



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Cochise County
Single Audit Reporting Package
Year Ended June 30, 2004

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Single Audit Reporting Package
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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cochise Health Systems Fund, which is both a major fund and 33 percent and 89 percent, respectively, of the assets and revenues of the County's business-type activities. We also did not audit the financial statements of the aggregate discretely presented component units of Cochise County. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Cochise Health Systems Fund, Housing Authority of Cochise County, and Cochise County Workforce Development, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through x, the Budgetary Comparison Schedules on pages 37 through 40 and the Schedule of Agent Retirement Plans' Funding Progress on page 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2005, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

April 29, 2005

Management's Discussion and Analysis

As management of Cochise County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cochise County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements.

Financial Highlights

- The assets of Cochise County exceed its liabilities at the close of the fiscal year by \$72,978,889 (net assets). Of this amount, \$20,580,921 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the close of the fiscal year, Cochise County's governmental activities reported a combined ending fund balance of \$61,014,172, an increase of \$6,095,509 over the prior year's restated fund balance.
- At the end of the fiscal year, unreserved fund balance in the general fund was \$8,727,519 or 21.2% of total general fund expenditures for the year.
- Cochise County's total governmental activities debt (certificates of participation and capital leases) increased by a net \$26,738 during the current fiscal year. The increase is attributable to a new capital lease for five mowers (\$387,398) offset by the normal debt service on capital leases and certificates of participation.

Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of Cochise County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

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

Management's Discussion and Analysis

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

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

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

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

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

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

The County maintains approximately 187 individual governmental funds. Information is presented separately in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and those funds designated as major funds including the Highway and Streets Fund and the Capital Projects Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

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

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

Management's Discussion and Analysis

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

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

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Cochise Health Systems and the Solid Waste Operations are considered to be major funds and are therefore reported separately. The internal service funds are presented in the proprietary fund financial statements.

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

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

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to financial statements can be found on pages 16 - 35 of this report.

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

Required supplementary information can be found on pages 37 - 41 of this report.

Government-wide Financial Analysis

Below is a comparative analysis between fiscal years for the government-wide statements. Capital assets increased \$17,777,458 with \$9,553,983 coming from the prior-year accumulation of resources (Series 2002 Certificates of Participation) that were being held for the major building project for facilities in Benson and Bisbee. Another \$836,178 came from capital leases with an offsetting increase in long-term debt.

Statement of Net Assets—As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Cochise County's assets exceeded liabilities by \$72,978,889.

Management's Discussion and Analysis

Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2003 and 2004

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------------|---------------------|----------------------------------|---------------------|----------------------------------|---------------------|
| | June 30, 2003, as restated | June 30, 2004 | June 30, 2003, as restated | June 30, 2004 | June 30, 2003, as restated | June 30, 2004 |
| Assets: | | | | | | |
| Current and other assets | \$40,366,251 | \$32,102,794 | \$ 9,051,182 | \$ 7,270,728 | \$49,417,433 | \$39,373,522 |
| Capital assets | <u>31,034,204</u> | <u>46,319,900</u> | <u>7,936,623</u> | <u>10,428,385</u> | <u>38,970,827</u> | <u>56,748,285</u> |
| Total assets | <u>71,400,455</u> | <u>78,422,694</u> | <u>16,987,805</u> | <u>17,699,113</u> | <u>88,388,260</u> | <u>96,121,807</u> |
| Liabilities: | | | | | | |
| Other liabilities | 4,081,543 | 4,762,762 | 2,974,367 | 2,914,598 | 7,055,910 | 7,677,360 |
| Long-term liabilities | <u>12,400,249</u> | <u>12,645,760</u> | <u>2,130,895</u> | <u>2,819,798</u> | <u>14,531,144</u> | <u>15,465,558</u> |
| Total liabilities | <u>16,481,792</u> | <u>17,408,522</u> | <u>5,105,262</u> | <u>5,734,396</u> | <u>21,587,054</u> | <u>23,142,918</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 29,638,877 | 37,110,094 | 7,936,623 | 9,993,969 | 37,575,500 | 47,104,063 |
| Restricted | | 3,405,905 | 3,123,588 | 1,888,000 | 3,123,588 | 5,293,905 |
| Unrestricted | <u>25,279,786</u> | <u>20,498,173</u> | <u>822,332</u> | <u>82,748</u> | <u>26,102,118</u> | <u>20,580,921</u> |
| Total net assets | <u>\$54,918,663</u> | <u>\$61,014,172</u> | <u>\$11,882,543</u> | <u>\$11,964,717</u> | <u>\$66,801,206</u> | <u>\$72,978,889</u> |

The June 30, 2003 capital and net asset balances were restated to correct errors in reporting capital assets in prior years.

A large portion of Cochise County's net assets (64.5%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). This amount is presented less accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental activities and business-type activities.

The County's total net assets increased by \$6,177,683 during the fiscal year. By far the majority of this increase is attributable to the increase in the County's investment in capital assets. The remainder of the growth reflects the net results of increases in taxes and other revenues and controls on expenses.

