

A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

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Cochise County
Single Audit Reporting Package
Year Ended June 30, 2005

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Single Audit Reporting Package
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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cochise Health Systems Fund, which is both a major fund and 35 percent and 90 percent, respectively, of the assets and revenues of the County's business-type activities. We also did not audit the financial statements of the aggregate discretely presented component units of Cochise County. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Cochise Health Systems Fund, Housing Authority of Cochise County, and Cochise County Workforce Development, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our 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, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages i through x, the Budgetary Comparison Schedules on pages 39 through 42, and the Schedule of Agent Retirement Plans' Funding Progress on page 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

April 7, 2006

Management's Discussion and Analysis

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, 2005. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements.

Financial Highlights

- The assets of Cochise County exceed its liabilities at the close of the fiscal year by \$83,288,073 (net assets). Of this amount, \$23,758,421 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the close of the fiscal year, Cochise County's governmental activities reported combined ending net assets of \$69,710,882, an increase of \$8,696,710 over the prior year's net assets.
- At the end of the fiscal year, unreserved fund balance in the General Fund was \$10,915,088, or 24.7 percent of total General Fund expenditures for the year.
- Cochise County's total governmental activities debt (certificates of participation and capital leases) decreased by a net \$635,406 during the current fiscal year. The decrease is attributable to the normal debt service on capital leases and certificates of participation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Cochise 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 Cochise County's finances in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all of Cochise County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 functions of the County 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 governmental activities of the County include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, and education. The business-type activities include Cochise Health Systems (long-term care), the Cochise County Solid Waste Operations, and the Bisbee-Douglas International Airport.

Management's Discussion and Analysis

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 funds of the County can be divided into three categories: *governmental 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 statements of revenues, expenditures, and changes in fund balances include a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains approximately 187 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 Capital Projects Fund and the Highway and Streets Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

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 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 State of Arizona highway user revenue fund.

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

Management's Discussion and Analysis

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 Cochise Health Systems (long-term care), the Cochise County Solid Waste Operations, 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 County 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. Cochise Health Systems, the Solid Waste Operations, and the Bisbee-Douglas International Airport are considered to be major funds and are therefore reported separately. The internal service funds are presented in the proprietary fund financial statements.

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

Fiduciary funds are used to account for resources held by the County 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 a full understanding of the data provided in the government-wide and fund financial statements.

The notes to financial statements can be found on pages 16–37 of this report.

Required supplementary information presents schedules of revenues and expenditures, budget and actual, for the general and major special revenue funds. This section also includes certain information concerning the County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 39–43 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, increased by a net \$3,737,999. The County's capital purchases included \$1,165,957 for runway reconstruction at the Bisbee-Douglas International Airport, \$265,751 for construction on the County's building project in Sierra Vista and for detention cells in Willcox, \$2,101,579 for roads and bridges infrastructure, \$1,015,254 for a county-wide simulcast radio system, \$1,551,479 for replacement and new vehicles and heavy equipment, and \$1,207,181 for various other capital assets. The current year's depreciation of capital assets totaled \$3,285,611.

Management's Discussion and Analysis

Statement of Net Assets—As noted earlier, net assets 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 \$83,288,073.

Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2004 and 2005

	Governmental Activities		Business-type Activities		Total	
	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005
Assets:						
Current and other assets	\$32,102,794	\$36,932,552	\$ 7,270,728	\$ 8,505,374	\$39,373,522	\$45,437,926
Capital assets	<u>46,319,900</u>	<u>49,303,722</u>	<u>10,428,385</u>	<u>11,182,562</u>	<u>56,748,285</u>	<u>60,486,284</u>
Total assets	<u>78,422,694</u>	<u>86,236,274</u>	<u>17,699,113</u>	<u>19,687,936</u>	<u>96,121,807</u>	<u>105,924,210</u>
Liabilities:						
Other liabilities	4,762,762	3,890,034	2,914,598	3,215,936	7,677,360	7,105,970
Long-term liabilities	<u>12,645,760</u>	<u>12,635,358</u>	<u>2,819,798</u>	<u>2,894,809</u>	<u>15,465,558</u>	<u>15,530,167</u>
Total liabilities	<u>17,408,522</u>	<u>16,525,392</u>	<u>5,734,396</u>	<u>6,110,745</u>	<u>23,142,918</u>	<u>22,636,137</u>
Net assets:						
Invested in capital assets, net of related debt	37,110,094	40,194,322	9,993,969	10,806,761	47,104,063	51,001,083
Restricted	3,405,905	6,648,569	1,888,000	1,880,000	5,293,905	8,528,569
Unrestricted	<u>20,498,173</u>	<u>22,867,991</u>	<u>82,748</u>	<u>890,430</u>	<u>20,580,921</u>	<u>23,758,421</u>
Total net assets	<u>\$61,014,172</u>	<u>\$69,710,882</u>	<u>\$11,964,717</u>	<u>\$13,577,191</u>	<u>\$72,978,889</u>	<u>\$83,288,073</u>

A large portion of Cochise County's net assets (61.2 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, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental activities and business-type activities.

The County's total net assets increased by \$10,309,184 during the fiscal year. A large portion of this increase is attributable to the increase in the County's investment in capital assets. The remainder of the growth reflects the net results of increases in taxes and other revenues and controls on expenses.

Statement of Activities—The following table summarizes the results of operations and accounts for the changes in net assets for governmental and business-type activities:

Management's Discussion and Analysis

Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2004 and 2005

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
Revenues						
Program revenues:						
Charges for services	\$ 6,724,389	\$ 6,964,099	\$32,930,343	\$34,663,955	\$ 39,654,732	\$ 41,628,054
Operating grants and contributions	20,876,379	22,487,279			20,876,379	22,487,279
Capital grants and contributions	1,477,882	943,957	307,640	1,136,808	1,785,522	2,080,765
General revenues:						
Property taxes	20,321,986	21,605,754			20,321,986	21,605,754
State-shared sales tax	10,180,534	11,796,386			10,180,534	11,796,386
Unrestricted vehicle license tax	2,992,756	3,567,980			2,992,756	3,567,980
County excise tax	5,710,682	6,280,722	397,471	82,494	6,108,153	6,363,216
Other	<u>2,619,042</u>	<u>3,091,819</u>	<u>113,938</u>	<u>245,367</u>	<u>2,732,980</u>	<u>3,337,186</u>
Total revenues	<u>70,903,650</u>	<u>76,737,996</u>	<u>33,749,392</u>	<u>36,128,624</u>	<u>104,653,042</u>	<u>112,866,620</u>
Expenses						
General government	28,312,072	30,510,969			28,312,072	30,510,969
Public safety	15,007,886	15,392,316			15,007,886	15,392,316
Highways and streets	8,769,673	7,661,051			8,769,673	7,661,051
Sanitation	810,109	852,288			810,109	852,288
Health and welfare	10,878,231	12,364,317			10,878,231	12,364,317
Culture and recreation	933,376	915,691			933,376	915,691
Education	789,103	737,706			789,103	737,706
Long-term care			29,481,792	30,347,028	29,481,792	30,347,028
Airport			269,900	307,116	269,900	307,116
Solid waste operations			<u>3,223,217</u>	<u>3,468,954</u>	<u>3,223,217</u>	<u>3,468,954</u>
Total expenses	<u>65,500,450</u>	<u>68,434,338</u>	<u>32,974,909</u>	<u>34,123,098</u>	<u>98,475,359</u>	<u>102,557,436</u>
Increase in net assets before transfers	5,403,200	8,303,658	774,483	2,005,526	6,177,683	10,309,184
Transfers	<u>692,309</u>	<u>393,052</u>	<u>(692,309)</u>	<u>(393,052)</u>		
Increase in net assets	<u>\$ 6,095,509</u>	<u>\$ 8,696,710</u>	<u>\$ 82,174</u>	<u>\$ 1,612,474</u>	<u>\$ 6,177,683</u>	<u>\$ 10,309,184</u>

Governmental activities—Key elements of the increase in net assets of \$8,696,710 are as follows:

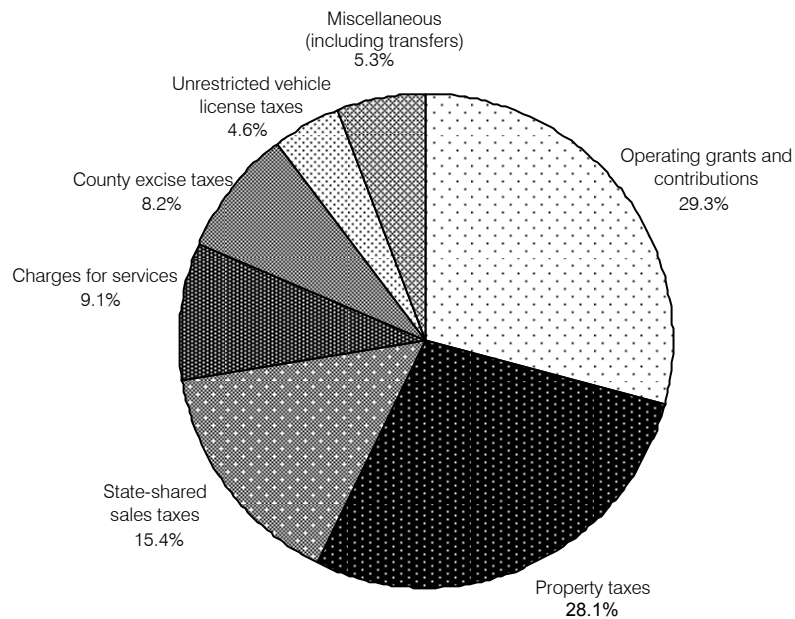
Major Revenues:

- Property taxes: The net assessed value of all taxable property in the County increased by \$40,398,386, or 7.1 percent, over the previous year. With no change in the property tax rate from fiscal year 2004, property tax revenues increased by \$1,283,768, or 6.3 percent.

Management's Discussion and Analysis

- State-shared revenues—Unrestricted vehicle license tax and sales tax: These state-shared revenues increased by 19.2 percent and 15.9 percent, respectively, from the previous year. Both revenue sources increased more than expected. The increases are indicative of the overall economic improvement in the State as well as moderate growth and stability within the County.
- County sales taxes: The county excise tax revenue increased by \$570,040, or 10.0 percent. This favorable variance is indicative of the growth and stability within the County.

