

COCHISE COUNTY, ARIZONA
Single Audit Reporting Package
June 30, 2002

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The Auditor General of the State of Arizona

The Board of Supervisors of
Cochise County, Arizona

We have audited the accompanying primary government financial statements of Cochise County, Arizona, as of and for the year ended June 30, 2002, as listed in the table of contents. These primary government financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these primary government financial statements based on our audit.

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 provides a reasonable basis for our opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the financial position of the primary government of Cochise County as of June 30, 2002, and the results of its operations, the cash flows of its proprietary fund types, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

However, the primary government financial statements, because they do not include the financial data of the component unit of Cochise County do not purport to, and do not, present fairly the financial position of Cochise County as of June 30, 2002, and the results of its operations, the cash flows of its proprietary fund types, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

Cochise County, Arizona
December 6, 2002

Our audit was made for the purpose of forming an opinion on the primary government financial statements of Cochise County taken as a whole. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by 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 primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2002, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

CHRISTENSEN, GALE & MCLAREN, LLP

December 6, 2002

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COCHISE COUNTY
Combined Balance Sheet — All Fund Types and Account Groups
June 30, 2002

Assets	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
Cash and cash equivalents	\$ 109,395	\$ 93,620	\$ 4,257	\$ 7,913	\$ 1,052	\$ 1,353,561	\$	\$
Cash and investments held by County Treasurer	9,409,091	9,707,916	4,154,698	3,886,934	664,730	61,816,981		
Cash and investments held by trustee	365,030							
Investments				3,923,269				
Receivables (net of allowances for uncollectibles):								
Property taxes	782,577	141,955						
Accounts	636,989	84,112		316,374	29,210			
Accrued interest	21,586	22,273	9,532	18,973	1,525	149,385		
Due from:								
Other funds	425,763	485,223		298,230	170,591			
Other governments	1,615,993	3,001,878	303,282	269,896				
Prepaid items	188,730	432		18,750	345,439			
Fixed assets:								
Land				1,591,500			1,798,660	
Buildings				4,520,844	160,160		21,968,683	
Accumulated depreciation				(372,367)	(14,484)			
Improvements other than buildings				515,456			886,286	
Accumulated depreciation				(234,306)				
Machinery and equipment				2,360,295	5,977,831		12,752,153	
Accumulated depreciation				(1,326,729)	(3,248,744)			
Construction in progress (estimated cost to complete - \$10,929,000)							11,299	
Amount to be provided for retirement of general long-term debt								4,240,382
Total assets	<u>\$ 13,555,154</u>	<u>\$ 13,537,409</u>	<u>\$ 4,471,769</u>	<u>\$ 15,795,032</u>	<u>\$ 4,087,310</u>	<u>\$ 63,319,927</u>	<u>\$ 37,417,081</u>	<u>\$ 4,240,382</u>

(Continued)

COCHISE COUNTY
Combined Balance Sheet — All Fund Types and Account Groups
June 30, 2002
(Continued)

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u>		<u>Fiduciary</u> <u>Fund Types</u>	<u>Account Groups</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>
Liabilities and Fund Equity								
Liabilities:								
Accounts payable	\$ 798,058	\$ 1,315,911	\$ 1,900	\$ 163,504	\$ 164,353	\$	\$	\$
Accrued payroll and employee benefits	592,540	238,179		143,541	15,582			2,489,554
Due to:								
Other funds	286,814	679,031	47,444	355,132	11,386			
Other governments		135,187						
Deposits held for others	16,164	2,844				1,353,561		
Obligations under capital leases								30,828
Claims and judgments payable				2,187,784	323,207			
Landfill closure and postclosure care costs payable				1,857,827				
Certificates of participation payable								1,720,000
Deferred revenues	1,580,013	107,089		485				
Total liabilities	<u>3,273,589</u>	<u>2,478,241</u>	<u>49,344</u>	<u>4,708,273</u>	<u>514,528</u>	<u>1,353,561</u>	<u>-</u>	<u>4,240,382</u>
Fund equity:								
Contributed capital				261,658	681,366			
Investment in general fixed assets							37,417,081	
Retained earnings, unreserved				10,825,101	2,891,416			
Fund balances:								
Reserved for certificates of participation	370,754							
Reserved for investment trust participants						61,966,366		
Unreserved	<u>9,910,811</u>	<u>11,059,168</u>	<u>4,422,425</u>					
Total fund equity	<u>10,281,565</u>	<u>11,059,168</u>	<u>4,422,425</u>	<u>11,086,759</u>	<u>3,572,782</u>	<u>61,966,366</u>	<u>37,417,081</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 13,555,154</u>	<u>\$ 13,537,409</u>	<u>\$ 4,471,769</u>	<u>\$ 15,795,032</u>	<u>\$ 4,087,310</u>	<u>\$ 63,319,927</u>	<u>\$ 37,417,081</u>	<u>\$ 4,240,382</u>

COCHISE COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Government Fund Types
Year Ended June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Revenues:			
Taxes	\$ 22,044,122	\$ 2,467,058	\$ 1,164,832
Licenses and permits	43,846		
Intergovernmental	11,697,806	20,247,696	233,000
Charges for services	1,913,516	1,526,955	
Fines and forfeits	1,924,875	369,592	
Investment income	272,950	311,386	141,386
Miscellaneous	283,756	773,853	(16,954)
Total revenues	<u>38,180,871</u>	<u>25,696,540</u>	<u>1,522,264</u>
Expenditures:			
Current:			
General government	16,830,905	7,841,027	
Public safety	10,271,950	2,539,073	
Highways and streets		8,316,866	
Sanitation	460,580	196,151	
Health and welfare	8,657,608	3,393,055	
Culture and recreation		835,971	
Education	292,448	212,998	
Capital outlay	463,616	1,321,899	1,534,446
Debt service:			
Principal retirement	420,000	4,791	
Interest and fiscal charges	96,090	-	-
Total expenditures	<u>37,493,197</u>	<u>24,661,831</u>	<u>1,534,446</u>
Excess of revenues over (under) expenditures	687,674	1,034,709	(12,182)
Other financing sources (uses):			
Operating transfers in	623,024	927,429	10,000
Operating transfers out	(375,538)	(746,606)	(47,444)
Reversion to grantors		(26,900)	
Total other financing sources (uses)	<u>247,486</u>	<u>153,923</u>	<u>(37,444)</u>
Excess of revenues and other sources over (under) expenditures and other uses	935,160	1,188,632	(49,626)
Fund balances, July 1, 2001	9,343,797	9,873,144	4,472,051
Residual equity transfers in	2,608	27,047	
Residual equity transfers out	-	(29,655)	-
Fund balances, June 30, 2001	<u>\$ 10,281,565</u>	<u>\$ 11,059,168</u>	<u>\$ 4,422,425</u>