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

Management's Discussion and Analysis

Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2003 and 2004

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|-------------------|-------------------------|---------------------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2002-03, as restated | 2003-04 | 2002-03 | 2003-04 | 2002-03, as restated | 2003-04 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 6,493,388 | \$ 6,724,389 | \$29,489,952 | \$32,930,343 | \$35,983,340 | \$ 39,654,732 |
| Operating grants and contributions | 21,312,429 | 20,876,379 | | | 21,312,429 | 20,876,379 |
| Capital grants and contributions | | 1,477,882 | | 307,640 | | 1,785,522 |
| General revenues: | | | | | | |
| Property taxes | 18,975,219 | 20,321,986 | | | 18,975,219 | 20,321,986 |
| Sales tax | 9,454,612 | 10,180,534 | 197,925 | | 9,652,537 | 10,180,534 |
| Vehicle license tax | 2,787,489 | 2,992,756 | | | 2,787,489 | 2,992,756 |
| County excise tax | 5,506,731 | 5,710,682 | | 397,471 | 5,506,731 | 6,108,153 |
| Other | (179,055) | 2,619,042 | (105,030) | 113,938 | (284,085) | 2,732,980 |
| Total revenues | <u>64,350,813</u> | <u>70,903,650</u> | <u>29,582,847</u> | <u>33,749,392</u> | <u>93,933,660</u> | <u>104,653,042</u> |
| Expenses | | | | | | |
| General government | 27,254,389 | 28,312,072 | | | 27,254,389 | 28,312,072 |
| Public safety | 12,905,355 | 15,007,886 | | | 12,905,355 | 15,007,886 |
| Highways and streets | 9,529,119 | 8,769,673 | | | 9,529,119 | 8,769,673 |
| Sanitation | 731,885 | 810,109 | | | 731,885 | 810,109 |
| Health and welfare | 11,446,050 | 10,878,231 | | | 11,446,050 | 10,878,231 |
| Culture and recreation | 802,908 | 933,376 | | | 802,908 | 933,376 |
| Education | 493,416 | 789,103 | | | 493,416 | 789,103 |
| Long-term care | | | 25,800,125 | 29,481,792 | 25,800,125 | 29,481,792 |
| Airport | | | 256,214 | 269,900 | 256,214 | 269,900 |
| Solid waste operations | | | 2,773,693 | 3,223,217 | 2,773,693 | 3,223,217 |
| Total expenses | <u>63,163,122</u> | <u>65,500,450</u> | <u>28,830,032</u> | <u>32,974,909</u> | <u>91,993,154</u> | <u>98,475,359</u> |
| Increase in net assets before transfers | 1,187,691 | 5,403,200 | 752,815 | 774,483 | 1,940,506 | 6,177,683 |
| Transfers | 400,000 | 692,309 | (400,000) | (692,309) | | |
| Increase in net assets | <u>\$ 1,587,691</u> | <u>\$ 6,095,509</u> | <u>\$ 352,815</u> | <u>\$ 82,174</u> | <u>\$ 1,940,506</u> | <u>\$ 6,177,683</u> |

The fiscal year 2002-03 operating grants and contributions, sales tax, and county excise tax revenue line items were restated to correct errors made in classification. These restatements are not audited.

Governmental activities—Key elements of the increase in net assets of \$6,095,509 are as follows:

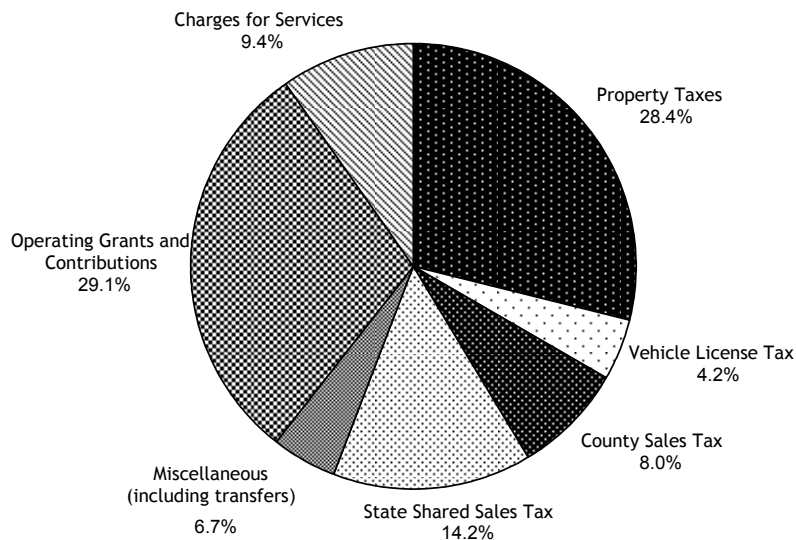
Major Revenues:

- **Property taxes:** The net assessed value of all taxable property in the County increased by \$32,672,253, or 6.1%, over the previous year. With no change in the property tax rate from fiscal year 2003, property tax revenues increased by \$1,346,767, or 7.1%.

Management's Discussion and Analysis

- State shared revenues—vehicle license tax and sales tax: These state shared revenues increased by 7.4% and 7.7%, respectively, from the previous year. Both revenue sources increased more than expected. The increases are indicative of the overall economic improvement in the State as well as moderate growth and stability within the County.
- County sales taxes: The County excise tax revenue (.5%) increased by \$203,951, or 3.7%. This favorable variance is indicative of the growth and stability within the County.

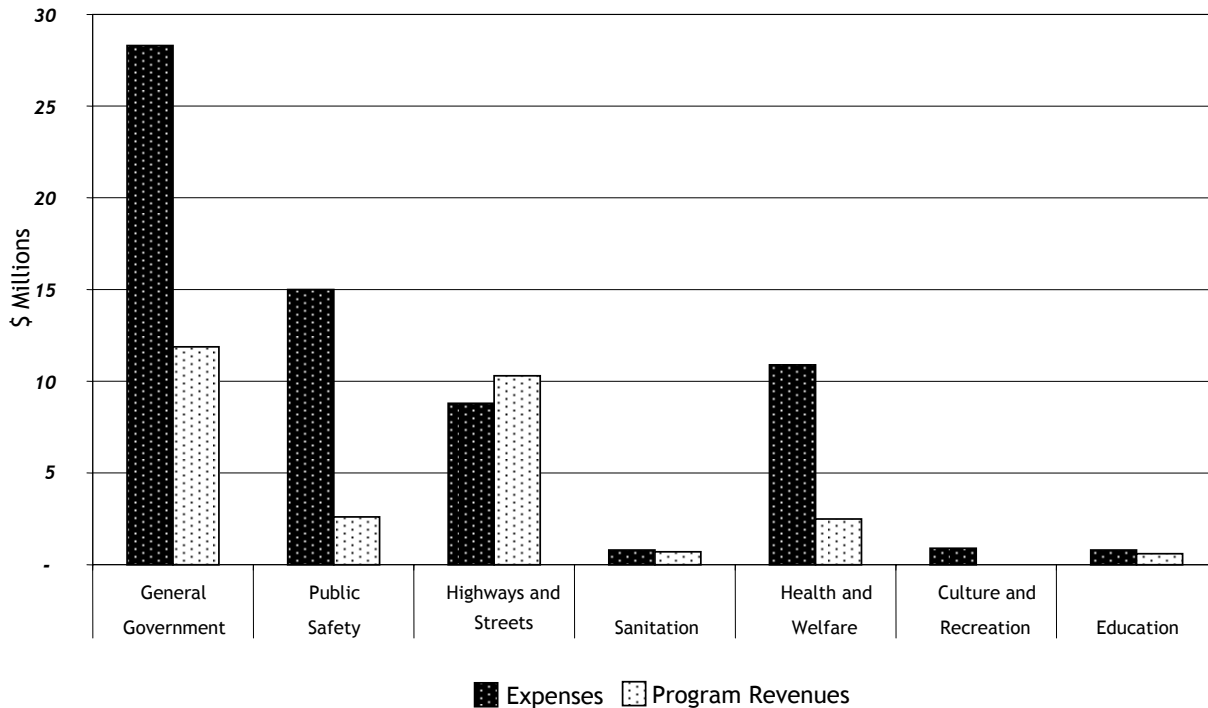
Revenues by Source—Governmental Activities Fiscal Year Ended June 30, 2004



Expenses—Overall expenses in the governmental activities increased by \$2,337,328, or 3.7%. The increase in expenses is consistent with the County's conservative budgeting philosophy, overall inflation, and modest salary increases for County employees. The largest increase in governmental activities expenses related to public safety primarily due to increases in the Sheriff department's payroll and grant expenses.

