in State-shared revenue from highway user fees, $1,961,316 in State-shared sales taxes, $1,079,454 in State-shared vehicle license taxes, and $1,188,268 in County excise taxes. The remaining balance of $1,519,094 represents amounts receivable from various State and federal government grantor agencies.

Note 5 - Capital assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,514,276			$ 2,514,276
Construction in progress	7,653,939	$ 3,576,178	$5,397,187	5,832,930
Total capital assets not being depreciated	10,168,215	3,576,178	5,397,187	8,347,206
Capital assets being depreciated:				
Buildings	49,639,016			49,639,016
Improvements other than buildings	7,558,699	30,835		7,589,534
Equipment	51,562,119	8,214,458	1,678,936	58,097,641
Infrastructure	105,733,583	2,945,307	10,763	108,668,127
Total capital assets being depreciated	214,493,417	11,190,600	1,689,699	223,994,318
Less accumulated depreciation for:				
Buildings	$ 18,606,203	$ 1,246,485		$ 19,852,688
Improvements other than buildings	2,687,371	299,014		2,986,385
Equipment	31,831,395	3,983,900	$1,667,110	34,148,185
Infrastructure	43,664,392	1,632,842	4,616	45,292,618
Total accumulated depreciation	96,789,361	7,162,241	1,671,726	102,279,876
Total capital assets being depreciated, net	117,704,056	4,028,359	17,973	121,714,442
Governmental activities, capital assets, net	$127,872,271	$ 7,604,537	$5,415,160	$130,061,648
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 1,599,900			$ 1,599,900
Total capital assets not being depreciated	1,599,900			1,599,900
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	6,653,580			6,653,580
Equipment	2,849,183			2,849,183
Infrastructure	1,621,433			1,621,433
Total	15,683,221			15,683,221

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Less accumulated depreciation for:				
Buildings	$ 1,682,518	$ 87,385		$ 1,769,903
Improvements other than buildings	5,349,660	186,088		5,535,748
Equipment	2,644,412	59,159		2,703,571
Infrastructure		40,536		40,536
Total accumulated depreciation	9,676,590	373,168		10,049,758
Total capital assets being depreciated, net	6,006,631	(373,168)		5,633,463
Business-type activities capital assets, net	$ 7,606,531	$ (373,168)	$	$ 7,233,363

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$3,032,382
Public safety	444,567
Highways and streets	1,736,614
Health and welfare	6,250
Culture and recreation	691
Education	23,618
Internal service funds	1,918,119
Total governmental activities depreciation expense	$7,162,241
Business-type activities:	
Solid Waste Operations	$ 232,993
Bisbee-Douglas International Airport	140,175
Total business-type activities depreciation expense	$ 373,168

Construction commitments—At June 30, 2018, the County was involved in 4 construction projects for governmental activities. The estimated cost to complete the 4 construction projects was $3,151,519.

Note 6 - Long-term liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Governmental activities					
Net pension/OPEB liabilities	$ 96,659,196	$ 9,102,285	$2,528,905	$103,232,576	
Compensated absences payable	4,428,175	2,773,306	2,428,582	4,772,899	$2,789,791
Total governmental activities long-term liabilities	$101,087,371	$11,875,591	$4,957,487	$108,005,475	$2,789,791

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Business-type activities					
Net pension/OPEB liabilities	$ 2,564,676		$ 155,831	$ 2,408,845	
Landfill closure and postclosure care costs payable	3,127,489	$ 215,393	1,105	3,341,777	$ 19,597
Compensated absences payable	126,946	95,203	64,906	157,243	106,326
Fund held for others	93,170	4,653		97,823	
Total business-type activities long-term liabilities	$ 5,912,281	$ 315,249	$ 221,842	$ 6,005,688	$ 125,923

Landfill closure and postclosure care costs—State and federal laws and regulations require the County to place a final cover on its solid waste landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the County operates the landfill. These costs will be paid from solid waste fees in the Solid Waste Operations Fund. At June 30, 2018, the County reported closure and postclosure care costs for 2 landfills discussed below.

At June 30, 2018, the County has reported landfill closure and postclosure care liabilities totaling $3,341,777. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills and was based on landfill capacity used at June 30, 2018. The liability reported for the Eastern Regional landfill of $483,203 is based on 100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of $2,858,574 is based on the use of 25.47 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and post closure care of $8,366,370 as the remaining estimated capacity is filled. The County expects to close this landfill in 2065. The landfills' closure and postclosure care costs were based on what it would cost to perform all closure and postclosure care in fiscal year 2018. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

According to State and federal laws and regulations, the County must comply with the local government financial test requirements that ensure that the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2018, the County paid for compensated absences as follows: 71.74 percent from the General Fund, 7.91 percent from the Highway and Streets Fund, 2.63 percent from the enterprise funds, and 17.72 percent from other funds.

Note 7 - Risk management

The County is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by 3 public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Cochise Combined Trust, which are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 12 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of $25,000 per occurrence for property claims and $50,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of $300 million per occurrence for property claims and $15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 12 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience-rating formula, that allocates pool expenditures and liabilities among the members.

The County provides health, prescription, vision, dental, life, and short-term disability benefits to its employees and their dependents through the Cochise Combined Trust (Trust) currently composed of 2 member entities. The Trust provides the benefits through a self-funding agreement with its participants and has contracted with a third party to administer the program. The County is responsible for paying the premium. If it withdraws from the Trust, the County is responsible for a proportional share of any claims run-out costs, including administrative costs, that exceed trust fund reserves. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. The Cochise Combined Trust receives an independent audit annually. All 3 pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

Note 8 - Pensions and other postemployment benefits

Pension Plan Descriptions

The County contributes to the Arizona State Retirement System (ASRS), the Corrections Officer Retirement Plan—Detention Officers (CORP), the Corrections Officer Retirement Plan—Administrative Office of the Courts (CORP AOC), the Public Safety Personnel Retirement System (PSPRS), and the Elected Officials Retirement Plan (EORP), all described below. The plans are component units of the State of Arizona.

At June 30, 2018, the County reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of net position and statement of activities	Governmental activities	Business-type activities	Total
Net OPEB asset	$ 768,965	$ 8,432	$ 777,397
Net pension and OPEB liability	103,232,576	2,408,845	105,641,421
Deferred outflows of resources related to pensions and OPEB	14,609,589	299,080	14,908,669
Deferred inflows of resources related to pensions and OPEB	7,246,275	246,253	7,492,528
Pension and OPEB expense	16,564,696	(36,287)	16,528,409

The County's accrued payroll and employee benefits includes $431,856 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2018. Also, the County reported $6,548,647 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

The ASRS, CORP, CORP AOC, PSPRS, and EORP pension plans are described below. All OPEB plans are not described below because of their relative insignificance to the County's financial statements.

A. Arizona State Retirement System

Plan descriptions—County employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided—The ASRS provides retirement and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement Initial membership date: Before July 1, 2011	 On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions—In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.34 percent of the members' annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 10.9 percent of the active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.26 percent of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The County's contributions to the ASRS pension plan for the year ended June 30, 2018 were $2,965,840.