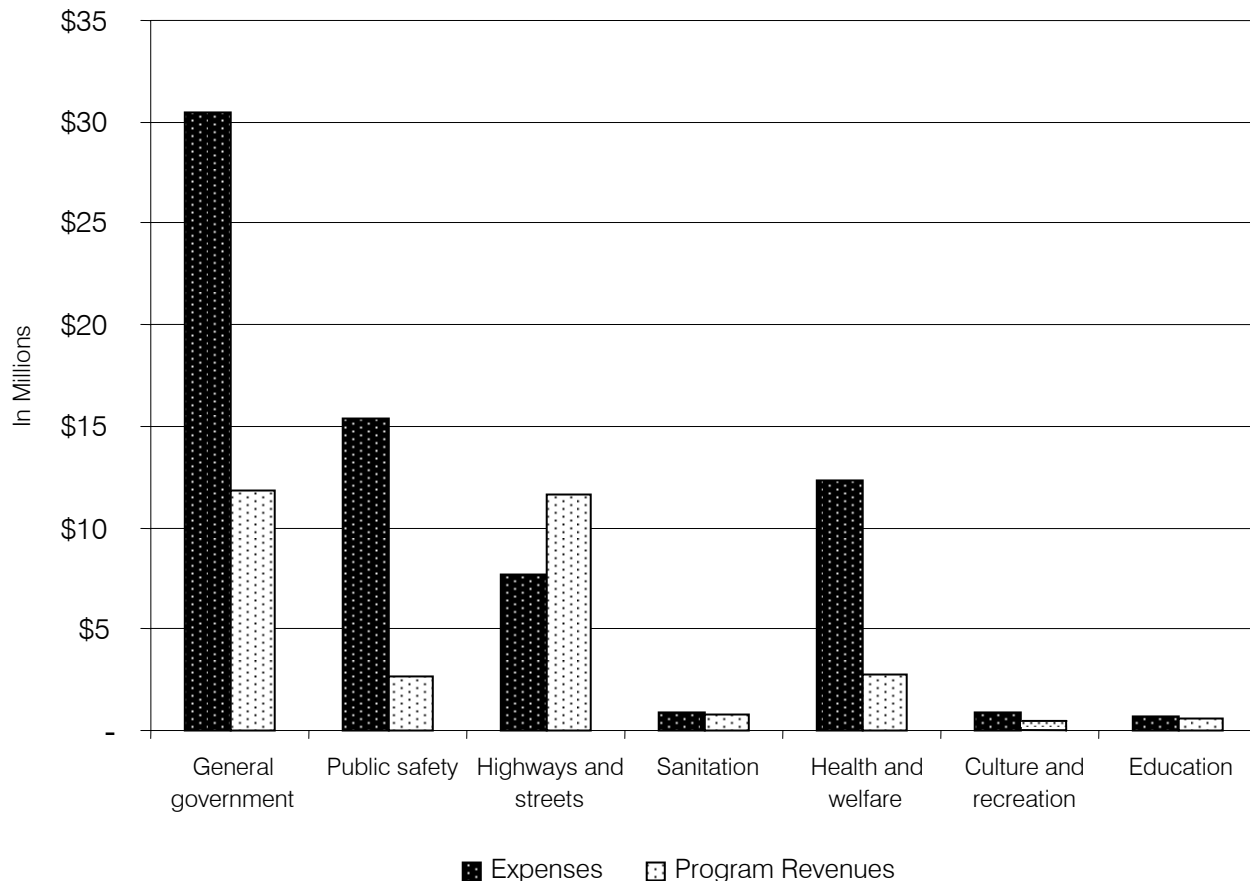
Revenues by Source—Governmental Activities
Fiscal Year Ended June 30, 2005



Expenses—Overall expenses in the governmental activities increased by \$2,933,888, or 4.5 percent. The increase in expenses is consistent with the County's conservative budgeting philosophy, overall inflation, and modest salary increases for county employees. The largest increases in governmental activities expenses are primarily due to modest increases in salaries and benefits and grant expenses. Also, health and welfare increased because the County's mandatory contributions to the State's long-term care program were greater.

Management's Discussion and Analysis

Expenses vs. Revenues by Function—Governmental Activities
Fiscal Year Ended June 30, 2005



Business-type activities—The County's business-type activities include Cochise Health Systems, the Solid Waste Operations, and the Bisbee-Douglas International Airport.

Cochise Health Systems (CHS) is a Medicaid long-term care HMO under contract with the Arizona Health Care Cost Containment System (AHCCCS). CHS provides case management as well as a full range of acute and long-term medical services for elderly and disabled members located in Cochise, Graham, and Greenlee Counties. The AHCCCS determines eligibility for members assigned to CHS.

The Solid Waste Operations provides high-quality, cost-effective, and environmentally safe solid waste management services in conformance with the terms of intergovernmental agreements between the County and participating cities. The services include the operation of a regional solid waste landfill, rural and urban transfer stations, and the hauling of solid waste between the transfer stations and the landfill.

The Bisbee-Douglas International Airport provides general aviation services to the public. Services include fuel and oil sales as well as the rental of hangar and tie-down space. Water for the Arizona Department of Corrections facilities in Douglas, Arizona, is also provided by the airport.

Management's Discussion and Analysis

Detailed financial information for the business-type activities is included in the Statement of Net Assets for Proprietary Funds on pages 7 and 8, the Statement of Revenues, Expenses, and Changes in Fund Net Assets for Proprietary Funds on page 9, and the Statement of Cash Flows for the Proprietary Funds on pages 10 and 11.

Net assets for business-type activities increased by \$1,612,474, which is mainly attributable to the increase in capital assets. The County spent \$1,165,957 for runway reconstruction at the Bisbee-Douglas International Airport.

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—The governmental activities are accounted for in the general, special revenue, and capital projects funds. Included in these funds are the special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the primary operating fund of the County. At June 30, 2005, the total fund balance was \$10,915,088. None of the General Fund balance is reserved 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, 2005, the fund balance represented 24.7 percent of total General Fund expenditures.

The fund balance of the General Fund increased by \$2,187,569 during the fiscal year. This increase is mainly attributable to the increase in property taxes, an increase in state-shared revenues (sales taxes and vehicle license taxes), and only moderate increases in expenditures.

In addition, the fund balance of the Capital Projects Fund increased by \$385,308 during the fiscal year, which is mainly attributable to an increase in excise tax revenues and a reduction in capital outlay expenditures due to completion of the Benson and Bisbee Melody Lane buildings.

Finally, the fund balance of the Highway and Streets Fund increased by \$2,064,516. This increase is mainly attributable to an increase in highway user revenue fees revenues.

Proprietary funds—The County's proprietary fund statements provide the same type information found in the government-wide financial statements, but in more detail. The net assets of the Bisbee-Douglas International Airport Fund increased by \$1,128,463 primarily because of an increase in capital assets due to the \$1,107,659 Airport Improvement Program capital grant for runway reconstruction at the Bisbee-Douglas International Airport.

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

The County's total amount invested in capital assets for governmental and business-type activities as of June 30, 2005, was \$51,001,083 (net of accumulation depreciation and related debt). In accordance with GASB Statement No. 34, the County will retroactively value all infrastructure assets back to fiscal year 1981 by June 30, 2007. Major capital asset events during the current fiscal year include the following:

- Capital outlay expenditures in the Capital Projects Fund primarily consist of \$237,003 for a document imaging system, \$240,700 towards a mobile data project, and \$1,015,254 for a county-wide simulcast radio system.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$2,101,579 for new roads and bridges infrastructure and \$62,460 for equipment modernization.
- Equipment purchases in the Solid Waste Operations Fund totaled \$78,203, and construction costs totaled \$16,122.
- Improvements other than buildings increased in the Bisbee-Douglas International Airport Fund by \$1,165,957 due to the runway reconstruction.
- Programmed vehicle replacement and additions of new vehicles totaled \$756,432 in Fleet Management (an Internal Service Fund) and heavy equipment replacement, and additions of new equipment totaled \$716,846 in Heavy Fleet Management (an Internal Service Fund).

Additional information on the County's capital assets can be found in Note 5 on pages 26 and 27 of this report.

Long-term Debt

At June 30, 2005, the County had certificates of participation and capital lease long-term liabilities outstanding of \$9,485,201 as compared to \$10,179,222 in the prior year. This amount consisted of \$8,877,165 of certificates of participation issued in 2002 (including unamortized premium of \$162,165) and \$608,036 in capital leases. The change in these long-term liabilities includes the normal annual debt service.

Cochise County has no general obligation or revenue bonds outstanding.

Budgetary Comparison—General Fund

The favorable variances in most revenues and expenses resulted from conservative budgeting and moderate growth and stability within the County. Overall, the General Fund's fund balance increased by \$2,187,569.

The growth in intergovernmental revenues resulted from better-than-expected growth in state-shared sales taxes, which increased by \$1,593,607 over fiscal year 2004.

Management's Discussion and Analysis

The favorable variance in charges for services is reflective of ongoing efforts to establish fair and reasonable fees for services provided and to collect the fees, especially in the court system.

One notable unfavorable variance, fines and forfeits, resulted from new procedures initiated by the Department of Public Safety (DPS) and from the shortage of DPS officers state-wide. This reduced the revenues going through the County's justice courts for fines and forfeits.

There were no material variances in expenditures except for the general government function. The favorable variance of \$7,360,756 resulted primarily from unspent contingency funds.

Economic Factors

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2005, was 4.8 percent compared to 4.7 percent state-wide and 5.1 percent nation-wide. The rate has increased from approximately 4.1 percent in the prior year and has been consistently below or near the overall state rate. Within the County, the rate varies widely between the incorporated areas, ranging from a low of 2.9 percent in Sierra Vista to the high of 8.6 percent in Benson.
- For the fiscal year ended June 30, 2005, the county government remained the second largest employer in the County. Ft. Huachuca is the County's largest employer with 11,939 employees compared to 1,090 for the county government.
- The County's primary property tax rate has either remained the same or decreased each year for the past 12 years.
- The County's expense for employee health insurance increased by \$272,358, or 10.9 percent over the prior fiscal year.

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 Assets
June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash in bank and on hand	\$ 297,870	\$ 1,100	\$ 298,970	\$ 293,533
Cash and investments held by County Treasurer	25,922,810	6,668,718	32,591,528	
Cash and investments held by trustee	888,068		888,068	
Receivables (net of allowances for uncollectibles):				
Property taxes	915,698		915,698	
Accounts	941,657	1,771,222	2,712,879	1,398
Accrued interest	10,313	5,628	15,941	
Internal balances	47,262	(47,262)		
Due from other governments	7,722,821		7,722,821	307,124
Prepaid items	186,053	105,968	292,021	13,332
Capital assets, not being depreciated	2,302,037	1,612,822	3,914,859	
Capital assets, being depreciated, net	47,001,685	9,569,740	56,571,425	189,795
Total assets	<u>86,236,274</u>	<u>19,687,936</u>	<u>105,924,210</u>	<u>805,182</u>
Liabilities				
Accounts payable	1,728,413	3,076,110	4,804,523	277,211
Accrued payroll and employee benefits	1,739,637	137,898	1,877,535	5,921
Due to other governments	298,084		298,084	
Deposits held for others	11,366		11,366	
Deferred revenue	112,534	1,928	114,462	10,797
Noncurrent liabilities				
Due within 1 year	3,249,066	1,444,312	4,693,378	1,475
Due in more than 1 year	9,386,292	1,450,497	10,836,789	23,786
Total liabilities	<u>16,525,392</u>	<u>6,110,745</u>	<u>22,636,137</u>	<u>319,190</u>
Net Assets				
Invested in capital assets, net of related debt	40,194,322	10,806,761	51,001,083	189,795
Restricted for:				
Highways and streets	4,588,668		4,588,668	
Public safety	1,171,833		1,171,833	
Debt service	888,068		888,068	
Long-term care		1,880,000	1,880,000	
Unrestricted	22,867,991	890,430	23,758,421	296,197
Total net assets	<u>\$ 69,710,882</u>	<u>\$ 13,577,191</u>	<u>\$ 83,288,073</u>	<u>\$ 485,992</u>

See accompanying notes to financial statements.

