Cochise County

Annual Financial Report and
Single Audit Report

Year Ended June 30, 2017

A Report to the Arizona Legislature

Lindsey Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2017, 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 a major 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 unit/department	Assets and deferred outflows	Liabilities and deferred inflows	Revenues	Expenses
Government-wide statements				
Business-type activities:				
Housing authority fund	9%	12%	32%	33%
Discretely presented component unit:				
Cochise Private Industry Council, Inc.	100%	100%	100%	100%
Fund statements				
Major fund:				
Housing authority fund				
Enterprise fund	100%	100%	100%	100%

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, 2017, 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.

Emphasis of matter

As described in note 2 to the financial statements, the County restated beginning net position of its financial statements for the year ended June 30, 2017, due to a government merger. Our opinions are not modified with respect to this matter.

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-10, budgetary comparison schedules on pages 50 through 52, schedule of the County's proportionate share of the net pension liability—cost-sharing pension plans on page 53, schedule of changes in the County's net pension liability and related ratios—agent pension plans on pages 54 and 55, schedule of county pension contributions on pages 56 and 57, and the schedule of agent OPEB plans' funding progress on page 60 be presented to supplement the basic financial statements. 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 expenditures of federal awards did not include $2,260,170 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 use highway user revenue fund monies the County received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the County received solely for the authorized transportation purposes, insofar as they relate to accounting matters. 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 use of highway user revenue fund monies and other dedicated state transportation revenues, 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 April 25, 2018, 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.

Jay Zsorey, CPA
Director, Financial Audit Division

April 25, 2018

ARIZONA
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Cochise County
Management's Discussion and Analysis
June 30, 2017

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, 2017. 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 $113.2 million (net position). Of the net position amount, $135.5 million is the net investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, infrastructure and construction in progress); $13.8 million is restricted for specific purposes (restricted net position); and $(36.1) million is the unrestricted net position deficit balance that is primarily a result of recognizing long-term liabilities related to pensions.

- At June 30, 2017, total assets were $216.8 million, an increase of $4.5 million or 2.1 percent in comparison with the prior fiscal year's balance of $212.3 million.

- At June 30, 2017, total liabilities were $113.5 million, an increase of $7.2 million or 6.8 percent in comparison with the prior fiscal year's balance of $106.3 million.

- At June 30, 2017, the County reported total deferred outflows of resources related to pensions of $20.1 million and deferred inflows of resources related to pensions of $10.2 million.

- At June 30, 2017, the governmental funds reported combined fund balances of $68.2 million, a decrease of $2.1 million or 3.0 percent in comparison with the prior year's combined fund balances of $70.3 million.

- At June 30, 2017, $13.9 million or 20.4 percent of governmental fund balances were restricted, $25.4 million or 37.2 percent were assigned, and $28.9 million or 42.4 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. The Solid Waste Operations and the Housing Authority Fund are considered to be major funds and therefore reported separately. The other proprietary funds, Bisbee-Douglas International Airport and 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 47 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 49 through 60 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 $5.0 million. The County's increase is the combination of progress made on projects increasing construction in progress by $3.3 million and completion of roads and culverts infrastructure by $2.3 million and the sale of a building that was used for a hospital at one time and the retirement of several pieces of equipment. The current year's depreciation of capital assets totaled $6.9 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 $113.2 million.

Governmental and Business-type Activities
Summary Comparison Statement of Net Position
June 30, 2016 and 2017

	Governmental Activities		Business-type Activities		Total	
	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017
Assets:						
Current and other assets	$ 81,477,579	$ 81,109,193	$ 340,879	$ 216,979	$ 81,818,458	$ 81,326,172
Capital assets, net	123,959,521	127,872,271	6,515,596	7,606,531	130,475,117	135,478,802
Total assets	205,437,100	208,981,464	6,856,475	7,823,510	212,293,575	216,804,974
Deferred outflows	15,054,536	19,653,800	187,963	440,933	15,242,499	20,094,733
Liabilities:						
Other liabilities	3,934,200	5,980,244	86,374	502,047	4,020,574	6,482,291
Long-term liabilities	97,124,085	101,087,371	5,145,304	5,912,281	102,269,389	106,999,652
Total liabilities	101,058,285	107,067,615	5,231,678	6,414,328	106,289,963	113,481,943
Deferred inflows	6,303,739	9,732,217	303,675	435,811	6,607,414	10,168,028
Net position:						
Net investment in capital assets	122,666,809	127,872,271	6,515,596	7,606,531	129,182,405	135,478,802
Restricted	15,175,873	13,849,218		24,260	15,175,873	13,873,478
Unrestricted	(24,713,070)	(29,886,057)	(5,006,511)	(6,216,487)	(29,719,581)	(36,102,544)
Total net position	$113,129,612	$111,835,432	$ 1,509,085	$ 1,414,304	$114,638,697	$113,249,736

A large portion of Cochise County's net position (119.6 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment). 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 liability, and landfill closure and postclosure care costs payable.

Statement of Activities—The County's total net position decreased by $1.2 million during the fiscal year, primarily due to an increase in expenditures. 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, 2016 and 2017

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Revenues						
Program revenues:						
Charges for services	$ 7,712,483	$ 7,126,542	$4,589,760	$ 4,842,204	$12,302,243	$ 11,968,746
Operating grants and contributions	22,538,228	22,750,866		3,180,189	22,538,228	25,931,055
Capital grants and contributions	3,477,507	3,333,245			3,477,507	3,333,245
General revenues:						
Property taxes	30,987,645	29,443,735			30,987,645	29,443,735
State shared sales tax	12,444,833	12,744,829			12,444,833	12,744,829
State shared unrestricted vehicle license tax	3,685,515	3,807,321			3,685,515	3,807,321
County excise tax	6,175,925	6,420,439	285,157	267,826	6,461,082	6,688,265
Other	5,368,407	5,210,359	36,311	60,953	5,404,718	5,271,312
Total revenues	92,390,543	90,837,336	4,911,228	8,351,172	97,301,771	99,188,508
Expenses						
General government	36,088,885	39,307,272			36,088,885	39,307,272
Public safety	28,660,956	27,789,335			28,660,956	27,789,335
Highways and streets	9,782,988	9,788,763			9,782,988	9,788,763
Sanitation	519,978	507,185			519,978	507,185
Health and welfare	11,513,696	11,430,554			11,513,696	11,430,554
Culture and recreation	1,301,351	1,115,109			1,301,351	1,115,109
Education	971,990	650,745			971,990	650,745
Airport			398,280	432,007	398,280	432,007
Solid waste operations			4,680,118	6,222,914	4,680,118	6,222,914
Housing authority				3,184,478		3,184,478
Total expenses	88,839,844	90,588,963	5,078,398	9,839,399	93,918,242	100,428,362
Increase/(decrease) in net position before transfers	3,550,699	248,373	(167,170)	(1,488,227)	3,383,529	(1,239,854)
Transfers		(1,542,553)		1,542,553		
Increase/(decrease) in net position	$ 3,550,699	$ (1,294,180)	$ (167,170)	$ 54,326	$ 3,383,529	$ (1,239,854)

Overall, revenues increased $1.9 million or 1.9 percent and expenses increased by $6.5 million or 6.9 percent in the current fiscal year. The following summarizes the significant changes in both revenues and expenses:

- Operating grants and contributions increased by $3.4 million or 15.1 percent in the current year primarily due to the Cochise County Housing Authority becoming a department of the County instead of being a discretely presented component unit. The current year revenues attributable to the Cochise County Housing Authority were $3.2 million.

- Property taxes decreased by $1.5 million or 5.0 percent due to a decrease in the collections of delinquent taxes including penalties and interest by $1.5 million.

- General government expenses increased by $3.2 million or 8.9 percent due to the expense of rebuilding the water tower at the Bisbee-Douglas International Airport for $1.5 million, an increase in judgements and claims expense due to court rulings on a pension case that ruled in favor of the plaintiff for $1.2 million and an increase in the overall pension expense incurred by the County.

Financial Analysis of the County's Funds

The County reported three major 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 $68.2 million, which is a decrease of $2.1 million or 3.0 percent. Of the total, $13.8 million constitutes restricted fund balances.

For governmental funds, overall revenues decreased by $1.0 million or 1.1 percent and expenditures increased by $6.8 million or 7.9 percent. Governmental expenditures exceeded revenues by $2.4 million in the current fiscal year.

The General Fund is the County's primary operating fund. At June 30, 2017, the total fund balance was $30.3 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, 2017, the fund balance represents 54.7 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 decreased by $2.6 million or 9.2 percent in the current year largely due to an increase in the payment of expenses incurred by the County.

- Accounts receivable increased by $434 thousand or 37.6 percent in the current year largely due to an increase in monies owed to the County that had not yet been collected at fiscal year-end.

- Due from other funds increased by $370 thousand or 25.1 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. Also attributing to the increase is the Cochise County Housing Authority becoming a department making the amount owed to the County for payroll and other expenses classified as due from other funds and not due from other governments.

- Accounts payable decreased by $205 thousand or 25.5 percent in the current year largely due to invoices being paid sooner than in the prior year.

- Accrued payroll and employee benefits increased by $295 thousand or 21.0 percent in the current year largely due to additional payroll days accrued at fiscal year-end.

- Deposits held for others increased by $318 thousand or 3,387.8 percent in the current year largely due to the re-distribution of funds amongst the members of the Arizona Counties Insurance Pool, of which Cochise County is a member.

- Current expenditures for general government increased by $1.7 million or 6.9 percent in the current year largely due to a payment of judgements and claims as a result of an Arizona Supreme Court decision in favor of the plaintiffs in regard to retirement plans for employees.

Capital Projects Fund

- Restricted cash decreased by $1.5 million or 100.0 percent in the current year largely due to the County paying the last payment of a capital lease that was used to build radio communications infrastructure.

- Due from other governments increased by $102 thousand or 30.8 percent in the current year largely due to an increase in half cent tax revenue that was due to the County from the State of Arizona.

- Accounts Payable increased by $513 thousand or 13,668.2 percent in the current year largely due to expenses on projects being incurred prior to year-end but not yet paid.

- Tax revenue increased by $810 thousand or 53.3 percent in the current year largely due to an increase in collections for the County's half cent excise tax.

- Intergovernmental revenues increased by $1.6 million or 100.0 percent due to other governments contributing funds for the creation of a South Eastern Arizona Communications Center (SEACOM).

- Expenditures for capital outlay increased by $3.9 million or 213.5 percent in the current year largely due to the completion of the Bisbee-Douglas International Airport (BDI) water tower project and significant progress being made on others such as SEACOM.

Highways and Streets Fund

- Cash and investments held by the County Treasurer increased by $2.3 million or 29.3 percent in the current year largely due to an increase in HURF revenues received and an increase in accounts payable of $589 thousand.

- Accounts receivable increased by $223 thousand or 255.1 percent in the current year largely due to an increase in road improvement work that had been completed and billed but not yet collected at year-end.

- Accounts payable increased by $589 thousand or 139.6 percent in the current year largely due to the purchase and receipt of road materials prior to June 30, 2017 but the invoices had not yet been paid at year-end.

- Due to Other Funds increased by $122.2 thousand or 21.7 percent in the current year largely due to expenditures incurred for fleet and heavy fleet that were paid after June 30, 2017.

- Tax revenues decreased by $1.0 million or 76.9 percent in the current year largely due to the County's half cent revenue being directed to other purposes.

- Current expenditures for highways and streets increased by $2.6 million or 28.8 percent in the current year largely due to the completion of repair work attributable to Hurricane Odile freeing resources to be utilized for road improvement work.

Proprietary Funds

For proprietary funds, the County reported two major funds for the fiscal year; The Housing Authority fund and the Solid Waste Operations. Other funds considered proprietary funds are the 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 $18.4 million, which is an increase of $.5 million or 2.7 percent. Of the total, ($1.0) million constitutes unrestricted net position.

For proprietary funds, overall revenues increased $3.7 million or 19.9 percent and expenses increased by $5.5 million or 29.9 percent. Proprietary operating expenses exceeded operating revenues by $1.5 million in the current fiscal year.

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

Solid Waste Operations

- Capital assets decreased by $352 thousand or 8.7 percent largely due to depreciation expense in that amount.

- Deferred outflows of resources increased by $169 thousand or 96.4 percent in the current year due to an increase in the estimated amount needed in the future for employee pensions.