Management’s Discussion and Analysis

Expenses vs. Revenues by Function—Governmental Activities



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

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

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

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

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

Management's Discussion and Analysis

Net assets for business-type activities increased by \$82,174.

Financial Analysis of the County's Funds

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

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

The General Fund is the primary operating fund of the County. At June 30, 2004, the total fund balance was \$8,727,519. None of the General Fund balance is restricted for any purpose. As a measure of the General Fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. As of June 30, 2004, the fund balance represents 21.2% of total General Fund expenditures.

The fund balance of the General Fund decreased by \$1,808,670 during the fiscal year. Several factors account for the decrease: a transfer of \$3,325,000 to the Capital Projects Fund for the County's cash contribution to the building project for facilities in Benson and Bisbee, offset by an increase in property taxes, an increase in state-shared revenues (sales taxes and vehicle license taxes), and only modest increases in expenditures.

In addition, the fund balance of the Capital Projects Fund decreased by \$7,404,222 during the fiscal year. This decrease primarily resulted from expenditures for construction costs of the building project for facilities in Benson and Bisbee. This project was financed by the 2002 Certificates of Participation reported as a financing source in the prior fiscal year and a transfer from the general fund in the current fiscal year.

Proprietary funds—The County's proprietary fund statements provide the same type information found in the government-wide financial statements, but in more detail.

Capital Asset and Debt Administration

Capital Assets

The County's amount for invested in capital assets for governmental and business-type activities as of June 30, 2004, was \$47,104,063 (net of accumulation depreciation and related debt). In accordance with GASB Statement No. 34, the County will retroactively value all infrastructure assets back to fiscal year 1981 by June 30, 2007. Major capital asset events during the current fiscal year included the following:

- Buildings reported in governmental activities increased by a total of \$12,872,256 from the construction of the Benson and Melody Lane buildings for over \$12 million and a kitchen at the Juvenile Detention Center for about \$200,000.

Management's Discussion and Analysis

- Improvements other than buildings increased in the Solid Waste Operations Fund by \$1,895,355 due to the completion of waste disposal cell #2.
- Equipment investment for the Solid Waste Operations Fund totaled \$448,780.
- Equipment modernization for the Highway and Streets Fund totaled \$1,146,020.
- New Infrastructure for the Highway and Streets Fund totaled \$1,525,501.
- Programmed vehicle replacement and additions of new vehicles totaled \$939,958 in Fleet Management (an Internal Service Fund).

Additional information on the County's capital assets can be found in Note 6 on pages 25 and 26 of this report.

Long-term Debt

At June 30, 2004, the County had certificates of participation and capital lease long-term liabilities outstanding of \$10,179,222 as compared to \$9,718,068 in the prior year. This amount was comprised of \$9,428,381 of certificates of participation issued in 2002 (including unamortized premium of \$178,381) and \$750,841 in capital leases. The change in these long-term liabilities includes the normal annual debt service and two additional capital leases for the purchase of equipment.

Cochise County has no general obligation or revenue bonds outstanding.

Budgetary Comparison—General Fund

The favorable variances in most revenues and expenses resulted from conservative budgeting and moderate growth and stability within the County. Overall, the General Fund's fund balance decreased by \$1,808,670, due to a one-time transfer of \$3,325,000 from the General Fund to the Capital Projects Fund to pay for the completion of county building projects.

The growth in intergovernmental revenues resulted from better-than-expected growth in state shared sales taxes.

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

One notable unfavorable variance, investment income, resulted from lower interest rates on investments.

There were no material variances in expenditures except for the general government function. The favorable variance of \$9,254,617 resulted primarily from unspent contingency funds.

Economic Factors

Key economic factors affecting the County are:

Management's Discussion and Analysis

- The County's unemployment rate as of June 30, 2004 is 4.1% compared to 5.1% statewide and 5.6% nationwide. The rate has decreased from approximately 5.7% in the prior year and has been consistently below the overall state rate. Within the County, the rate varies widely between the incorporated areas; ranging from a low of 2.5% in Willcox to the high of 8.6% in Douglas.
- For the fiscal year ended June 30, 2004, the county government remained the second largest employer in the County. Ft. Huachuca is the County's largest employer with 11,939 employees compared to 1,090 for the County government.
- The County's primary property tax rate has either remained the same or decreased each year for the past twelve years.
- The County's expense for employee health insurance increased by \$252,953 or 11.32% over the prior fiscal year.