Cochise County
Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 30,510,969	\$ 4,741,399	\$ 6,152,110	\$ 943,957	\$ (18,673,503)		\$ (18,673,503)	
Public safety	15,392,316	691,262	1,988,470		(12,712,584)		(12,712,584)	
Highways and streets	7,661,051	431,160	11,210,146		3,980,255		3,980,255	
Sanitation	852,288	592,587	239,835		(19,866)		(19,866)	
Health and welfare	12,364,317	468,031	2,290,086		(9,606,200)		(9,606,200)	
Culture and recreation	915,691		23,000		(892,691)		(892,691)	
Education	737,706	39,660	583,632		(114,414)		(114,414)	
Total governmental activities	<u>68,434,338</u>	<u>6,964,099</u>	<u>22,487,279</u>	<u>943,957</u>	<u>(38,039,003)</u>		<u>(38,039,003)</u>	
Business-type activities:								
Bisbee-Douglas International Airport	307,116	176,933		1,136,808		\$ 1,006,625	\$ 1,006,625	
Cochise Health Systems	30,347,028	31,407,372				1,060,344	1,060,344	
Solid Waste Operations	3,468,954	3,079,650				(389,304)	(389,304)	
Total business-type activities	<u>34,123,098</u>	<u>34,663,955</u>		<u>1,136,808</u>		<u>1,677,665</u>	<u>1,677,665</u>	
Total primary government	<u>\$ 102,557,436</u>	<u>\$ 41,628,054</u>	<u>\$ 22,487,279</u>	<u>\$ 2,080,765</u>		<u>1,677,665</u>	<u>(36,361,338)</u>	
Component units:								
Housing Authority of Cochise County	\$ 2,629,525		\$ 2,665,083					\$ 35,558
Cochise County Workforce Development	2,197,117		2,407,513					210,396
Total component units	<u>\$ 4,826,642</u>		<u>\$ 5,072,596</u>					<u>245,954</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					19,395,683		19,395,683	
Property taxes, levied for flood control					1,237,934		1,237,934	
Property taxes, levied for library					972,137		972,137	
County excise taxes					6,280,722	82,494	6,363,216	
Share of state sales taxes					11,796,386		11,796,386	
Share of unrestricted vehicle license tax					3,567,980		3,567,980	
Grants and contributions not restricted to specific programs					1,808,520		1,808,520	
Investment earnings					391,021	156,287	547,308	1,927
Gain on disposal of capital assets					132,877	689	133,566	
Miscellaneous					759,401	88,391	847,792	15,186
Transfers					393,052	(393,052)		
Total general revenues and transfers					<u>46,735,713</u>	<u>(65,191)</u>	<u>46,670,522</u>	<u>17,113</u>
Change in net assets					8,696,710	1,612,474	10,309,184	263,067
Net assets, July 1, 2004					<u>61,014,172</u>	<u>11,964,717</u>	<u>72,978,889</u>	<u>222,925</u>
Net assets, June 30, 2005					<u>\$ 69,710,882</u>	<u>\$ 13,577,191</u>	<u>\$ 83,288,073</u>	<u>\$ 485,992</u>

Cochise County
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Highway and Streets Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash in bank and on hand	\$ 209,592			\$ 88,078	\$ 297,670
Cash and investments held by County Treasurer	7,283,304	\$5,159,857	\$3,630,681	8,259,242	24,333,084
Cash and investments held by trustee		888,068			888,068
Receivables (net of allowances for uncollectibles):					
Property taxes	774,214			141,484	915,698
Accounts	747,855		79,170	104,170	931,195
Accrued interest	2,081	1,467		6,313	9,861
Due from:					
Other funds	589,036	94,684	99,530	686,913	1,470,163
Other governments	3,857,021	200,055	1,803,548	1,862,197	7,722,821
Prepaid items	186,053				186,053
Total assets	<u>\$13,649,156</u>	<u>\$6,344,131</u>	<u>\$5,612,929</u>	<u>\$11,148,397</u>	<u>\$36,754,613</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 654,461	\$ 198,367	\$ 292,301	\$ 391,241	\$ 1,536,370
Accrued payroll and employee benefits	1,017,911		142,640	462,736	1,623,287
Due to:					
Other funds	434,303	100,217	589,320	750,232	1,874,072
Other governments				298,084	298,084
Deposits held for others	7,757			3,609	11,366
Certificates of participation payable		550,000			550,000
Deferred revenue	619,636			107,275	726,911
Total liabilities	<u>2,734,068</u>	<u>848,584</u>	<u>1,024,261</u>	<u>2,013,177</u>	<u>6,620,090</u>
Fund balances:					
Unreserved, reported in:					
General fund	10,915,088				10,915,088
Special revenue funds			4,588,668	9,135,220	13,723,888
Capital projects funds		5,495,547			5,495,547
Total fund balances	<u>10,915,088</u>	<u>5,495,547</u>	<u>4,588,668</u>	<u>9,135,220</u>	<u>30,134,523</u>
Total liabilities and fund balances	<u>\$13,649,156</u>	<u>\$6,344,131</u>	<u>\$5,612,929</u>	<u>\$11,148,397</u>	<u>\$36,754,613</u>

See accompanying notes to financial statements.

Cochise County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2005

Fund balances—total governmental funds			\$ 30,134,523
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.			45,288,132
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.			614,502
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 and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.			5,759,083
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds:			
Certificates of participation payable	(8,327,165)		
Capital leases payable	(232,235)		
Compensated absences payable	<u>(3,525,958)</u>	<u>(12,085,358)</u>	
Net assets of governmental activities			<u>\$ 69,710,882</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$26,471,918	\$2,211,628		\$ 2,897,292	\$31,580,838
Licenses and permits	53,165				53,165
Fees, fines, and forfeits	2,280,587			23,496	2,304,083
Intergovernmental	14,453,015	943,957	\$11,210,146	10,429,024	37,036,142
Charges for services	2,685,931		431,160	1,489,760	4,606,851
Investment income	130,246	72,970	53,006	134,799	391,021
Miscellaneous	256,633	37,908	86,888	377,972	759,401
Total revenues	<u>46,331,495</u>	<u>3,266,463</u>	<u>11,781,200</u>	<u>15,352,343</u>	<u>76,731,501</u>
Expenditures:					
Current:					
General government	21,101,436	297,120		7,852,143	29,250,699
Public safety	12,062,984			3,233,429	15,296,413
Highways and streets			6,879,722	3,858	6,883,580
Sanitation	591,731			260,557	852,288
Health and welfare	9,812,438			2,544,781	12,357,219
Culture and recreation				914,117	914,117
Education	331,771			393,968	725,739
Debt service:					
Principal		550,000	72,140	12,050	634,190
Interest and other charges		332,702	10,884	920	344,506
Capital outlay	<u>235,712</u>	<u>1,872,337</u>	<u>2,178,868</u>	<u>224,383</u>	<u>4,511,300</u>
Total expenditures	<u>44,136,072</u>	<u>3,052,159</u>	<u>9,141,614</u>	<u>15,440,206</u>	<u>71,770,051</u>
Excess (deficiency) of revenues over expenditures	<u>2,195,423</u>	<u>214,304</u>	<u>2,639,586</u>	<u>(87,863)</u>	<u>4,961,450</u>
Other financing sources (uses):					
Sale of capital assets	4,472		82,005	174,808	261,285
Transfers in	615,709	171,004	121,000	1,319,466	2,227,179
Transfers out	<u>(628,035)</u>		<u>(778,075)</u>	<u>(1,409,270)</u>	<u>(2,815,380)</u>
Total other financing sources and uses	<u>(7,854)</u>	<u>171,004</u>	<u>(575,070)</u>	<u>85,004</u>	<u>(326,916)</u>
Net change in fund balances	2,187,569	385,308	2,064,516	(2,859)	4,634,534
Fund balances, July 1, 2004	<u>8,727,519</u>	<u>5,110,239</u>	<u>2,524,152</u>	<u>9,138,079</u>	<u>25,499,989</u>
Fund balances, June 30, 2005	<u>\$10,915,088</u>	<u>\$5,495,547</u>	<u>\$ 4,588,668</u>	<u>\$ 9,135,220</u>	<u>\$30,134,523</u>

See accompanying notes to financial statements.

Cochise County
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2005

Net change in fund balances—total governmental funds		\$ 4,634,534
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	\$ 4,511,300	
Depreciation expense	<u>(2,134,610)</u>	2,376,690
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 assets differs from the change in fund balance by the book value of the capital assets sold.		(128,408)
Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities.		(126,382)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal repaid	634,190	
Amortization of premium	<u>16,216</u>	650,406
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		(625,004)
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 (expense) of certain internal service funds is reported with governmental activities.		<u>1,914,874</u>
Change in net assets of governmental activities		<u>\$ 8,696,710</u>

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Bisbee-Douglas International Airport Fund	Total	Internal Service Funds
Assets					
Current assets:					
Cash in bank and on hand		\$ 1,100		\$ 1,100	\$ 200
Cash and investments held by County Treasurer	\$5,353,592	1,315,126		6,668,718	1,589,726
Receivables (net of allowances for uncollectibles):					
Accounts	1,363,596	374,061	\$ 33,565	1,771,222	10,462
Accrued interest	4,340	1,288		5,628	452
Due from other funds	1,463	176,617	66,120	244,200	730,377
Prepaid items	100,000	5,968		105,968	
Total current assets	<u>6,822,991</u>	<u>1,874,160</u>	<u>99,685</u>	<u>8,796,836</u>	<u>2,331,217</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation, where applicable:					
Land		21,700	1,575,000	1,596,700	
Construction in progress		16,122		16,122	
Buildings, net		3,912,430	13,033	3,925,463	144,144
Improvements other than buildings, net		2,017,164	1,647,805	3,664,969	
Equipment, net	88,331	1,740,613	150,364	1,979,308	3,871,446
Total noncurrent assets	<u>88,331</u>	<u>7,708,029</u>	<u>3,386,202</u>	<u>11,182,562</u>	<u>4,015,590</u>
Total assets	<u>6,911,322</u>	<u>9,582,189</u>	<u>3,485,887</u>	<u>19,979,398</u>	<u>6,346,807</u>
Liabilities					
Current liabilities:					
Accounts payable	3,002,642	67,241	6,227	3,076,110	192,043
Accrued payroll and employee benefits	84,114	49,042	4,742	137,898	116,350
Due to other funds	74,598	177,756	39,108	291,462	279,206
Compensated absences payable, current portion	96,301	44,442	12,910	153,653	
Landfill closure and postclosure care costs payable, current portion		1,230,147		1,230,147	
Leases payable, current portion		60,512		60,512	
Deferred revenue			1,928	1,928	125
Total current liabilities	<u>3,257,655</u>	<u>1,629,140</u>	<u>64,915</u>	<u>4,951,710</u>	<u>587,724</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2005
(Concluded)