COCHISE COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—General and Special Revenue Fund Types
Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:						
Taxes	\$ 21,717,076	\$ 22,044,122	\$ 327,046	\$ 2,346,078	\$ 2,467,058	\$ 120,980
Licenses and permits	170,500	43,846	(126,654)			
Intergovernmental	11,444,567	11,697,806	253,239	22,364,908	20,247,696	(2,117,212)
Charges for services	1,874,364	1,913,516	39,152	2,026,737	1,526,955	(499,782)
Fines and forfeits	1,605,100	1,924,875	319,775	324,571	369,592	45,021
Investment income	270,000	272,950	2,950	274,491	311,386	36,895
Miscellaneous	122,410	283,756	161,346	2,552,413	773,853	(1,778,560)
Total revenues	<u>37,204,017</u>	<u>38,180,871</u>	<u>976,854</u>	<u>29,889,198</u>	<u>25,696,540</u>	<u>(4,192,658)</u>
Expenditures:						
General government:						
Assessor	1,369,070	1,211,330	157,740			
Attorney	1,431,105	1,362,274	68,831	3,072,186		3,072,186
Board of Supervisors	843,291	735,243	108,048			
Elections	89,156	87,894	1,262			
Finance	480,951	463,131	17,820			
Purchasing	134,185	135,607	(1,422)			
Human Resources	274,786	245,170	29,616			
Risk Management	695,752	588,793	106,959			
Planning and Zoning	476,201	422,694	53,507			
Community Development				634,765		634,765
Recorder	208,370	202,656	5,714	244,569		244,569
Voter Registration	59,073	45,409	13,664			
Treasurer	925,917	902,979	22,938			
Public Defender	878,273	843,408	34,865	103,075		103,075
Legal Defender	624,446	598,194	26,252	21,909		21,909
Willcox airport operations	20,105	17,746	2,359			
Facilities management	1,783,850	1,468,270	315,580			
Utilities	684,001	669,158	14,843			
General government	(1,153,264)	(1,482,105)	328,841	4,130,727	7,841,027	(3,710,300)
Justice of the Peace Courts	1,558,020	1,479,269	78,751			
Court administration	681,659	624,228	57,431			
Superior Court divisions	765,883	755,988	9,895			
Mandatory judicial services	221,475	203,666	17,809			
Mandatory indigent defense	569,723	752,523	(182,800)			
Court security	246,383	240,113	6,270			
Clerk of the Superior Court	1,086,583	1,057,810	28,773			
Adult probation	360,805	349,795	11,010	1,646,879		1,646,879
Juvenile court services	1,666,623	871,549	795,074	1,191,119		1,191,119
Sierra Vista Constable	134,431	132,178	2,253			
Constables	68	59	9			
Information Technologies	1,003,488	875,945	127,543			
IT Communications	659,721	572,728	86,993			
IT capital reserve	1,505,226	397,203	1,108,023			
High intensity drug trafficking areas				301,763		301,763
Total general government	<u>20,285,356</u>	<u>16,830,905</u>	<u>3,454,451</u>	<u>11,346,992</u>	<u>7,841,027</u>	<u>3,505,965</u>

(continued)

COCHISE COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—General and Special Revenue Fund Types
Year Ended June 30, 2002

(continued)

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety:						
Sheriff	8,907,214	8,452,326	454,888	516,708	2,539,073	(2,022,365)
Emergency services	75,693	73,736	1,957			
Medical Examiner	180,000	172,500	7,500			
Juvenile detention	101,516	803,977	(702,461)			
Juvenile detention medical services	77,489	46,899	30,590			
Jail medical services	385,040	345,968	39,072			
Jail counselor	65,324	55,172	10,152			
Building inspection division	366,096	321,372	44,724			
General government				2,823,274		2,823,274
High intensity drug trafficking areas				728,536		728,536
Total public safety	<u>10,158,372</u>	<u>10,271,950</u>	<u>(113,578)</u>	<u>4,068,518</u>	<u>2,539,073</u>	<u>1,529,445</u>
Highways and streets:						
Public Works				10,699,012	8,316,866	2,382,146
Sanitation:						
Environmental health	<u>539,291</u>	<u>460,580</u>	<u>78,711</u>	<u>324,832</u>	<u>196,151</u>	<u>128,681</u>
Health and welfare:						
Administration	375,833	303,908	71,925			
Medical assistance	7,375,297	7,113,583	261,714			
Respite	3,513	801	2,712			
Nursing and community services	634,429	584,006	50,423			
Mental health	257,183	255,467	1,716			
Public fiduciary	420,973	399,843	21,130			
Health and social services				3,462,003	3,393,055	68,948
Housing				1,871,072		1,871,072
Total health and welfare	<u>9,067,228</u>	<u>8,657,608</u>	<u>409,620</u>	<u>5,333,075</u>	<u>3,393,055</u>	<u>1,940,020</u>
Culture and recreation:						
County library				961,461	835,971	125,490
Education:						
School Superintendent	<u>300,593</u>	<u>292,448</u>	<u>8,145</u>	<u>463,712</u>	<u>212,998</u>	<u>250,714</u>
Capital outlay:	<u>3,647,753</u>	<u>463,616</u>	<u>3,184,137</u>	<u>2,831,630</u>	<u>1,321,899</u>	<u>1,509,731</u>
Debt Service:						
Principal retirement	419,999	420,000	(1)	34,600	4,791	29,809
Interest and fiscal charges	96,090	96,090				
Total debt service	<u>516,089</u>	<u>516,090</u>	<u>(1)</u>	<u>34,600</u>	<u>4,791</u>	<u>29,809</u>
Total expenditures	<u>44,514,682</u>	<u>37,493,197</u>	<u>7,021,485</u>	<u>36,063,832</u>	<u>24,661,831</u>	<u>11,402,001</u>

(continued)

COCHISE COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—General and Special Revenue Fund Types
Year Ended June 30, 2002
(continued)

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Excess of revenues over (under) expenditures	(7,310,665)	687,674	7,998,339	(6,174,634)	1,034,709	7,209,343
Other financing sources (uses)						
Operating transfers in	699,126	623,024	(76,102)	1,169,154	927,429	(241,725)
Operating transfers out	(362,905)	(375,538)	(12,633)	(2,530,194)	(746,606)	1,783,588
Reversion to grantors					(26,900)	(26,900)
Total other financing sources (uses)	<u>336,221</u>	<u>247,486</u>	<u>(88,735)</u>	<u>(1,361,040)</u>	<u>153,923</u>	<u>1,514,963</u>
Excess of revenues and other sources over (under) expenditures and other uses	(6,974,444)	935,160	7,909,604	(7,535,674)	1,188,632	8,724,306
Fund balances, July 1, 2001	6,974,444	9,343,797	2,369,353	7,536,857	9,873,144	2,336,287
Residual equity transfer, net	<u>-</u>	<u>2,608</u>	<u>2,608</u>	<u>(1,183)</u>	<u>(2,608)</u>	<u>(1,425)</u>
Fund balances, June 30, 2002	<u>\$ -</u>	<u>\$ 10,281,565</u>	<u>\$ 10,281,565</u>	<u>\$ -</u>	<u>\$ 11,059,168</u>	<u>\$ 11,059,168</u>