Request for Information

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

Cochise County
Statement of Net Assets
June 30, 2004

| | Primary Government | | | Component Units |
|---|------------------------------------|-------------------------------------|---------------------|----------------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Assets | | | | |
| Cash in bank and on hand | \$ 211,905 | \$ 1,100 | \$ 213,005 | \$286,486 |
| Cash and investments held by County Treasurer | 23,133,422 | 5,380,393 | 28,513,815 | |
| Cash and investments held by trustee | 881,753 | | 881,753 | |
| Receivables (net of allowances for uncollectibles): | | | | |
| Property taxes | 1,051,941 | | 1,051,941 | |
| Accounts | 973,648 | 1,818,904 | 2,792,552 | 673 |
| Accrued interest | 2,543 | 5,637 | 8,180 | |
| Internal balances | 118,220 | (118,220) | | |
| Due from other governments | 5,729,162 | 51,946 | 5,781,108 | 339,423 |
| Prepaid items | 200 | 130,968 | 131,168 | 3,835 |
| Capital assets, not being depreciated | 2,027,567 | 1,596,700 | 3,624,267 | |
| Capital assets, being depreciated, net | <u>44,292,333</u> | <u>8,831,685</u> | <u>53,124,018</u> | <u>138,492</u> |
| Total assets | <u>78,422,694</u> | <u>17,699,113</u> | <u>96,121,807</u> | <u>768,909</u> |
| Liabilities | | | | |
| Accounts payable | 2,482,429 | 2,809,597 | 5,292,026 | 164,540 |
| Accrued payroll and employee benefits | 1,440,721 | 104,901 | 1,545,622 | 21,856 |
| Accrued interest | 143,734 | | 143,734 | |
| Due to other governments | 556,380 | | 556,380 | |
| Deposits held for others | 14,033 | | 14,033 | |
| Deferred revenue | 125,465 | 100 | 125,565 | 332,981 |
| Noncurrent liabilities | | | | |
| Due within 1 year | 2,887,815 | 182,297 | 3,070,112 | 1,344 |
| Due in more than 1 year | <u>9,757,945</u> | <u>2,637,501</u> | <u>12,395,446</u> | <u>25,263</u> |
| Total liabilities | <u>17,408,522</u> | <u>5,734,396</u> | <u>23,142,918</u> | <u>545,984</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 37,110,094 | 9,993,969 | 47,104,063 | 138,492 |
| Restricted for: | | | | |
| Highways and streets | 2,524,152 | | 2,524,152 | |
| Debt service | 881,753 | | 881,753 | |
| Grants | | | | 84,433 |
| Long-term care | | 1,888,000 | 1,888,000 | |
| Unrestricted | <u>20,498,173</u> | <u>82,748</u> | <u>20,580,921</u> | |
| Total net assets | <u>\$61,014,172</u> | <u>\$11,964,717</u> | <u>\$72,978,889</u> | <u>\$222,925</u> |

See accompanying notes to financial statements.

Cochise County
Statement of Activities
Year Ended June 30, 2004

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units |
|--|----------------------|-------------------------|--|--|--|-----------------------------|----------------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 28,312,072 | \$ 4,493,010 | \$ 6,319,365 | \$ 1,414,325 | \$ (16,085,372) | | \$ (16,085,372) | |
| Public safety | 15,007,886 | 566,011 | 2,026,206 | 63,557 | (12,352,112) | | (12,352,112) | |
| Highways and streets | 8,769,673 | 604,841 | 9,698,714 | | 1,533,882 | | 1,533,882 | |
| Sanitation | 810,109 | 525,483 | 220,213 | | (64,413) | | (64,413) | |
| Health and welfare | 10,878,231 | 464,366 | 2,052,637 | | (8,361,228) | | (8,361,228) | |
| Culture and recreation | 933,376 | | 37,368 | | (896,008) | | (896,008) | |
| Education | 789,103 | 70,678 | 521,876 | | (196,549) | | (196,549) | |
| Total governmental activities | <u>65,500,450</u> | <u>6,724,389</u> | <u>20,876,379</u> | <u>1,477,882</u> | <u>(36,421,800)</u> | | <u>(36,421,800)</u> | |
| Business-type activities: | | | | | | | | |
| Bisbee-Douglas International Airport | 269,900 | 160,353 | | 307,640 | | \$ 198,093 | \$ 198,093 | |
| Cochise Health Systems | 29,481,792 | 29,881,484 | | | | 399,692 | 399,692 | |
| Solid Waste Operations | 3,223,217 | 2,888,506 | | | | (334,711) | (334,711) | |
| Total business-type activities | <u>32,974,909</u> | <u>32,930,343</u> | | <u>307,640</u> | | <u>263,074</u> | <u>263,074</u> | |
| Total primary government | <u>\$ 98,475,359</u> | <u>\$ 39,654,732</u> | <u>\$ 20,876,379</u> | <u>\$ 1,785,522</u> | | <u>263,074</u> | <u>(36,158,726)</u> | |
| Component units: | | | | | | | | |
| Housing Authority of Cochise County | \$ 1,805,607 | | \$ 1,818,069 | | | | | \$ 12,462 |
| Cochise County Workforce Development | 1,328,305 | | 1,352,595 | | | | | 24,290 |
| Total component units | <u>\$ 3,133,912</u> | | <u>\$ 3,170,664</u> | | | | | <u>36,752</u> |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes, levied for general purposes | | | | | 18,278,026 | | 18,278,026 | |
| Property taxes, levied for flood control | | | | | 1,135,444 | | 1,135,444 | |
| Property taxes, levied for debt service | | | | | 908,516 | | 908,516 | |
| County excise taxes | | | | | 5,710,682 | 397,471 | 6,108,153 | |
| Share of state sales taxes | | | | | 10,180,534 | | 10,180,534 | |
| Share of unrestricted vehicle license tax | | | | | 2,992,756 | | 2,992,756 | |
| Grants and contributions not restricted to specific programs | | | | | 1,780,062 | | 1,780,062 | |
| Investment earnings | | | | | 167,264 | 98,683 | 265,947 | 1,498 |
| Gain on disposal of capital assets | | | | | 329,855 | | 329,855 | |
| Miscellaneous | | | | | 341,861 | 15,255 | 357,116 | 11,935 |
| Transfers | | | | | 692,309 | (692,309) | | |
| Total general revenues and transfers | | | | | <u>42,517,309</u> | <u>(180,900)</u> | <u>42,336,409</u> | <u>13,433</u> |
| Change in net assets | | | | | 6,095,509 | 82,174 | 6,177,683 | 50,185 |
| Net assets, July 1, 2003, as restated | | | | | <u>54,918,663</u> | <u>11,882,543</u> | <u>66,801,206</u> | <u>172,740</u> |
| Net assets, June 30, 2004 | | | | | <u>\$ 61,014,172</u> | <u>\$ 11,964,717</u> | <u>\$ 72,978,889</u> | <u>\$ 222,925</u> |

See accompanying notes to financial statements.