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Bisbee-Douglas International Airport Fund	Total	Internal Service Funds
Noncurrent liabilities:					
Compensated absences payable	\$ 35,074			\$ 35,074	
Landfill closure and postclosure care costs payable		\$1,100,134		1,100,134	
Leases payable		315,289		315,289	
Total noncurrent liabilities	<u>35,074</u>	<u>1,415,423</u>		<u>1,450,497</u>	
Total liabilities	<u>3,292,729</u>	<u>3,044,563</u>	<u>\$ 64,915</u>	<u>6,402,207</u>	<u>587,724</u>
Net Assets					
Invested in capital assets, net of related debt	88,331	7,332,228	3,386,202	10,806,761	4,015,590
Restricted for long-term care	1,880,000			1,880,000	
Unrestricted (deficit)	<u>1,650,262</u>	<u>(794,602)</u>	<u>34,770</u>	<u>890,430</u>	<u>1,743,493</u>
Total net assets	<u>\$3,618,593</u>	<u>\$6,537,626</u>	<u>\$3,420,972</u>	<u>\$13,577,191</u>	<u>\$5,759,083</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Bisbee-Douglas International Airport Fund	Total	Internal Service Funds
Operating revenues:					
Charges for services	\$31,407,372	\$3,079,650	\$ 176,933	\$34,663,955	\$ 5,125,206
Health plan contributions					6,044,407
Other					83,359
Total operating revenues	<u>31,407,372</u>	<u>3,079,650</u>	<u>176,933</u>	<u>34,663,955</u>	<u>11,252,972</u>
Operating expenses:					
Personal services	2,255,698	1,290,990	133,330	3,680,018	1,012,459
Professional services	232,395	1,255,274	98,531	1,586,200	6,257,452
Supplies	52,735	84,461	37,761	174,957	2,505,270
Long-term care costs	26,872,572			26,872,572	
Landfill closure and postclosure care costs		231,666		231,666	
Depreciation	41,210	417,282	37,494	495,986	655,015
Other	892,418	104,943		997,361	14,628
Total operating expenses	<u>30,347,028</u>	<u>3,384,616</u>	<u>307,116</u>	<u>34,038,760</u>	<u>10,444,824</u>
Operating income (loss)	<u>1,060,344</u>	<u>(304,966)</u>	<u>(130,183)</u>	<u>625,195</u>	<u>808,148</u>
Nonoperating revenues (expenses):					
County excise taxes		82,494		82,494	124,700
Investment income	125,180	30,878	229	156,287	16,677
Miscellaneous revenue		88,391		88,391	
Interest expense		(11,878)		(11,878)	
Gain (Loss) on disposal of capital assets	<u>689</u>	<u>(72,460)</u>		<u>(71,771)</u>	<u>(15,904)</u>
Total nonoperating revenues (expenses)	<u>125,869</u>	<u>117,425</u>	<u>229</u>	<u>243,523</u>	<u>125,473</u>
Income (loss) before other contributions and transfers	1,186,213	(187,541)	(129,954)	868,718	933,621
Capital contributions			1,136,808	1,136,808	
Transfers in		78,202	121,609	199,811	1,059,455
Transfers out	<u>(500,000)</u>	<u>(92,863)</u>		<u>(592,863)</u>	<u>(78,202)</u>
Increase (decrease) in net assets	686,213	(202,202)	1,128,463	1,612,474	1,914,874
Total net assets, July 1, 2004	<u>2,932,380</u>	<u>6,739,828</u>	<u>2,292,509</u>	<u>11,964,717</u>	<u>3,844,209</u>
Total net assets, June 30, 2005	<u>\$ 3,618,593</u>	<u>\$6,537,626</u>	<u>\$3,420,972</u>	<u>\$13,577,191</u>	<u>\$ 5,759,083</u>

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Bisbee-Douglas International Airport Fund	Total	Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$31,449,611	\$2,792,980	\$ 204,906	\$34,447,497	
Receipts from other funds for goods and services provided					\$11,230,251
Other receipts					83,359
Payments to suppliers and providers of goods and services	(27,705,347)	(1,359,487)	(134,902)	(29,199,736)	(8,730,512)
Payments to employees	(2,204,291)	(1,270,962)	(123,089)	(3,598,342)	(915,883)
Net cash provided by (used for) operating activities	<u>1,539,973</u>	<u>162,531</u>	<u>(53,085)</u>	<u>1,649,419</u>	<u>1,667,215</u>
Cash flows from noncapital financing activities:					
Miscellaneous receipts		170,885		170,885	124,700
Cash transfers from other funds		78,202	121,609	199,811	1,059,455
Cash transfers to other funds	(500,000)	(92,863)		(592,863)	(78,202)
Loan payments to other funds			(39,604)	(39,604)	
Net cash provided by (used for) noncapital financing activities	<u>(500,000)</u>	<u>156,224</u>	<u>82,005</u>	<u>(261,771)</u>	<u>1,105,953</u>
Cash flows from capital and related financing activities:					
Capital grant receipts			1,136,808	1,136,808	
Proceeds from sale of capital assets	689			689	66,819
Purchases of capital assets	(62,341)	(94,325)	(1,165,957)	(1,322,623)	(1,473,278)
Principal paid on capital leases		(58,615)		(58,615)	
Interest paid on capital leases		(11,878)	-	(11,878)	
Net cash used for capital and related financing activities	<u>(61,652)</u>	<u>(164,818)</u>	<u>(29,149)</u>	<u>(255,619)</u>	<u>(1,406,459)</u>
Cash flows from investing activities:					
Investment income received on cash and investments held by County Treasurer	<u>126,191</u>	<u>29,876</u>	<u>229</u>	<u>156,296</u>	<u>16,248</u>
Net cash provided by investing activities	<u>126,191</u>	<u>29,876</u>	<u>229</u>	<u>156,296</u>	<u>16,248</u>
Net increase in cash and cash equivalents	1,104,512	183,813		1,288,325	1,382,957
Cash and cash equivalents, July 1, 2004	<u>4,249,080</u>	<u>1,132,413</u>		<u>5,381,493</u>	<u>206,969</u>
Cash and cash equivalents, June 30, 2005	<u>\$ 5,353,592</u>	<u>\$1,316,226</u>	<u>\$</u>	<u>\$ 6,669,818</u>	<u>\$ 1,589,926</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005
(Concluded)

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Bisbee-Douglas International Airport Fund	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 1,060,344	\$ (304,966)	\$ (130,183)	\$ 625,195	\$ 808,148
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	41,210	417,282	37,494	495,986	655,015
Landfill closure and postclosure care costs		84,947		84,947	
Changes in assets and liabilities:					
Increase in:					
Accounts receivable			(4,617)	(4,617)	
Due from other funds	(453)	(173,667)		(174,120)	(45,204)
Accounts payable	310,473		1,390	311,863	
Accrued payroll and employee benefits	18,570	13,348	1,079	32,997	96,576
Due to other funds	9,300	118,618		127,918	259,321
Compensated absences payable	32,837	6,680	9,162	48,679	
Deferred revenue			1,828	1,828	
Decrease in:					
Accounts receivable	42,692	9,607		52,299	105,842
Due from other funds			14,848	14,848	
Due from other governments		36,032	15,914	51,946	
Prepaid items	25,000			25,000	
Accounts payable		(45,350)		(45,350)	(212,483)
Net cash provided by (used for) operating activities	<u>\$ 1,539,973</u>	<u>\$ 162,531</u>	<u>\$ (53,085)</u>	<u>\$ 1,649,419</u>	<u>\$ 1,667,215</u>
Cash and cash equivalents, June 30, 2005, consisted of:					
Cash in bank and on hand		\$ 1,100		\$ 1,100	\$ 200
Cash and investments held by County Treasurer	<u>\$ 5,353,592</u>	<u>1,315,126</u>		<u>6,668,718</u>	<u>1,589,726</u>
	<u>\$ 5,353,592</u>	<u>\$1,316,226</u>		<u>\$ 6,669,818</u>	<u>\$ 1,589,926</u>

Noncash capital financing activities:

The Cochise Health Systems Fund sold equipment with an original cost of \$8,731 and a net book value of \$0.

The Solid Waste Operations Fund disposed of equipment with an original cost of \$74,797 and a net book value of \$72,460.

The Internal Service Funds disposed of and sold equipment with an original cost of \$518,660 and a net book value of \$82,723.

See accompanying notes to financial statements.

Cochise County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash in bank and on hand		\$ 1,518,740
Cash and investments held by County Treasurer	\$ 66,866,944	
Interest receivable	<u>19,005</u>	<u> </u>
Total assets	<u>66,885,949</u>	<u>1,518,740</u>
Liabilities		
Deposits held for others	<u> </u>	<u>1,518,740</u>
Total liabilities	<u> </u>	<u>\$ 1,518,740</u>
Net Assets		
Held in trust for investment trust participants	<u>\$ 66,885,949</u>	

See accompanying notes to financial statements.

Cochise County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 197,078,402
Investment income	<u>465,227</u>
Total additions	<u>197,543,629</u>
Deductions:	
Distributions to participants	<u>192,666,731</u>
Total deductions	<u>192,666,731</u>
Change in net assets	4,876,898
Net assets, July 1, 2004	<u>62,009,051</u>
Net assets, June 30, 2005	<u>\$ 66,885,949</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Net Assets
Component Units
June 30, 2005

	Housing Authority of <u>Cochise County</u>	Cochise County Workforce <u>Development</u>	<u>Total</u>
Assets			
Cash in bank and on hand	\$ 193,500	\$ 100,033	\$ 293,533
Accounts receivable (net of allowances for uncollectibles)		1,398	1,398
Due from other governments	57,735	249,389	307,124
Prepaid items	9,497	3,835	13,332
Capital assets, being depreciated, net	<u>35,801</u>	<u>153,994</u>	<u>189,795</u>
Total assets	<u>296,533</u>	<u>508,649</u>	<u>805,182</u>
Liabilities			
Accounts payable	128,930	148,281	277,211
Accrued payroll and employee benefits		5,921	5,921
Deferred revenue	10,797		10,797
Noncurrent liabilities			
Due within 1 year	1,475		1,475
Due in more than 1 year	<u>13,278</u>	<u>10,508</u>	<u>23,786</u>
Total liabilities	<u>154,480</u>	<u>164,710</u>	<u>319,190</u>
Net Assets			
Invested in capital assets, net of related debt	35,801	153,994	189,795
Unrestricted	<u>106,252</u>	<u>189,945</u>	<u>296,197</u>
Total net assets	<u>\$ 142,053</u>	<u>\$ 343,939</u>	<u>\$ 485,992</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Activities
Component Units
Year Ended June 30, 2005

		<u>Program Revenues</u>	<u>Net Revenue and Changes in Net Assets</u>		
			<u>Housing Authority of Cochise County</u>	<u>Cochise County Workforce Development</u>	<u>Total</u>
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>			
Component units:					
Housing Authority of Cochise County	\$ 2,629,525	\$ 2,665,083	\$ 35,558		\$ 35,558
Cochise County Workforce Development	<u>2,197,117</u>	<u>2,407,513</u>		<u>\$ 210,396</u>	<u>210,396</u>
Total component units	<u>\$ 4,826,642</u>	<u>\$ 5,072,596</u>	<u>35,558</u>	<u>210,396</u>	<u>245,954</u>
General revenues:					
Investment earnings			1,486	441	1,927
Miscellaneous			<u>1,111</u>	<u>14,075</u>	<u>15,186</u>
Total general revenues			<u>2,597</u>	<u>14,516</u>	<u>17,113</u>
Change in net assets			38,155	224,912	263,067
Net assets, July 1, 2004			<u>103,898</u>	<u>119,027</u>	<u>222,925</u>
Net assets, June 30, 2005			<u>\$ 142,053</u>	<u>\$ 343,939</u>	<u>\$ 485,992</u>

See accompanying notes to financial statements.

