



REPORT HIGHLIGHTS SINGLE AUDIT

Subject

Cochise County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the financial statements is fairly stated in all material respects and the financial statements can be relied upon. The County maintained adequate internal controls over financial reporting. Also, the County maintained adequate internal controls over, and complied with, federal program requirements for eight of the ten programs tested. However, for two of the federal programs tested, our report recommends the County strengthen controls over allowable costs/cost principles and Davis-Bacon Act federal compliance requirements.



2005

Year Ended June 30, 2005

County Implements New Financial Reporting Standard

During fiscal year 2005, the County implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This reporting standard requires the County to disclose its investment policies and any investment and deposit risks related to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The table below lists the County's deposits and investments at June 30, 2005.

Description	Amount
Deposits	\$ 4,197
State Treasurer's investment pools	21,254
U.S. Treasury securities	11,349
U.S. agency securities	54,547
Repurchase agreement	9,900
U.S. Treasury money market fund	888
	<u>\$102,135</u>

At June 30, 2005, the County was exposed to the following risks:

Credit risk: This is the risk that an issuer or another party to an investment will not fulfill its obligations. Governments must disclose the credit-quality ratings of certain investments. The County is required to report credit risk for its investments in the State Treasurer's investment pools, U.S. agency securities, and the U.S. Treasury money market fund. The County obtained credit quality ratings from Standard & Poor's ratings service. The County's investments had the highest ratings assigned by Standard & Poor's except for the State Treasurer's investment pools, which are not rated.

Custodial risk: This is the risk that a government will not be able to recover deposits if a depository financial institution fails, or recover the value of an investment if the outside party holding the investment fails. Governments must disclose deposits and investments exposed to this risk by type and fair value and describe how they are held. At June 30, 2005, the County's deposits and investments totaled \$102.1 million. Of this total, \$1.2 million was exposed to custodial credit risk.

Concentration risk: This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Governments must generally disclose, by amount and issuer, investments in any one issuer that represent 5 percent or more of total investments. At June 30, 2005, the County had more than 5 percent of its investments in debt securities issued by the following U.S. agencies: Federal Home Loan Mortgage Corporation (22.5 percent), Federal Home Loan Bank System (20.4 percent), Federal Farm Credit Banks (7.1 percent), and Federal National Mortgage Association (5.7 percent).

Interest rate risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. Over 51 percent of the County's investments had a maturity of less than 1 year, and the remainder had a maturity of up to 3 years.

County's Condensed Financial Information

The County's government-wide financial statements provide readers with a broad overview of the County's finances in a manner similar to private-sector businesses. These statements report the financial activities of the overall government, except for fiduciary activities.

The tables below present a summarized version of the County's government-wide Statement of Net Assets and Statement of Activities reported in the current year financial statements.

The Statement of Net Assets presents information on all county assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year. As shown in the tables, net assets increased by over \$10 million. This increase was primarily due to increases in the County's property taxes and excise taxes, and in the state-shared sales and vehicle license tax revenues. Also the County increased its investment in capital assets, net of related debt.

Statement of Net Assets June 30, 2005 (In thousands)

	Total Governmental and Business-type Activities
Current and other assets	\$ 45,438
Capital assets	<u>60,486</u>
Total assets	<u>105,924</u>
Current liabilities	7,106
Noncurrent liabilities	<u>15,530</u>
Total liabilities	<u>22,636</u>
Net assets:	
Invested in capital assets, net of related debt	51,001
Restricted net assets	8,529
Unrestricted net assets	<u>23,758</u>
Total net assets	<u>\$ 83,288</u>

Statement of Activities Year Ended June 30, 2005 (In thousands)

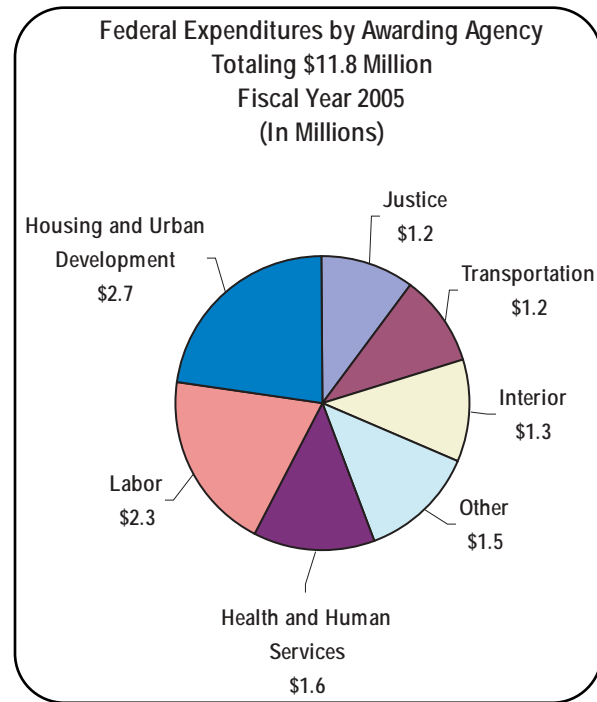
	Total Governmental and Business-type Activities
Program revenues:	
Governmental activities	\$ 30,395
Business-type activities	35,800
General revenues:	
Governmental activities	46,343
Business-type activities	<u>328</u>
Total revenues	<u>112,866</u>
Expenses:	
Governmental activities	68,434
Business-type activities	<u>34,123</u>
Total expenses	<u>102,557</u>
Change in net assets	10,309
Net assets—beginning	<u>72,979</u>
Net assets—ending	<u>\$ 83,288</u>

The County Spent \$11.8 Million in Federal Awards

The County spent \$11.8 million of federal monies this past year for 51 programs. The U.S. Department of Housing and Urban Development and the U.S. Department of Labor were the two largest federal grantors with county program expenditures totaling \$2.7 million and \$2.3 million, respectively.

Expenditures from U.S. Department of Housing and Urban Development programs included approximately \$1.7 million spent for the Section 8 Housing Choice Vouchers program. This program is administered by the Housing Authority of Cochise County and helps low-income families obtain decent, safe, and sanitary rental housing.

Expenditures from the U.S. Department of Labor programs included approximately \$1.3 million for the Workforce Investment Act Program Cluster. This program is designed to increase employment by providing job skills training and counseling to jobseekers and low-income young people.



Two County Programs with Noncompliance

Auditors identified and tested ten federal programs under the requirements established by the Single Audit Act. Weaknesses in internal control and instances of noncompliance with program requirements were noted for two of the programs tested.

Airport Improvement Program

The County did not adequately monitor its construction contractor's compliance with the Davis-Bacon Act to ensure that laborers were paid at or above the prevailing wage rates.

Drug Court Discretionary Grant Program

The County did not keep complete records of its share of program costs used to meet the County's share of the program's matching requirements.

The Single Audit Fact Sheet

- No weaknesses in financial reporting internal controls.
- Two weaknesses in federal compliance internal controls that resulted in immaterial noncompliance with federal compliance requirements.
- No program costs were questioned as a result of our audit.



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Cochise County

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Year Ended June 30, 2005