COCHISE COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—Capital Projects Fund Types
Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Taxes	\$ 1,015,320	\$ 1,164,832	\$ 149,512
Intergovernmental Revenue	233,000	233,000	
Investment Income	151,000	141,386	(9,614)
Miscellaneous Revenue	<u> </u>	<u>(16,954)</u>	<u>(16,954)</u>
Total Revenues	<u>1,399,320</u>	<u>1,522,264</u>	<u>122,944</u>
Expenditures:			
General Government	248,530	-	248,530
Capital Outlay	<u>5,340,741</u>	<u>1,534,446</u>	<u>3,806,295</u>
Total Expenditures	<u>5,589,271</u>	<u>1,534,446</u>	<u>4,054,825</u>
Excess of revenues over (under) expenditures	<u>(4,189,951)</u>	<u>(12,182)</u>	<u>4,177,769</u>
Other financing sources (uses):			
Operating transfers in	10,000	10,000	
Operating transfers out	<u>(74,770)</u>	<u>(47,444)</u>	<u>27,326</u>
Total other financing sources (uses)	<u>(64,770)</u>	<u>(37,444)</u>	<u>27,326</u>
Excess of revenues and other sources over (under) expenditures and other uses	(4,254,721)	(49,626)	4,205,095
Fund balances, July 1, 2001	<u>4,254,721</u>	<u>4,472,051</u>	<u>217,330</u>
Fund balances, June 30, 2002	<u>\$ -</u>	<u>\$ 4,422,425</u>	<u>\$ 4,422,425</u>

COCHISE COUNTY
Combined Statement of Revenues, Expenses and Changes in
Fund Equity — All Proprietary Fund Types
June 30, 2002

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Operating revenues:		
Charges for services	\$ 26,253,077	\$ 1,624,657
Health plan contributions		4,216,277
Miscellaneous	(23,812)	34,052
Total operating revenues	<u>26,229,265</u>	<u>5,874,986</u>
Operating expenses:		
Personal services	2,609,324	277,620
Supplies	543,752	687,410
Professional services	20,570,270	
Contractual services	1,276,078	4,107,879
Landfill closure and postclosure care costs	186,429	
Depreciation	191,967	569,609
Other	378,906	101,221
Total operating expenses	<u>25,756,726</u>	<u>5,743,739</u>
Operating income	<u>472,539</u>	<u>131,247</u>
Nonoperating revenues:		
Miscellaneous Income	78,860	17,212
Investment income	296,612	26,086
Gain on sale of capital assets	-	9,306
Total nonoperating revenues	<u>375,472</u>	<u>52,604</u>
Income before operating transfers	848,011	183,851
Operating transfers in	472,437	188,689
Operating transfers out	(890,437)	(161,554)
Net income	430,011	210,986
Fund equity, July 1, 2001	10,553,996	3,352,388
Increases in contributed capital	<u>102,752</u>	<u>9,408</u>
Fund equity, June 30, 2002	<u>\$ 11,086,759</u>	<u>\$ 3,572,782</u>

COCHISE COUNTY
Combined Statement of Cash Flows — All Proprietary Fund Types
Year Ended June 30, 2002

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:		
Operating income	\$ 472,539	\$ 131,247
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	191,967	569,609
Changes in assets and liabilities:		
Increase in:		
Accounts receivable		(9,585)
Prepaid items		(318,664)
Due from other funds		(39,901)
Accounts payable	163,504	23,832
Accrued payroll and employee benefits	8,484	6,475
Landfill closure and postclosure care costs payable	186,429	
Claims and judgments payable	32,106	323,207
Decrease in:		
Accounts receivable	6,097	
Prepaid items	25,000	
Due from other funds	280,290	
Due from other governments	102,259	3,776
Due to other funds	(567,676)	(4,171)
Deferred revenues	(1,795)	
Net cash provided by operating activities	<u>899,204</u>	<u>685,825</u>
Cash flows from noncapital financing activities:		
Grant receipts	78,860	17,212
Cash transfers from other funds	472,437	188,690
Cash transfers to other funds	(890,437)	(161,554)
Capital contributions	<u>102,752</u>	<u>9,408</u>
Net cash provided by noncapital financing activities	<u>(236,388)</u>	<u>53,756</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(932,580)	(554,624)
Proceeds from sale of equipment	<u>-</u>	<u>49,327</u>
Net cash used for capital and related financing activities	<u>(932,580)</u>	<u>(505,297)</u>
Cash flows from investing activities:		
Acquisition of investments	(62,315)	
Interest received on investments	<u>306,972</u>	<u>25,853</u>
Net cash provided by (used for) investing activities	<u>244,657</u>	<u>25,853</u>
Net increase (decrease) in cash and cash equivalents	(25,107)	260,137
Cash and cash equivalents, July 1, 2001	<u>3,919,954</u>	<u>405,645</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 3,894,847</u>	<u>\$ 665,782</u>
Cash and Cash Equivalents, July 1, 2002, consist of:		
Cash and cash equivalents	\$ 7,913	\$ 1,052
Cash and investments held by County Treasurer	<u>3,886,934</u>	<u>664,730</u>
Totals	<u>\$ 3,894,847</u>	<u>\$ 665,782</u>
Noncash capital activities:		
Gain on sale of capital assets	<u>\$ -</u>	<u>\$ (9,306)</u>

COCHISE COUNTY
Statement of Net Assets
Investment Trust Fund
June 30, 2002

Assets	<u>Treasurer's Investment Pool</u>
Cash and cash equivalents	\$ 1,004,851
Investments	60,812,130
Interest and dividends receivable	<u>149,385</u>
 Total assets	 <u>61,966,366</u>
 Liabilities	
 Total liabilities	 <u> </u>
 Net assets held in trust	 <u><u>\$ 61,966,366</u></u>

COCHISE COUNTY
Statement of Changes in Net Assets
Investment Trust Fund
Year Ended June 30, 2002

	<u>Treasurer's Investment Pool</u>
Additions:	
Contributions from participants	\$ 163,763,092
Investment income:	
Interest and dividend income	<u>3,889,556</u>
Total investment income	<u>3,889,556</u>
 Total additions	 <u>167,652,648</u>
 Deductions:	
Distributions to participants	<u>164,841,732</u>
Total deductions	<u>164,841,732</u>
 Net increase in net assets	 2,810,916
 Net assets held in trust:	
July 1, 2001	<u>59,155,450</u>
June 30, 2002	<u>\$ 61,966,366</u>

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Cochise County conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, highway and street maintenance and construction, sanitation, health, welfare, culture and recreation, and education. In addition, the County owns and operates two enterprise activities: a landfill and an airport.