- Due to other funds increased by $800 thousand or 140.7 percent in the current year due to an increase in the amount owed to the General Fund and others for expenses incurred but not yet paid at fiscal year-end.

- Net position decreased by $1.6 million or 169.1 percent due to the increase in expenses attributable to professional services to complete the building of a new cell for the disposal of waste.

Capital Asset and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2017, totaled $135.5 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 increased by $1.7 million for progress made on new infrastructure.

- Net equipment increased $2.4 million for new equipment.

- Net infrastructure increased $2.3 million for completed infrastructure.

- Accumulated depreciation increased by $3.9 million due to annual depreciation expense less capital asset disposals.

Additional information on the County's capital assets can be found in Note 6 on pages 24 and 25 of this report.

Long-term Debt

At June 30, 2017, 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 $2.3 million, and the actual expenditures were $25.7 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. $21.9 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.

Cochise County
Statement of net position
June 30, 2017

	Primary government			Component unit
	Governmental activities	Business-type activities	Total	Cochise Private Industry Council, Inc.
Assets				
Cash in bank and on hand	$ 542,697	$ 535,728	$ 1,078,425	$ 144,000
Cash and investments held by County Treasurer	68,527,120	162,434	68,689,554	
Receivables (net of allowances for uncollectibles):				
Property taxes	1,057,202		1,057,202	
Accounts	2,158,651	630,571	2,789,222	
Accrued interest	55,533	1,569	57,102	
Internal balances	1,287,403	(1,287,403)		
Due from other governments	7,278,059	56,650	7,334,709	200,269
Cash—restricted		117,430	117,430	
Prepaid items	67,285		67,285	
Other assets	135,243		135,243	4,564
Capital assets, not being depreciated	10,168,215	1,599,900	11,768,115	
Capital assets, being depreciated, net	117,704,056	6,006,631	123,710,687	48,011
Total assets	208,981,464	7,823,510	216,804,974	396,844
Deferred outflows of resources				
Deferred outflows related to pensions	19,653,800	440,933	20,094,733	
Liabilities				
Accounts payable	2,681,652	302,207	2,983,859	71,161
Accrued payroll and employee benefits	2,414,383	75,325	2,489,708	
Due to other governments	269,447	243	269,690	
Due to related party				100,923
Unearned revenue		122,672	122,672	
Deposits held for others	339,252	1,600	340,852	
Judgements and claims	275,510		275,510	
Noncurrent liabilities				
Due within 1 year	2,540,092	100,756	2,640,848	
Due in more than 1 year	98,547,279	5,811,525	104,358,804	35,160
Total liabilities	107,067,615	6,414,328	113,481,943	207,244
Deferred inflows of resources				
Deferred inflows related to pensions	9,732,217	435,811	10,168,028	
Grant revenues received in advance of time requirements				2,881
Total deferred inflows of resources	9,732,217	435,811	10,168,028	2,881
Net position				
Net investment in capital assets	127,872,271	7,606,531	135,478,802	48,011
Restricted for:				
Education	73,972		73,972	
Flood	4,437,258		4,437,258	
Health	862,553		862,553	
Judicial	3,463,848		3,463,848	
Public safety	2,607,894		2,607,894	
Library	806,580		806,580	
Other	1,597,113	24,260	1,621,373	
Workforce development				97,654
Unrestricted (deficit)	(29,886,057)	(6,216,487)	(36,102,544)	41,054
Total net position	$ 111,835,432	$ 1,414,304	$ 113,249,736	$ 186,719

See accompanying notes to financial statements.

Cochise County
Statement of activities
Year ended June 30, 2017

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net (expense) revenue and changes in net position – Primary government: Governmental activities	Primary government: Business-type activities	Primary government: Total	Component unit Cochise Private Industry Council, Inc.
Primary government:								
Governmental activities:								
General government	$ 39,307,272	$ 5,123,642	$ 6,582,443	$ 2,198,709	$ (25,402,478)		$ (25,402,478)	
Public safety	27,789,335	837,238	2,115,871	1,133,971	(23,702,255)		(23,702,255)	
Highways and streets	9,788,763	738,629	11,049,643		1,999,509		1,999,509	
Sanitation	507,185	179,140	223,785		(104,260)		(104,260)	
Health and welfare	11,430,554	202,118	2,420,485		(8,807,951)		(8,807,951)	
Culture and recreation	1,115,109		41,198	565	(1,073,346)		(1,073,346)	
Education	650,745	45,775	317,441		(287,529)		(287,529)	
Total governmental activities	90,588,963	7,126,542	22,750,866	3,333,245	(57,378,310)		(57,378,310)	
Business-type activities:								
Housing Authority	3,184,478	63,002	3,180,189			$ 58,713	58,713	
Bisbee-Douglas International Airport	432,007	458,434				26,427	26,427	
Solid Waste Operations	6,222,914	4,320,768				(1,902,146)	(1,902,146)	
Total business-type activities	9,839,399	4,842,204	3,180,189			(1,817,006)	(1,817,006)	
Total primary government	$ 100,428,362	$ 11,968,746	$ 25,931,055	$ 3,333,245	(57,378,310)	(1,817,006)	(59,195,316)	
Component unit:								
Cochise Private Industry Council, Inc.	$ 2,349,768		$ 2,328,352					$ (21,416)
General revenues:								
Taxes								
Property taxes, levied for general purposes					26,101,628		26,101,628	
Property taxes, levied for flood control					2,024,508		2,024,508	
Property taxes, levied for library					1,317,599		1,317,599	
County excise taxes					6,420,439	267,826	6,688,265	
Share of state sales taxes					12,744,829		12,744,829	
Share of state unrestricted vehicle license tax					3,807,321		3,807,321	
Grants and contributions not restricted to specific programs					3,778,270		3,778,270	
Investment income					170,706	17,435	188,141	
Miscellaneous					840,962	43,518	884,480	15,880
Transfers					(1,542,553)	1,542,553		
Gain on sale of capital assets					420,421		420,421	
Total general revenues					56,084,130	1,871,332	57,955,462	15,880
Change in net position					(1,294,180)	54,326	(1,239,854)	(5,536)
Net position, July 1, 2016, as restated					113,129,612	1,359,978	114,489,590	192,255
Net position, June 30, 2017					$ 111,835,432	$ 1,414,304	$ 113,249,736	$ 186,719

See accompanying notes to financial statements.

Cochise County
Balance sheet
Governmental funds
June 30, 2017

	Major Funds				
	General fund	Capital projects fund	Highway and streets fund	Other governmental funds	Total governmental funds
Assets					
Cash in bank and on hand	$ 79,849			$ 462,648	$ 542,497
Cash and investments held by County Treasurer	25,647,459	$13,840,864	$ 10,300,715	12,697,462	62,486,500
Receivables (net of allowances for uncollectibles):					
Property taxes	878,126			179,076	1,057,202
Accounts	1,588,986		310,991	252,144	2,152,121
Accrued interest	21,182	11,652		17,375	50,209
Due from:					
Other funds	1,846,566		58,806	478,686	2,384,058
Other governments	3,677,174	433,883	1,920,094	1,239,755	7,270,906
Prepaid items	67,285				67,285
Other assets				135,243	135,243
Total assets	$33,806,627	$14,286,399	$ 12,590,606	$15,462,389	$76,146,021
Liabilities					
Accounts payable	$ 599,825	$ 517,132	$ 1,010,624	$ 444,587	$ 2,572,168
Accrued payroll and employee benefits	1,699,053		163,517	511,583	2,374,153
Due to:					
Other funds	399,182	31,175	685,966	665,468	1,781,791
Other governments				269,447	269,447
Deposits held for others	327,643			11,609	339,252
Total liabilities	3,025,703	548,307	1,860,107	1,902,694	7,336,811
Deferred inflows of resources					
Unavailable revenue - property taxes	496,853			105,530	602,383
Fund balances					
Nonspendable	67,285				67,285
Restricted				13,849,218	13,849,218
Assigned	837,591	13,738,092	10,730,499	131,899	25,438,081
Unassigned	29,379,195			(526,952)	28,852,243
Total fund balances	30,284,071	13,738,092	10,730,499	13,454,165	68,206,827
Total liabilities, deferred inflows of resources and fund balances	$33,806,627	$14,286,399	$ 12,590,606	$15,462,389	$76,146,021

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, 2017

Fund balances—total governmental funds		$ 68,206,827
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.		116,113,439
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue the funds.		602,383
Some liabilities, such as net pension liabilities, compensated absences payable and judgements and claims are not due and payable in the current period and, therefore, are not reported as a liability in the funds.		
Net pension liability	(95,376,858)	
Compensated absences payable	(4,300,395)	
Judgements and claims	(275,510)	(99,952,763)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions	19,417,607	
Deferred inflows of resources related to pensions	(9,514,311)	9,903,296
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.		16,962,250
Net position of governmental activities		$ 111,835,432

See accompanying notes to financial statements.

Cochise County
Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2017

	Major funds				
	General fund	Capital projects fund	Highway and streets fund	Other governmental funds	Total governmental funds
Revenues:					
Taxes	$32,747,074	$ 2,331,332	$ 300,000	$ 4,299,168	$39,677,574
Licenses and permits	37,408	.			37,408
Fees, fines, and forfeits	1,686,561			44,968	1,731,529
Intergovernmental	16,171,443	1,609,548	11,049,643	10,443,330	39,273,964
Charges for services	2,430,648		735,345	2,191,612	5,357,605
Donations		2,198,709		1,134,536	3,333,245
Investment income	68,415	39,628	19,395	25,988	153,426
Miscellaneous	268,973	29,110	1,293	537,772	837,148
Total revenues	53,410,522	6,208,327	12,105,676	18,677,374	90,401,899
Expenditures:					
Current:					
General government	26,299,144	475,235		7,582,731	34,357,110
Public safety	19,120,808			5,940,690	25,061,498
Highways and streets			11,556,859	145,596	11,702,455
Sanitation	285,924			238,781	524,705
Health and welfare	9,247,646			2,395,581	11,643,227
Culture and recreation				1,144,031	1,144,031
Education	342,656			309,702	652,358
Debt service:					
Principal		1,104,425			1,104,425
Interest and other charges		11,610			11,610
Capital outlay	68,537	5,774,802	31,298	693,722	6,568,359
Total expenditures	55,364,715	7,366,072	11,588,157	18,450,834	92,769,778
Excess (deficiency) of revenues over expenditures	(1,954,193)	(1,157,745)	517,519	226,540	(2,367,879)
Other financing sources (uses):					
Sale of capital assets	278,502		15,613		294,115
Transfers in	187,225	50,000		1,422,562	1,659,787
Transfers out	(434,365)		(16,073)	(1,209,349)	(1,659,787)
Total other financing sources and uses	31,362	50,000	(460)	213,213	294,115
Net change in fund balances	(1,922,831)	(1,107,745)	517,059	439,753	(2,073,764)
Fund balances, July 1, 2016	32,206,902	14,845,837	10,213,440	13,014,412	70,280,591
Fund balances, June 30, 2017	$30,284,071	$13,738,092	$10,730,499	$13,454,165	$68,206,827

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, 2017

Net change in fund balances—total governmental funds		$(2,073,764)
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. In addition, capital assets transferred from the governmental activities to business-type activities are not recorded in the governmental funds.		
Capital outlay	9,835,152	
Depreciation expense	(4,631,083)	
Assets transferred	(1,542,553)	3,661,516
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.		(90,808)
Collections of revenues in the governmental funds exceeded revenues reported in the statement of activities.		(46,829)
County pension 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 liability is measured a year before the County's report date. Pension expense, which is the change in the net pension liability adjusted for the changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.		
County pension contributions	5,980,793	
Pension expense	(9,738,612)	(3,757,819)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal repaid		1,104,425
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	(390,605)	
Increase in judgements and claims	(275,510)	(666,115)
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.		575,214
Change in net position of governmental activities		$(1,294,180)

See accompanying notes to financial statements.