During fiscal year 2018, the County paid for ASRS pension contributions as follows: 64 percent from the General Fund, 15 percent from major funds, and 21 percent from other funds.

Liability—At June 30, 2018, the County reported the following liability for its proportionate share of the ASRS' net pension liability.

ASRS	Net pension liability
Pension	$40,054,284

The net pension liability was measured as of June 30, 2017. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The County's proportion of the net liability was based on the County's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The County's proportions measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

ASRS	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.26%	0.00

The net pension liability measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the County's and net liability as a result of these changes is not known.

Expense—For the year ended June 30, 2018, the County recognized the following pension expense.

ASRS	Pension expense
Pension	($456,035)

Deferred outflows/inflows of resources—At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$1,201,049
Changes of assumptions or other inputs	$1,739,650	1,197,695
Net difference between projected and actual earnings on pension plan investments	287,562	
Changes in proportion and differences between County contributions and proportionate share of contributions		1,533,108
County contributions subsequent to the measurement date	2,965,840	
Total	$4,993,052	$3,931,852

The $2,965,840 reported as deferred outflows of resources related to ASRS pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2019	$(2,584,887)
2020	1,189,325
2021	412,290
2022	(921,368)

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best-estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS Asset class	Target allocation	Long-term expected arithmetic real rate of return
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	100%	

Discount rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the County's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
County's proportionate share of the net pension liability	$51,410,370	$40,054,284	$30,565,302

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System and Corrections Officer Retirement Plan

Plan descriptions—County sheriff employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers agent and cost-sharing defined benefit pension plans. A 9-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

County detention officers and Administrative Office of the Courts (AOC) probation, surveillance, and juvenile detention officers participate in the Corrections Officer Retirement Plan (CORP). The CORP administers an agent multiple-employer defined benefit pension plan for County detention officers and a cost-sharing multiple-employer defined benefit pension plan for AOC officers. The PSPRS Board of Trustees and the participating local boards govern CORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information for the PSPRS and CORP plans. The report is available on the PSPRS website at www.psprs.com.

Benefits provided—The PSPRS and CORP provide retirement, disability and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
Retirement and disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit		
Retired members	80% to 100% of retired member's pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

CORP	Initial membership date: Before January 1, 2012	On or after January 1, 2012
Retirement and disability		
Years of service and age required to receive benefit	Sum of years and age equals 80 20 years, any age 10 years, age 62	25 years, age 52.5 10 years, age 62
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal retirement	2.0% to 2.5% per year of credited service, not to exceed 80%	
Accidental disability retirement	50% or normal retirement if more than 20 years of credited service	50% or normal retirement if more than 25 years of credited service
Total and permanent disability retirement	50% or normal retirement if more than 25 years of credited service	
Ordinary disability retirement	2.5% per year of credited service	
Survivor benefit		
Retired members	80% of retired member's pension benefit	
Active members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions.	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments. The adjustments are based on inflation for PSPRS and excess investment earnings for CORP. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees covered by benefit terms—At June 30, 2018, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Sheriff	CORP Detention
Inactive employees or beneficiaries currently receiving benefits	69	35
Inactive employees entitled to but not yet receiving benefits	32	24
Active employees	73	61
Total	174	120

Contributions—State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

	Active member—pension	County—pension
PSPRS Sheriff	7.65%-11.65%	54.49%
CORP Detention	8.41%	19.53%
CORP AOC	8.41%	20.08%

In addition, statute required the County to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the PSPRS or CORP would typically fill.

	Pension
PSPRS Sheriff	39.14%
CORP Detention	12.92%
CORP AOC	15.27%

The County's contributions to the plans for the year ended June 30, 2018, were:

	Pension
PSPRS Sheriff	$2,359,040
CORP Detention	516,924
CORP AOC	477,270

During fiscal year 2018, the County paid for PSPRS and CORP pension contributions as follows: 79 percent from the General Fund and 21 percent from other nonmajor funds.

Pension liability—At June 30, 2018, the County reported the following net pension liabilities:

	Net pension liability
PSPRS Sheriff	$31,459,660
CORP Detention	5,735,796
CORP AOC (County's proportionate share)	6,456,911

The net pension liabilities were measured as of June 30, 2017, and the total liability used to calculate the net liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for CORP and CORP AOC also reflect changes of benefit terms for a court decision that increased cost-of-living adjustments for retirees who became members before July 20, 2011. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the County's PSPRS net pension liabilities as a result of the refunds is not known.

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

PSPRS and CORP—pension	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5%
Price inflation	2.5%
Permanent benefit increase	Included
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS and CORP Asset class	Target allocation	Long-term expected geometric real rate of return
Short-term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Pension discount rates—At June 30, 2017, the discount rate used to measure the PSPRS and CORP total pension liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability PSPRS-Sheriff	Increase (decrease) Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2017	$44,666,399	$15,675,012	$28,991,387
Changes for the year:			
Service cost	1,037,941		1,037,941
Interest on the total pension liability	3,282,075		3,282,075
Changes of benefit terms	705,650		705,650
Differences between expected and actual experience in the measurement of the pension liability	(187,240)		(187,240)
Changes of assumptions or other inputs	2,581,911		2,581,911
Contributions—employer		2,447,945	(2,447,945)
Contributions—employee		572,902	(572,902)
Net investment income		1,994,903	(1,994,903)
Benefit payments, including refunds of employee contributions	(2,848,727)	(2,848,727)	
Administrative expense		(18,052)	18,052
Other changes		(45,634)	45,634
Net changes	4,571,610	2,103,337	2,468,273
Balances at June 30, 2018	$49,238,009	$17,778,349	$31,459,660

Changes in the net pension liability CORP-Detention	Increase (decrease) Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2017	$ 9,810,851	$5,207,667	$4,603,184
Changes for the year:			
Service cost	330,614		330,614
Interest on the total pension liability	724,260		724,260
Changes of benefit terms	1,384,226		1,384,226
Differences between expected and actual experience in the measurement of the pension liability	(331,887)		(331,887)
Changes of assumptions or other inputs	301,101		301,101
Contributions—employer		448,799	(448,799)
Contributions—employee		184,017	(184,017)
Net investment income		648,996	(648,996)
Benefit payments, including refunds of employee contributions	(638,712)	(638,712)	
Administrative expense		(6,077)	6,077
Other changes		(33)	33
Net changes	1,769,602	636,990	1,132,612
Balances at June 30, 2018	$11,580,453	$5,844,657	$5,735,796

The County's proportion of the CORP AOC net pension liability was based on the County's actual contributions to the plan relative to the total of all participating counties' actual contributions for the year ended June 30, 2017. The County's proportion measured as of June 30, 2017, was 1.61 percent, which was an increase of .03 from its proportion measured as of June 30, 2016.