Cochise County
Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

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

During the year ended June 30, 2005, the County implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the County's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each blended 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 of the District.	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 of the District.	Blended	Not available

Cochise County
Notes to Financial Statements
June 30, 2005

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Housing Authority of Cochise County	Administers and coordinates the Section 8 Rental Voucher Program. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Authority, but the Authority does not provide services entirely to the County.	Discrete	Housing Authority of Cochise County Old Bisbee High School First Floor P.O. Box 167 Bisbee, AZ 85603
Cochise County Workforce Development	Administers and coordinates Workforce Investment Act programs. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Workforce Development. However, the Workforce Development does not provide services entirely to the County.	Discrete	Cochise County Workforce Development 1843 Paseo San Luis 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 usefulness of the information.

Government-wide statements—provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. 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:

Cochise County
Notes to Financial Statements
June 30, 2005

- 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, 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 investment income, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered to be 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 acquisition or construction of major facilities and automation and communications projects, other than those financed by proprietary funds.

The Highway and Streets Fund accounts for the construction and maintenance of the County's surface transportation system in a cost-effective manner.

Cochise County
Notes to Financial Statements
June 30, 2005

The County reports the following major enterprise funds:

The Cochise Health Systems (CHS) Fund accounts for a Medicaid long-term care health maintenance organization under contract with the Arizona Health Care Cost Containment System (AHCCCS), a state agency. CHS provides case management as well as a full range of acute and long-term medical services for elderly and disabled members located in Cochise, Graham, and Greenlee Counties. AHCCCS determines eligibility for members assigned to CHS.

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 Bisbee-Douglas International Airport (BDI) Fund accounts for the operation and management of the Bisbee-Douglas International Airport. The services include airplane fuel sales and the management of hangar and airplane tie-down facilities.

The County reports the following fund types:

The internal service funds account for 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 County's departments, the Cochise County Community College District, local school districts, and other governmental entities.

The agency funds account for assets held by the County as an agent for various local governments and individuals.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments,

Cochise County
Notes to Financial Statements
June 30, 2005

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.

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 net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

The County's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The County has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. Cash and Investments

For purposes of its statement of cash flows, the County considers cash on hand, demand deposits, and cash on deposit with the County Treasurer to be cash equivalents. All investments are stated at fair value.

E. Inventories

Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year end are immaterial and therefore are not reported as assets in the financial statements.

F. 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.

Cochise County
Notes to Financial Statements
June 30, 2005

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All		
Construction in progress	All		
Buildings	\$10,000	Straight-line	50 years
Improvements other than buildings	5,000	Straight-line	5-40 years
Equipment	5,000	Straight-line	5-20 years
Infrastructure	50,000	Straight-line	20-65 years

H. Investment Income

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

I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at 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 financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees with at least 15 years of service 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.

Cochise County
Notes to Financial Statements
June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2005, the following funds reported deficits in fund balances:

Fund	Deficit
Governmental funds:	
Steps Along the Border Initiative	\$ 394
Bureau of Land Management Cultural Resource Grant	6,224

These deficits resulted from operations during the year, but are expected to be corrected through normal operations or transfers from the General Fund in fiscal year 2006.

Note 3 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in 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 rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
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 demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk

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

Cochise County
Notes to Financial Statements
June 30, 2005

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk

Statutes do not allow foreign investments.

Deposits—At June 30, 2005, the carrying amount of the County's deposits was \$4,197,132, and the bank balance was \$6,361,693. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2005, \$288,788 of the County's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments—The County's investments at June 30, 2005, were as follows:

Investment Type	Amount
State Treasurer's investment pools	\$21,253,759
U.S. Treasury securities	11,349,490
U.S. agency securities	54,546,455
Repurchase agreement	9,900,000
U.S. Treasury money market fund	888,068
	<u>\$97,937,772</u>

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

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, 2005, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pools	Unrated	Not applicable	\$21,253,759
U.S. agency securities	AAA	Standard & Poor's	54,546,455
U.S. Treasury money market fund	AAAm	Standard & Poor's	888,068
			<u>\$76,688,282</u>

Cochise County
Notes to Financial Statements
June 30, 2005

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.

At June 30, 2005, the County had an \$888,068 investment reported in the Capital Projects Fund. The investment was held by a trustee in a U.S. Treasury money market fund and was uninsured, not registered in the County's name, and held by the counterparty.

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.

More than 5 percent of the County's investments at June 30, 2005, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$22,080,340	22.5
Federal Home Loan Bank System	19,944,528	20.4
Federal Farm Credit Banks	6,937,931	7.1
Federal National Mortgage Association	<u>5,583,656</u>	5.7
	<u>\$54,546,455</u>	

Interest rate risk—Interest rate risk is the risk that changes in 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, 2005, maturities of the County's investments were as follows:

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-5 Years
State Treasurer's investment pools	\$21,253,759	\$21,253,759	
U.S. Treasury securities	11,349,490	3,917,500	\$ 7,431,990
U.S. agency securities	54,546,455	14,918,708	39,627,747
Repurchase agreement	9,900,000	9,900,000	
U.S. Treasury money market fund	<u>888,068</u>	<u>888,068</u>	
	<u>\$97,937,772</u>	<u>\$50,878,035</u>	<u>\$47,059,737</u>

Cochise County
Notes to Financial Statements
June 30, 2005

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

Cash, deposits, and investments:					
Cash on hand			\$	29,346	
Amount of deposits				4,197,132	
Amount of investments				<u>97,937,772</u>	
Total				<u>\$102,164,250</u>	

	Statement of Net Assets		Statement of Fiduciary Net Assets		Total
	Governmental Activities	Business-Type Activities	Investment Trust Funds	Agency Funds	
Cash in bank and on hand	\$ 297,870	\$ 1,100		\$1,518,740	\$ 1,817,710
Cash and Investments held by County Treasurer	25,922,810	6,668,718	\$66,866,944		99,458,472
Investments held by trustee	<u>888,068</u>				<u>888,068</u>
Total	<u>\$27,108,748</u>	<u>\$6,669,818</u>	<u>\$66,866,944</u>	<u>\$1,518,740</u>	<u>\$102,164,250</u>

Note 4 - Due from Other Governments

Due from other governments totaling \$7,722,821 at June 30, 2005, included \$1,331,039 in state-shared revenue from highway user fees, \$1,955,802 in state-shared sales taxes, \$1,226,914 in state-shared vehicle license taxes, and \$1,138,470 in county excise taxes. The remaining balance of \$2,070,596 represents amounts receivable from various state and federal government grantor agencies.

Cochise County
Notes to Financial Statements
June 30, 2005

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,006,318	\$ 8,719		\$ 2,015,037
Construction in progress (estimated cost to complete \$5,928,643)	<u>21,249</u>	<u>265,751</u>		<u>287,000</u>
Total capital assets not being depreciated	<u>2,027,567</u>	<u>274,470</u>		<u>2,302,037</u>
Capital assets being depreciated:				
Buildings	34,974,298	108,515		35,082,813
Improvements other than buildings	1,387,978			1,387,978
Equipment	23,261,414	3,500,014	\$ 867,818	25,893,610
Infrastructure	<u>1,525,501</u>	<u>2,101,579</u>		<u>3,627,080</u>
Total	<u>61,149,191</u>	<u>5,710,108</u>	<u>867,818</u>	<u>65,991,481</u>
Less accumulated depreciation for:				
Buildings	6,344,691	739,772		7,084,463
Improvements other than buildings	585,880	61,027		646,907
Equipment	9,926,287	1,957,333	656,687	11,226,933
Infrastructure	<u>16,856,858</u>	<u>31,493</u>		<u>31,493</u>
Total	<u>16,856,858</u>	<u>2,789,625</u>	<u>656,687</u>	<u>18,989,796</u>
Total capital assets being depreciated, net	<u>44,292,333</u>	<u>2,920,483</u>	<u>211,131</u>	<u>47,001,685</u>
Governmental activities capital assets, net	<u>\$46,319,900</u>	<u>\$3,194,953</u>	<u>\$ 211,131</u>	<u>\$49,303,722</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,596,700			\$ 1,596,700
Construction in progress (estimated cost to complete \$22,878)	<u> </u>	<u>\$ 16,122</u>		<u>16,122</u>
Total capital assets not being depreciated	<u>1,596,700</u>	<u>16,122</u>		<u>1,612,822</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	2,972,033	1,165,957		4,137,990
Equipment	<u>3,537,225</u>	<u>140,544</u>	\$ 83,528	<u>3,594,241</u>
Total	<u>11,068,283</u>	<u>1,306,501</u>	<u>83,528</u>	<u>12,291,256</u>
Less accumulated depreciation for:				
Buildings	546,178	87,384		633,562
Improvements other than buildings	325,635	147,386		473,021
Equipment	<u>1,364,785</u>	<u>261,216</u>	11,068	<u>1,614,933</u>
Total	<u>2,236,598</u>	<u>495,986</u>	<u>11,068</u>	<u>2,721,516</u>
Total capital assets being depreciated, net	<u>8,831,685</u>	<u>810,515</u>	<u>72,460</u>	<u>9,569,740</u>
Business-type activities capital assets, net	<u>\$10,428,385</u>	<u>\$ 826,637</u>	<u>\$ 72,460</u>	<u>\$11,182,562</u>

Cochise County
Notes to Financial Statements
June 30, 2005

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$1,286,304
Public safety	95,904
Highways and streets	732,683
Health and welfare	7,098
Culture and recreation	1,574
Education	11,047
Internal service funds	<u>655,015</u>
Total governmental activities depreciation expense	<u><u>\$2,789,625</u></u>
Business-type activities:	
Health system	\$ 41,210
Landfill	417,282
Airport	<u>37,494</u>
Total business-type activities depreciation expense	<u><u>\$ 495,986</u></u>