Cochise County
Statement of net position
Proprietary funds
June 30, 2017

	Business-type activities—enterprise funds				Governmental activities—
	Major funds				
	Solid waste operations fund	Housing authority fund	Other enterprise— BDI airport fund	Total	Internal service funds
Assets					
Current assets:					
Cash in bank and on hand	$ 2,200	$ 533,528		$ 535,728	$ 200
Cash and investments held by County Treasurer			$ 162,434	162,434	6,040,620
Restricted cash		117,430		117,430	
Receivables (net of allowances for uncollectibles):					
Accounts	491,088		139,483	630,571	6,530
Accrued interest	1,398		171	1,569	5,324
Due from:					
Other funds	132,214		31,007	163,221	692,671
Other governments	47,618	9,032		56,650	7,153
Total current assets	674,518	659,990	333,095	1,667,603	6,752,498
Noncurrent assets:					
Capital assets, net of accumulated depreciation, where applicable:					
Land	24,900		1,575,000	1,599,900	
Buildings, net	2,868,776		7,731	2,876,507	105,706
Improvements other than buildings, net	672,120		631,800	1,303,920	
Equipment, net	138,864		65,907	204,771	11,653,126
Infrastructure			1,621,433	1,621,433	
Total noncurrent assets	3,704,660		3,901,871	7,606,531	11,758,832
Total assets	4,379,178	659,990	4,234,966	9,274,134	18,511,330
Deferred outflows of resources					
Deferred outflows related to pensions	343,941	69,033	27,959	440,933	236,193
Liabilities					
Current liabilities:					
Accounts payable	257,137	17,819	27,251	302,207	109,484
Accrued payroll and employee benefits	72,318		3,007	75,325	40,230
Due to:					
Other governments		243		243	
Other funds	1,369,004	66,621	14,999	1,450,624	7,535
Compensated absences payable, current portion	76,912	682	3,911	81,505	79,089
Landfill closure and postclosure care costs payable, current portion	19,251			19,251	
Deposits held for others			1,600	1,600	
Unearned revenue		122,672		122,672	
Total current liabilities	1,794,622	208,037	50,768	2,053,427	236,338

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of net position
Proprietary funds
June 30, 2017
(Concluded)

	Business-type activities—enterprise funds				Governmental activities—
	Major funds				
	Solid waste operations fund	Housing authority fund	Other enterprise—BDI airport fund	Total	Internal service funds
Noncurrent liabilities:					
Compensated absences payable	$ 31,250	$ 14,191		$ 45,441	$ 48,691
Landfill closure and postclosure care costs payable	3,108,238			3,108,238	
Funds held for others		93,170		93,170	
Net pension liability	1,966,252	427,446	$ 170,978	2,564,676	1,282,338
Total noncurrent liabilities	5,105,740	534,807	170,978	5,811,525	1,331,029
Total liabilities	6,900,362	742,844	221,746	7,864,952	1,567,367
Deferred inflows of resources					
Deferred inflows related to pensions	334,122	72,635	29,054	435,811	217,906
Net position					
Net investment in capital assets	3,704,660		3,901,871	7,606,531	11,758,832
Restricted		24,260		24,260	
Unrestricted (deficit)	(6,216,025)	(110,716)	110,254	(6,216,487)	5,203,418
Total net position (deficit)	$ (2,511,365)	$ (86,456)	$ 4,012,125	$ 1,414,304	$ 16,962,250

See accompanying notes to financial statements.

Cochise County

Statement of revenues, expenses, and changes in fund net position
Proprietary funds
Year ended June 30, 2017

	Business-type activities—enterprise funds				Governmental activities—
	Major funds				
	Solid waste operations fund	Housing authority fund	Other enterprise—BDI airport fund	Total	Internal service funds
Operating revenues:					
Charges for services	$ 4,320,768	$ 63,002	$ 458,434	$ 4,842,204	$ 6,515,529
Charges for health insurance					7,786,676
Intergovernmental		3,180,189		3,180,189	
Other					7,949
Total operating revenues	4,320,768	3,243,191	458,434	8,022,393	14,310,154
Operating expenses:					
Personal services	1,675,640	209,672	53,936	1,939,248	1,093,030
Professional services	3,542,124	143,129	148,845	3,834,098	8,008,206
Supplies	95,888	3,432	129,587	228,907	3,119,714
Landfill closure and postclosure care costs	197,786			197,786	
Housing assistance payments		2,826,838		2,826,838	
Depreciation	387,398	1,407	99,639	488,444	1,787,338
Other	324,078			324,078	3,631
Total operating expenses	6,222,914	3,184,478	432,007	9,839,399	14,011,919
Operating income (loss)	(1,902,146)	58,713	26,427	(1,817,006)	298,235
Nonoperating revenues (expenses):					
County excise taxes	267,826			267,826	40,750
Investment income	15,731	836	868	17,435	17,280
Other licenses and permits	250			250	
Miscellaneous	40,166	3,102		43,268	3,814
Interest expense					(1,979)
Gain on disposal of capital assets					217,114
Total nonoperating revenues (expenses)	323,973	3,938	868	328,779	276,979
Income (loss) before capital contribution	(1,578,173)	62,651	27,295	(1,488,227)	575,214
Capital contribution			1,542,553	1,542,553	
Increase (decrease) in net position	(1,578,173)	62,651	1,569,848	54,326	575,214
Total net position, July 1, 2016	(933,192)	(149,107)	2,442,277	1,359,978	16,387,036
Total net position, June 30, 2017	$ (2,511,365)	$ (86,456)	$ 4,012,125	$ 1,414,304	$ 16,962,250

See accompanying notes to financial statements.

Cochise County
Statement of cash flows
Proprietary funds
Year ended June 30, 2017

	Business-type activities—enterprise funds				Governmental activities—
	Major funds				
	Solid waste operations fund	Housing authority fund	Other enterprise– BDI airport fund	Total	Internal service funds
Cash flows from operating activities:					
Receipts from customers	$ 4,327,526	$ 63,989	$ 421,246	$ 4,812,761	
Operating grants		3,274,522		3,274,522	
Receipts from other funds for goods and services provided					$ 14,271,206
Other receipts					7,949
Payments to suppliers and providers of goods and services	(4,083,978)	(2,991,617)	(246,674)	(7,322,269)	(11,098,802)
Payments to employees	(1,682,244)	(184,337)	(110,917)	(1,977,498)	(1,153,470)
Net cash provided by (used for) operating activities	(1,438,696)	162,557	63,655	(1,212,484)	2,026,883
Cash flows from noncapital financing activities:					
Miscellaneous receipts	308,242	3,102		311,344	44,564
Loan payments received from other funds	1,150,277			1,150,277	
Net cash provided by noncapital financing activities	1,458,519	3,102		1,461,621	44,564
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets					349,175
Purchases of capital assets	(35,419)			(35,419)	(2,261,443)
Principal paid on capital leases					(188,288)
Interest paid on capital leases					(1,979)
Net cash used for capital and related financing activities	(35,419)			(35,419)	(2,102,535)
Cash flows from investing activities:					
Proceeds from the sale and maturity of investments		70,161		70,161	
Investment income received on cash and investments held by County Treasurer	15,596	836	773	17,205	14,984
Net cash provided by investing activities	15,596	70,997	773	87,366	14,984
Net increase (decrease) in cash and cash equivalents		236,656	64,428	301,084	(16,104)
Cash and cash equivalents, July 1, 2016	2,200	414,302	98,006	514,508	6,056,924
Cash and cash equivalents, June 30, 2017	$ 2,200	$ 650,958	$ 162,434	$ 815,592	$ 6,040,820

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of cash flows
Proprietary funds
Year ended June 30, 2017
(Concluded)

	Business-type activities—enterprise funds				Governmental activities—
	Major funds				
	Solid waste operations fund	Housing authority fund	Other enterprise—BDI airport fund	Total	Internal service funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ (1,902,146)	$ 58,713	$ 26,427	$ (1,817,006)	$ 298,235
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	387,398	1,407	99,639	488,444	1,787,338
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Net pension liability	52,280		(41,686)	10,594	6,357
Deferred outflows-pension plan	(168,861)	(39,957)	(15,076)	(223,894)	(105,796)
Deferred inflows-pension plan	60,814	11,900	(1,313)	71,401	35,701
Accounts receivable	(15,579)	987	(6,181)	(20,773)	16,129
Due from other funds	24,013		(31,007)	(6,994)	(72,228)
Due from other governments	(1,676)	(3,616)		(5,292)	25,100
Prepaid expenses		47		47	
Accounts payable	230,084	8,621	21,059	259,764	36,578
Accrued payroll and employee benefits	23,933		(135)	23,798	2,770
Accrued liabilities		98,052		98,052	
Unearned revenue		27,081		27,081	
Due to other funds	(349,934)		12,012	(337,922)	(3,829)
Compensated absences payable	25,229	(678)	(84)	24,467	528
Landfill closure and postclosure care costs payable	195,749			195,749	
Net cash provided by (used for) operating activities	$ (1,438,696)	$ 162,557	$ 63,655	$ (1,212,484)	$ 2,026,883
Cash and cash equivalents, June 30, 2017, consisted of:					
Cash in bank and on hand	2,200	533,528		535,728	200
Cash—restricted		117,430		117,430	
Cash and investments held by County Treasurer			162,434	162,434	6,040,620
Total cash and cash equivalents	$ 2,200	$ 650,958	$ 162,434	$ 815,592	$ 6,040,820

Noncash capital financing activities:

The Internal service funds sold equipment with a net book value of $132,061.

See accompanying notes to financial statements.

Cochise County
Statement of fiduciary net position
Fiduciary funds
June 30, 2017

	Investment trust funds	Agency funds
Assets		
Cash in bank and on hand		$ 1,114,755
Cash and investments held by County Treasurer	$ 69,186,793	
Interest receivable	1,001	
Total assets	$ 69,187,794	$ 1,114,755
Liabilities		
Due to other governments		$ 1,114,755
Total liabilities		$ 1,114,755
Net position		
Held in trust for investment trust participants	$ 69,187,794	

See accompanying notes to financial statements.

Cochise County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2017

	Investment trust funds
Additions:	
Contributions from participants	$ 228,434,823
Investment income	315,156
Total additions	228,749,979
Deductions:	
Distributions to participants	206,322,484
Total deductions	206,322,484
Change in net position	22,427,495
Net position, July 1, 2016	46,760,299
Net position, June 30, 2017	$ 69,187,794

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

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 Investment 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:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- 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 funds:

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 Housing Authority Fund accounts for the management of the County's low-income housing program. The services include providing assistance payments for housing and utilities on a monthly basis.

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 two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

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

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's 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 - Government merger

On November 1, 2016, the Housing Authority of Cochise County was dissolved and its operations were merged with Cochise County to clarify the relationship between the Housing Authority and to improve the administration of the Housing Authority. The Housing Authority of Cochise County was previously reported as a discretely presented component unit of Cochise County. As of July 1, 2016, the County recognized the following amounts in its business-type activities and Housing authority major enterprise fund and removed them from its component units. These amounts are based on the Housing Authority of Cochise County's separately issued financial statements as of June 30, 2016.