Sensitivity of the County's net pension liability to changes in the discount rate—The following table presents the County's net pension liabilities calculated using the discount rate of 7.4 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.40 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	1% Decrease (6.4%)	Current discount rate (7.4%)	1% Increase (8.4%)
PSPRS Sheriff			
Net pension liability	$37,929,201	$31,459,660	$26,176,914
CORP Detention			
Net pension liability	$7,355,730	$5,735,796	$4,427,520
CORP AOC			
County's proportionate share of the net pension liability	$8,346,328	$6,456,911	$4,928,928

Plan fiduciary net position—Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS and CORP financial reports.

Pension expense—For the year ended June 30, 2018, the County recognized the following pension expense:

	Pension expense
PSPRS Sheriff	$5,021,500
CORP Detention	2,065,557
CORP AOC (County's proportionate share)	2,509,169

Pension deferred outflows/inflows of resources—At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS—Sheriff	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 28,465	$1,145,478
Changes of assumptions or other inputs	3,327,515	
Net difference between projected and actual earnings on pension plan investments	86,651	
County contributions subsequent to the measurement date	2,359,040	
Total	$5,801,671	$1,145,478

CORP—Detention	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 153,268	$605,249
Changes of assumptions or other inputs	486,528	
Net difference between projected and actual earnings on pension plan investments	46,210	
County contributions subsequent to the measurement date	516,924	
Total	$1,202,930	$605,249

CORP—AOC	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 59,124	$221,762
Changes of assumptions or other inputs	626,924	
Net difference between projected and actual earnings on pension plan investments	76,033	
Changes in proportion and difference between County contributions and proportionate share of contributions	54,655	213,672
County contributions subsequent to the measurement date	477,270	
Total	$1,294,006	$435,434

The amounts reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PSPRS Sheriff	CORP Detention	CORP AOC
Year ending June 30			
2019	$1,078,566	$109,224	$177,249
2020	688,694	25,382	162,789
2021	624,825	868	43,677
2022	(94,932)	(54,717)	(2,413)

C. Elected Officials Retirement Plan

Plan description—Elected officials and judges participate in the Elected Officials Retirement Plan (EORP) or ASRS. EORP administers a cost-sharing multiple-employer defined benefit pension plan for elected officials and judges who were members of the plan on December 31, 2013. This EORP pension plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on PSPRS' website at www.psprs.com.

Benefits provided—The EORP provides retirement, disability and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

EORP	Initial membership date: Before January 1, 2012	On or after January 1, 2012
Retirement and disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal Retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability Retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor benefit		
Retired members	75% of retired member's benefit	50% of retired member's benefit
Active members and other inactive members	75% of disability retirement benefit	50% of disability retirement benefit

* With reduced benefits of 0.25 percent for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30 percent.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

Contributions—State statutes establish active member and employer contribution requirements. Statute also appropriates $5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2018, statute required active EORP members to contribute 7 or 13 percent annual covered payroll and the County to contribute 23.5 percent of all active EORP members' annual covered payroll. Also, statute required the County to contribute 12.16 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members, in addition to the County's required contributions to ASRS for these elected officials and judges. In addition, statute required the County to contribute 23.5 percent of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the EORP would typically fill. The County contributions to the pension plan for the year ended June 30, 2018, was $314,179.

During fiscal year 2018, the County paid for EORP pension contributions as follows: 100 percent from the General Fund.

Pension liability—At June 30, 2018, the County reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the County's proportionate share of the State's appropriation for EORP. The amount the County recognized as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the County were as follows:

County's proportionate share of the EORP net pension liability	$21,749,157
State's proportionate share of the EORP net pension liability associated with the County	4,513,931
Total	$26,263,088

The net pension liability was measured as of June 30, 2017, and the total liability used to calculate the net liability was determined by an actuarial valuation as of that date. The total liability as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liability also reflects changes-of-benefit terms for a court decision that increased cost-of-living adjustments for retirees and decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the net pension liability measured as of June 30, 2018, because of refunds of excess member contributions. The change in the County's net pension liability as a result of the refunds is not known.

The County's proportion of the net pension liability was based on the County's actual contributions to the pension plan relative to the total of all participating employers' actual contributions for the year ended June 30, 2017. The County's proportion measured as of June 30, 2017 and the change from its proportions measured as of June 30, 2016, were:

EORP	Proportion June 30, 2017	Increase (decrease) from June 03, 2016
Pension	1.78%	(0.17)

Expense—For the year ended June 30, 2018, the County recognized pension expense for EORP of $7,560,853 and revenue of $1,551,845 for the County's proportionate share of the State's appropriation to EORP and the designated court fees.

Deferred outflows/inflows of resources—At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$188,516
Changes of assumptions or other inputs	$ 848,913	
Net difference between projected and actual earnings on pension plan investments	133,304	
Changes in proportion and differences between County contributions and proportionate share of contributions	113,525	752,367
County contributions subsequent to the measurement date	314,179	
Total	$1,409,921	$940,883

The amounts reported as deferred outflows of resources related to EORP pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized as expenses as follows:

Year ending June 30	
2019	$134,800
2020	27,860
2021	35,223
2022	(43,024)

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

EORP	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5%
Price inflation	2.5%
Permanent benefit increase	Included
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on EORP plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP **Asset class**	**Target allocation**	**Long-term expected geometric real rate of return**
Short-term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount rate—At June 30, 2017, the discount rate used to measure the EORP total pension liability was 3.91 percent, which was an increase of 0.23 from the discount rates used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and State contributions will be made as currently required by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.4 percent was applied to periods of projected benefit payments through the year ended June 30, 2026. A municipal bond rate of 3.56 percent obtained from the Fidelity 20-year Municipal GO AA Index as of June 30, 2017, was applied to periods of projected benefit payments after June 30, 2026.

Sensitivity of the County's proportionate share of the EORP net pension liability to changes in the discount rate—The following table presents the County's proportionate share of the net pension liability calculated using the discount rates noted above, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

EORP	1% Decrease (2.91%)	Current discount rate (3.91%)	1% Increase (4.91%)
County's proportionate share of the net pension liability	$25,691,499	$21,749,157	$18,533,916

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued EORP financial report.

Note 9 - Interfund transactions

Interfund receivables and payables—Interfund balances at June 30, 2018, were as follows:

	Payable To						
Payable from	General Fund	Capital Projects Funds	Highway and Streets Fund	Other governmental funds	Solid Waste Operations Fund	Internal service funds	Total
General Fund	$ 1,079			$401,422	$303	$ 152,022	$ 554,826
Capital Projects Fund	14,660						14,660
Highway and Streets Fund	255,479				52	272,361	527,892
Other governmental funds	1,390,102	$ 26,343	$7,327	288,486		945,656	2,657,914
Solid Waste Operations Fund	327,219					136,517	463,736
Other enterprise funds	67,959	122,259				1,132	191,350
Internal service funds	6,740					4,445	11,185
Total	$2,063,238	$148,602	$7,327	$689,908	$355	$1,512,133	$4,421,563

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

Interfund transfers—Interfund transfers for the year ended June 30, 2018, were as follows:

	Transfers to			
Transfers from	General Fund	Capital Projects Fund	Other governmental funds	Total
General Fund			$ 382,902	$ 382,902
Highway and Streets Fund	$ 16,073			16,073
Other governmental funds	614,124	$ 26,343	886,814	1,527,281
Other enterprise funds		122,259		122,259
Total	$630,197	$148,602	$1,269,716	$2,048,515

Transfers were used to move revenues between funds in accordance with external restrictions or budgetary authorizations.