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. These general purpose financial statements present all the fund types and account groups of the County (a primary government).

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. The County has no blended component units.

Although the Cochise Private Industry Council, Inc. is a legally separate entity from the County, the Board of Supervisors of the County appoints all members of the Council's governing board and therefore the Council meets the criteria for discrete presentation. However, the Council has separate independent auditors and its audited financial statements for its June 30 year-ends are generally not available by the primary government's financial statements' issuance date. Consequently, the Council is not included in this report as a discretely presented component unit. When available, complete annual financial statements of the Council may be obtained at its administrative offices at 77 Calle Portal, Suite C-220, Sierra Vista, AZ 85635.

B. Fund Accounting

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources.

Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows.

1. Governmental Funds account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in other funds.

The *Special Revenue Funds* account for specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes.

The *Capital Projects Funds* account for resources to be used for acquiring or constructing major capital facilities, other than those financed by Proprietary Funds.

2. Proprietary Funds account for the County's ongoing activities that are similar to those found in the private sector using the flow of economic resources measurement focus. The County applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The County's proprietary funds include the following fund types.

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

The *Internal Service Funds* account for the financing of goods or services provided by the department or agency to other County departments or agencies, or to other governments on a cost-reimbursement basis.

3. Fiduciary Funds account for assets the County holds on behalf of others, and include the following fund types.

The *Investment Trust Funds* account for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

4. Account Groups are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all of the County's fixed assets, except those accounted for in Proprietary Funds.

The *General Long-Term Debt Account Group* accounts for all of the County's long-term obligations, except those accounted for in Proprietary Funds.

C. Basis of Accounting

The financial statements of the Governmental and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due.

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

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

D. Budgeting and Budgetary Control

Arizona Revised Statutes (A.R.S.) require the County to prepare and adopt a balanced budget annually for each separate 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.

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

The County has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue and Capital Projects Funds. Formal budget integration is not employed for the Internal Service and Enterprise Funds because effective budgetary control is alternatively achieved through the capability of cost recovery.

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

E. Cash and Investments

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

F. Inventories

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2002, were immaterial, they are not included in the balance sheet.

G. Fixed Assets

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

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5 – 20 years
Vehicles	8 years

H. 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. However, for employees who have completed 15 years of service, sick leave benefits up to 1,040 hours (or 3,120 hours for Ambulance Drivers) do vest and, therefore, are accrued.

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

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

I. Investment Income

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

J. Property Taxes

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end, or collected in advance of the fiscal year for which they are levied, are reported as deferred revenues.

K. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants for the acquisition of fixed assets of Proprietary Fund Types are recorded as intergovernmental receivables and contributed capital when the related expense is incurred. All other reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

Note 2 - Individual Fund Deficits

The deficit fund balances in individual Special Revenue Funds at June 30, 2002, were as follows:

<u>Fund</u>	<u>Deficit Balance</u>
Special Revenue Funds:	
Economic Development Tourism	\$ 19,531
Adult Probation Comm. Punishment	885
Juvenile Probation State Aid Enhancement	7,140
Diversion Intake	13,443
Adult Probation Intensive Probation Services Grant	26,837
Juvenile Probation Surveillance Grant	2,612
Local Judicial Criminal Enhancement Grant JP #1	1,700

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 2 - Individual Fund Deficits (continued)

These deficits resulted from operations during the year, but are expected to be corrected through normal operations or operating transfers from the General Fund in fiscal year 2002.

Note 3 - Deposits and Investments

Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

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 (see Note 13). Those monies are pooled with County monies for investment purposes.

Deposits—At June 30, 2002, the investment pool had cash on hand of \$85,152. The carrying amount of the pool's total cash in bank was \$0 and the bank balance was \$1,170,989. Of the bank balance, \$200,000 was covered by federal depository insurance and \$970,989 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Investments—At June 30, 2002, the investments in the County Treasurer's investment pool consisted of the following.

	<u>Fair Value</u>
Investment in State Treasurer's Investment pool	\$ 75,838,350
U.S. government securities	<u>13,802,000</u>
Total	<u>\$ 89,640,350</u>

The State Board of Deposit 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. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the County's name, or were held by the County or its agent in the County's name.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 3 - Deposits and Investments (continued)

Other Deposits—At June 30, 2002, the total nonpooled cash on hand was \$5,365. The carrying amount of the County's total nonpooled cash in bank was \$1,479,281 and the bank balance was \$1,618,574. Of the bank balance \$751,947 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name; and \$866,627 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Other Investments—At June 30, 2002, the County's nonpooled investments consisted of the following.

	<u>Fair Value</u>
Investment in State Treasurer's investment pool	<u>\$ 3,923,269</u>

The State Board of Deposit 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. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Cash and Investments held by trustee— At June 30, 2002, the County's cash and investments held by trustee totaling \$365,030, was the reserve requirement for the Series 1996 Certificates of Participation. All of the balance, consisted of securities held by the counterparty, or by its trust department or agent but not in the County's name.

A reconciliation of cash and investments to amounts shown on the Combined Balance Sheet follows.

Cash and investments:

	<u>County Treasurer's Investment Pool</u>	<u>Other</u>	<u>Total</u>
Cash on hand	\$ 85,152	\$ 5,365	\$ 90,517
Carrying amount of deposits	0	1,479,281	1,479,281
Reported amount of investments	<u>89,640,350</u>	<u>4,288,299</u>	<u>93,928,649</u>
Total	<u>\$ 89,725,502</u>	<u>\$ 5,772,945</u>	<u>\$ 95,498,447</u>

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 3 - Deposits and Investments (continued)

Combined Balance Sheet:

Cash and cash equivalents	\$ 1,569,798
Cash and investments held by County Treasurer	89,640,350
Cash and investments held by trustee	365,030
Investments	<u>3,923,269</u>
Total	<u>\$ 95,498,448</u>

Note 4 - Property Taxes Receivable

The County levies real 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.

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

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

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office. At June 30, 2002, the uncollected property taxes and related allowances for uncollectibles were as follows:

Fiscal Year	General Fund	Special Revenue Funds
2002	\$ 782,811	\$ 143,190
Prior	292,564	47,194
	<u>1,075,375</u>	<u>190,384</u>
Less allowances for uncollectibles	292,798	48,429
Net total	<u>\$ 782,577</u>	<u>\$ 141,955</u>

That portion of property taxes receivable not collected within 60 days after June 30, 2002, has been deferred and, consequently, is not included in current-year revenues.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2002, include \$632,616 in state-shared revenue from highway user taxes, \$691,639 in state sales tax, \$598,865 in state vehicle license tax, and \$942,110 in county excise tax. The balance of \$2,325,819 represents various grants from the state and federal governments.