Housing Authority of Cochise County

Assets	
Current assets	$ 490,810
Capital assets	1,407
Total assets	492,217
Deferred outflows of resources, pensions	29,077
Liabilities	
Current liabilities	101,939
Noncurrent liabilities	507,726
Total liabilities	609,665
Deferred inflows of resources, pensions	60,736

Net position	
Net investment in capital assets	$ 1,407
Restricted	39,856
Unrestricted	(190,370)
Total net position	$(149,107)

Note 3 - Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2017, were as follows:

	General fund	Capital projects fund	Highway and streets fund	Other governmental funds	Total
Nonspendable:					
Prepaid items	$ 67,285				$ 67,285
Fund balances:					
Restricted for:					
Flood control				$ 4,429,159	4,429,159
Health services				926,350	926,350
Judicial services				3,751,762	3,751,762
Library services				843,907	843,907
Law enforcement				2,804,195	2,804,195
Education services				80,120	80,120
Other services				1,013,725	1,013,725
Total restricted				13,849,218	13,849,218
Assigned to:					
Capital projects		$13,738,092			13,738,092
Highways and streets			$10,730,499		10,730,499
Health services				131,899	131,899
Other	837,591				837,591
Total assigned	837,591	13,738,092	10,730,499	131,899	25,438,081
Unassigned:	29,379,195			(526,952)	28,852,243
Total fund balances	$30,284,071	$13,738,092	$10,730,499	$13,454,165	$68,206,827

Note 4 - Deposits and investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, 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 two ratings by a nationally recognized rating agency.
2. 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 two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk
Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

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, 2017, the carrying amount of the County's deposits was $32,566,293, and the bank balance was $36,104,525. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2017, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

	Fair value measurement using	
	Amount	Significant other observable inputs (Level 2)
Investment by fair value level		
U.S. agency securities	$ 87,613,660	$87,613,660
Total investments by fair value level	$ 87,613,660	$87,613,660
External investment pools measured at fair value		
State Treasurer's investment pool 7	$ 20,000,000	
Total investments measured at fair value	$107,613,660	

The investments categorized as Level 2 of the fair value hierarchy 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 pools 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 pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

Investments—The County's investments at June 30, 2017, were as follows:

Investment type	Amount
State Treasurer's investment pool	$ 20,000,000
U.S. agency securities	87,613,660
	$107,613,660

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, 2017, 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	$ 20,000,000
U.S. agency securities	AA+	Standard & Poor's	61,641,750
U.S. agency securities	Unrated	Not applicable	25,971,910
Total			$107,613,660

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 the possession of an outside party. 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, 2017, were in debt securities of various U.S. agencies as follows:

U.S. agency	Amount	Percent of county investments
Federal Home Loan Mortgage Corporation	$38,886,200	36.1
Federal Farm Credit Bank	17,888,220	16.6
Federal Home Loan Bank	13,908,920	12.9
Federal Agriculture Mortgage Corporation	8,997,670	8.4
Federal National Mortgage Association	7,932,650	7.4
	$87,613,660	

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, 2017, maturities of the County's investments were as follows:

Investment type	Amount	Investment maturities: Less than 1 Year	Investment maturities: 1-5 Years
State Treasurer's investment pool 7	$ 20,000,000	$20,000,000	
U.S. agency securities	87,613,660	7,992,820	$79,620,840
Total	$107,613,660	$27,992,820	$79,620,840

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	$ 7,004
Amount of deposits	32,566,293
Amount of investments	107,613,660
Total	$140,186,957

	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	$ 542,697	$535,728		$1,114,755	$ 2,193,180
Cash and investments held by County Treasurer	68,527,120	162,434	$69,186,793		137,876,347
Cash—restricted		117,430			117,430
Total	$69,069,817	$815,592	$69,186,793	$1,114,755	$140,186,957

Note 5 – Due from other governments

Due from other governments totaling $7,334,709 at June 30, 2017, included $1,499,570 in state-shared revenue from highway user fees, $2,230,846 in state-shared sales taxes, $1,017,315 in state-shared vehicle license taxes, and $1,209,574 in county excise taxes. The remaining balance of $1,377,404 represents amounts receivable from various state and federal government grantor agencies.

Note 6 - Capital assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016, as restated*	Increases	Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,491,164	$ 23,112		$ 2,514,276
Construction in progress	5,850,418	3,276,911	$1,473,390	7,653,939
Total capital assets not being depreciated	8,341,582	3,300,023	1,473,390	10,168,215
Capital assets being depreciated:				
Buildings	51,029,486	155,325	1,545,795	49,639,016
Improvements other than buildings	7,083,505	2,017,747	1,542,553	7,558,699
Equipment	47,405,864	5,781,194	1,624,939	51,562,119
Infrastructure	103,424,324	2,309,259		105,733,583
Total capital assets being depreciated	208,943,179	10,263,525	4,713,287	214,493,417
Less accumulated depreciation for:				
Buildings	$ 18,808,136	$ 1,265,220	$1,467,153	$ 18,606,203
Improvements other than buildings	2,393,753	300,045	6,427	2,687,371
Equipment	30,120,194	3,191,921	1,480,720	31,831,395
Infrastructure	42,003,157	1,661,235		43,664,392
Total accumulated depreciation	93,325,240	6,418,421	2,954,300	96,789,361
Total capital assets being depreciated, net	115,617,939	3,845,104	1,758,987	117,704,056
Governmental activities, capital assets, net	$123,959,521	$ 7,145,127	$3,232,377	$127,872,271
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 1,599,900			$ 1,599,900
Construction in progress	78,880		$ 78,880	
Total capital assets not being depreciated	1,678,780		78,880	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	2,865,592	$ 35,419	51,828	2,849,183
Infrastructure		1,621,433		1,621,433
Total	14,078,197	1,656,852	51,828	15,683,221
Less accumulated depreciation for:				
Buildings	1,595,133	87,385		1,682,518
Improvements other than buildings	5,067,513	282,147		5,349,660
Equipment	2,577,328	118,912	51,828	2,644,412
Total accumulated depreciation	9,239,974	488,444	51,828	9,676,590
Total capital assets being depreciated, net	4,838,223	1,168,408		6,006,631
Business-type activities capital assets, net	$ 6,517,003	$ 1,168,408	$ 78,880	$ 7,606,531

* The Housing Authority was previously presented as a discretely presented component unit and was merged into county operations during the year.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$2,405,270
Public safety	431,624
Highways and streets	1,762,247
Health and welfare	6,250
Culture and recreation	2,074
Education	23,618
Internal service funds	1,787,338
Total governmental activities depreciation expense	$6,418,421
Business-type activities:	
Housing Authority	$ 1,407
Solid Waste Operations	387,398
Bisbee-Douglas International Airport	99,639
Total business-type activities depreciation expense	$ 488,444

Construction commitments—At June 30, 2017, the County was involved in four construction projects for governmental activities. The estimated cost to complete the four construction projects was $3,240,470.

Note 7 - Long-term liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2017:

	Balance July 1, 2016, as restated*	Additions	Reductions	Balance June 30, 2017	Due within 1 year
Governmental activities					
Capital leases payable	$ 1,292,712		$1,292,712		
Net pension liabilities	91,794,331	$4,864,865		$ 96,659,196	
Compensated absences payable	4,037,042	2,368,251	1,977,118	4,428,175	$2,540,092
Total governmental activities long-term liabilities	$97,124,085	$7,233,116	$3,269,830	$101,087,371	$2,540,092
Business-type activities					
Net pension liabilities	$ 2,551,963	$ 12,713		$ 2,564,676	
Landfill closure and postclosure care costs payable	2,931,740	197,786	$ 2,037	3,127,489	$ 19,251
Compensated absences payable	100,526	86,758	60,338	126,946	81,505
Fund held for others	70,161	23,009		93,170	
Total business-type activities long-term liabilities	$ 5,654,390	$ 320,266	$ 62,375	$ 5,912,281	$ 100,756

* The Housing Authority was previously presented as a discretely presented component unit and was merged into county operations during the year.

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 Enterprise Fund. At June 30, 2017, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2017, the County has reported landfill closure and postclosure care liabilities totaling $3,127,489. 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, 2017. The liability reported for the Eastern Regional landfill of $472,929 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 $2,654,560 is based on the use of 24.07 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and post closure care of $8,372,016 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 2017. Actual costs may be higher because of 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 2017, the County paid for compensated absences as follows: 69.93 percent from the general fund, 8.21 percent from the highway and streets fund, 2.24 percent from the enterprise funds, and 19.62 percent from other funds.

Note 8 - Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three 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 two 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. During the fiscal year, employees were not required to contribute a portion of the premium but may be required to in the future. 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 three pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

Note 9 - Pension and other postemployment benefits

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, 2017, 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 pension liabilities	$96,659,196	$2,564,676	$99,223,872
Deferred outflows of resources	19,653,800	440,933	20,094,733
Deferred inflows of resources	9,732,217	435,811	10,168,028
Pension expense	10,779,625	7,643	10,787,268

The County's accrued payroll and employee benefits include $240,105 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2017. Also, the County reported $5,980,793 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

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, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) 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, health insurance premium supplement, long-term disability, 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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) 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 pension plan for the year ended June 30, 2017, were $2,701,331. The County's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

ASRS

Year ended June 30	Health benefit supplement fund	Long-term disability fund
2017	$138,923	$34,927
2016*	122,505	29,538
2015*	149,348	30,374

* Reference RSI, Notes to pension schedules, Note 3.

During fiscal year 2017, the County paid for ASRS pension and OPEB contributions as follows: 63 percent from the general fund, 16 percent from major funds, and 21 percent from other funds.

Pension liability—At June 30, 2017, the County reported a liability of $42,744,608 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The County's proportion of the net pension 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, 2016. The County's proportion measured as of June 30, 2016, was 0.26 percent, which was a decrease of 0.01 from its proportion measured as of June 30, 2015.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2017, the County recognized pension expense for ASRS of $359,675. At June 30, 2017, 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	$ 259,756	$2,940,517
Changes of assumptions or other inputs		2,261,531
Net difference between projected and actual earnings on pension plan investments	4,632,093	
Changes in proportion and differences between county contributions and proportionate share of contributions		2,061,483
County contributions subsequent to the measurement date	2,701,331	
Total	$7,593,180	$7,263,531

The $2,701,331 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, 2018. 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	
2018	$(3,403,420)
2019	(2,069,679)
2020	1,802,592
2021	1,298,825

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

ASRS	
Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015, 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 8.75 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 8.75 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 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.

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	$54,502,621	$42,744,608	$33,317,252

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 an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A nine-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 and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan for county detention officers (agent plans), and a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for AOC officers (cost-sharing plans). 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 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, health insurance premium supplement, 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**
Retirement and disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, 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%	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 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. 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, 2017, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Sheriff	CORP Detention
Inactive employees or beneficiaries currently receiving benefits	68	34
Inactive employees entitled to but not yet receiving benefits	29	26
Active employees	76	63
Total	173	123

Contributions and annual OPEB cost—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 and health insurance premium 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. Contributions rates for the year ended June 30, 2017, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Sheriff	CORP Detention	CORP AOC
Active members—Pension			
PSPRS members with an initial membership date on or before July 19, 2011			
July 2016 through March 2017	11.65%	n/a	n/a
April 2017 through June 2017	7.65%	n/a	n/a
PSPRS members with an initial membership date after July 19, 2011, and all CORP members	11.65	8.41	8.41
County			
Pension	50.85%	19.53%	20.08%
Health insurance premium benefit	0.13%	0.00%	0.80%

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.

	PSPRS Sheriff	CORP Detention	CORP AOC
Pension	38.72%	13.00%	13.68%
Health insurance premium benefit	0.00%	0.00%	0.53%

For the agent plans, the County's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2017, were:

Pension	PSPRS Sheriff	CORP Detention
Contributions made	$2,411,458	$437,766
Health insurance premium benefit		
Annual OPEB cost	5,994	-
Contributions made	5,994	-

Contributions to the CORP AOC pension plan for the year ended June 30, 2017, were $363,649. The County's contributions for the current and 2 preceding years for the CORP AOC OPEB, all of which were equal to the required contributions, were as follows:

CORP AOC Year ended June 30	Health insurance fund
2017	$14,093
2016	14,720
2015	23,719

During fiscal year 2017, the County paid for PSPRS and CORP pension and OPEB contributions as follows: 81 percent from the general fund and 19 percent from other nonmajor funds.

Pension liability—At June 30, 2017, the County reported the following net pension liabilities:

	Net pension liability
PSPRS Sheriff	$28,991,387
CORP Detention	4,603,184
CORP AOC (County's proportionate share)	4,457,185

The net liabilities were measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS and CORP plans.

The net pension liabilities measured as of June 30, 2017, 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 net pension liabilities as a result of these changes is not known.

Pension 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, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4.0%–8.0% for PSPRS and 4.0%–7.25% for CORP
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

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, 2011.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.50 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 arithmetic 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 arithmetic real rate of return**
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

Pension discount rates—At June 30, 2016, the discount rate used to measure the PSPRS and CORP total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. 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 pension 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, 2016	$43,046,977	$14,265,060	$28,781,917
Changes for the year:			
Service cost	912,659		912,659
Interest on the total pension liability	3,306,647		3,306,647
Changes of benefit terms	344,258		344,258
Differences between expected and actual experience in the measurement of the pension liability	(1,789,290)		(1,789,290)
Changes of assumptions or other inputs	1,605,977		1,605,977
Contributions—employer		3,414,120	(3,414,120)
Contributions—employee		542,026	(542,026)
Net investment income		95,788	(95,788)
Benefit payments, including refunds of employee contributions	(2,760,829)	(2,760,829)	
Administrative expense		(14,183)	14,183
Other changes		133,030	(133,030)
Net changes	1,619,422	1,409,952	209,470
Balances at June 30, 2017	$44,666,399	$15,675,012	$28,991,387

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, 2016	$9,594,037	$5,108,264	$4,485,773
Changes for the year:			
Service cost	297,814		297,814
Interest on the total pension liability	742,741		742,741
Changes of benefit terms	13,188		13,188
Differences between expected and actual experience in the measurement of the pension liability	(636,880)		(636,880)
Changes of assumptions or other inputs	362,499		362,499
Contributions—employer		400,307	(400,307)
Contributions—employee		197,513	(197,513)
Net investment income		32,454	(32,454)
Benefit payments, including refunds of employee contributions	(562,548)	(562,548)	
Administrative expense		(4,989)	4,989
Other changes		36,666	(36,666)
Net changes	216,814	99,403	117,411
Balances at June 30, 2017	$9,810,851	$5,207,667	$4,603,184

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, 2016. The County's proportion measured as of June 30, 2016, was 1.58 percent, which was a decrease of 0.14 from its proportion measured as of June 30, 2015.