Note 10 - County Treasurer's investment pool

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

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

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

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for $8,074 of cash and $2,265,031 of deposits and $17,348 in restricted cash. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks disclosed in Note 3.

Details of each major investment classification follow:

Investment type	Principal	Interest rates	Maturities	Amount
State Treasurer's investment pool 7	$ 15,000,000	None stated	None stated	$ 15,000,000
U.S. Treasury securities	2,000,000	1.38%	Less than one year	1,994,060
U.S. agency securities	116,500,000	0.65–3.09%	Up to 5 years	114,750,455

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

Statement of net position	
Assets	$141,755,943
Net position	$141,755,943
Net position held in trust for:	
Internal participants	$ 68,872,569
External participants	72,883,374
Total net position held in trust	$141,755,943
Statement of changes in net position	
Total additions	$305,213,219
Total deductions	301,333,623
Net increase	3,879,596
Net position held in trust:	
July 1, 2017	137,876,347
June 30, 2018	$141,755,943

Note 11 - Discretely presented component unit—Cochise Private Industry Council, Inc.

A. Summary of significant accounting policies

Basis of accounting
The statements are reported 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.

Capital assets
Capital assets are defined as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the useful lives ranging from 3 to 20 years as determined by management based on experience for each class of asset.

Program revenues
Reimbursement grants are recorded as receivables and revenues when the related expenses are incurred.

B. Cash

At June 30, 2018, the carrying amount of the Cochise Private Industry Council, Inc.'s deposits was $70,912 and the bank balance was $116,959.

The Cochise Private Industry Council does not have any formal policies as it relates to custodial credit risk applicable to its deposits.

C. Due from other governments

Due from other governments consists of the following grants receivable at June 30, 2018:

Program	Amount
Cochise County, Arizona	
WIOA Adult Program	$ 96,569
WIOA Dislocated Workers	69,582
WIOA Youth Program	66,484
WIOA Rapid Response	9,280
Other	25,725
Total	$267,640

D. Capital assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance at July 1, 2017	Increases	Balance at June 30, 2018
Capital assets being depreciated:			
Furniture and equipment	$ 166,537		$ 166,537
Leasehold improvements	13,351		13,351
Total capital assets being depreciated	179,888		179,888
Less accumulated depreciation:	(131,877)	$(11,292)	(143,169)
Total capital assets being depreciated, net	$ 48,011	$(11,292)	$ 36,719

E. Due to related party

Center for Academic Success, Inc. (CAS) is considered to be a related party of ARIZONA@WORK SEAZ because of common management as well as shared facilities and financial management systems.

During 2018, ARIZONA@WORK SEAZ paid $401,445 as reimbursement for expenses to CAS to administer the Professional Youth Quest program funded by the Workforce Innovation and Opportunity Act–Youth Activities grant. The amount due to CAS related to this program was $75,770 as of June 30, 2018.

Other Required Supplementary Information

Cochise County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2018

	Budgeted amounts		Actual	Variance with final
	Original	Final	amounts	budget
Revenues:				
Taxes	$ 32,580,175	$ 32,580,175	$ 33,159,803	$ 579,628
Licenses and permits	16,100	16,100	39,372	23,272
Intergovernmental	15,434,377	15,434,377	16,913,997	1,479,620
Charges for services	2,136,742	2,136,742	2,454,481	317,739
Fees, fines, and forfeits	1,544,700	1,544,700	1,564,529	19,829
Investment income	200,000	200,000	27,911	(172,089)
Miscellaneous	315,700	315,700	1,380,944	1,065,244
Total revenues	52,227,794	52,227,794	55,541,037	3,313,243
Expenditures:				
Assessor	1,983,402	1,983,402	1,761,987	221,415
Attorney	2,361,637	2,361,637	2,361,637	
Board of Supervisors	1,170,992	1,153,491	907,933	245,558
Cochise Aging and Social Services	8,643,185	8,749,555	8,621,791	127,764
General government	11,437,130	11,322,174	9,327,492	1,994,682
General government contingency	18,342,929	21,168,375		21,168,375
Health	1,257,570	1,281,856	1,055,816	226,040
Judicial system	10,306,638	10,376,076	9,370,829	1,005,247
Public and legal defenders	2,520,474	2,499,975	2,478,915	21,060
Recorder	532,991	532,991	483,479	49,512
Public safety	20,056,871	20,009,733	19,019,100	990,633
School Superintendent	406,312	406,312	394,032	12,280
Treasurer	1,065,546	1,065,546	945,164	120,382
Total expenditures	80,085,677	82,911,123	56,728,175	26,182,948
Excess (deficiency) of revenues over expenditures	(27,857,883)	(30,683,329)	(1,187,137)	29,496,191
Other financing sources:				
Sale of capital assets	30,000	30,000	17,116	(12,884)
Transfers in	369,258	369,258	630,197	260,939
Total other financing sources	399,258	399,258	647,313	248,055
Net change in fund balances	(27,458,625)	(30,284,071)	(539,825)	29,744,246
Fund balances, July 1, 2017	27,458,625	30,284,071	30,284,071	
Fund balances, June 30, 2018	$ -	$ -	$ 29,744,246	$ 29,744,246

See accompanying notes to budgetary comparison schedule.

Cochise County
Required supplementary information
Budgetary comparison schedule
Highway and Streets Fund
Year ended June 30, 2018

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues				
Taxes	$ 300,000	$ 300,000	$ 300,000	
Intergovernmental	10,037,667	10,175,692	11,606,935	$ 1,431,243
Charges for services	1,145,500	1,145,500	863,994	(281,506)
Investment income	54,238	54,238	36,350	(17,888)
Miscellaneous	9,237,516	10,767,255		(10,767,255)
Total revenues	20,774,921	22,442,685	12,807,279	(9,635,406)
Expenditures:				
Current:				
Highways and streets	20,738,848	22,406,612	13,036,159	9,370,453
Total expenditures	20,738,848	22,406,612	13,036,159	9,370,453
Excess (deficiency) of revenues over expenditures	36,073	36,073	(228,880)	(264,953)
Other financing sources (uses):				
Sale of capital assets	20,000	20,000	47,415	27,415
Transfers out	(56,073)	(56,073)	(16,073)	40,000
Total other financing sources and uses	(36,073)	(36,073)	31,342	67,415
Net change in fund balances			(197,538)	(197,538)
Fund balances, July 1, 2017			10,730,499	10,730,499
Fund balances, June 30, 2018	$ -	$ -	$ 10,532,961	$ 10,532,961

See accompanying notes to budgetary comparison schedule.

Cochise County
Required supplementary information
Notes to budgetary comparison schedules
June 30, 2018

Note 1 - Budgeting and budgetary control

A.R.S. requires 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 to adopt the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the County Administrator's or Board of Supervisors' approval. With the exception of the General Fund, each fund includes only 1 department.