Cochise County
Balance Sheet
Governmental Funds
June 30, 2004

| | General Fund | Capital Projects Fund | Highway and Streets Fund | Other Governmental Funds | Total Governmental Funds |
|---|-----------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash in bank and on hand | \$ 126,725 | | | \$ 84,980 | \$ 211,705 |
| Cash and investments held by County Treasurer | 7,067,800 | \$ 4,702,998 | \$ 2,380,705 | 8,775,150 | 22,926,653 |
| Cash and investments held by trustee | | 881,753 | | | 881,753 |
| Receivables (net of allowances for uncollectibles): | | | | | |
| Property taxes | 893,046 | | | 158,895 | 1,051,941 |
| Accounts | 739,200 | | 63,506 | 54,638 | 857,344 |
| Accrued interest | 784 | 514 | 267 | 955 | 2,520 |
| Due from: | | | | | |
| Other funds | 556,738 | 220,550 | 30,795 | 402,250 | 1,210,333 |
| Other governments | 2,135,707 | 782,160 | 859,296 | 1,951,999 | 5,729,162 |
| Prepaid items | | | | 200 | 200 |
| Total assets | \$ 11,520,000 | \$ 6,587,975 | \$ 3,334,569 | \$ 11,429,067 | \$ 32,871,611 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 653,783 | \$ 715,812 | \$ 441,596 | \$ 410,446 | \$ 2,221,637 |
| Accrued payroll and employee benefits | 880,004 | | 154,755 | 386,189 | 1,420,948 |
| Due to: | | | | | |
| Other funds | 496,072 | 226,924 | 214,066 | 820,339 | 1,757,401 |
| Other governments | | | | 556,380 | 556,380 |
| Deposits held for others | 7,757 | | | 6,276 | 14,033 |
| Certificates of participation payable | | 535,000 | | | 535,000 |
| Deferred revenue | 754,865 | | | 111,358 | 866,223 |
| Total liabilities | 2,792,481 | 1,477,736 | 810,417 | 2,290,988 | 7,371,622 |
| Fund balances: | | | | | |
| Unreserved, reported in: | | | | | |
| General fund | 8,727,519 | | | | 8,727,519 |
| Special revenue funds | | | 2,524,152 | 9,138,079 | 11,662,231 |
| Capital projects funds | | 5,110,239 | | | 5,110,239 |
| Total fund balances | 8,727,519 | 5,110,239 | 2,524,152 | 9,138,079 | 25,499,989 |
| Total liabilities and fund balances | \$ 11,520,000 | \$ 6,587,975 | \$ 3,334,569 | \$ 11,429,067 | \$ 32,871,611 |

See accompanying notes to financial statements

Cochise County
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 June 30, 2004

| | | |
|--|--------------------|----------------------|
| Fund balances—total governmental fund: | | \$ 25,499,989 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are no financial resources and therefore, are not reported in the funds. | | 43,039,850 |
| Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds. | | 740,884 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | | 3,844,209 |
| Some liabilities are not due and payable in the current period and therefore, are not reported in the funds: | | |
| Certificates of participation payable | (8,893,381) | |
| Capital leases payable | (316,425) | |
| Compensated absences payable | <u>(2,900,954)</u> | <u>(12,110,760)</u> |
| Net assets of governmental activities | | <u>\$ 61,014,172</u> |

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

| | General Fund | Capital Projects Fund | Highway and Streets Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 24,779,035 | \$ 1,425,282 | | \$ 2,679,036 | \$ 28,883,353 |
| Licenses and permits | 52,388 | | | | 52,388 |
| Fees, fines, and forfeits | 2,035,946 | | | 224,621 | 2,260,567 |
| Intergovernmental | 13,159,348 | 1,414,325 | \$ 9,698,714 | 10,042,469 | 34,314,856 |
| Charges for services | 2,317,608 | | 604,841 | 1,488,985 | 4,411,434 |
| Investment income | 72,762 | 42,187 | (42,865) | 95,180 | 167,264 |
| Miscellaneous | 78,740 | 220,043 | 1,252 | 32,376 | 332,411 |
| Total revenues | <u>42,495,827</u> | <u>3,101,837</u> | <u>10,261,942</u> | <u>14,562,667</u> | <u>70,422,273</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 19,344,638 | 1,050,722 | | 6,489,311 | 26,884,671 |
| Public safety | 11,792,258 | | | 3,130,740 | 14,922,998 |
| Highways and streets | | | 7,843,582 | 223,141 | 8,066,723 |
| Sanitation | 562,712 | | | 247,397 | 810,109 |
| Health and welfare | 8,679,381 | | | 2,187,605 | 10,866,986 |
| Culture and recreation | | | | 932,327 | 932,327 |
| Education | 312,459 | | | 465,596 | 778,055 |
| Debt service: | | | | | |
| Principal | | | 83,024 | 11,420 | 94,444 |
| Interest and other charges | | 345,455 | | 2,899 | 348,354 |
| Capital outlay | 559,818 | 13,157,170 | 2,477,618 | 288,227 | 16,482,833 |
| Total expenditures | <u>41,251,266</u> | <u>14,553,347</u> | <u>10,404,224</u> | <u>13,978,663</u> | <u>80,187,500</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,244,561</u> | <u>(11,451,510)</u> | <u>(142,282)</u> | <u>584,004</u> | <u>(9,765,227)</u> |
| Other financing sources (uses): | | | | | |
| Capital lease agreements | | | 387,398 | | 387,398 |
| Sale of capital assets | 85,500 | 7,500 | 64,924 | 175,150 | 333,074 |
| Transfers in | 1,024,795 | 4,068,272 | 121,025 | 1,297,858 | 6,511,950 |
| Transfers out | (4,163,526) | (28,484) | (85,851) | (1,853,519) | (6,131,380) |
| Total other financing sources and use: | <u>(3,053,231)</u> | <u>4,047,288</u> | <u>487,496</u> | <u>(380,511)</u> | <u>1,101,042</u> |
| Net change in fund balances | (1,808,670) | (7,404,222) | 345,214 | 203,493 | (8,664,185) |
| Fund balances, July 1, 2003: | <u>10,536,189</u> | <u>12,514,461</u> | <u>2,178,938</u> | <u>8,934,586</u> | <u>34,164,174</u> |
| Fund balances, June 30, 2004 | <u>\$ 8,727,519</u> | <u>\$ 5,110,239</u> | <u>\$ 2,524,152</u> | <u>\$ 9,138,079</u> | <u>\$ 25,499,989</u> |

See accompanying notes to financial statements.