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due within 1 year
Governmental activities					
Certificates of participation payable	\$ 9,250,000		\$ 535,000	\$ 8,715,000	\$ 550,000
Unamortized premium	<u>178,381</u>		<u>16,216</u>	<u>162,165</u>	<u>16,216</u>
Total certificates of participation payable	<u>9,428,381</u>		<u>551,216</u>	<u>8,877,165</u>	<u>566,216</u>
Capital leases payable	316,425		84,190	232,235	74,710
Compensated absences payable	<u>2,900,954</u>	<u>2,033,959</u>	<u>1,408,955</u>	<u>3,525,958</u>	<u>2,608,140</u>
Governmental activities long-term liabilities	<u><u>\$12,645,760</u></u>	<u><u>\$2,033,959</u></u>	<u><u>\$2,044,361</u></u>	<u><u>\$12,635,358</u></u>	<u><u>\$3,249,066</u></u>
Business-type activities					
Capital leases payable	\$ 434,416		\$ 58,615	\$ 375,801	\$ 60,512
Landfill closure and postclosure care costs payable	2,245,334	\$ 231,666	146,719	2,330,281	1,230,147
Compensated absences payable	<u>140,048</u>	<u>139,813</u>	<u>91,134</u>	<u>188,727</u>	<u>153,653</u>
Business-type activities long-term liabilities	<u><u>\$ 2,819,798</u></u>	<u><u>\$ 371,479</u></u>	<u><u>\$ 296,468</u></u>	<u><u>\$ 2,894,809</u></u>	<u><u>\$1,444,312</u></u>

Cochise County
Notes to Financial Statements
June 30, 2005

Certificates of participation—The County has issued certificates of participation that are generally callable with interest payable semiannually. The certificates were issued to improve and renovate the county administration buildings and construct an information technology building and a service center in Benson.

Certificates outstanding at June 30, 2005, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2006 to 2017	2.5–4.5%	\$8,715,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2005:

	<u>Governmental Activities</u>	
Year ending June 30	Principal	Interest
2006	\$ 550,000	\$ 324,713
2007	560,000	310,838
2008	575,000	295,931
2009	590,000	279,175
2010	610,000	260,412
2011-2015	3,410,000	915,438
2016-2017	<u>2,420,000</u>	<u>164,337</u>
Total	<u>\$8,715,000</u>	<u>\$2,550,844</u>

Capital leases—The County has acquired office equipment and vehicles under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery and equipment	\$459,568	\$448,780
Less: accumulated depreciation	<u>76,803</u>	<u>70,122</u>
Carrying value	<u>\$382,765</u>	<u>\$378,658</u>

Cochise County
Notes to Financial Statements
June 30, 2005

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2005:

Year ending June 30	Governmental Activities	Business-Type Activities
2006	\$ 83,023	\$ 71,620
2007	83,023	71,620
2008	83,024	71,621
2009		71,621
2010		71,621
2011		<u>53,715</u>
Total minimum lease payments	<u>249,070</u>	<u>411,818</u>
Less amount representing interest	<u>16,835</u>	<u>36,017</u>
Present value of net minimum lease payments	<u>\$232,235</u>	<u>\$375,801</u>

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 it stops 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. At June 30, 2005, the County reported closure and postclosure care costs for the two landfills discussed below.

At June 30, 2005, the County has reported landfill closure and postclosure care liabilities totaling \$2,330,281. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills. The liability reported for the Eastern Regional landfill of \$1,676,691 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 \$653,590 is based on 5.73 percent use of the landfill's capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,752,862 as the remaining estimated capacity is filled. The County expects to close this landfill in 2042.

The landfills' closure and postclosure care costs are based on what it would cost to perform all closure and postclosure care in fiscal year 2005. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

Cochise County
Notes to Financial Statements
June 30, 2005

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2005, the County paid for compensated absences as follows: 62 percent from the General Fund, 9 percent from the Highway and Streets Fund, 5 percent from the Cochise Health Systems Fund, 3 percent from the Solid Waste Operations Fund, and 21 percent from other funds.

Note 7 - 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 11 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 \$100 million per occurrence for property claims and \$10 million per occurrence for liability claims. 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 11 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, life, and short-term disability benefits to its employees and their dependents through the Cochise Combined 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 and may require its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for a proportional share of any claims run-out costs, including administrative costs, that exceed trust fund reserves. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

Cochise County
Notes to Financial Statements
June 30, 2005

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 triennially. The Cochise Combined Trust receives independent audits 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 8 - Retirement Plans

Plan Descriptions—The County contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. In addition, the County contributes to the Elected Officials Retirement Plan, which is not described due to the plan's relative insignificance to the County's financial statements.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Corrections Officer Retirement Plan* (CORP) is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and county employees whose primary duties require direct inmate contact. The CORP is governed by The Fund Manager of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

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

ASRS

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

PSPRS, CORP, and EORP

3010 East Camelback Road, Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

Cochise County
Notes to Financial Statements
June 30, 2005

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

Cost-sharing plans—For the year ended June 30, 2005, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2005, 2004, and 2003, were \$1,528,485, \$1,442,237, and \$604,497, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2005, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 15.81 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 3.90 percent.

Annual Pension Cost—The County's pension cost for the two agent plans for the year ended June 30, 2005, and related information follows:

	PSPRS	CORP
Contribution rates:		
County	15.81%	3.90%
Plan members	7.65%	8.50%
Annual pension cost	\$502,942	\$65,821
Contributions made	\$502,942	\$65,821

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2003, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2003, was 20 years.

Cochise County
Notes to Financial Statements
June 30, 2005

Trend Information—Annual pension cost information for the current and 2 preceding years follows for each of the agent plans:

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2005	\$502,942	100%	\$0
	2004	405,246	100	0
	2003	207,186	100	0
CORP	2005	\$65,821	100%	\$0
	2004	59,539	100	0
	2003	33,600	100	0

Note 9 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2005, were as follows:

Payable from	Payable to								Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Cochise Health Systems Fund	Solid Waste Operations Fund	Bisbee- Douglas International Airport Fund	Internal Service Funds	
General Fund		\$ 39,720	\$198,885	\$ 189,871	\$ 72,824	\$ 2,742	\$38,673	\$ 46,321	\$ 589,036
Capital Projects Fund	\$ 13,000		643	72,001		9,040			94,684
Highway and Streets Fund	20			16,486				83,024	99,530
Other Governmental Funds	198,630	3,383	29,156	455,735				9	686,913
Cochise Health Systems Fund	728			726				9	1,463
Solid Waste Operations Fund	198	22,652	308	3,636				149,823	176,617
Bisbee-Douglas International Airport Fund	65,960			140				20	66,120
Internal Service Funds	<u>155,767</u>	<u>34,462</u>	<u>360,328</u>	<u>11,637</u>	<u>1,774</u>	<u>165,974</u>	<u>435</u>		<u>730,377</u>
Total	<u>\$434,303</u>	<u>\$100,217</u>	<u>\$589,320</u>	<u>\$750,232</u>	<u>\$ 74,598</u>	<u>\$177,756</u>	<u>\$39,108</u>	<u>\$279,206</u>	<u>\$2,444,740</u>

Cochise County
Notes to Financial Statements
June 30, 2005

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

Interfund transfers—Interfund transfers for the year ended June 30, 2005, were as follows:

Transfer from	Transfer to							Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Solid Waste Operations Fund	Bisbee-Douglas International Airport Fund	Internal Service Funds	
General Fund		\$ 8,500		\$ 427,317		\$ 92,460	\$ 99,758	\$ 628,035
Highway and Streets Fund		26,075					752,000	778,075
Other Governmental Funds	\$115,709	136,429	\$121,000	892,149		29,149	114,834	1,409,270
Cochise Health Systems Fund	500,000							500,000
Solid Waste Operations Fund							92,863	92,863
Internal Service Funds					\$78,202			78,202
Total	<u>\$615,709</u>	<u>\$171,004</u>	<u>\$121,000</u>	<u>\$1,319,466</u>	<u>\$78,202</u>	<u>\$121,609</u>	<u>\$1,059,455</u>	<u>\$3,486,445</u>

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

During the year ended June 30, 2005, the County made a one-time transfer of \$614,000 from the Highway and Streets Fund to the Internal Service Funds to establish an Internal Service Fund to account for the operations and maintenance of heavy fleet machinery.

Note 10 - County Treasurer's Investment Pool

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

Cochise County
Notes to Financial Statements
June 30, 2005

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 \$1,811,880 of deposits, \$2,884,815 of investments in the Arizona State Treasurer's investment pools, and a \$888,068 investment in a U.S. Treasury money market fund. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks disclosed in Note 3.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
Arizona State Treasurer's investment pool	\$18,368,943	None stated	None stated	\$18,368,944
U.S. Treasury securities	11,070,490	Zero coupon	Up to 3 years	11,349,490
U.S. agency securities	55,092,866	2.20–4.44%	Up to 3 years	54,546,455
Repurchase agreement	9,900,000	None stated	Overnight	9,900,000

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

Statement of Net Assets

Assets	<u>\$ 96,605,667</u>
Net assets	<u>\$ 96,605,667</u>

Net assets held in trust for:

Internal participants	\$ 29,719,718
External participants	<u>66,885,949</u>
Total net assets held in trust	<u>\$ 96,605,667</u>

Statement of Changes in Net Assets

Total additions	\$354,510,501
Total deductions	<u>346,068,649</u>
Net increase	<u>8,441,852</u>
Net assets held in trust:	
July 1, 2004	<u>88,163,815</u>
June 30, 2005	<u>\$ 96,605,667</u>

Cochise County
Notes to Financial Statements
June 30, 2005

Note 11 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

Housing Authority of Cochise County and Cochise County Workforce Development

Basis of Accounting

The discretely presented component unit financial 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, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Cochise County Workforce Development

Due from other governments

Due from other governments represents uncollateralized amounts due from the United States federal government and under contractual agreements with the State of Arizona and county governments. Due to the nature of the receivables and the subsequent collection of amounts, no allowance for doubtful accounts has been recorded.

Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Cochise County Workforce Development has no infrastructure assets. Depreciation is computed using the straight-line method over the following estimated useful life of the assets:

Furniture and equipment	5 to 10 years
Vehicles	3 to 5 years

Program Revenues

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

B. Cash and Investments

Housing Authority of Cochise County

At June 30, 2005, the carrying amount of the Housing Authority's deposits was \$193,500 and the bank balance was \$212,351. At June 30, 2005, the Housing Authority's deposits were entirely covered by federal depository insurance or by collateral held by the pledging financial institution.