The General Fund's actual expenditures differ from the expenditures reported on the governmental fund's statement of revenues, expenditures and changes in fund balances because transfers out were budgeted as expenditures.

Cochise County
Required supplementary information
Schedule of the County's proportionate share of the net pension liability
Cost-sharing pension plans
June 30, 2018

Arizona State Retirement System

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016* (2015)**	**2015 (2014)**	**2014 through 2009**
County's proportion of the net pension liability	0.26%	0.26%	0.27%	0.29%	Information not available
County's proportionate share of the net pension liability	$ 40,054,284	$ 42,744,608	$ 42,532,701	$ 42,685,890	
County's covered payroll	25,122,131	24,779,581	25,133,395	26,034,337	
County's proportionate share of the net pension liability as a percentage of its covered payroll	159.4%	172.5%	169.2%	163.96%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2009**
County's proportion of the net pension liability	1.61%	1.58%	1.72%	1.76%	Information not available
County's proportionate share of the net pension liability	$ 6,456,911	$ 4,457,185	$ 4,178,318	$ 3,949,941	
County's covered payroll	1,828,728	1,745,725	1,912,811	1,959,540	
County's proportionate share of the net pension liability as a percentage of its covered payroll	353.1%	255.3%	218.44%	201.57%	
Plan fiduciary net position as a percentage of the total pension liability	49.21%	54.81%	57.89%	58.59%	

Elected Officials Retirement Plan

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2009**
County's proportion of the net pension liability	1.78%	1.95%	1.84%	1.87%	Information not available
County's proportionate share of the net pension liability	$ 21,749,157	$ 18,427,509	$ 14,367,585	$ 12,532,950	
State's proportionate share of the net pension liability associated with the County	4,513,931	3,804,807	4,479,215	3,842,719	
Total	$ 26,263,088	$ 22,232,316	$ 18,846,800	$ 16,375,669	
County's covered payroll	$ 1,291,276	$ 1,357,975	$ 1,544,807	$ 1,722,405	
County's proportionate share of the net pension liability as a percentage of its covered payroll	1684.3%	1357.0%	930.06%	727.64%	
Plan fiduciary net position as a percentage of the total pension liability	19.66%	23.42%	28.32%	31.91%	

* Reference RSI Note 2.

See accompanying notes to pension plan schedules.

Cochise County
Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2018

Public Safety Personnel Retirement System—Sheriff	**Reporting fiscal year (Measurement date)**				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
Total pension liability					
Service cost	$ 1,037,941	$ 912,659	$ 897,651	$ 864,164	
Interest on the total pension liability	3,282,075	3,306,647	3,212,596	2,633,247	
Changes of benefit terms	705,650	344,258		1,126,739	
Differences between expected and actual experience in the			(213,315)	273,161	
measurement of the pension liability	(187,240)	(1,789,290)			
Changes of assumptions or other inputs	2,581,911	1,605,977		5,093,748	
Benefit payments, including refunds of employee contributions	(2,848,727)	(2,760,829)	(2,651,828)	(2,603,292)	
Net change in total pension liability	4,571,610	1,619,422	1,245,104	7,387,767	
Total pension liability—beginning	44,666,399	43,046,977	41,801,873	34,414,106	
Total pension liability—ending (a)	$ 49,238,009	$ 44,666,399	$ 43,046,977	$ 41,801,873	
Plan fiduciary net position					
Contributions—employer	$ 2,447,945	$ 3,414,120	$ 2,816,097	$ 1,590,648	
Contributions—employee	572,902	542,026	533,148	480,171	
Net investment income	1,994,903	95,788	479,555	1,625,439	Information
Benefit payments, including refunds of employee contributions	(2,848,727)	(2,760,829)	(2,651,828)	(2,603,292)	not available
Pension plan administrative expense	(18,052)	(14,183)	(12,070)		
Other changes	(45,634)	133,030	11,916	(884,905)	
Net change in plan fiduciary net position	2,103,337	1,409,952	1,176,818	208,061	
Plan fiduciary net position—beginning	15,675,012	14,265,060	13,088,242	12,880,181	
Plan fiduciary net position—ending (b)	$ 17,778,349	$ 15,675,012	$ 14,265,060	$ 13,088,242	
County's net pension liability—ending (a) - (b)	$ 31,459,660	$ 28,991,387	$ 28,781,917	$ 28,713,631	
Plan fiduciary net position as a percentage of the total pension liability	36.11%	35.09%	33.14%	31.31%	
Covered payroll	$ 4,783,431	$ 4,745,782	$ 4,885,979	$ 4,681,028	
County's net pension liability as a percentage of covered payroll	657.68%	610.89%	589.07%	613.40%	

See accompanying notes to pension plan schedules.

Cochise County
Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2018
(Concluded)

Corrections Officer Retirement Plan—Detention	Reporting fiscal year (Measurement date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
Total pension liability					
Service cost	$ 330,614	$ 297,814	$ 292,414	$ 282,410	
Interest on the total pension liability	724,260	742,741	666,802	574,310	
Changes of benefit terms	1,384,226	13,188		133,007	
Differences between expected and actual experience in the measurement of the pension liability	(331,887)	(636,880)	512,038	(165,636)	
Changes of assumptions or other inputs	301,101	362,499		798,887	
Benefit payments, including refunds of employee contributions	(638,712)	(562,548)	(450,596)	(448,901)	
Net change in total pension liability	1,769,602	216,814	1,020,658	1,174,077	
Total pension liability—beginning	9,810,851	9,594,037	8,573,379	7,399,302	
Total pension liability—ending (a)	$ 11,580,453	$ 9,810,851	$ 9,594,037	$ 8,573,379	
Plan fiduciary net position					
Contributions—employer	$ 448,799	$ 400,307	$ 268,393	$ 222,257	
Contributions—employee	184,017	197,513	171,671	141,534	
Net investment income	648,996	32,454	182,577	617,823	Information
Benefit payments, including refunds of employee contributions	(638,712)	(562,548)	(450,596)	(448,901)	not available
Administrative expense	(6,077)	(4,989)	(4,869)		
Other changes	(33)	36,666	(25,999)	(497,992)	
Net change in plan fiduciary net position	636,990	99,403	141,177	34,721	
Plan fiduciary net position—beginning	5,207,667	5,108,264	4,967,087	4,932,366	
Plan fiduciary net position—ending (b)	$ 5,844,657	$ 5,207,667	$ 5,108,264	$ 4,967,087	
County's net pension liability—ending (a) - (b)	$ 5,735,796	$ 4,603,184	$ 4,485,773	$ 3,606,292	
Plan fiduciary net position as a percentage of the total pension liability	50.47%	53.08%	53.24%	57.94%	
Covered payroll	$ 2,268,355	$ 2,239,735	$ 2,168,765	$ 1,960,381	
County's net pension liability as a percentage of covered payroll	252.86%	205.52%	206.84%	183.96%	

See accompanying notes to pension plan schedules.