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 7.50 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 lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
PSPRS Sheriff			
Net pension liability	$34,488,966	$28,991,387	$24,439,962
CORP Detention			
Net pension liability	$5,834,307	$4,603,184	$3,585,282
CORP AOC			
County's proportionate share of the net pension liability	$5,728,437	$4,457,185	$3,407,185

Pension 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, 2017, the County recognized the following pension expense:

	Pension expense
PSPRS Sheriff	$4,033,729
CORP Detention	668,935
CORP AOC (County's proportionate share)	604,089

Pension deferred outflows/inflows of resources—At June 30, 2017, 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	$ 89,639	$1,478,555
Changes of assumptions or other inputs	2,895,484	
Net difference between projected and actual earnings on pension plan investments	932,354	
County contributions subsequent to the measurement date	2,411,458	
Total	$6,328,935	$1,478,555

CORP-Detention	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 272,858	$537,294
Changes of assumptions or other inputs	523,371	
Net difference between projected and actual earnings on pension plan investments	317,001	
County contributions subsequent to the measurement date	437,766	
Total	$1,550,996	$537,294

CORP-AOC	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 94,777	$224,442
Changes of assumptions or other inputs	604,976	
Net difference between projected and actual earnings on pension plan investments	336,595	
Changes in proportion and difference between county contributions and proportionate share of contributions		284,808
County contributions subsequent to the measurement date	363,649	
Total	$1,399,997	$509,250

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, 2018. 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			
2018	$1,302,631	$264,257	$169,405
2019	659,968	167,959	169,405
2020	270,096	84,117	155,211
2021	206,227	59,603	38,465
2022			(5,388)

Agent plan OPEB actuarial assumptions—The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plans as the County and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS and CORP plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2017 contribution requirements:

PSPRS and CORP—OPEB contribution requirements	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	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	7.85%
Projected salary increases	4%–8% for PSPRS and 4.0%–7.25% for CORP
Wage growth	4% for PSPRS and CORP

Agent plan OPEB trend information—Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

Year Ended June 30	Annual OPEB cost	Percentage of annual cost contributed	Net OPEB obligation
PSPRS Sheriff			
2017	$ 5,994	100%	-
2016	3,722	100%	-
2015	72,855	100%	-
CORP Detention			
2017	-	-	-
2016	-	-	-
2015	$25,720	100%	-

Agent plan OPEB funded status—The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2017, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Sheriff	CORP Detention
Actuarial value of assets (a)	$1,243,772	$ 687,176
Actuarial accrued liability (b)	1,068,159	304,706
Unfunded actuarial accrued liability (funding excess) (b) – (a)	(175,613)	(382,470)
Funded ratio (a)/(b)	116.44%	225.52%
Annual covered payroll (c)	$4,783,430	$2,268,355
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c)	(3.67)%	(16.86)%

The actuarial methods and assumptions used are the same for all the PSPRS and CORP health insurance premium benefit plans (unless noted), and for the most recent valuation date are as follows:

PSPRS and CORP—OPEB funded status	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	29 years for PSPRS and 19 years for CORP 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	7.40%
Projected salary increases	3.5%–7.5% for PSPRS and 3.5%–6.5% for CORP
Wage growth	3.5% for PSPRS and CORP

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 and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for elected officials and judges who were members of the plan on December 31, 2013. This 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 its financial statements and required supplementary information for the EORP plans. The report is available on PSPRS's website at www.psprs.com.

Benefits provided—The EORP provides retirement, health insurance premium supplement, 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% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%.

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, 2017, statute required active EORP members with an initial membership date on or before July 19, 2011, to contribute 13 percent of the members' annual covered payroll for July 2016 through April 8, 2017, and 7 percent of the members' annual covered payroll for April 9, 2017 through June 2017. Statute required active EORP members with an initial membership date after July 19, 2011, to contribute 13 percent of the members' 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, 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's contributions to the pension plan for the year ended June 30, 2017, were $303,450. No OPEB contributions were required or made for the years ended June 30, 2015, 2016, and 2017.

During fiscal year 2017, the County paid for EORP pension contributions as follows: 100 percent from the general fund.

Pension liability—At June 30, 2017, 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	$18,427,509
State's proportionate share of the EORP net pension liability associated with the County	3,804,807
Total	$22,232,316

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2016, reflects a decrease in the investment rate of return actuarial assumption from 7.85 percent to 7.50 percent.

The County's proportion of the net pension liability was based on the County's actual contributions to the plan relative to the total of all participating employers' actual contributions for the year ended June 30, 2016. The County's proportion measured as of June 30, 2016, was 1.95 percent, which was an increase of 0.11 from its proportion measured as of June 30, 2015.

The collective net pension liability measured as of June 30, 2017, 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 proportionate share of the collective net pension liability as a result of these changes is not known.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2017, the County recognized pension expense for EORP of $5,120,840 and revenue of $1,015,311 for the County's proportionate share of the State's appropriation to EORP and the designated court fees. At June 30, 2017, 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		$346,536
Changes of assumptions or other inputs	$2,068,952	
Net difference between projected and actual earnings on pension plan investments	426,872	32,862
Changes in proportion and differences between county contributions and proportionate share of contributions	422,351	
County contributions subsequent to the measurement date	303,450	
Total	$3,221,625	$379,398

The $303,450 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 pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ending June 30	
2018	$1,713,047
2019	585,103
2020	155,117
2021	85,510

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

EORP	
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4.25%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

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, 2011.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.50 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 arithmetic real rates of return for each major asset class are summarized in the following table:

EORP Asset class	Target allocation	Long-term expected arithmetic real rate of return
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

Discount rate—At June 30, 2016, the discount rate used to measure the EORP total pension liability was 3.68 percent, which was a decrease of 1.18 from the discount rate used as of June 30, 2015. 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 7.50 percent was applied to periods of projected benefit payments through the year ended June 30, 2027. A municipal bond rate of 2.85 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 25, 2016, was applied to periods of projected benefit payments after June 30, 2027.

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 rate of 3.68 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 (2.68 percent) or 1 percentage point higher (4.68 percent) than the current rate:

	1% Decrease	Current discount rate	1% Increase
EORP			
Rate	(2.68%)	(3.68%)	(4.68%)
County's proportionate share of the net pension liability	$21,450,530	$18,427,509	$15,904,055

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 10 - Interfund transactions

Interfund receivables and payables—Interfund balances at June 30, 2017, were as follows:

	Payable to						
Payable from	General fund	Highway and streets fund	Other governmental funds	Solid waste operations fund	Other enterprise fund	Internal service funds	Total
General fund		$ 864	$210,517	$ 106		$187,695	$ 399,182
Capital projects fund	$ 168				$31,007		31,175
Highway and streets fund	309,906					376,060	685,966
Other governmental funds	229,424	32,115	268,169	131,908		3,852	665,468
Solid waste operations fund	1,233,080	12,574				123,350	1,369,004
Housing authority fund	66,621						66,621
Other enterprise fund	32	13,253				1,714	14,999
Internal service funds	7,335			200			7,535
Total	$1,846,566	$58,806	$478,686	$132,214	$31,007	$692,671	$3,239,950

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, 2017, were as follows:

	Transfers to			
Transfers from	General fund	Capital projects fund	Other governmental funds	Total
General fund			$ 434,365	$ 434,365
Highway and streets fund	$ 16,073			16,073
Other governmental funds	171,152	$50,000	988,197	1,209,349
Total	$187,225	$50,000	$1,422,562	$1,659,787

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

Note 11 - County Treasurer's investment pool

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

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

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

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for $7,004 of cash and $2,186,176 of deposits, and $117,430 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 4.

Details of each major investment classification follow:

Investment type	Principal	Interest rates	Maturities	Amount
State Treasurer's investment pool 7	$20,000,000	None stated	None stated	$20,000,000
U.S. agency securities	88,000,000	0.65–2.35%	Up to 5 years	87,613,660

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

Statement of net position	
Assets	$137,876,347
Net position	$137,876,347
Net position held in trust for:	
Internal participants	$ 68,689,554
External participants	69,186,793
Total net position held in trust	$137,876,347
Statement of changes in net position	
Total additions	$322,340,476
Total deductions	299,189,146
Net increase	23,151,330
Net position held in trust:	
July 1, 2016	114,725,017
June 30, 2017	$137,876,347

Note 12 - 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 one 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, 2017, the carrying amount of the Cochise Private Industry Council, Inc.'s deposits was $144,000 and the bank balance was $189,229.

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, 2017:

Program	Amount
Cochise County, Arizona	
WIOA Adult Program	$ 55,125
WIOA Dislocated Workers	40,445
WIOA Youth Program	65,548
WIOA Rapid Response	6,717
Other	32,434
Total	$200,269

D. Capital assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance at July 1, 2016	Increases	Balance at June 30, 2017
Capital assets being depreciated:			
Furniture and equipment	$ 147,354	$ 19,183	$ 166,537
Leasehold improvements	7,308	6,043	13,351
Total capital assets being depreciated	154,662	25,226	179,888
Less accumulated depreciation:	(111,770)	(20,107)	(131,877)
Total capital assets being depreciated, net	$ 42,892	$ 5,119	$ 48,011

E. Due to related party

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

During 2017, ARIZONA@WORK SEAZ paid $426,856 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 $100,923 as of June 30, 2017.

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Other Required Supplementary Information

Cochise County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2017

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues:				
Taxes	$ 31,784,051	$ 31,784,051	$32,747,074	$ 963,023
Licenses and permits	16,500	16,500	37,408	20,908
Intergovernmental	15,294,712	15,294,712	16,171,443	876,731
Charges for services	2,123,042	2,123,042	2,430,648	307,606
Fees, fines, and forfeits	1,525,200	1,525,200	1,686,561	161,361
Investment income	200,000	200,000	68,415	(131,585)
Miscellaneous	170,700	170,700	268,973	98,273
Total revenues	51,114,205	51,114,205	53,410,522	2,296,317
Expenditures:				
Assessor	1,803,425	1,937,223	1,733,040	204,183
Attorney	2,141,169	2,180,072	2,068,062	112,010
Board of Supervisors	1,135,961	1,276,627	1,208,461	68,166
Cochise Aging and Social Services	8,394,029	8,368,261	8,262,427	105,834
General government	10,652,204	10,245,070	9,025,965	1,219,105
General government contingency	22,246,349	21,906,663		21,906,663
Health	1,240,117	1,239,123	1,053,219	185,904
Judicial system	9,631,582	9,801,693	9,060,812	740,881
Public and legal defenders	2,363,463	2,436,127	2,419,769	16,358
Recorder	492,613	609,388	568,575	40,813
Public safety	20,013,036	20,094,046	19,124,375	969,671
School Superintendent	350,754	361,689	352,656	9,033
Treasurer	1,034,378	1,043,098	921,719	121,379
Total expenditures	81,499,080	81,499,080	55,799,080	25,700,000
Excess (deficiency) of revenues over expenditures	(30,384,875)	(30,384,875)	(2,388,558)	27,996,317
Other financing sources:				
Sale of capital assets	30,000	30,000	278,502	248,502
Transfers in	369,258	369,258	187,225	(182,033)
Total other financing sources	399,258	399,258	465,727	66,469
Net change in fund balances	(29,985,617)	(29,985,617)	(1,922,831)	28,062,786
Fund balances, July 1, 2016	29,985,617	29,985,617	32,206,902	2,221,285
Fund balances, June 30, 2017	$ -	$ -	$ 30,284,071	$ 30,284,071

See accompanying notes to budgetary comparison schedule.