Cochise County
Notes to Financial Statements
June 30, 2005

C. Due from other governments

Cochise County Workforce Development

Due from other governments consists of the following grants receivable at June 30, 2005:

Program	Amount
WIA Administration	\$ 989
WIA Adult Program	39,963
WIA Youth Program	121,548
WIA Dislocated Workers	12,632
WIA TANF	10,642
Rapid Response	13,822
Employment and Training Administration Pilots, Demonstrations, and Research Projects (H-1B)	49,443
Department of Commerce	<u>350</u>
	<u><u>\$249,389</u></u>

D. Capital Assets

Cochise County Workforce Development

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Increases	Balance June 30, 2005
Capital assets being depreciated:			
Furniture and equipment	\$160,030	\$ 83,372	\$243,402
Vehicles	<u>60,068</u>	<u> </u>	<u>60,068</u>
Total	<u>220,098</u>	<u>83,372</u>	<u>303,470</u>
Less accumulated depreciation	<u>119,838</u>	<u>29,638</u>	<u>149,476</u>
Total capital assets being depreciated, net	<u>\$100,260</u>	<u>\$ 53,734</u>	<u>\$153,994</u>

Other Required Supplementary Information

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes	\$ 21,514,000	\$ 21,514,000	\$ 26,471,918	\$ 4,957,918
Licenses and permits	67,500	47,500	53,165	5,665
Fees, fines, and forfeits	2,462,568	2,478,568	2,280,587	(197,981)
Intergovernmental	13,090,069	13,090,069	14,453,015	1,362,946
Charges for services	2,360,492	2,364,492	2,685,931	321,439
Investment income	160,000	160,000	130,246	(29,754)
Miscellaneous	111,852	111,852	256,633	144,781
Total revenues	<u>39,766,481</u>	<u>39,766,481</u>	<u>46,331,495</u>	<u>6,565,014</u>
Expenditures:				
Current:				
General government				
Assessor	1,614,023	1,599,574	1,450,944	148,630
Attorney	1,752,110	1,716,747	1,614,181	102,566
Board of Supervisors	1,098,583	1,037,025	904,807	132,218
Elections	309,426	309,426	321,437	(12,011)
Finance	784,940	796,830	741,811	55,019
General Government	1,535,612	1,312,669	845,272	467,397
General Government Overhead	4,339,343	3,762,488	(1,850,485)	5,612,973
Human Resources	1,206,126	1,207,000	1,109,061	97,939
Planning and Zoning	620,257	1,032,879	925,405	107,474
Recorder	320,225	320,225	301,410	18,815
Treasurer	1,018,556	1,044,720	989,814	54,906
Public Defender	1,141,956	1,162,913	1,154,361	8,552
Legal Defender	806,375	807,169	715,926	91,243
Willcox Airport	75,975	125,225	120,017	5,208
Facilities	1,612,030	1,816,115	1,801,774	14,341
Utilities	710,600	818,479	821,317	(2,838)
Court Administration	1,139,514	834,485	775,412	59,073
Superior Court Division	845,780	856,677	824,434	32,243
Court Security	300,038	297,357	296,340	1,017
Mandatory Judicial Services	159,675	123,376	114,632	8,744
Mandatory Indigent Defense	941,516	921,554	843,644	77,910
Justice of the Peace	1,879,499	1,903,826	1,883,199	20,627
Clerk of Superior Court	1,313,338	1,309,014	1,295,575	13,439
Adult Probation	435,618	438,836	434,620	4,216
Juvenile Probation	1,071,861	1,085,695	1,044,239	41,456
Sierra Vista Constable	158,564	141,527	126,679	14,848
Constables	65	65	13	52
Information Technology	1,796,911	1,858,156	1,673,457	184,699
Total general government	<u>28,988,516</u>	<u>28,640,052</u>	<u>21,279,296</u>	<u>7,360,756</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005
(Concluded)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Public safety				
Sheriff	\$ 10,045,630	\$ 10,104,679	\$ 9,973,255	\$ 131,423
Building Inspection	758,834	319,041	171,103	147,938
Emergency Services	99,663	104,391	100,586	3,805
Juvenile Detention	1,121,504	1,112,290	1,029,062	83,228
Juvenile Detention Medical	116,904	105,575	100,304	5,272
Jail Medical	468,832	551,876	534,120	17,755
Jail Counselor	69,058	32,333	32,406	(73)
Medical Examiner	180,000	180,000	180,000	
Total public safety	<u>12,860,425</u>	<u>12,510,185</u>	<u>12,120,836</u>	<u>389,348</u>
Sanitation	<u>574,243</u>	<u>591,762</u>	<u>591,731</u>	<u>31</u>
Health and welfare				
Health	1,439,031	1,344,187	1,300,513	43,674
Health and Social Services	8,586,346	8,539,481	8,511,925	27,557
Total health and welfare	<u>10,025,377</u>	<u>9,883,668</u>	<u>9,812,438</u>	<u>71,231</u>
Education				
School Superindendent	<u>337,794</u>	<u>337,794</u>	<u>331,771</u>	<u>6,023</u>
Total education	<u>337,794</u>	<u>337,794</u>	<u>331,771</u>	<u>6,023</u>
Total expenditures	<u>52,786,355</u>	<u>51,963,461</u>	<u>44,136,072</u>	<u>7,827,389</u>
Excess (deficiency) of revenues over expenditures	(13,019,874)	(12,196,980)	2,195,423	14,392,403
Other financing sources (uses):				
Sale of capital assets	1,000	1,000	4,472	3,472
Transfers in	4,928,236	4,928,236	615,709	(4,312,527)
Transfers out	<u>(26,500)</u>	<u>(849,394)</u>	<u>(628,035)</u>	<u>221,359</u>
Total other financing sources and uses	<u>4,902,736</u>	<u>4,079,842</u>	<u>(7,854)</u>	<u>(4,087,696)</u>
Net change in fund balances	<u>(8,117,138)</u>	<u>(8,117,138)</u>	<u>2,187,569</u>	<u>10,304,707</u>
Fund balances, July 1, 2004	<u>8,117,138</u>	<u>8,117,138</u>	<u>8,727,519</u>	<u>609,381</u>
Fund balances, June 30, 2005	<u>\$</u>	<u>\$</u>	<u>\$ 10,915,088</u>	<u>\$ 10,914,088</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Highway and Streets Fund
Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues:				
Intergovernmental	\$ 9,663,686	\$ 9,663,686	\$ 11,210,146	\$ 1,546,460
Charges for services	470,250	470,250	431,160	(39,090)
Investment income	30,000	30,000	53,006	23,006
Miscellaneous	1,251,425	2,249,915	86,888	(2,163,027)
Total revenues	<u>11,415,361</u>	<u>12,413,851</u>	<u>11,781,200</u>	<u>(632,651)</u>
Expenditures:				
Current:				
Highways and streets	<u>10,866,361</u>	<u>11,671,799</u>	<u>9,141,614</u>	<u>2,530,185</u>
Total expenditures	<u>10,866,361</u>	<u>11,671,799</u>	<u>9,141,614</u>	<u>2,530,185</u>
Excess (deficiency) of revenues over expenditures	549,000	742,052	2,639,586	1,897,534
Other financing sources (uses):				
Sale of capital assets			82,005	82,005
Transfers in	121,000	121,000	121,000	
Transfers out	<u>(670,000)</u>	<u>(863,052)</u>	<u>(778,075)</u>	<u>84,977</u>
Total other financing sources and uses	<u>(549,000)</u>	<u>(742,052)</u>	<u>(575,070)</u>	<u>166,982</u>
Net change in fund balances	<u> </u>	<u> </u>	<u>2,064,516</u>	<u>2,064,516</u>
Fund balances, July 1, 2004	<u> </u>	<u> </u>	<u>2,524,152</u>	<u>2,524,152</u>
Fund balances, June 30, 2005	<u>\$ </u>	<u>\$ </u>	<u>\$ 4,588,668</u>	<u>\$ 4,588,668</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2005

Note 1 - Budgeting and Budgetary Control

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

Expenditures may not legally exceed appropriations at the department level. The General Fund's budgeted and actual expenditures are presented at a level of detail that includes individual divisions comprising each General Fund department (the legal level of budgetary control). In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

The schedules' general government and highways and streets actual expenditure amounts differ from the expenditures reported on the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances. In the schedules, the General Fund's general government and public safety budget and actual expenditures include capital outlay expenditures and the Highway and Streets Fund's highways and streets expenditures include capital outlay and debt service expenditures. The capital outlay and debt service expenditures are separately reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Cochise County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2005

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/05	\$12,540,527	\$20,207,027	\$(7,560,030)	62.1%	3,290,973	233.0%
6/30/04	12,725,616	16,926,781	(4,201,165)	75.2	3,025,398	138.9
6/30/03	13,053,585	15,405,210	(2,351,625)	84.7	2,718,609	86.5

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/05	\$4,301,845	\$4,195,375	\$106,470	102.5%	\$1,718,623	-
6/30/04	4,051,304	3,643,207	408,097	111.2	1,701,777	-
6/30/03	4,031,075	3,357,476	673,599	120.1	1,716,580	-

Supplementary Information

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
Passed through the Pima County Sheriff's Department			
High Intensity Drug Trafficking Areas	07.I3PSAP549	0111C1324741002	\$ 22,573
High Intensity Drug Trafficking Areas	07.I4PSAP549Z	0111C1341941003	348,683
High Intensity Drug Trafficking Areas	07.I5PSAP549Z	0111C1362161004	193,799
Total U.S. Office of National Drug Control Policy			<u>565,055</u>
U.S. Department of Agriculture			
National Forest System—Law Enforcement	10.unknown		6,000
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	KR02-1592	663,104
Passed through the Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	122357936	95,467
Total U.S. Department of Agriculture			<u>764,571</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing			
Community Development Block Grants/Entitlement Grants	14.218	160-04	130,655
Passed through the Arizona Department of Commerce			
Community Development Block Grants/State's Program	14.228	KR02-0084	109,855
Passed through the Arizona Department of Housing			
HOME Investment Partnerships Program	14.239	311-03	77,328
Housing Opportunities for Persons with AIDS	14.241	534-04	98,106
Section 8 Housing Choice Vouchers	14.871		1,721,344
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		527,876
Total U.S. Department of Housing and Urban Development			<u>2,665,164</u>
U.S. Department of the Interior			
Bureau of Land Management—Law Enforcement	15.unknown		4,319
Cultural Resource Management	15.224		21,534
Payments in Lieu of Taxes	15.226		1,255,490
Passed through the Arizona Game and Fish Department			
Payments in Lieu of Taxes	15.226	210012067	2,994
Total Payments in Lieu of Taxes			<u>1,258,484</u>
Passed through the Arizona State Treasurer			
Distribution of Receipts to State and Local Governments	15.227	37-723	6,596
Total U.S. Department of the Interior			<u>1,290,933</u>
U.S. Department of Justice			
Passed through the Arizona Governor's Office for Children, Youth, and Families			
Juvenile Accountability Incentive Block Grants	16.523	JB-GRA-04-6273-02	34,236
Passed through the City of Phoenix Police Department			
Missing Children's Assistance	16.543	200-MC-CXK018	8,000