Cochise County
Required supplementary information
Schedule of county pension contributions
June 30, 2018

Arizona State Retirement System

	Reporting fiscal year					
	2018	**2017**	**2016***	**2015***	**2014**	**2013 through 2009**
Statutorily required contribution	$ 2,965,840	$ 2,701,331	$ 2,688,971	$ 2,738,453	$ 2,774,744	
County's contributions in relation to the statutorily required contribution	2,965,840	2,701,331	2,688,971	2,738,453	2,774,744	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	Information not available
County's covered payroll	$ 27,317,312	$ 25,122,131	$ 24,779,581	$ 25,133,395	$ 26,034,337	
County's contributions as a percentage of covered payroll	10.86%	10.75%	10.85%	10.90%	10.66%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year					
	2018	**2017**	**2016**	**2015**	**2014**	**2013 through 2009**
Statutorily required contribution	$ 477,270	$ 363,649	$ 332,346	$ 284,626	$ 273,752	
County's contributions in relation to the statutorily required contribution	477,270	363,649	332,346	284,626	273,752	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	Information not available
County's covered payroll	$2,097,458	$1,828,728	$1,745,725	$ 1,912,811	$ 1,959,540	
County's contributions as a percentage of covered payroll	22.75%	19.89%	19.04%	14.88%	13.97%	

Elected Officials Retirement Plan

	Reporting fiscal year					
	2018	**2017**	**2016**	**2015**	**2014**	**2013 through 2009**
Statutorily required contribution	$ 314,179	$ 303,450	$ 319,124	$ 363,029	$ 398,234	
County's contributions in relation to the statutorily required contribution	13,397	303,450	319,124	363,029	398,234	
County's contribution deficiency (excess)	$ 300,782	$ -	$ -	$ -	$ -	Information not available
County's covered payroll	$1,499,119	$1,291,276	$1,357,975	$ 1,544,807	$ 1,722,405	
County's contributions as a percentage of covered payroll	0.89%	23.50%	23.50%	23.50%	23.12%	

* Reference RSI Note 2.

See accompanying notes to pension plan schedules.

Cochise County
Required supplementary information
Schedule of county pension contributions
June 30, 2018
(Concluded)

Public Safety Personnel Retirement System— Sheriff	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 2,359,040	$ 2,411,458	$ 2,413,915	$ 1,854,142	$ 1,590,648	Information not available
County's contributions in relation to the actuarially determined contribution	1,724,096	2,411,458	3,413,915	2,854,142	1,590,648	
County's contribution deficiency (excess)	$ 634,944	$ -	$ (1,000,000)	$ (1,000,000)	$ -	
County's covered payroll	$ 5,288,422	$ 4,783,431	$4,745,782	$ 4,885,979	$ 4,681,028	
County's contributions as a percentage of covered payroll	32.60%	50.41%	71.94%	58.41%	33.98%	

Corrections Officer Retirement Plan— Detention	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 516,924	$ 437,766	$ 384,058	$ 268,394	$ 222,257	Information not available
County's contributions in relation to the actuarially determined contribution	516,924	437,766	384,058	268,394	222,257	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
County's covered payroll	$ 2,577,913	$ 2,268,355	$ 2,239,735	$ 2,168,765	$ 1,960,381	
County's contributions as a percentage of covered payroll	20.05%	19.30%	17.15%	12.38%	11.34%	

See accompanying notes to pension plan schedules.

Note 1 – Actuarially determined contribution rates

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30, 2 years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percentage-of-pay, closed
Remaining amortization period as of the 2016 actuarial valuation	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%-8.25% to 4.5%-7.75% for CORP.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5%-4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006-June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

Note 2 – Factors that affect trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS, CORP, CORP–AOC, and EORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-, CORP-, and CORP–AOC-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS-, CORP-, and CORP–AOC-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. EORP-required contributions are not based on actuarial valuations, and therefore, these changes did not affect them. Also, the County refunded excess employee contributions to PSPRS and EORP members. PSPRS and EORP allowed the County to reduce its actual employer contributions for the refund amounts. As a result, the County's pension contributions were less than the actuarially or statutorily determined contributions for 2018.

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SINGLE AUDIT REPORT

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

We have audited, 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, the financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 28, 2019. Our report includes a reference to other auditors who audited the financial statements of the Housing Authority Fund and Cochise Private Industry Council, Inc., as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-02 and 2018-03 to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and questioned costs as item 2018-04.

Cochise County response to findings

Cochise County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey Perry, CPA, CFE
Auditor General

March 28, 2019

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and report on internal control over compliance

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

Report on compliance for each major federal program

We have audited Cochise County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018, except for the Housing Voucher Cluster (CFDA 14.871), a major federal program administered by the County's Housing Authority. The major federal program was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to those major federal programs' compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, is based solely on the report of the other auditors. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Cochise County's basic financial statements include the operations of the Cochise Private Industry Council, Inc., which was reported as a discretely presented component unit and expended $2,406,499 in federal awards that are not included in Cochise County's schedule of expenditures of federal awards for the year ended June 30, 2018. Our audit, described below, did not include the operations of the Cochise Private Industry Council, Inc. because Cochise County engaged other auditors to perform its audit.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on each major federal program

In our opinion, based on our audit and the report of the other auditors, Cochise County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on internal control over compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We and the report of the other auditors did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lindsey Perry, CPA, CFE
Auditor General

March 28, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles	**Unmodified**
Internal control over financial reporting	
Material weakness identified?	**Yes**
Significant deficiencies identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**No**
Significant deficiencies identified?	**None reported**
Type of auditors' report issued on compliance for major programs:	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	**No**

Identification of major programs

CFDA number	Name of federal program or cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.871	Housing Voucher Cluster
20.106	Airport Improvement Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.511(b)?	Yes

Financial statement findings

2018-01

Annual financial report preparation

Condition and context—The County did not have adequate policies and procedures for preparing its annual financial report to ensure it was accurate and complete and prepared in accordance with U.S generally accepted accounting principles (GAAP). As a result, the County:

- Understated net pension and other postemployment benefits (OPEB) liabilities it reported by $7 million and overstated deferred inflows and outflows related to pensions/OPEB it reported by $5.1 million and $2.6 million, respectively.
- Overstated expenses it reported by $2.3 million and misclassified $4.9 million of revenues.
- Omitted reporting the year's cash flow activities of the Housing Authority Fund.

Criteria—The County's Board of Supervisors and management depend on accurate information to fulfill their oversight responsibilities and to report accurate information to the public and agencies from which the County receives funding. Accordingly, the County should improve its policies and procedures over the preparation of its annual financial report to ensure its financial statements and related note disclosures are prepared in accordance with GAAP.

Effect—There is an increased risk that the County's financial statements could contain significant errors that would be misleading to those that rely on the information. The County made necessary audit adjustments to correct the errors we found during our audit.

Cause—The County relied on an informal process to prepare its annual financial report and lacked sufficiently detailed reviews of the information and supporting schedules used to prepare the report.