Cochise County
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2004

| | | |
|---|--------------------|---------------------|
| Net change in fund balances—total governmental funds | | \$ (8,664,185) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Capital outlay | 16,482,833 | |
| Depreciation expense | <u>(1,561,735)</u> | 14,921,098 |
| <p>In the Statement of Activities, only the gain/loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold.</p> | | |
| | | (3,219) |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| | | 9,451 |
| <p>Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities.</p> | | |
| | | 142,071 |
| <p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p> | | |
| Debt incurred | (387,398) | |
| Principal repaid | 94,444 | |
| Amortization of premium | <u>16,216</u> | (276,738) |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p> | | |
| | | (376,936) |
| <p>Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.</p> | | |
| | | <u>343,967</u> |
| Change in net assets of governmental activities | | <u>\$ 6,095,509</u> |

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2004

| | Business-Type Activities—Enterprise Funds | | | Total | Governmental Activities— Internal Service Funds |
|---|---|-----------------------------------|------------------------------|-------------------|---|
| | Cochise Health Systems Fund | Solid Waste Operations Fund | Other Enterprise Funds | | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash in bank and on hand | | \$ 1,100 | | \$ 1,100 | \$ 200 |
| Cash and investments held by County Treasurer | \$ 4,249,080 | 1,131,313 | | 5,380,393 | 206,769 |
| Receivables (net of allowances for uncollectibles): | | | | | |
| Accounts | 1,406,288 | 383,668 | \$ 28,948 | 1,818,904 | 116,304 |
| Accrued interest | 5,351 | 286 | | 5,637 | 23 |
| Due from: | | | | | |
| Other funds | 1,010 | 2,950 | 80,968 | 84,928 | 685,173 |
| Other governments | | 36,032 | 15,914 | 51,946 | |
| Prepaid items | 125,000 | 5,968 | | 130,968 | |
| Total current assets | <u>5,786,729</u> | <u>1,561,317</u> | <u>125,830</u> | <u>7,473,876</u> | <u>1,008,469</u> |
| Noncurrent assets: | | | | | |
| Capital assets, net of accumulated depreciation, where applicable: | | | | | |
| Land | | 21,700 | 1,575,000 | 1,596,700 | |
| Buildings, net | | 3,999,372 | 13,475 | 4,012,847 | 147,347 |
| Improvements other than buildings, net | | 2,138,487 | 507,911 | 2,646,398 | |
| Equipment, net | 67,200 | 1,943,887 | 161,353 | 2,172,440 | 3,132,703 |
| Total noncurrent assets | <u>67,200</u> | <u>8,103,446</u> | <u>2,257,739</u> | <u>10,428,385</u> | <u>3,280,050</u> |
| Total assets | <u>5,853,929</u> | <u>9,664,763</u> | <u>2,383,569</u> | <u>17,902,261</u> | <u>4,288,519</u> |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 2,692,169 | 112,591 | 4,837 | 2,809,597 | 404,526 |
| Accrued payroll and employee benefits | 65,544 | 35,694 | 3,663 | 104,901 | 19,774 |
| Due to other funds | 65,298 | 59,138 | 78,712 | 203,148 | 19,885 |
| Compensated absences payable, current portion | 77,203 | 37,762 | 3,748 | 118,713 | |
| Leases payable, current portion | | 63,584 | | 63,584 | |
| Deferred revenue | | | 100 | 100 | 125 |
| Total current liabilities | <u>2,900,214</u> | <u>308,769</u> | <u>91,060</u> | <u>3,300,043</u> | <u>444,310</u> |

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2004
(Continued)

| | Business-Type Activities—Enterprise Funds | | | Total | Governmental Activities— Internal Service Funds |
|---|--|--|---------------------------------------|----------------------|--|
| | Cochise Health Systems Fund | Solid Waste Operations Fund | Other Enterprise Funds | | |
| Noncurrent liabilities: | | | | | |
| Compensated absences payable | \$ 21,335 | | | \$ 21,335 | |
| Landfill closure and postclosure care costs payable | | \$ 2,245,334 | | 2,245,334 | |
| Leases payable | | <u>370,832</u> | | <u>370,832</u> | |
| Total noncurrent liabilities | <u>21,335</u> | <u>2,616,166</u> | | <u>2,637,501</u> | |
| Total liabilities | <u>2,921,549</u> | <u>2,924,935</u> | \$ 91,060 | <u>5,937,544</u> | \$ 444,310 |
| Net Assets | | | | | |
| Invested in capital assets, net of related debt | 67,200 | 7,669,030 | 2,257,739 | 9,993,969 | 3,280,050 |
| Restricted for long-term care | 1,888,000 | | | 1,888,000 | |
| Unrestricted (deficit) | <u>977,180</u> | <u>(929,202)</u> | <u>34,770</u> | <u>82,748</u> | <u>564,159</u> |
| Total net assets | <u>\$ 2,932,380</u> | <u>\$ 6,739,828</u> | <u>\$ 2,292,509</u> | <u>\$ 11,964,717</u> | <u>\$ 3,844,209</u> |

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2004

| | Business-Type Activities—Enterprise Funds | | | | Governmental Activities— Internal Service Funds |
|--|--|--|---------------------------------------|----------------------|--|
| | Cochise Health Systems Fund | Solid Waste Operations Fund | Other Enterprise Funds | Total | |
| Operating revenues: | | | | | |
| Charges for services | \$ 29,881,484 | \$ 2,888,506 | \$ 160,353 | \$ 32,930,343 | \$ 1,853,620 |
| Health plan contributions | | | | | 5,390,275 |
| Other | 9,265 | | | 9,265 | 41,145 |
| Total operating revenues | <u>29,890,749</u> | <u>2,888,506</u> | <u>160,353</u> | <u>32,939,608</u> | <u>7,285,040</u> |
| Operating expenses: | | | | | |
| Personal services | 2,105,771 | 1,154,194 | 121,228 | 3,381,193 | 311,491 |
| Professional services | 219,999 | 1,002,972 | 54,557 | 1,277,528 | 5,401,115 |
| Supplies | 55,432 | 432,832 | 87,294 | 575,558 | 976,695 |
| Long-term care costs | 26,327,999 | | | 26,327,999 | |
| Landfill closure and postclosure care costs | | 207,045 | | 207,045 | |
| Depreciation | 38,979 | 336,009 | 6,821 | 381,809 | 562,665 |
| Other | 733,612 | 85,222 | | 818,834 | 18,706 |
| Total operating expenses | <u>29,481,792</u> | <u>3,218,274</u> | <u>269,900</u> | <u>32,969,966</u> | <u>7,270,672</u> |
| Operating income (loss) | <u>408,957</u> | <u>(329,768)</u> | <u>(109,547)</u> | <u>(30,358)</u> | <u>14,368</u> |
| Nonoperating revenues (expenses): | | | | | |
| County excise taxes | | 287,695 | 109,776 | 397,471 | |
| Investment income | 71,521 | 30,694 | (3,532) | 98,683 | 6,063 |
| Miscellaneous revenue | | 5,990 | | 5,990 | |
| Interest expense | | (3,541) | | (3,541) | |
| Gain (Loss) on disposal of capital assets | | (1,402) | | (1,402) | 11,797 |
| Total nonoperating revenues (expenses) | <u>71,521</u> | <u>319,436</u> | <u>106,244</u> | <u>497,201</u> | <u>17,860</u> |
| Income (loss) before other revenues and transfers | 480,478 | (10,332) | (3,303) | 466,843 | 32,228 |
| Capital contributions | | | 307,640 | 307,640 | |
| Transfers in | | | 95,246 | 95,246 | 311,739 |
| Transfers out | (750,000) | (37,555) | | (787,555) | |
| Increase (Decrease) in net assets | (269,522) | (47,887) | 399,583 | 82,174 | 343,967 |
| Total net assets, July 1, 2003, as restated | <u>3,201,902</u> | <u>6,787,715</u> | <u>1,892,926</u> | <u>11,882,543</u> | <u>3,500,242</u> |
| Total net assets, June 30, 2004 | <u>\$ 2,932,380</u> | <u>\$ 6,739,828</u> | <u>\$ 2,292,509</u> | <u>\$ 11,964,717</u> | <u>\$ 3,844,209</u> |