Cochise County
Required supplementary information
Budgetary comparison schedule
Highway and streets fund
Year ended June 30, 2017

	Budgeted amounts Original	Budgeted amounts Final	Actual amounts	Variance with final budget
Revenues				
Taxes	$ 300,000	$ 300,000	$ 300,000	
Intergovernmental	9,700,000	9,700,000	11,049,643	$ 1,349,643
Charges for services	1,125,500	1,125,500	735,345	(390,155)
Investment income	39,583	39,583	19,395	(20,188)
Miscellaneous	8,281,170	8,281,170	1,293	(8,279,877)
Total revenues	19,446,253	19,446,253	12,105,676	(7,340,577)
Expenditures:				
Current:				
Highways and streets	19,450,180	19,450,180	11,588,157	7,862,023
Total expenditures	19,450,180	19,450,180	11,588,157	7,862,023
Excess (deficiency) of revenues over expenditures	(3,927)	(3,927)	517,519	521,446
Other financing sources (uses):				
Sale of capital assets	20,000	20,000	15,613	(4,387)
Transfers out	(16,073)	(16,073)	(16,073)	
Total other financing sources and uses	3,927	3,927	(460)	(4,387)
Net change in fund balances			517,059	517,059
Fund balances, July 1, 2016			10,213,440	10,213,440
Fund balances, June 30, 2017	$ -	$ -	$ 10,730,499	$ 10,730,499

See accompanying notes to budgetary comparison schedule.

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 for the adoption of 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 one 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, 2017

Arizona State Retirement System

	Reporting fiscal year (Measurement date)			
	2017 (2016)	**2016* (2015)**	**2015* (2014)**	**2014 through 2008**
County's proportion of the net pension liability	0.26%	0.27%	0.29%	
County's proportionate share of the net pension liability	$42,744,608	$42,532,701	$42,685,890	
County's covered payroll	24,779,581	25,133,395	26,034,337	Information not available
County's proportionate share of the net pension liability as a percentage of its covered payroll	172.5%	169.2%	163.96%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

* Reference RSI, Notes to pension plan schedules Note 3.

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year (Measurement date)			
	2017 (2016)	**2016 (2015)**	**2015 (2014)**	**2014 through 2008**
County's proportion of the net pension liability	1.58%	1.72%	1.76%	
County's proportionate share of the net pension liability	$ 4,457,185	$ 4,178,318	$ 3,949,941	
County's covered payroll	1,745,725	1,912,811	1,959,540	Information not available
County's proportionate share of the net pension liability as a percentage of its covered payroll	255.3%	218.44%	201.57%	
Plan fiduciary net position as a percentage of the total pension liability	54.81%	57.89%	58.59%	

Elected Officials Retirement Plan

	Reporting fiscal year (Measurement date)			
	2017 (2016)	**2016 (2015)**	**2015 (2014)**	**2014 through 2008**
County's proportion of the net pension liability	1.95%	1.84%	1.87%	
County's proportionate share of the net pension liability	$18,427,509	$14,367,585	$12,532,950	
State's proportionate share of the net pension liability associated with the County	3,804,807	4,479,215	3,842,719	
Total	$22,232,316	$18,846,800	$16,375,669	Information not available
County's covered payroll	$ 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	1357.0%	930.06%	727.64%	
Plan fiduciary net position as a percentage of the total pension liability	23.42%	28.32%	31.91%	

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, 2017

Public Safety Personnel Retirement System—Sheriff	**Reporting fiscal year (Measurement date)**			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
Total pension liability				
Service cost	$ 912,659	$ 897,651	$ 864,164	
Interest on the total pension liability	3,306,647	3,212,596	2,633,247	
Changes of benefit terms	344,258		1,126,739	
Differences between expected and actual experience in the measurement of the pension liability	(1,789,290)	(213,315)	273,161	
Changes of assumptions or other inputs	1,605,977		5,093,748	
Benefit payments, including refunds of employee contributions	(2,760,829)	(2,651,828)	(2,603,292)	
Net change in total pension liability	1,619,422	1,245,104	7,387,767	
Total pension liability—beginning	43,046,977	41,801,873	34,414,106	
Total pension liability—ending (a)	$ 44,666,399	$ 43,046,977	$ 41,801,873	
Plan fiduciary net position				
Contributions—employer	$ 3,414,120	$ 2,816,097	$ 1,590,648	
Contributions—employee	542,026	533,148	480,171	Information not available
Net investment income	95,788	479,555	1,625,439	
Benefit payments, including refunds of employee contributions	(2,760,829)	(2,651,828)	(2,603,292)	
Pension plan administrative expense	(14,183)	(12,070)		
Other changes	133,030	11,916	(884,905)	
Net change in plan fiduciary net position	1,409,952	1,176,818	208,061	
Plan fiduciary net position—beginning	14,265,060	13,088,242	12,880,181	
Plan fiduciary net position—ending (b)	$ 15,675,012	$ 14,265,060	$ 13,088,242	
County's net pension liability—ending (a) - (b)	$ 28,991,387	$ 28,781,917	$ 28,713,631	
Plan fiduciary net position as a percentage of the total pension liability	35.09%	33.14%	31.31%	
Covered payroll	$ 4,745,782	$ 4,885,979	$ 4,681,028	
County's net pension liability as a percentage of covered payroll	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, 2017
(Concluded)

Corrections Officer Retirement Plan—Detention	Reporting fiscal year (Measurement date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2008
Total pension liability				
Service cost	$ 297,814	$ 292,414	$ 282,410	
Interest on the total pension liability	742,741	666,802	574,310	
Changes of benefit terms	13,188		133,007	
Differences between expected and actual experience in the measurement of the pension liability	(636,880)	512,038	(165,636)	
Changes of assumptions or other inputs	362,499		798,887	
Benefit payments, including refunds of employee contributions	(562,548)	(450,596)	(448,901)	
Net change in total pension liability	216,814	1,020,658	1,174,077	
Total pension liability—beginning	9,594,037	8,573,379	7,399,302	
Total pension liability—ending (a)	$ 9,810,851	$ 9,594,037	$ 8,573,379	
Plan fiduciary net position				
Contributions—employer	$ 400,307	$ 268,393	$ 222,257	
Contributions—employee	197,513	171,671	141,534	Information not available
Net investment income	32,454	182,577	617,823	
Benefit payments, including refunds of employee contributions	(562,548)	(450,596)	(448,901)	
Administrative expense	(4,989)	(4,869)		
Other changes	36,666	(25,999)	(497,992)	
Net change in plan fiduciary net position	99,403	141,177	34,721	
Plan fiduciary net position—beginning	5,108,264	4,967,087	4,932,366	
Plan fiduciary net position—ending (b)	$ 5,207,667	$ 5,108,264	$ 4,967,087	
County's net pension liability—ending (a) - (b)	$ 4,603,184	$ 4,485,773	$ 3,606,292	
Plan fiduciary net position as a percentage of the total pension liability	53.08%	53.24%	57.94%	
Covered payroll	$ 2,239,735	$ 2,168,765	$ 1,960,381	
County's net pension liability as a percentage of covered payroll	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, 2017

Arizona State Retirement System

	Reporting fiscal year				
	2017	**2016***	**2015***	**2014***	**2013 through 2008**
Statutorily required contribution	$ 2,701,331	$ 2,688,971	$ 2,738,453	$ 2,774,744	
County's contributions in relation to the statutorily required contribution	2,701,331	2,688,971	2,738,453	2,774,744	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	Information not available
County's covered payroll	$ 25,122,131	$ 24,779,581	$ 25,133,395	$ 26,034,337	
County's contributions as a percentage of covered payroll	10.75%	10.85%	10.90%	10.66%	

* Reference RSI, Notes to pension plan schedules Note 3.

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year				
	2017	**2016**	**2015**	**2014**	**2013 through 2008**
Statutorily required contribution	$ 363,649	$ 332,346	$ 284,626	$ 273,752	
County's contributions in relation to the statutorily required contribution	363,649	332,346	284,626	273,752	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	Information not available
County's covered payroll	$1,828,728	$1,745,725	$ 1,912,811	$ 1,959,540	
County's contributions as a percentage of covered payroll	19.89%	19.04%	14.88%	13.97%	

Elected Officials Retirement Plan

	Reporting fiscal year				
	2017	**2016**	**2015**	**2014**	**2013 through 2008**
Statutorily required contribution	$ 303,450	$ 319,124	$ 363,029	$ 398,234	
County's contributions in relation to the statutorily required contribution	303,450	319,124	363,029	398,234	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	Information not available
County's covered payroll	$1,291,276	$1,357,975	$ 1,544,807	$ 1,722,405	
County's contributions as a percentage of covered payroll	23.50%	23.50%	23.50%	23.12%	

See accompanying notes to pension plan schedules.

Cochise County
Required supplementary information
Schedule of county pension contributions
June 30, 2017
(Concluded)

Public Safety Personnel Retirement System—Sheriff

	Reporting fiscal year				
	2017	**2016**	**2015**	**2014**	**2013 through 2008**
Actuarially determined contribution	$ 2,411,458	$ 2,413,915	$ 1,854,142	$ 1,590,648	
County's contributions in relation to the actuarially determined contribution	2,411,458	3,413,915	2,854,142	1,590,648	
County's contribution deficiency (excess)	$ -	$ (1,000,000)	$ (1,000,000)	$ -	Information not available
County's covered payroll	$ 4,783,431	$4,745,782	$ 4,885,979	$ 4,681,028	
County's contributions as a percentage of covered payroll	50.41%	71.94%	58.41%	33.98%	

Corrections Officer Retirement Plan—Detention

	Reporting fiscal year				
	2017	**2016**	**2015**	**2014**	**2013 through 2008**
Actuarially determined contribution	$ 437,766	$ 384,058	$ 268,394	$ 222,257	
County's contributions in relation to the actuarially determined contribution	437,766	384,058	268,394	222,257	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	Information not available
County's covered payroll	$ 2,268,355	$ 2,239,735	$ 2,168,765	$ 1,960,381	
County's contributions as a percentage of covered payroll	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, two 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 percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2015 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 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%–8.25% to 4.5%–7.75% for CORP.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 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

In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS, CORP, and CORP-AOC changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS' and CORP's changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the County's net pension liability and related ratios. These changes also increased the PSPRS, CORP, and CORP-AOC's required contributions beginning in fiscal year 2016 in the schedule of county pension contributions.

Note 3 – Restatement of ASRS amounts

As discussed in Note 2 to the financial statements, the Housing Authority of Cochise County was previously reported as a discretely presented component unit but merged with Cochise County in fiscal year 2017. Accordingly, prior-year amounts for the Arizona State Retirement System retirement plan in the *Schedule of the County's proportionate share of the net pension liability* and the *Schedule of county pension contributions* have been restated to combine county amounts and Housing Authority amounts.

Cochise County
Required supplementary information
Schedule of agent OPEB plans' funding progress
June 30, 2017

Health insurance premium benefit

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b)-(a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as a percentage of covered payroll ([b-a]/c)
PSPRS Sheriff						
6/30/17	$1,243,772	$1,068,159	$(175,613)	116.4%	$4,783,430	(3.67)%
6/30/16	1,195,112	1,097,671	(97,441)	108.9%	4,745,782	(2.05)%
6/30/15	1,180,451	963,846	(216,605)	122.5%	4,885,979	(4.43)%
CORP Detention						
6/30/17	$687,176	$304,706	$(382,470)	225.5%	$2,268,355	(16.86)%
6/30/16	653,083	353,909	(299,174)	184.5%	2,239,735	(13.36)%
6/30/15	627,308	273,366	(353,942)	229.5%	2,168,765	(16.32)%

SINGLE AUDIT REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 25, 2018. Our report includes a reference to other auditors who audited the financial statements of the Housing Authority fund and the 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 our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. 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 material weaknesses 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-01 through 2017-05 to be material weaknesses.

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 2017-06 and 2017-07 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Jay Zsorey, CPA
Director, Financial Audit Division

April 25, 2018

STATE OF ARIZONA

LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2017, except for the Section 8 Housing Choice Vouchers (CFDA 14.871), a major federal program administered by the County's Housing Authority. That major federal program was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to that major federal program's 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 $2,260,170 in federal awards that are not included in Cochise County's schedule of expenditures of federal awards for the year ended June 30, 2017. 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, 2017.

Other matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as item 2017-101. Our opinion on each major federal program is not modified with respect to this matter.

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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-101, that we consider to be a material weakness.

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.