Recommendation—To help ensure that the County's annual financial report is accurate and complete and prepared in accordance with GAAP, the County should:

- Develop and implement comprehensive written policies and procedures for compiling financial information and supporting schedules used to prepare its annual financial report. These procedures should include detailed instructions for obtaining information from the accounting system and information not readily available from the accounting system, but necessary for the annual financial report's preparation.
- Require an employee who is independent of the annual financial report's preparation and knowledgeable of the County's operations and GAAP reporting requirements to review the report. This review should ensure that the report is accurate and complete and prepared in accordance with GAAP.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-01.

2018-02
Managing risk

Condition and context—The County's process for managing its risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the County were impacted by disasters or other system interruptions.

Criteria—Effectively managing risk at the County includes an entity-wide risk-assessment process that involves members of the County's administration and IT management to determine the risks the County faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the County might be subjected. To help ensure the County's objectives can be met, an annual risk assessment should include considering IT risks. For each identified risk, the County should analyze the identified risk and develop a plan to respond within the context of the County's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Effect—The County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk.

Cause—The County relied on an informal risk-assessment process and had not fully developed and implemented written policies and procedures to assess IT security risks.

Recommendations—The County should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where resources should be allocated and where critical controls should be implemented. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the County's process for managing risk. The County should conduct the following as part of its process for managing risk:

- Perform an annual entity-wide IT risk-assessment process that includes evaluating risks such as risks of inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.
- Evaluate and determine the business functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on critical organizational functions, such as public safety, and operations, such as payroll and accounting, and determine how to prioritize and plan for recovery.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-02.

2018-03

Information technology (IT) controls—access, configuration and change management, security, and contingency planning

Condition and context—The County's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked adequate procedures over the following.

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes—**Procedures did not ensure IT systems were securely configured and all changes were adequately managed.
- **Securing systems and data—**IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Developing and documenting a contingency plan—**Plan should include steps necessary for restoring operations in the event of a disaster or other system interruption.

Criteria—The County should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical and physical access controls—**Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to its system infrastructure is protected.
- **Well-defined documented configuration management process—**Ensures the County's IT systems are configured securely and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system security or operations. Separation of responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **IT security internal control policies and procedures—**Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Comprehensive documented and tested contingency plan—**Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and the loss of confidentiality and integrity of systems and data. It also increases the County's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—The County relied on an informal process for controlling access to, configuring and making changes to, securing, and planning for contingencies related to its IT systems and data and had not fully developed and implemented written policies and procedures.

Recommendations—To help ensure the County has effective policies and procedures over its IT systems and data, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. To help achieve these control objectives, the County should develop, document, and implement control procedures in each IT control area described below:

Access

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Protect IT systems and data with session time-outs after defined period of inactivity.
- Manage employee-owned and entity-owned electronic devices connecting to the County's systems and data.
- Manage remote access to the County's systems and data.
- Segregate public and internal wireless networks and secure internal wireless network access.
- Utilize data-sharing agreements when sharing the County's data, limit the access as appropriate, and enforce data-sharing security restrictions.
- Review data center physical access periodically to determine whether individuals still need it.

Configuration and change management

- Establish and follow a documented change management process.
- Review proposed changes for appropriateness, justification, and security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.
- Develop and document a plan to roll back changes in the event of a negative impact to IT systems.
- Test changes prior to implementation.
- Separate responsibilities for the change management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
- Configure IT resources appropriately and securely and maintain configuration settings.
- Manage software installed on employee computer workstations.

Security

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan clearly stating how to report and handle incidents.
- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Perform IT vulnerability scans and remediate vulnerabilities in accordance with a remediation plan.
- Identify, evaluate, and apply patches in a timely manner.
- Secure unsupported software.

Contingency planning

- Develop and implement a contingency plan and ensure it includes all required elements to restore critical operations, including being prepared to enable moving critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.
- Back up and securely maintain backups of systems and data.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2017-03 (access), 2017-04 (configuration and change management), 2017-05 (security), and 2017-06 (contingency planning).

2018-04

Complying with guidelines and State law for diversion/deferred prosecution program fees

Condition and context—The Cochise County Attorney's Office was unable to demonstrate that it complied with Arizona Prosecuting Attorneys' Advisory Council Deferred Prosecution Guidelines (APAAC Guidelines) and State law when it established its diversion/deferred prosecution program fees.

Criteria—As prescribed by APAAC Guidelines, program fees may be established pursuant to Arizona Revised Statutes (A.R.S.) §11-251.08 or similar authority. A.R.S. §11-251.08 gives the County Board of Supervisors the authority to adopt fee schedules for any specific services the County provides to the public. Fees established according to A.R.S. §11-251.08 should be attributable to and defray or cover the expense of the service for which the fee is assessed. Further, a fee shall not exceed the actual cost of the service. Also, before adopting a fee for service, the Board of Supervisors must hold a public hearing on the fee with at least 15 days' published notice. If a similar authority is used to establish program fees, the County Attorney's Office should follow those requirements.

Effect—The County Attorney's Office may have established inappropriate fees for its diversion/deferred prosecution program.

Cause—The County Attorney's Office did not have a process in place to ensure it complied with the current APAAC Guidelines and State law when it established its diversion/deferred prosecution program fees.

Recommendations—The County Attorney's Office should formally establish its diversion/deferred prosecution program fees according to the APAAC Guidelines and State law.

Federal award findings and questioned costs

None reported.

COUNTY SECTION

Cochise County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 12-LE-11030518-001	National Forest System—Law Enforcement				$ 12,180	
10 555	National School Lunch Program	Child Nutrition Cluster			13,090	
10 557	Special Supplemental Nutrition Program for Women, Infants and Children		Arizona Department of Health Services	ADHS14-053052	556,379	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS14-053052	50,284	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			351,384	$ 175,692
	Total Department of Agriculture				983,317	175,692
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	136-17	230,059	
14 241	Housing Opportunities for Persons with Aids				267,975	
14 871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster			2,902,786	
14 871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster	Other PHA's	None	93,712	
	Total Housing Voucher Cluster				2,996,498	
14 896	Family Self-Sufficiency Program				51,734	
	Total Department Housing and Urban Development				3,546,266	
Department of the Interior						
15 227	Distribution of Receipts to State and Local Governments				7,902	
Department of Justice						
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2015-VA-GX-0032, 2016-VA-GX-0046	96,160	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-17-021, DC-18-003, DC-18-021	98,177	
	Total Department of Justice				194,337	
Department of Transportation						
20 106	Airport Improvement Program				505,603	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2017-PT-069. 2018-PTS-015	8,604	
20 616	National Priority Safety Programs	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2017-II-005, 2018-II-001, 2018-CIOT-006	45,546	
	Total Highway Safety Cluster				54,150	
	Total Department of Transportation				559,753	

See accompanying notes to schedule.