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2003-369	\$ 53,651
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-05-050	27,724
Byrne Formula Grant Program	16.579	PC-050-05, AC-080-05	264,472
Drug Court Discretionary Grant Program	16.585		135,198
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589		183,000
Local Law Enforcement Block Grants Program	16.592		19,097
Community Prosecution and Project Safe Neighborhoods	16.609		41,372
Public Safety Partnership and Community Policing Grants	16.710		428,650
Total U.S. Department of Justice			<u>1,195,400</u>
U.S. Department of Labor			
Passed through the Arizona Department of Economic Security			
WIA Cluster:			
WIA Adult Program	17.258	E5705002, E5704002	382,721
WIA Youth Activities	17.259	E5705002, E5704002	598,713
WIA Dislocated Workers	17.260	E5705002, E5704002	285,487
Total WIA Cluster			<u>1,266,921</u>
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		704,955
Youth Opportunity Grant	17.263		280,898
Total U.S. Department of Labor			<u>2,252,774</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106		1,107,659
Passed through the Governor's Office of Highway Safety			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2004-410-010, 2004-410-022	58,704
Total U.S. Department of Transportation			<u>1,166,363</u>
U.S. Department of Education			
Passed through the Arizona Supreme Court			
Title I Grants to Local Educational Agencies	84.010	26706	49,292
Passed through the Arizona Department of Education			
Special Education—Grants to States	84.027	H027A020007, H027A040007	35,822
Reading First State Grants	84.357	S357A020003	36,556
English Language Acquisition Grants	84.365	H027A020007	49,885
Mathematics and Science Partnerships	84.366	S366B040003	46,683
Improving Teacher Quality State Grants	84.367	S367A040049	51,632
Total U.S. Department of Education			<u>269,870</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005
(Concluded)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
Passed through the Southeastern Arizona Governments Organization			
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	05-12	\$ 241,255
Passed through the Arizona Department of Health Services			
Immunization Grants	93.268	KR02-2023	114,316
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	KR04-1552-EHS, KR04-1745EHS	935,854
Passed through the Arizona Department of Economic Security			
Grants to States for Access and Visitation Programs	93.597	E7203303	7,558
Passed through the Secretary of State of Arizona			
Voting Access for Individuals with Disabilities—Grants to States	93.617	42USC 15461	9,000
Passed through the Community Foundation for Southern Arizona			
HIV Care Formula Grants	93.917	86-600398	13,143
Passed through the Arizona Department of Health Services			
HIV Care Formula Grants	93.917	152060	127,570
Total HIV Care Formula Grants			<u>140,713</u>
HIV Prevention Activities—Health Department Based	93.940	KR 03-0017	31,059
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	KR04-0148EHS	1,333
Preventive Health and Health Services Block Grant	93.991	KR02-1998	56,156
Maternal and Child Health Services Block Grant to the States	93.994	KR02-1854	35,876
Total U.S. Department of Health and Human Services			<u>1,573,120</u>
Homeland Security Grant Program Cluster			
U.S. Department of Justice			
Passed through the Arizona Department of Emergency and Military Affairs			
State and Local Domestic Preparedness Equipment Support Program	16.007	2003-TE-CX-0196	43,694
U.S. Department of Homeland Security			
Passed through the Arizona Department of Emergency and Military Affairs			
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0051	12,195
Emergency Management Performance Grants	97.042	974042	16,954
Homeland Security Grant Program	97.067	975042	25,410
Total U.S. Department of Homeland Security			<u>54,559</u>
Total Homeland Security Grant Program Cluster			<u>98,253</u>
Total Expenditures of Federal Awards			<u>\$11,841,503</u>

See accompanying notes to schedule.

Cochise County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cochise County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2005 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients:

Program Title	CFDA Number	Amount Provided to Subrecipients
High Intensity Drug Trafficking Areas	07.I3PSAP549	\$ 2,493
High Intensity Drug Trafficking Areas	07.I4PSAP549Z	100,735
High Intensity Drug Trafficking Areas	07.I5PSAP549Z	39,416
Byrne Formula Grant Program	16.579	82,034
WIA Youth Activities	17.259	396,003
Youth Opportunity Grant	17.263	81,344
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	13,332
Homeland Security Grant Program Cluster: State and Local Domestic Preparedness Equipment Support Program	16.007	43,694
State Domestic Preparedness Equipment Support Program	97.004	12,195



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
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 the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 7, 2006. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40 and was modified due to our reliance on the reports of other auditors. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We and the reports of the other auditors noted no matters involving internal control over financial reporting and its operation that we and the other auditors consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter at a future date.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we will report to the County's management in a separate letter at a future date.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

April 7, 2006



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

Compliance

We have audited the compliance of Cochise County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005, except for that portion of the federal programs administered by Cochise County Workforce Development and the Housing Authority of Cochise County. Those entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the compliance of those entities with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, is based solely on the reports 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the reports of the other auditors.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major 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 reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, based on our audit and the reports of the other auditors, Cochise County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 05-101 and 05-102.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-101 and 05-102.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

April 7, 2006

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified				
	<table border="0"> <tr> <td style="text-align: center;">Yes</td> <td style="text-align: center;">No</td> </tr> <tr> <td style="text-align: center;">___</td> <td style="text-align: center;">___ <u>X</u></td> </tr> </table>	Yes	No	___	___ <u>X</u>
Yes	No				
___	___ <u>X</u>				
Material weakness identified in internal control over financial reporting?					
Reportable condition identified not considered to be a material weakness?	<table border="0"> <tr> <td style="text-align: center;">___</td> <td style="text-align: center;">___ <u>X</u></td> </tr> <tr> <td></td> <td style="text-align: right;">(None reported)</td> </tr> </table>	___	___ <u>X</u>		(None reported)
___	___ <u>X</u>				
	(None reported)				
Noncompliance material to the financial statements noted?	<table border="0"> <tr> <td style="text-align: center;">___</td> <td style="text-align: center;">___ <u>X</u></td> </tr> </table>	___	___ <u>X</u>		
___	___ <u>X</u>				

Federal Awards

Material weaknesses identified in internal control over major programs?	___ <u>X</u>
Reportable conditions identified not considered to be material weaknesses?	<u>X</u> ___
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u> ___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
07.13PSAP549	High Intensity Drug Trafficking Areas
07.14PSAP549Z	High Intensity Drug Trafficking Areas
07.15PSAP549Z	High Intensity Drug Trafficking Areas
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871	Section 8 Housing Choice Vouchers
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing
16.585	Drug Court Discretionary Grant Program
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
20.106	Airport Improvement Program
93.917	HIV Care Formula Grants

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Yes No

Dollar threshold used to distinguish between Type A and Type B programs: \$355,245

Auditee qualified as low-risk auditee? X

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? X

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

05-101

CFDA No.: 20.106 **Airport Improvement Program**

U.S. Department of Transportation

Award Number: DTFA08-04-C-21771

Award Year: 2004

Questioned Cost: N/A

The County did not adequately monitor its construction contractor's compliance with the Davis-Bacon Act. The County included provisions in its federally financed construction contract requiring the contractor to pay prevailing wage rates and to submit weekly certified payrolls as required by 29 Code of Federal Regulations (CFR) §5.5. However, while the contract work was performed, County officials did not ensure that the County received and retained the contractor's weekly certified payrolls. As a result of our audit inquiries, the County obtained all applicable weekly certified payrolls from the contractor.

To help ensure compliance with the Davis-Bacon Act and 29 CFR §5.5(a)(3)(ii), the County should monitor all federally financed construction contractors' payrolls and enforce its contract provisions that require the contractor to submit weekly certified payrolls. This monitoring should be done while the construction contract work is performed. Also, the County should retain the certified payrolls for an appropriate period of time.

05-102

CFDA No.: 16.585 **Drug Court Discretionary Grant Program**

U.S. Department of Justice

All award years and awards

Questioned Cost: Unknown

The County did not have adequate policies and procedures to ensure compliance with federal cost principles. The County used salaries and wages of employees who worked on multiple activities to meet the matching requirements of its Drug Court Discretionary Grant Program. However, the County did not maintain adequate documentation of these employees' actual activities.

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, 8.h (7), requires that salaries and wages used to meet matching requirements be supported in the same manner as those claimed as allowable costs under federal awards. Salaries and wages of employees who work on multiple activities must be supported by personnel activity reports or equivalent documentation that record an after-the-fact distribution of the total actual activity of each employee.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Because of this lack of documentation, we performed other audit procedures such as inquiries and observations that indicated the County had materially complied with the program's matching requirements. However, we were unable to determine the questioned costs, if any, that may have resulted from this finding.

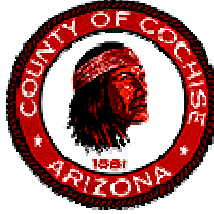
To comply with OMB Circular A-87, the County should establish policies and procedures that require personnel activity reports or equivalent documentation to be maintained for all employees who work on multiple activities that include a federal program.

Board of Supervisors

Patrick G. Call
Chairman
District 1

Paul Newman
Vice-Chairman
District 2

Richard R. Searle
District 3



Jody N. Klein
County Administrator

Katie A. Howard
Clerk

April 7, 2006

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Lois Klein
Director of Finance
Cochise County

Cochise County
Corrective Action Plan
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

05-101
CFDA No.: 20.106 **Airport Improvement Program**
U.S. Department of Transportation
Contact: L. H. Hamilton
Anticipated Completion Date: June 30, 2006

Cochise County is in the process of forming a committee that will be initiating a new policy and procedures to assure that the County monitors all federally financed construction contracts. The procedures will assure that payroll certifications are received from a construction contractor during the period that the contract work is performed. The policy will also assure that these payroll certifications are retained for an appropriate period of time. Finance personnel in each department will be required to attend a training class on the new policy and procedures.

05-102
CFDA No.: 16.585 **Drug Court Discretionary Grant Program**
U.S. Department of Justice
Contact: Myrtle Young
Anticipated completion date: June 30, 2006

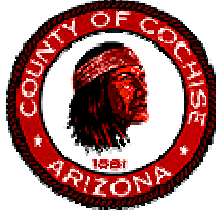
Cochise County is in the process of forming a committee that will be initiating a new policy and procedures that require salaries and wages used to meet matching requirements be supported in the same manner as those claimed as allowable costs under Federal awards. It will require that salaries and wages of employees who work on multiple activities be supported by personnel activity reports or other equivalent documentation that record an after-the-fact distribution of the total actual activity of each employee. The documentation will be retained for all federal program costs and matching costs. Finance personnel in each department will be required to attend a training class on the new policy and procedures.

Board of Supervisors

Patrick G. Call
Chairman
District 1

Paul Newman
Vice-Chairman
District 2

Richard R. Searle
District 3



Jody N. Klein
County Administrator

Katie A. Howard
Clerk

April 7, 2006

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. No audit findings from a prior Summary Schedule of Prior Audit Findings were required to be reported on this schedule.

Sincerely,

Lois Klein
Director of Finance
Cochise County, Arizona

Cochise County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Status of Federal Award Findings and Questioned Costs

Finding No.: 04-101

CFDA No.: 07.14PSAP549 **High Intensity Drug Trafficking Areas**

U. S. Office of National Drug control Policy, passed through the Pima County Sheriff's Department

Status: Fully corrected.