Note 6 - Changes in General Fixed Assets

A summary of the changes in general fixed assets follows:

	Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
Land	\$ 1,798,660	\$	\$	\$ 1,798,660
Buildings	14,805,813	7,162,870		21,968,683
Improvements other than buildings	886,286			886,286
Machinery and equipment	9,224,232	3,910,549	382,628	12,752,153
Construction in progress	5,708,848	1,465,321	7,162,870	11,299
Total	<u>\$ 32,423,839</u>	<u>\$12,538,740</u>	<u>\$ 7,545,498</u>	<u>\$ 37,417,081</u>

Note 7 - Certificates of Participation Payable

In prior years, the County issued \$3,600,000 in certificates of participation to refund \$3,475,000 of outstanding certificates of participation. The certificates of participation are callable on or after August 1, 2003, with interest payable semiannually.

Principal and interest requirements at June 30, 2002, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2001</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2002</u>
PHS Mortgage, Inc. 1996 Series	4.0% to 4.9%	2002-2005	\$ 2,140,000	\$ 420,000	\$ 1,720,000
		Total	<u>\$ 2,140,000</u>	<u>\$ 420,000</u>	<u>\$ 1,720,000</u>

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 7 - Certificates of Participation Payable (continued)

Certificates of participation debt service requirements to maturity, including \$168,575 of interest, are as follows:

Year ending June 30,	
2003	\$ 529,750
2004	540,122
2005	536,965
2006	281,738
Total	<u>\$ 1,888,575</u>

Note 8 - Obligations Under Leases

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. Accordingly, such assets totaling \$115,867 at June 30, 2002, are capitalized in the General Fixed Assets Account Group.

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments at June 30, 2002, were as follows:

Year ending June 30,	General Long-Term Debt Account Group
2003	\$ 16,983
2004	8,621
2005	8,621
Total minimum lease payments	<u>34,225</u>
Less amount representing interest	<u>3,397</u>
Present value of net minimum lease payments	<u>\$ 30,828</u>

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 8 - Obligations Under Leases (continued)

Operating Leases—The County leases buildings, office equipment, and vehicles under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$224,621 for the year ended June 30, 2002. The operating leases have remaining noncancelable lease terms of 5 months to 10 years and provide renewal options.

The future minimum rental payments required under the operating leases at June 30, 2002, were as follows:

Year ending June 30,	General Fund	Special Revenue Funds	Enterprise Funds
2003	\$ 28,346	\$ 9,522	\$ 1,980
2004	3,544	3,625	
2005	3,544	3,502	
2006		3,100	
Total minimum payments required	<u>\$ 35,434</u>	<u>\$ 19,749</u>	<u>\$ 1,980</u>

Note 9 - Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its Eastern Regional Landfill (ERL) site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. As of June 30, 2002 the ERL was full to capacity and stopped accepting waste. At June 30, 2002, 100% of total closure and postclosure care costs of \$1,757,518 had been recorded on the County's financial statements. The County had not started paying these costs as of June 30, 2002.

In 2002, the County began operating the Western Regional Landfill (WRL). State and federal laws and regulations require the County to place a final cover on its WRL site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site 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 as an operating expense in each period based on landfill capacity used as of each balance sheet date. The County accrued \$100,310 as a landfill closure and postclosure care liability for the WRL at June 30, 2002. This amount represents the cumulative amount reported to date based on the use of approximately 1% percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,802,863 as the remaining estimated capacity is filled. The estimated closure date of the WRL landfill is 2042. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2002. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 9 - Landfill Closure and Postclosure Care Costs (continued)

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

Note 10 - 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 two public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool.

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 for each property damage and crime occurrence or \$50,000 for each liability occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million for each occurrence for property claims and \$15 million for each occurrence for liability claims. A County must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-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 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. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

In 2002, the County started an Employee Benefit Fund (an Internal Service Fund) which, accounts for the financing of the uninsured risk of loss for certain health benefits (comprehensive, major medical, dental) to eligible employees and their dependents. Under this program, the Fund provides coverage for up to a maximum of \$100,000 for each claim, not to exceed an annual aggregate of \$3,786,390. The Fund purchases commercial insurance for

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 10 - Risk Management (continued)

claims in excess of this coverage. Settled claims did not exceed this commercial insurance coverage in any of the past fiscal year.

The insurance claims payable liability of the Fund totaling \$323,207 at June 30, 2002, is the estimated ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. This estimate is based on actual payments made after June 30, 2002 and through the end of fieldwork , which related to fiscal year 2002 claims. Changes in the Fund's claims payable for the year ended June 30, 2002, was as follows:

Claims payable, beginning of year	\$ 0
Current-year claims and changes in estimates	323,207
Claim payments	0
Claims payable, end of year	<u>\$ 323,207</u>

Note 11 - Changes in Long-Term Liabilities

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group were as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Accrued payroll and employee benefits	\$ 2,420,652	\$ 135,071	\$ 66,169	\$ 2,489,554
Obligations under capital leases	66,956		36,128	30,828
Certificates of participation payable	2,140,000		420,000	1,720,000
Total	<u>\$ 4,627,608</u>	<u>\$ 135,071</u>	<u>\$ 522,297</u>	<u>\$ 4,240,382</u>

Note 12 - 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 (EORP), which is not described due to the plan's relative insignificance to the County's financial statements.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 12 - Retirement Plans (continued)

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. 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 189 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 12 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

Each plan issues a publicly available annual 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 and CORP

1020 E. Missouri Ave.
Phoenix, AZ 85014

(602) 255-5575

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

Cost-sharing plan—For the year ended June 30, 2002, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2002, 2001, and 2000 were \$581,682, \$592,297 and \$572,164, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2002, 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 14.14 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 12 - Retirement Plans (continued)

payroll, and the County was required to contribute at the actuarially determined rate of 3.59 percent.

Annual Pension Cost—The County's pension cost for the two agent plans for the year ended June 30, 2002, and related information follows.

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	14.14%	3.59%
Plan members	7.65%	8.50%
Annual pension cost	\$266,449	\$31,854
Contributions made	\$266,449	\$31,854

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2002, 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 actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002, was 20 years.

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

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2002	\$ 266,449	100%	\$ 0
	2001	282,738	100	0
	2000	203,024	100	0
CORP	2002	31,854	100	0
	2001	32,717	100	0
	2000	59,770	100	0

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 12 - Retirement Plans (continued)

Analysis of Funding Progress—The following information was obtained from the three most recent actuarial valuations of the agent plans.