Cochise County response to findings

Cochise County's response to the finding identified in our audit is presented in its corrective action plan at the end of this report. The County's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

Jay Zsorey, CPA
Director, Financial Audit Division

April 25, 2018

ARIZONA
Auditor General
Making a Positive Difference

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 weaknesses identified?	**Yes**
Significant deficiencies identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**Yes**
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)?	**Yes**

Identification of major programs

CFDA number	Name of federal program or cluster
14.871	Section 8 Housing Choice Vouchers
95.001	High Intensity Drug Trafficking Areas 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

2017-01

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner

Criteria—The County should prepare its annual financial report that includes its financial statements and related note disclosures in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users to make important decisions about the County's financial operations. In addition, the County's annual financial report must be issued in a timely manner to satisfy the audit requirements imposed by federal and state laws and regulations, grants, and contracts.

Condition and context—The County did not have adequate policies and procedures over its financial statement preparation process to ensure that its financial statements and note disclosures were accurate and complete. Consequently, the County had to correct several misstatements in its financial statements and notes. For example, the County misclassified $19.9 million and $5.1 million of its net position and fund balance, respectively, at fiscal year-end and omitted all of the Housing Authority fund financial information and related amounts from its note disclosures. In addition, the County's annual financial report was not issued in time to meet the federal Single Audit Act's reporting deadline.

Effect—The County's financial statements and note disclosures were not initially accurate and complete or prepared in accordance with GAAP. The County made the necessary audit adjustments to correct the financial statements and note disclosures for all significant errors and omissions. In addition, the County's annual financial report was not issued in time to meet the single audit reporting deadline, which is 9 months after the County's fiscal year-end. The County did not issue its single audit reporting package until April 2018.

Cause—The County did not have adequate internal control policies and procedures or sufficient resources needed to prepare accurate, complete, and timely financial statements in accordance with GAAP because of staff turnover. In addition, detailed reviews and appropriate approvals were not performed to ensure the accuracy of the financial statements and note disclosures.

Recommendation—To help ensure that the County's annual financial report is accurate, complete, and prepared in accordance with GAAP and is issued in time to meet the federal Single Audit Act's reporting deadline, the County should:

- Develop comprehensive written policies and procedures over financial statement preparation, including instructions for closing the general ledger at fiscal year-end, instructions for preparing common year-end financial statement adjustments, and a detailed process for supervisory review over the preparation of draft financial statements, supporting schedules, and note disclosures. These procedures should also include detailed instructions for obtaining information from the accounting system, preparing supporting schedules, and documenting and reviewing adjustments necessary for preparing its financial statements.
- Dedicate appropriate resources, assign employees specific responsibilities, and establish completion dates.

- Require an employee who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to review the statements and related note disclosures. This review should ensure that the amounts are accurate, properly supported, and presented 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.

2017-02

The County should improve its risk-assessment process to include information technology security

Criteria—The County faces risks of reporting inaccurate financial information and exposing sensitive data. An effective internal control system should include 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 report accurate financial information and protect sensitive data. An effective risk-assessment process provides the basis for developing appropriate risk responses and should include defining objectives to better identify risks and define risk tolerances, and identifying, analyzing, and responding to identified risks.

Condition and context—The County's annual risk-assessment process did not include a county-wide information technology (IT) security risk assessment over the County's IT resources, which include its systems, network, infrastructure, and data. Also, the County did not identify and classify sensitive information. Further, the County did not evaluate the impact disasters or other system interruptions could have on its critical IT resources.

Effect—There is an increased risk that the County's administration and IT management may not effectively identify, analyze, and respond to risks that may impact its IT resources.

Cause—The County has relied on an informal process to perform risk-assessment procedures that did not include IT security.

Recommendations—To help ensure the County has effective policies and procedures to identify, analyze, and respond to risks that may impact its IT resources, the County needs to implement a county-wide IT risk-assessment process. The information below provides guidance and best practices to help the County achieve this objective.

- **Conduct an IT risk-assessment process at least annually—**A risk-assessment process should include the identification of risk scenarios, including the scenarios' likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation. An IT risk assessment could also incorporate any unremediated threats identified as part of an entity's security vulnerability scans.
- **Identify, classify, inventory, and protect sensitive information—**Security measures should be developed to identify, classify, and inventory sensitive information and protect it, such as implementing controls to prevent unauthorized access to that information. Policies and procedures should include the security categories into which information should be classified, as well as any state statutes and federal regulations that could apply, and require disclosure to affected parties if sensitive information covered by state statutes or federal regulations is compromised.

- **Evaluate the impact disasters or other system interruptions could have on critical IT resources—** The evaluation should identify key business processes and prioritize the resumption of these functions within time frames acceptable to the entity in the event of contingency plan activation. Further, the results of the evaluation should be considered when developing its disaster recovery plan.

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

2017-03

The County should improve access controls over its information technology resources

Criteria—Logical and physical access controls help to protect the County's information technology (IT) resources, which include its systems, network, infrastructure, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Logical access controls also help to ensure that authenticated users access only what they are authorized to. Therefore, the County should have effective internal control policies and procedures to control access to its IT resources.

Condition and context—The County did not have adequate policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT resources.

Effect—There is an increased risk that the County may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its IT resources, including sensitive and confidential information.

Cause—The County relied on an informal process for controlling access to its IT resources.

Recommendations—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County needs to develop effective logical and physical access policies and procedures over its IT resources. The County should review these policies and procedures against current IT standards and best practices and implement them county-wide, as appropriate. Further the County should train staff on the policies and procedures. The information below provides guidance and best practices to help the County achieve this objective.

- **Review user access—**A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- **Remove terminated employees' access to its IT resources—**Employees' network and system access should immediately be removed upon their terminations.
- **Review contractor and other nonentity account access—**A periodic review should be performed on contractor and other nonentity accounts with access to an entity's IT resources to help ensure their access remains necessary and appropriate.
- **Review all shared accounts—**Shared network access accounts should be reviewed and eliminated or minimized when possible.
- **Manage shared accounts—**Shared accounts should be used only when appropriate and in accordance with an established policy authorizing the use of shared accounts. In addition, account credentials should be reissued on shared accounts when a group member leaves.
- **Review and monitor key activity of users—**Key activities of users and those with elevated access should be reviewed for propriety.

- **Improve network and system password policies—**Network and system password policies should be improved and ensure they address all accounts.
- **Manage employee-owned and entity-owned electronic devices connecting to the network—**The use of employee-owned and entity-owned electronic devices connecting to the network should be managed, including specifying configuration requirements and the data appropriate to access; inventorying devices; establishing controls to support wiping data; requiring security features, such as passwords, antivirus controls, file encryption, and software updates; and restricting the running of unauthorized software applications while connected to the network.
- **Manage remote access—**Security controls should be utilized for all remote access. These controls should include appropriate configuration of security settings such as configuration/connections requirements and the use of encryption to protect the confidentiality and integrity of remote sessions.
- **Review data center access**—A periodic review of physical access granted to the data center should be performed to ensure that it continues to be needed.

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

2017-04

The County should improve its configuration management processes over its information technology resources

Criteria—A well-defined configuration management process, including a change management process, is needed to ensure that the County's information technology (IT) resources, which include its systems, network, infrastructure, and data, are configured securely and that changes to these IT resources do not adversely affect security or operations. IT resources are typically constantly changing in response to new, enhanced, corrected, or updated hardware and software capabilities and new security threats. The County should have effective written configuration management internal control policies and procedures to track and document changes made to its IT resources.

Condition and context—The County did not have policies and procedures for managing changes to its IT resources to ensure changes were properly documented, authorized, reviewed, tested, and approved. Also, the County did not have policies and procedures to ensure IT resources were configured securely.

Effect—There is an increased risk that the County's IT resources may not be configured appropriately and securely and that changes to those resources could be unauthorized or inappropriate or could have unintended results without proper documentation, authorization, review, testing, and approval prior to being applied.

Cause—The County relied on an informal process for making changes to its IT resources.

Recommendations—To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, the County needs to develop configuration management policies and procedures. The County should review these policies and procedures against current IT standards and best practices and implement them county-wide, as appropriate. Further, the County should train staff on the policies and procedures. The information below provides guidance and best practices to help the County achieve this objective.

- **Establish and follow change management processes—**For changes to IT resources, a change management process should be established for each type of change, including emergency changes and other changes that might not follow the normal change management process. Further, all changes should follow the applicable change management process and should be appropriately documented.
- **Review proposed changes—**Proposed changes to IT resources should be reviewed for appropriateness and justification, including consideration of the change's security impact.
- **Document changes—**Changes made to IT resources should be logged and documented, and a record should be retained of all change details, including a description of the change, the departments and systems impacted, the individual responsible for making the change, test procedures performed and the test results, security impact analysis results, change approvals at each appropriate phase of the change management process, and a post-change review.
- **Roll back changes—**Rollback procedures should be established that include documentation necessary to back out changes that negatively impact IT resources.
- **Test—**Changes should be tested prior to implementation, including performing a security impact analysis of the change.
- **Separate responsibilities for the change management process—**Responsibilities for developing and implementing changes to IT resources should be separated from the responsibilities of authorizing, reviewing, testing, and approving changes for implementation or, if impractical, performing a post-implementation review of the change to confirm the change followed the change management process and was implemented as approved.
- **Configure IT resources appropriately and securely, and maintain configuration settings—**Configure IT resources appropriately and securely, which includes limiting the functionality to ensure only essential services are performed, and maintain configuration settings for all systems.
- **Manage software installed on employee computer workstations—**For software installed on employee computer workstations, policies and procedures should be developed to address what software is appropriate and the process for requesting, approving, installing, monitoring, and removing software on employee computer workstations.

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

2017-05

The County should improve security over its information technology resources

Criteria—The selection and implementation of security controls for the County's information technology (IT) resources, which include its systems, network, infrastructure, and data, are important because they reduce the risks that arise from the loss of confidentiality, integrity, or availability of information that could adversely impact the County's operations or assets. Therefore, the County should implement internal control policies and procedures for an effective IT security process that include practices to help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources.

Condition and context—The County did not have sufficient written security policies and procedures over its IT resources.

Effect—There is an increased risk that the County may not prevent or detect the loss of confidentiality, integrity, or availability of systems and data.

Cause—The County has relied on an informal process for security over its IT resources.

Recommendations—To help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT resources, the County needs to further develop its IT security policies and procedures. The County should review these policies and procedures against current IT standards and best practices and implement them county-wide, as appropriate. Further, the County should train staff on the policies and procedures. The information below provides guidance and best practices to help the County achieve this objective.

- **Perform proactive logging and log monitoring**—Key user and system activity should be logged, particularly for users with administrative access privileges and remote access, along with other activities that could result in potential security incidents such as unauthorized or inappropriate access. An entity should determine what events to log, configure the system to generate the logs, and decide how often to monitor these logs for indicators of potential attacks or misuse of IT resources. Finally, activity logs should be maintained where users with administrative access privileges cannot alter them.
- **Prepare and implement an incident response plan—**An incident response plan should be developed, tested, and implemented for an entity's IT resources, and staff responsible for the plan should be trained. The plan should coordinate incident-handling activities with contingency-planning activities and incorporate lessons learned from ongoing incident handling in the incident response procedures. The incident response plan should be distributed to incident response personnel and updated as necessary. Security incidents should be reported to incident response personnel so they can be tracked and documented. Policies and procedures should also follow regulatory and statutory requirements and provide a mechanism for assisting users in handling and reporting security incidents, and making disclosures to affected individuals and appropriate authorities if an incident occurs.
- **Provide training on IT security risks—**A plan should be developed to provide continuous training on IT security risks, including a security awareness training program for all employees that provides a basic understanding of information security, user actions to maintain security, and how to recognize and report potential indicators of security threats, including threats employees generate. Security awareness training should be provided to new employees and on an on-going basis.
- **Perform IT vulnerability scans—**A formal process should be developed for vulnerability scans that includes performing vulnerability scans of its IT resources on a periodic basis and utilizing tools and techniques to automate parts of the process by using standards for software flaws and improper configuration, formatting procedures to test for the presence of vulnerabilities, measuring the impact of identified vulnerabilities, and approving privileged access while scanning systems containing highly sensitive data. In addition, vulnerability scan reports and results should be analyzed and legitimate vulnerabilities remediated as appropriate, and information obtained from the vulnerability-scanning process should be shared with the entity's other departments to help eliminate similar vulnerabilities.
- **Apply patches—**Patches to IT resources should be evaluated, tested, and applied in a timely manner once the vendor makes them available.
- **Secure unsupported software**—Establish a strategy for assessing and securing any software that the manufacturer no longer updates and supports.
- **Protect sensitive or restricted data—**Restrict access to media containing data the entity, federal regulation, or state statute identifies as sensitive or restricted. Such media should be appropriately marked indicating the distribution limitations and handling criteria for data included on the media. In addition, media should be physically controlled and secured until it can be destroyed or sanitized using sanitization mechanisms with the strength and integrity consistent with the data's security classification.