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

| | <u>Business-Type Activities—Enterprise Funds</u> | | | <u>Total</u> | <u>Governmental</u> |
|---|--|--|---------------------------------------|---------------------|---------------------------------------|
| | <u>Cochise Health Systems Fund</u> | <u>Solid Waste Operations Fund</u> | <u>Other Enterprise Funds</u> | | <u>Internal Service Funds</u> |
| Cash flows from operating activities: | | | | | |
| Receipts from customers | \$ 29,027,992 | \$ 3,781,995 | \$ 69,521 | \$ 32,879,508 | |
| Receipts from other funds for goods and services provided | | | | | \$ 6,808,324 |
| Other receipts | | | | | 41,145 |
| Payments to suppliers and providers of goods and services | (27,470,300) | (2,348,158) | (140,918) | (29,959,376) | (6,080,828) |
| Payments to employees | (2,044,265) | (1,138,005) | (118,462) | (3,300,732) | (308,105) |
| Net cash provided by (used for) operating activities | <u>(486,573)</u> | <u>295,832</u> | <u>(189,859)</u> | <u>(380,600)</u> | <u>460,536</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Miscellaneous receipts | | 293,685 | 109,776 | 403,461 | |
| Cash transfers from other funds | | | 95,246 | 95,246 | 311,739 |
| Cash transfers to other funds | (750,000) | (37,555) | | (787,555) | |
| Loans received from other funds | | | 78,712 | 78,712 | |
| Loan payments to other funds | | | (924) | (924) | |
| Net cash provided by (used for) noncapital financing activities | <u>(750,000)</u> | <u>256,130</u> | <u>282,810</u> | <u>(211,060)</u> | <u>311,739</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Capital grant receipts | | | 307,640 | 307,640 | |
| Proceeds from sale of capital assets | | | | | 30,725 |
| Purchases of capital assets | (27,865) | (1,948,925) | (449,403) | (2,426,193) | (939,959) |
| Principal paid on capital leases | | (14,364) | | (14,364) | |
| Interest paid on capital leases | | (3,541) | | (3,541) | |
| Net cash used for capital and related financing activities | <u>(27,865)</u> | <u>(1,966,830)</u> | <u>(141,763)</u> | <u>(2,136,458)</u> | <u>(909,234)</u> |
| Cash flows from investing activities: | | | | | |
| Investment income received on cash and investments held by County Treasurer | 72,011 | 32,341 | 273 | 104,625 | 6,460 |
| Net cash provided by investing activities | <u>72,011</u> | <u>32,341</u> | <u>273</u> | <u>104,625</u> | <u>6,460</u> |
| Net decrease in cash and cash equivalents | (1,192,427) | (1,382,527) | (48,539) | (2,623,493) | (130,499) |
| Cash and cash equivalents, July 1, 2003 | <u>5,441,507</u> | <u>2,514,940</u> | <u>48,539</u> | <u>8,004,986</u> | <u>337,468</u> |
| Cash and cash equivalents, June 30, 2004 | <u>\$ 4,249,080</u> | <u>\$ 1,132,413</u> | <u>\$ -</u> | <u>\$ 5,381,493</u> | <u>\$ 206,969</u> |

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004
(Continued)

| | Business-Type Activities—Enterprise Funds | | | | Governmental Activities— Internal Service Funds |
|---|--|--|---------------------------------------|---------------------|--|
| | Cochise Health Systems Fund | Solid Waste Operations Fund | Other Enterprise Funds | Total | |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Operating income (loss) | \$ 408,957 | \$ (329,768) | \$ (109,547) | \$ (30,358) | \$ 14,368 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Depreciation | 38,979 | 336,009 | 6,821 | 381,809 | 562,665 |
| Landfill closure and postclosure care costs | | 207,045 | | 207,045 | |
| Changes in assets and liabilities: | | | | | |
| Increase in: | | | | | |
| Accounts receivable | (875,268) | (301,333) | (24,902) | (1,201,503) | (72,725) |
| Due from other funds | | | (80,725) | (80,725) | (367,405) |
| Prepaid items | (125,000) | (5,968) | | (130,968) | |
| Accounts payable | | | 933 | 933 | 308,197 |
| Accrued payroll and employee benefits | | | | | 3,386 |
| Due to other funds | 52,632 | | | 52,632 | 7,491 |
| Compensated absences payable | 98,538 | 37,762 | 3,748 | 140,048 | |
| Deferred revenue | | | | | 125 |
| Decrease in: | | | | | |
| Due from other funds | 961 | 908,274 | | 909,235 | |
| Due from other governments | 11,550 | 286,548 | 14,945 | 313,043 | 4,434 |
| Due to other funds | | (788,483) | | (788,483) | |
| Deferred revenue | | | (150) | (150) | |
| Accounts payable | (60,890) | (32,681) | | (93,571) | |
| Accrued payroll and employee benefits | (37,032) | (21,573) | (982) | (59,587) | |
| Net cash provided by (used for) operating activities | <u>\$ (486,573)</u> | <u>\$ 295,832</u> | <u>\$ (189,859)</u> | <u>\$ (380,600)</u> | <u>\$ 460,536</u> |
| Cash and cash equivalents, June 30, 2004, consisted of: | | | | | |
| Cash in bank and on hand | | \$ 1,100 | | \$ 1,100 | \$ 200 |
| Cash and investments held by County Treasurer | <u>\$ 4,249,080</u> | <u>1,131,313</u> | | <u>5,380,393</u> | <u>206,769</u> |
| | <u>\$ 4,249,080</u> | <u>\$ 1,132,413</u> | | <u>\$ 5,381,493</u> | <u>\$ 206,969</u> |