PSPRS

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 Percentag e of Covered Payroll ([a-b]/c)
6/30/02	\$ 13,500,548	\$ 14,521,441	\$ (1,020,893)	93.0%	\$2,709,845	37.7%
6/30/01	13,819,208	12,617,044	1,202,164	109.5	2,679,198	-
6/30/00	12,734,601	12,547,235	187,366	101.5	2,543,102	-

CORP

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 Percentag e of Covered Payroll ([a-b]/c)
6/30/02	\$ 3,929,947	\$2,975,558	\$ 954,389	132.1%	\$1,638,829	-
6/30/01	3,930,055	2,376,167	1,553,888	165.4	1,463,174	-
6/30/00	3,634,911	2,269,455	1,365,456	160.2	1,488,627	-

Note 13 - 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 monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

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

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 13 - County Treasurer's Investment Pool (continued)

Details of each major investment classification follow.

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment in Arizona State Treasurer's Investment pool	\$ 75,838,350	2.8021%	N/A	\$ 75,838,350
U.S. Government Securities	13,500,000	5.2500%	8/15/2002	13,802,000

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

Statement of Net Assets

Assets	<u>\$ 89,938,779</u>
Net assets	<u>\$ 89,938,779</u>
Net assets held in trust for:	
Internal participants	\$ 27,972,413
External participants	<u>61,966,366</u>
Total net assets held in trust	<u>\$ 89,938,779</u>

Statement of Changes in Net Assets

Total additions	\$ 246,292,300
Total deductions	<u>239,616,481</u>
Net increase	6,675,819
Net assets held in trust:	
July 1, 2001	<u>83,262,960</u>
June 30, 2002	<u>\$ 89,938,779</u>

Note 14 – Contingent Liabilities

Litigation Claims – At June 30, 2002 there were several claims and lawsuits pending against the County, the ultimate outcome of which is unpredictable. Consequently, no provision for any liability has been made.

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 15 – Interfund Assets and Liabilities

The interfund receivables, payables, and operating transfers by fund are as follows:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General	\$ 425,763	\$ 286,814	\$ 623,024	\$ 375,538
Special Revenue	485,223	679,031	927,429	746,606
Capital Projects	-	47,444	10,000	47,444
Enterprise	298,230	355,132	472,437	890,437
Internal Service	<u>170,591</u>	<u>11,386</u>	<u>188,689</u>	<u>161,554</u>
Total	<u>\$ 1,379,807</u>	<u>\$ 1,379,807</u>	<u>\$ 2,221,579</u>	<u>\$ 2,221,579</u>

Note 16 – Residual Equity Transfers

Residual equity transfers for the fiscal year ended June 30, 2002, were funds transferred due to the closing of several Special Revenue Funds.

Note 17 – Segment Information – Enterprise Funds

	<u>Bisbee Douglas International Airport</u>	<u>Cochise Health System Long- Term Care Health System</u>	<u>Solid Waste Management System</u>	<u>Total</u>
Operating revenues	\$ 148,078	\$ 23,328,710	\$ 2,752,477	\$ 26,229,265
Depreciation expense	5,406	9,810	176,751	191,967
Operating income	(123,716)	542,240	54,015	472,539
Operating transfers in			472,437	472,437
Operating transfers out		(400,000)	(490,437)	(890,437)
Net income	(112,700)	319,922	222,789	430,011
Net working capital	96,602	2,580,936	1,354,528	4,032,066
Total assets	1,766,481	5,066,761	8,961,790	15,795,032
Equipment additions		26,277	724,940	751,217
Landfill closure and post-closure care costs payable			1,857,827	1,857,827
Contributed capital			261,658	261,658
Retained earnings	316,688	2,540,243	7,968,170	10,825,101

COCHISE COUNTY
Notes to Financial Statements
June 30, 2002

Note 18 – Subsequent Events

Recent Investment Losses in the State Treasurer's Local Government Investment Pool, pursuant to statutory authority, a portion of the County's monies, including some of its debt service funds, is invested in the State Treasurer's Local Government Investment Pool (LGIP), which was established in 1980 for the collective investment of State and local government monies. Monies in the LGIP may be invested in various types of investments prescribed by law, including bonds, debentures or other evidences of indebtedness which are issued by entities organized and doing business in the United States that have a minimum rating of "Baa" from Moody's Investors Service or "BBB" from Standard & Poor's Rating Service. In December 2002, the State Treasurer announced that the LGIP currently holds approximately \$131 million of asset-backed securities issued by an NPF-12 trust that are serviced by National Century Financial Enterprises (NCFE). Recently, NCFE has come under investigation by the Federal Bureau of Investigation, the Securities and Exchange Commission and various state authorities for possible fraud and violations of federal and state laws. NCFE has since declared bankruptcy and the trustee for the bonds has informed the State Treasurer that the interest payment due December 1, 2002 was not received.

All LGIP participants have been allocated a proportional share of the value of the NPF-12 securities and such securities have been placed by the State Treasurer into a separate pool (the "Separate LGIP Pool"). It is likely that the LGIP will incur a loss on the total securities held of approximately \$131 million. Of this loss to the LGIP, the County currently estimates it would be allocated approximately \$2.9 million as its proportional share as an LGIP participant of which approximately \$930,000 is currently estimated to be the loss to the County's General Fund and approximately \$131,000 is currently estimated to be the loss to the County's Enterprise Funds. The State is pursuing legal action to the fullest extent possible to protect the interests of the LGIP participants which may eventually include the recovery of all or a portion of the investment loss.

On October 17, 2002 the County issued \$9,500,000 in certificates of participation, series 2002 with interest rates ranging from 1.60% to 4.32% to fund the construction of new County administration buildings and advance refund the series 1996 certificates of participation.

Note 19 – Implementation of GASB Statement No. 34

Beginning with fiscal year 2003, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Implementing this standard will significantly change the accounting principles and reporting format the County uses in future financial reports.