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

2017-06

The County should improve its contingency planning procedures for its information technology resources

Criteria—It is critical that the County have contingency planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption. Contingency planning procedures include having a comprehensive, up-to-date contingency plan; taking steps to facilitate activation of the plan; and having system and data backup policies and procedures.

Condition and context—The County did not have a written contingency plan. Also, although the County was performing system and data backups, it did not have documented policies and procedures for performing the backups or testing them to ensure they were operational and could be used to restore its IT resources.

Effect—The County risks not being able to provide for the continuity of operations, recover vital IT systems and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery.

Cause—The County did not develop and implement a contingency plan. In addition, the County did not document its procedures for performing backups and did not develop and implement a plan to test backups to ensure they were operational.

Recommendations—To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County needs to develop and document its contingency planning procedures. The County should review its contingency planning procedures against current IT standards and best practices and implement them county-wide, as appropriate. The information below provides guidance and best practices to help the County achieve this objective.

- **Develop and implement a contingency plan—**A contingency plan should be developed and implemented and include essential business functions and associated contingency requirements; recovery objectives and restoration priorities and metrics as determined in the entity's business-impact analysis; contingency roles and responsibilities and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for eventual system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The contingency plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- **Move critical operations to a separate alternative site—**Policies and procedures should be developed and documented for migrating critical IT operations to a separate alternative site for essential business functions, including putting contracts in place or equipping the alternative site to resume essential business functions, if necessary. The alternative site's information security safeguards should be equivalent to the primary site.

- **Test the contingency plan—**A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing with the entity's other plans such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or tabletop discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.
- **Train staff responsible for implementing the contingency plan—**An ongoing training schedule should be developed for staff responsible for implementing the plan that is specific to each user's assigned role and responsibilities.
- **Backup systems and data—**Establish and document policies and procedures for testing IT system software and data backups to help ensure they could be recovered if needed. Policies and procedures should require system software and data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be stored at an alternative site or in a fire-rated container.

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

2017-07

The County should improve its internal control over purchasing

Criteria—An effective purchasing system allows a county to purchase goods and services as economically as possible within acceptable standards of quality. Counties should have internal controls over purchasing that provide for adequate competition and accountability for county expenses and ensure that procurement policies are consistent with sound business practices.

Condition and context—The County did not always follow its established policies and procedures for purchases and needs to improve some of its policies and procedures over procurement. For example:

- For 1 of 10 purchases tested between $5,000 and $35,000, the County obtained only one verbal quote when county policy requires three verbal quotes be obtained.
- For 2 of 25 purchases tested, the County utilized an expired cooperative agreement with the State of Arizona to select the vendor.

Effect—The County may not receive the best possible value for the public monies it spends and did not always comply with its purchasing policies and procedures.

Cause—The County did not have adequate internal controls in place to ensure compliance with its established purchasing policies and procedures.

Recommendation—To help ensure the County receives the best possible value for the public monies it spends, the County should strengthen its purchasing policies and procedures. Further, the County should train staff on the policies and procedures and monitor that their purchasing policies and procedures are being followed.

Federal award findings and questioned costs

2017-101

CFDA number and name: Not applicable
Questioned costs: N/A

Criteria—In accordance with 2 U.S. Code of Federal Regulations (CFR) §200.512 of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the County must submit its single audit reporting package to the federal audit clearinghouse no later than 9 months after fiscal year-end.

Condition and context—The federal reporting deadline for the County's single audit reporting package was March 31, 2018; however, the County did not issue its single audit reporting package until April 2018 because of the late issuance of the County's annual financial report.

Effect—The late submission resulted in noncompliance for all federal programs the County administered; however, this finding was not the result of internal control deficiencies of individual federal programs and, accordingly, did not have a direct and material effect on the reporting requirements over the County's major federal programs.

Cause— As discussed in finding 2017-01, the late completion of the County's annual financial report contributed to the late submission of its single audit reporting package.

Recommendation—The County should improve its financial reporting process so that it can submit its single audit reporting package to the federal audit clearinghouse no later than 9 months after fiscal year-end.

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

COUNTY SECTION

Cochise County
Schedule of expenditures of federal awards
Year ended June 30, 2017

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				$ 9,979	
10 555	National School Lunch Program	Child Nutrition Cluster			19,000	
10 557	Special Supplemental Nutrition Program for Women, Infants and Children		Arizona Department of Health Services	ADHS14-053052	562,247	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS14-053052	48,134	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			276,097	$ 36,698
	Total Department of Agriculture				915,457	36,698
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	120-14, 136-17	39,551	
14 241	Housing Opportunities for Persons with Aids				234,256	
14 871	Section 8 Housing Choice Vouchers	Housing Choice Voucher Cluster			2,884,998	
14 871	Section 8 Housing Choice Vouchers	Housing Choice Voucher Cluster	Other PHA's	None	63,002	
	Total Housing Choice Voucher Cluster				2,948,000	
14 896	Family Self-Sufficiency Program				60,935	
	Total Department Housing and Urban Development				3,282,742	
Department of the Interior						
15 226	Payments in Lieu of Taxes				2,212,909	
15 227	Distribution of Receipts to State and Local Governments				8,705	
15 659	National Wildlife Refuge Fund				1,105	
	Total Department of the Interior				2,222,719	
Department of Justice						
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2014-VA-GX-0018, 2015-VA-GX-0032	91,458	
16 606	State Criminal Alien Assistance Program (SCAAP)				52,083	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-17-003, DC-17-021	108,926	
16 738	Edward Byrne Memorial Justice Assistance Grant Program				21,550	
	Total 16.738				130,476	
	Total Department of Justice				274,017	
Department of Transportation						
20 106	Airport Improvement Program				342,725	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2016-PT-006, 2017-CIOT-006, 2017-405D-042, 2017-PT-069	46,838	

See accompanying notes to schedule.

Cochise County
Schedule of expenditures of federal awards
Year ended June 30, 2017

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
20 616	National Priority Safety Programs	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2016-11-007, 2017-II-005, 2017-405D-042	48,084	
	Total Highway Safety Cluster				94,922	
	Total Department of Transportation				437,647	
Institute of Museum and Library Services						
45 310	Grants to States		Arizona State Library, Archives and Public Records	2016-36026-09	16,427	
Department of Education						
84 010	Title I Grants to Local Educational Agencies		Arizona Department of Education	16FESSCG-813402-55B	8,378	
84 027	Special Education—Grants to States	Special Education Cluster (Idea)	Arizona Department of Education	17FESSCG-713161-55B	5,189	
84 419	Preschool Development Grants		Arizona Department of Education	GRA-STATE-16-0785-01-Y2	4,014	
	Total Department of Education				17,581	
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	107-17	214,313	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS17-133164	233,296	
93 074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements		Arizona Department of Health Services	ADHS17-133164 A1	19,438	
93 217	Family Planning Services		Arizona Department of Health Services	ADHS16-109191	50,871	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041535	165,573	
93 505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Maternal, Infant, and Early Childhood Home Visiting Cluster	Arizona Department of Health Services	ADHS16-118442	32,884	2,841
93 563	Child Support Enforcement		Arizona Department of Economic Security	DI16-002160	26,025	
93 597	Grants to States for Access and Visitation Programs		Arizona Department of Economic Security	DI16-002163	19,064	
93 658	Foster Care Title IV-E		Administrative Office of the Courts	None	7,503	
93 959	Block Grants for Prevention and Treatment of Substance Abuse		Office of the Arizona Governor	IGA-SABG-GR-17-070116-02	36,619	15,855
93 977	Preventive Health Services-Sexually Transmitted Diseases Control Grants		Arizona Department of Health Services	ADHS14-071556 A3	14,473	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS16-109191	52,498	
	Total Department of Health and Human Services				872,557	18,696

See accompanying notes to schedule.

Cochise County
Schedule of expenditures of federal awards
Year ended June 30, 2017

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-15-2525, HT-15-2526, HT-16-2624, HT-16-2625	233,052	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMF-2016-EP-00009-S01	81,937	
97 047	Pre-Disaster Mitigation		Arizona Department of Emergency and Military Affairs	PDMC-PL-09-AZ-2015-003/EMF-2016-PC-0003(1)	25,813	
97 067	Homeland Security Grant Program		Arizona Department of Highway Safety	15-AZDOHS-OPSG-150401-03, 15-AZDOHS-HSGP-150401-02, 16-AZDOHS-OPSG-160400-02, 16-AZDOHS-HSGP-160400-01	760,719	
	Total Department of Homeland Security				868,469	
Miscellaneous federal agency						
99 SJI-16-T-058	Law Library and Online Self-Represented Litigation Services		State Justice Institute	SJI-16-T-058	27,691	
	Total expenditures of federal awards				$ 9,168,359	$ 55,394

See accompanying notes to schedule.

Cochise County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2017

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, 2017. 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 2017 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-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

April 25, 2018

Jay Zsorey
Director, Financial Audit Division
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Mr. Zsorey:

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, 2017

Financial statement findings

2017-01

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner
Contact information: Lynette M. Nowlan, Finance Director 520-432-8370
Anticipated completion date: August 31, 2018

The County agrees with the finding and recommendations. Below are the activities the County will take 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. 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.

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

2017-02

The County should improve its risk-assessment process to include information technology security
Point of Contact: Joe E. Casey, Information Technology Director 520-432-8302
Anticipated completion date: December 31, 2018

The County agrees with the finding and recommendations. Below is the activity the County will take to improve the process that resulted in the above finding:

Develop and implement a formal Information Security Risk Categorization and Information Security Risk Management Policy.

2017-03

The County should improve access controls over its information technology resources

Point of Contact: Joe E. Casey, Information Technology Director 520-432-8302

Anticipated completion date: December 31, 2018

The County agrees with the finding and recommendations. Below is the activity the County will take to improve the process that resulted in the above finding:

Develop and implement a formal Information Security Access Control Policy.

2017-04

The County should improve its configuration management processes over its information technology resources

Point of Contact: Joe E. Casey, Information Technology Director 520-432-8302

Anticipated completion date: December 31, 2018

The County agrees with the finding and recommendations. Below is the activity the County will take to improve the process that resulted in the above finding:

Develop and implement a formal Information Security Configuration Management Policy.

2017-05

The County should improve security over its information technology resources

Point of Contact: Joe E. Casey, Information Technology Director 520-432-8302

Anticipated completion date: December 31, 2018

The County agrees with the finding and recommendations. Below is the activity the County will take to improve the process that resulted in the above finding:

Develop and implement a formal Information Management Policy, Media Protection Policy, and System and Communications Protection Policy

2017-06

The County should improve its contingency planning procedures for its information technology resources

Point of Contact: Joe Casey, Information Technology Director 520-432-8302

Anticipated completion date: December 31, 2018

The County agrees with the finding and recommendations. Below is the activity the County will take to improve the process that resulted in the above finding:

Develop and implement a formal contingency planning process

2017-07

The County should improve its internal control over purchasing

Point of Contact: Brandon Morrison, Contracts Administrator 520-432-8391

Anticipated completion date: June 30, 2018

The County agrees with the finding and recommendations. Below are the activities the County will take to improve the process that resulted in the above finding:

1. Review and update the County's Procurement Policy and make applicable changes.

2. Review and update procedures within the Procurement Department to ensure that the Procurement Policy is being followed for all purchases.

3. Create and begin to conduct Procurement training for all Departments to ensure compliance with the County's Procurement policy.

Federal award findings and questioned costs

2017-101

CFDA number: Not applicable
Questioned costs: N/A
Contact information: Lynette M. Nowlan, Finance Director 520-432-8370
Anticipated completion date: August 31, 2018

The County agrees with the finding and recommendations. Below are the activities the County will take 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. 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.

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

Cochise County
Finance Department

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

LYNETTE M. NOWLAN
Finance Director

April 9, 2018

Jay Zsorey
Director, Financial Audit Division
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Mr. Zsorey:

We have prepared the accompanying summary schedule of prior audit findings as required 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

Status of federal award findings and questioned costs

2016-101

CFDA no. and program name: 97.067 Homeland Security Grant Program
Finding number: 2016-101
Status: Fully corrected

ARIZONA
Auditor General
Making a Positive Difference