Cochise County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Institute of Museum and Library Services						
45 310	Grants to States		Arizona State Library, Archives and Public Records	2016-36026-09, 2017-0170-02	32,370	
Department of Education						
84 010	Title I Grants to Local Educational Agencies		Arizona Department of Education	18FLCCCL-813161-02A, 18FT1TII-813161-03A	44,828	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	17FESSCG-713161-55B, 18FESSCG-813161-55B	6,638	
84 365	English Language Acquisition Grants		Arizona Department of Education	18FELENG-813161-66A	17,551	17,551
84 419	Preschool Development Grants		Arizona Department of Education	GRA-STATE-16-0785-01-Y3	7,467	
	Total Department of Education				76,484	17,551
Department of Health and Human Services						
93 044	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	Aging Cluster	SouthEastern Arizona Governments Organization	107-18, 107-18-1, 107-18-2	203,721	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS17-133164	227,243	
93 136	Injury Prevention and Control Research and State and Community Based Programs		Arizona Department of Health Services	ADHS18-180472	30,574	
93 217	Family Planning Services		Arizona Department of Health Services	ADHS16-109191	34,943	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041535, ADHS18-177676	110,747	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DI16-002160	25,140	
93 597	Grants to States for Access and Visitation Programs		Arizona Department of Economic Security	DI16-002163, DI18-002162	1,523	
93 959	Block Grants for Prevention and Treatment of Substance Abuse		Office of the Arizona Governor	IGA-SABG-GR-17-070116-02	59,004	50,273
93 977	Preventive Health Services - Sexually Transmitted Diseases Control Grants		Arizona Department of Health Services	ADHS14-071556-A3, ADHS-14-071556-A4	11,344	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS16-109191	53,063	
	Total Department of Health and Human Services				757,302	50,273

See accompanying notes to schedule.

Cochise County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Executive Office of the President of the United States						
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT-16-2624, HT-17-2726, HT-18-2826, HT-16-2625, HT-18-2827	221,323	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMF-2016-EP-00009-S01	74,699	
97 047	Pre-Disaster Mitigation		Arizona Department of Emergency and Military Affairs	PDMC-PL-09-AZ-2015-003/EMF-2016-PC-0003(1)	4,857	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	16-AZDOHS-HSGP-160400-01, 16-AZDOHS-HSGP-160400-01 A1, 16-AZDOHS-OPSG-160400-02, 16-AZDOHS-OPSG-160400-02 A2, 17-AZDOHS-HSGP-170400-01, 17-AZDOHS-OPSG-170401-02	740,565	
	Total Department of Homeland Security				820,121	
	Total expenditures of federal awards				$ 7,199,175	$ 243,516

See accompanying notes to schedule.

Cochise County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2018

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (schedule) includes Cochise County's federal grant activity for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 2 - Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2018 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the 2-digit federal agency identifier and the federal contract number were used.

Note 4 - Indirect cost rate

The County did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

COUNTY RESPONSE

Cochise County
Finance Department

Public Programs...Personal Service
www.cochise.az.gov

LYNETTE M. NOWLAN
Finance Director

March 18, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Lynette M. Nowlan,
Finance Director

1415 Melody Lane, Building G
Bisbee, Arizona 85603
520-432-8370
520-432-8398 fax
lnowlan@cochise.az.gov

Cochise County

Corrective action plan

Year ended June 30, 2018

Financial statement findings

2018-01

Annual financial report preparation

Contact: Lynette M. Nowlan, Finance Director
Anticipated completion date: On-going

Corrective Action Plan: The County will take the following actions to improve the process that resulted in the above finding:

1. Continue the recruitment of qualified individuals to fill the vacancies in the Finance Department.

2. Assess the available governmental accounting training opportunities and determine how and when Finance Department staff can receive the applicable training. The training needs to comprise all levels of knowledge from beginner level to advanced.

3. Work with the Housing Authority fee accountant to ensure that all the financial statements include sufficient detail to ensure that the cash flow statement can be included in the County's financial statements more accurately.

4. Create a fiscal year-end plan that includes the assignment of tasks with specific due dates to ensure the completion of the County's annual financial report in a timely manner.

5. Review and update, where applicable, all policies and procedures that assist with the accurate completion of the County's annual financial report.

2018-02

Managing Risk

Point of Contact: Joe E. Casey, Information Technology Director
Anticipated completion date: June 30, 2019

Corrective Action Plan: The County will develop and implement a formal Information Security Risk Categorization and Information Security Risk Management Policy.

2018-03

Information technology (IT) controls-access, configuration and change management, security, and contingency planning

Point of Contact: Joe E. Casey, Information Technology Director
Anticipated completion date: June 30, 2019

Corrective Action Plan: Concur. The County will develop and implement the following formal policies and process:

1. Information Security Access Control Policy.
2. Information Security Configuration Management Policy.
3. Information Management Policy, Media Protection Policy, and System and Communications Protection Policy.
4. Contingency planning process.

2018-04

Establishing program fees

Point of Contact: Kenny Reeves, Cochise County Attorney's Office Administrative Officer
Completion date: Already corrected

Corrective Action Plan: Concur. The County Attorney's Office prepared a schedule of program fees which was reviewed and approved by the Board of Supervisors on October 23, 2018.

Cochise County
Finance Department

Public Programs...Personal Service
www.cochise.az.gov

LYNETTE M. NOWLAN
Finance Director

March 18, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs.

Sincerely,

Lynette M. Nowlan
Finance Director

1415 Melody Lane, Building G
Bisbee, Arizona 85603
520-432-8370
520-432-8398 fax
lnowlan@cochise.az.gov

Cochise County
Summary Schedule of Prior Audit Findings
Year ended June 30, 2018

Financial statement findings

The County should improve its policies and procedures over the preparation of its annual financial report
Finding No.: 2017-01
Status: Not corrected

To improve its policies and procedures over the preparation of the annual financial report, the County will proceed with the following action items:

1. Continue the recruitment of qualified individuals to fill the vacancies in the Finance Department.
2. Improve the fiscal year-end plan that includes the assignment of tasks with specific due dates to ensure the completion of the County's annual financial report in a timely manner.
3. Review and update, where applicable, all policies and procedures that assist with the accurate completion of the County's annual financial report.

The County should improve its risk-assessment process
Finding No.: 2017-02
Status: Not corrected

To improve its risk-assessment process, the County will develop and implement a formal Information Security Risk Categorization and Information Security Risk Management Policy.

The County should improve access controls
Finding No.: 2017-03
Status: Not corrected

To improve its access controls, the County will develop and implement a formal Information Security Access Control Policy.

The County should improve its configuration management processes
Finding No.: 2017-04
Status: Not corrected

To improve its access controls, the County will develop and implement a formal Information Security Configuration Management Policy.

The County should improve security over its information technology resources

Finding No.: 2017-05

Status: Not corrected

To improve security over its information technology resources, the County will develop and implement a formal Information Management Policy, Media Protection Policy, and System and Communications Protection Policy

The County should improve its contingency planning procedures

Finding No.: 2017-06

Status: Not corrected

To improve its contingency planning procedures, the County will develop and implement a formal contingency planning process.

The County should improve its internal control over purchasing

Finding No.: 2017-07

Status: Partially corrected

To improve its internal controls over purchasing, the County will review and update the County's Procurement Policy and make applicable changes.

Status of Federal Award Findings and Questioned Costs

CFDA No.: Not applicable

Finding No.: 2017-101

Status: Fully corrected

ARIZONA
Auditor General
Making a Positive Difference