Supplementary Information

COCHISE COUNTY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass- Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through the Arizona Department of Health Services Special Supplemental Food Program for Women, Infants and Children	10.557	261063	\$ 527,593
Passed through the Arizona State Treasurer Schools and Roads - Grants to States	10.665	NONE	92,386
Emergency Watershed Protection Program	10.68945714		44,946
Total U.S. Department of Agriculture			<u>664,925</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Section 8 Cluster Section 8 Rental Voucher Program	14.871		1,275,544
Passed through the Arizona Department of Commerce Community Development Block Grants	14.228	NONE	114,520
Total U.S. Department of Housing and Urban Development			<u>1,390,064</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Immigration and Naturalization Act	16.572		523,877
Passed through the Arizona Department of Public Safety Crime Victim Compensation	16.575	VA-02-019	43,961
Crime Victim Assistance	16.576	VC-02-050	11,825
Crime Victim Assistance		200-VA-GX-004	29,106
Drug Control and System Improvement	16.579	PC-050-02	123,323
		AC-080-02	133,260
		CRI-01-032	13,028
		NONE	58,891
Public Safety Partnership and Community Policing Grants	16.710		22,875
Rural Domestic Violence & Child Victimization	16.589		149,011
Emergency Border Funding	16.580		344,993

(Continued)

COCHISE COUNTY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass- Through Grantor's Number	Expenditures
Passed through State of Arizona Governor's Community Policy Office			
Juvenile Accountability Incentive Block Grant	16.523	00JAIBG-02	41,564
		CJAC00-60	11,858
Passed through the Governors Office of Public Safety			
Under Age Drinking Program (OJJDP)	16.727	2001-OJJDP-013	5,259
Southwest Border Local Assistance Initiative	16.UNKNOWN		8,838
Total U.S. Department of Justice			1,521,669
 <u>U.S. DEPARTMENT OF LABOR</u>			
Passed through the Arizona Department of Economic Security			
Workforce Investment Act	17.250	E5700003	1,702,496
Total U.S. Department of Labor			1,702,496
 <u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through the Arizona Department of Transportation			
Airport Improvement Program	20.106	E2F44	62,666
Passed through the Arizona Department of Emergency and Military Affairs			
Emergency Preparedness Planning Grant	20.703	NONE	29,270
Passed through the Arizona Department of Public Safety			
Enhanced Highway Safety Enforcement Program	20.600	2002-410-001	33,797
		NONE	73,735
Total U.S. Department of Transportation			199,468
 <u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through the Arizona Supreme Court			
Title I Program for Disadvantaged Children	84.010	NONE	20,783
Total U.S. Department of Education			20,783

(continued)

COCHISE COUNTY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through the Southeastern Arizona Governments Organization			
Social Service Block Grant			
Special Programs for the Aging-Title III Part B	93.044	02-12	198,980
Passed through the Arizona Department of Health Services			
Preparedness & Response for Bio-Terrorism	93.283	252033	55,320
HIV Prevention	93.940	152010	10,757
Preventive Health and Health Services			
Block Grant	93.991	152038	149,104
HIV Care Formula Grants	93.917	152060-0	151,164
Preventive Health Services - Sexually			
Transmitted Diseases Control Grants	93.977	052006-1	2,084
Maternal and Child Health Services			
Block Grant to the State	93.994	961121	8,300
		761104	48,717
Passed through the Arizona Department of Economic Security			
Child Support Enforcement	93.563	E7202003	568,807
Total U.S. Department of Health and Human Services			1,193,233
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u>			
Passed through the Pima County Sheriff's Department			
High Intensity Drug Trafficking Areas	07.UNKNOWN	I1PSAP549	613,168
Total Office of National Drug Control Policy			613,168
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Payment in Lieu of Taxes - Section I	15.226		936,958
Passed through the Arizona State Treasurer			
Taylor Grazing	15.UNKNOWN	NONE	9,820
Total U.S. Department of the Interior			946,778
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 8,252,584

COCHISE COUNTY
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

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) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2002 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the federal contract number was used.

Note 3 - Subrecipients

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Workforce Investment Act	17.250	\$ 1,702,496

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Primary Government Financial Statements
Performed in Accordance with Government Auditing Standards**

The Auditor General of the State of Arizona

The Board of Supervisors of
Cochise County, Arizona

We have audited the primary government financial statements of Cochise County as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002, which was modified due to the omission of the component unit's financial data. 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.

Compliance

As part of obtaining reasonable assurance about whether the County's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of primary government 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 opinion on the primary government financial statements and not to provide assurance on internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's

ability to record, process, summarize, and report financial data consistent with the assertions of management in the primary government financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 02-01.

A material weakness is a 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 in amounts that would be material in relation to the primary government 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. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable condition that are also considered to be material weaknesses. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to the County's management in a separate letter dated December 6, 2002.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the County's Board of Supervisors, federal awarding agencies, and pass-through entities. It 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.

CHRISTENSEN, GALE & MCLAREN, LLP

December 6, 2002

**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**

The Auditor General of the State of Arizona

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, 2002. 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.

Cochise County's primary government financial statements and Schedule of Expenditures of Federal Awards do not include the financial data of the Cochise Private Industry Council, Inc. (CPIC), a component unit of Cochise County administering the Workforce Investment Act (WIA). Our audit, described below, did not include the operations of the CPIC because that component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in item 02-03 in the Schedule of Findings and Questioned Costs, Cochise County did not comply with the requirements regarding equipment and real property management for its Child Support Enforcement program. Compliance with such a requirement is necessary, in our opinion, for the County to comply with its requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the 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, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 02-02, 02-04 and 02-05.

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 02-02, 02-04 and 02-05.

A material weakness is a 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 applicable requirements of laws, regulations, contracts, and grants 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 such internal control matters 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 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, Auditor General of the State of Arizona, the Cochise County Board of Supervisors,

Cochise County, Arizona
Page Three
December 6, 2002

federal awarding agencies, and pass-through entities. It 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.

CHRISTENSEN, GALE & MCLAREN, LLP

December 6, 2002

COCHISE COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>Unqualified</u>	
	Yes	No
Material weakness identified in internal control over financial reporting?	<u> </u>	<u> X </u>
Reportable conditions identified not considered to be material weaknesses?	<u> X </u>	<u> </u>
Noncompliance material to the financial statements noted?	<u> </u>	<u> X </u>

Federal Awards

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Rental Voucher Program
93.563	Child Support Enforcement
10.557	Special Supplemental Food Program for Women, Infants and Children
16.572	Immigration and Naturalization Act
17.250	Workforce Investment Act
15.226	Payment in Lieu of Taxes – Section I
07.UNKNOWN	High Intensity Drug Trafficking Areas
16.580	Omnibus Crime Control and Safe Streets

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	<u> </u> <u> X </u>

Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u> X </u> <u> </u>
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COCHISE COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Financial Statement Findings

02-01

The County did not void several outstanding checks.

We noted several outstanding County checks were outstanding for more than one year and were not voided as required by *ARS Sec. 11-644*.

We recommend the County adopt the necessary procedures to ensure that all checks older than one year are voided and reissued as necessary as required by *ARS Sec. 11-644*.

COCHISE COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Federal Award Findings

02-02

CFDA No.: 14.871 **Section 8 Rental Voucher Program**

U.S. Department of Housing and Urban Development

Award Year: October 1, 2001 through September 30, 2002

Reporting

Questioned Cost—NONE

The County's Housing and Urban Development (HUD) department did not file at least one of its Form HUD-50058 (monthly) reports on a timely basis. The August 2001 report was not filed with HUD until December 2001, which was filed past the "30-day deadline".

The County should file all reports to HUD accurately and on a timely basis to comply with contract stipulations.

02-03

CFDA No.: 93.563 **Child Support Enforcement**

U.S. Department of Health and Human Services

Award Year: July 1, 2001 through June 30, 2002

As subcontracted from the Arizona Department of Economic Security

Contract Number E7202003

Equipment and Real Property Management

Questioned Cost—Unknown

The Arizona Department of Economic Security (DES) requires the Department of Child Support Enforcement (DCSE) to keep accurate inventory records in accordance with several contract stipulations. Those required items not found on the inventory records include the following:

- original cost of the asset
- percentage of Federal participation in the cost
- condition or status of asset
- method used to determine current fair market value (replacement cost)

The County should implement: 1) a fixed asset inventory system, or 2) supplemental reports, to record the additional required information for each area of its federal and state award programs.

COCHISE COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Federal Award Findings (continued)

02-04

CFDA No.: 93.563 **Child Support Enforcement**

U.S. Department of Health and Human Services

Award Year: July 1, 2001 through June 30, 2002

As subcontracted from the Arizona Department of Economic Security

Contract Number E7202003

Matching, Level of Effort, Earmarking

Questioned Cost—Unknown

The County is required to provide “level of effort” monitoring. No evidence was produced during fieldwork to indicate the County is monitoring or following up on the level of efforts and enforcement provided by the DCSE staff. In addition, we relied on other auditors of the State of Arizona for the audit of their computer software system—Arizona Tracking and Locate Automated System (ATLAS)—implemented and maintained by Arizona DES. The Cochise County DCSE is required to utilize ATLAS to abide by the contract. The scope of our audit did not include procedures to audit the management and implementation of ATLAS at the state level. Therefore, the following comments are based on the use of ATLAS.

- a. We noted no evidence of written or verbal control measures to ensure that cases are established or attempted for child support obligations by DCSE staff.
- b. We noted no evidence of written or verbal control measures to ensure that follow-up actions take place on the items presented on ATLAS requiring DCSE staff attention.
- c. We noted no evidence of written or verbal control measures to ensure that follow-up procedures to establish and/or enforce medical support by DCSE staff were in place.

The County should develop written procedures to ensure the compliance with the above requirements

COCHISE COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Federal Award Findings (continued)

02-05

CFDA No.: 93.563 **Child Support Enforcement**

U.S. Department of Health and Human Services

Award Year: July 1, 2001 through June 30, 2002

As subcontracted from the Arizona Department of Economic Security

Contract Number E7202003

Reporting

Questioned Cost—Unknown

The County is reimbursed according to the submitted budget of DCSE for portions of the administrative costs in conducting child support enforcement including wages, employee related expenses, and department equipment. The DCSE is required to file financial reports—which serve as the cost reimbursement application—no later than the 28th day following each reporting month during the agreement term. Such reports shall cover contract services and expenditures for child support personnel, equipment, services, and supplies for the preceeding reporting month. These reports were consistently filed after the due date.

The County should file these reports on a timely basis to accelerate the time frame for recovering these costs.



Finance Director
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County of Cochise
P.O. BOX 225
BISBEE, ARIZONA 85603

Fax (520) 432-9208

January 9, 2003

Ms. Debra K. Davenport, CPA
Auditor General
2910 N. 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,

Robert W. Pender
Finance Director

Financial Statement Findings

The reportable conditions from the June 30, 2002 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

02-01

Recording of County's Transactions

Contact Person: Darlene Loper, Accounting Supervisor

Anticipated Completion Date: February 1, 2003

Program recommendations include:

We recommend the County adopt the necessary procedures to ensure that all checks older than one year are voided and reissued as necessary as required by Arizona Revised Statutes.

Action Planned:

The Finance Department will provide specific instructions for the departments maintaining the outside accounts concerning their responsibility to monitor outstanding checks and to void any that are outstanding more than a year.

Federal Award Findings and Questioned Costs

02-02

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

Contact Person: William Kammann, Executive Director

Anticipated Completion Date: June 30, 2003

Program recommendations include:

1. *The County should file all reports to HUD accurately and on a timely basis to comply with contract stipulations.*

Action Planned:

Procedures have been implemented to ensure that Forms HUD-50058 are now filed on a timely basis. The Executive Director of the Housing Authority of Cochise County (HACC) monitors the timeliness of filing.

02-03

CFDA No.: 93.563 Child Support Enforcement

Contact Person: Robert Pender, Finance Director

Anticipated Completion Date: September 30, 2002

Program recommendations include:

1. *The County should implement a fixed asset inventory system or supplemental report to record the required information for each area of its federal and state award programs requiring additional information and reporting on its fixed assets.*

Action Planned:

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.

Federal Award Findings and Questioned Costs (continued)

02-04

CFDA No.: 93.563 Child Support Enforcement

Contact Person: Jeanne Benda Whitney, Deputy County Attorney

Anticipated Completion Date: September 30, 2002

Program recommendations include:

- 1. The County should adopt written procedures to better monitor the program as specified in the contract.*

Action Planned:

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.

02-05

CFDA No.: 93.563 Child Support Enforcement

Contact Person: Frank Cruz, Finance Manager; Jeanne Benda Whitney, Deputy County Attorney

Anticipated Completion Date: September 30, 2002

Program recommendations include:

- 1. The County should file the required Child Support Enforcement reports for expense reimbursement on a timely basis to accelerate the time frame to recovering these costs.*

Action Planned:

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.



Finance Director
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January 9, 2003

Ms. Debra K. Davenport
Auditor General
2910 N. 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. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that have not been corrected.

Sincerely,

Robert W. Pender
Finance Director

**Cochise County
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2002**

Status of Federal Award Findings and Questioned Costs

**CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No. 01-03
Status: Partially corrected.**

Though voucher utilization increased by June 30, 2002, still not all available vouchers were being utilized. Since then, a new director of the housing program has implemented procedures to improve voucher utilization. The director is carefully monitoring the vouchers issued and is maintaining the number at or occasionally slightly above the total number authorized.

**CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 01-04
Status: Fully Corrected**

**CFDA No.: 93.563 Child Support Enforcement Program
Finding No.: 01-05
Status: No longer valid**

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.

**CFDA No.: 93.563 Child Support Enforcement Program
Finding No. 01-06
Status: Fully Corrected**

CFDA No.: 93.563 Child Support Enforcement Program

Finding No. 01-07

Status: No longer valid

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.

CFDA No.: 93.563 Child Support Enforcement Program

Finding No. 01-08

Status: No longer valid

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.

CFDA No.: 93.563 Child Support Enforcement Program

Finding No. 01-09

Status: No longer valid

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.