Noncash capital financing activities:

The Solid Waste Operations Fund acquired \$448,780 in capital equipment under the provisions of a capital lease agreement. Also, the Fund disposed of equipment with a net book value of \$1,402.

The beginning capital asset balances of the Solid Waste Operations Fund, the Other Enterprise Funds, and the Internal Service Funds were restated to correct errors made in previous fiscal years as explained in Note 2 to the financial statements.

See accompanying notes to financial statements.

Cochise County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

| | Investment Trust Funds | Agency Funds |
|---|-----------------------------------|-------------------------|
| Assets | | |
| Cash in bank and on hand | | \$ 3,298,669 |
| Cash and investments held by County Treasurer | \$ 62,001,892 | 491,000 |
| Interest receivable | <u>7,159</u> | |
| Total assets | <u>62,009,051</u> | <u>3,789,669</u> |
| Liabilities | | |
| Due to other governments | | <u>\$ 3,789,669</u> |
| Total liabilities | | <u>\$ 3,789,669</u> |
| Net Assets | | |
| Held in trust for investment trust participants | <u>\$ 62,009,051</u> | |

See accompanying notes to financial statements.

Cochise County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2004

| | Investment Trust Funds |
|---------------------------------|-----------------------------------|
| Additions: | |
| Contributions from participants | \$ 178,370,038 |
| Investment income | <u>(537,305)</u> |
| Total additions | <u>177,832,733</u> |
| Deductions: | |
| Distributions to participants | <u>177,164,316</u> |
| Total deductions | <u>177,164,316</u> |
| Change in net assets | 668,417 |
| Net assets, July 1, 2003 | <u>61,340,634</u> |
| Net assets, June 30, 2004 | <u><u>\$ 62,009,051</u></u> |

See accompanying notes to financial statements.

Cochise County
Combining Statement of Net Assets
Component Units
June 30, 2004

| | Housing Authority of <u>Cochise County</u> | Cochise County Workforce <u>Development</u> | <u>Total</u> |
|---|---|--|---------------------|
| Assets | | | |
| Cash in bank and on hand | \$ 249,568 | \$ 36,918 | \$ 286,486 |
| Receivables (net of allowances for uncollectibles): | | | |
| Accounts | | 673 | 673 |
| Due from other governments | 26,504 | 312,919 | 339,423 |
| Prepaid items | | 3,835 | 3,835 |
| Capital assets, being depreciated, net | <u>38,232</u> | <u>100,260</u> | <u>138,492</u> |
| Total assets | <u>314,304</u> | <u>454,605</u> | <u>768,909</u> |
| Liabilities | | | |
| Accounts payable | 30 | 164,510 | 164,540 |
| Accrued payroll and employee benefits | 21,016 | 840 | 21,856 |
| Deferred revenue | 175,919 | 157,062 | 332,981 |
| Noncurrent liabilities | | | |
| Due within 1 year | 1,344 | | 1,344 |
| Due in more than 1 year | <u>12,097</u> | <u>13,166</u> | <u>25,263</u> |
| Total liabilities | <u>210,406</u> | <u>335,578</u> | <u>545,984</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 38,232 | 100,260 | 138,492 |
| Restricted for grants | <u>65,666</u> | <u>18,767</u> | <u>84,433</u> |
| Total net assets | <u>\$ 103,898</u> | <u>\$ 119,027</u> | <u>\$ 222,925</u> |

See accompanying notes to financial statements.

Cochise County
Combining Statement of Activities
Component Units
Year Ended June 30, 2004

| | | <u>Program Revenues</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | |
|---------------------------------------|---------------------|---|--|---|-------------------|
| | <u>Expenses</u> | <u>Operating Grants and Contributions</u> | <u>Housing Authority of Cochise County</u> | <u>Cochise County Workforce Development</u> | <u>Total</u> |
| Component units: | | | | | |
| Housing Authority of Cochise County | \$ 1,805,607 | \$ 1,818,069 | \$ 12,462 | | \$ 12,462 |
| Cochise County Workforce Development | <u>1,328,305</u> | <u>1,352,595</u> | <u> </u> | \$ 24,290 | <u>24,290</u> |
| Total component units | <u>\$ 3,133,912</u> | <u>\$ 3,170,664</u> | <u>12,462</u> | <u>24,290</u> | <u>36,752</u> |
| General revenues: | | | | | |
| Investment earnings | | | 973 | 525 | 1,498 |
| Miscellaneous | | | <u>11,728</u> | <u>207</u> | <u>11,935</u> |
| Total general revenues | | | <u>12,701</u> | <u>732</u> | <u>13,433</u> |
| Change in net assets | | | 25,163 | 25,022 | 50,185 |
| Net assets, July 1, 2003, as restated | | | <u>78,735</u> | <u>94,005</u> | <u>172,740</u> |
| Net assets, June 30, 2004 | | | <u>\$ 103,898</u> | <u>\$ 119,027</u> | <u>\$ 222,925</u> |

See accompanying notes to financial statements.

Cochise County
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each blended and discretely presented component unit discussed below has a June 30 year end.

The following table describes the County's component units:

| Component Unit | Description; Criteria for Inclusion | Reporting Method | For Separate Financial Statements |
|---------------------------------------|--|---------------------|---|
| Cochise County Flood Control District | A tax-levying district that provides flood control systems. The County's Board of Supervisors serves as the Board of Directors of the District. | Blended | Not available |
| Cochise County Library District | Provides and maintains library services for the County's residents. The County's Board of Supervisors is the Board of Directors of the District. | Blended | Not available |
| Housing Authority of Cochise County | Administers and coordinates the Section 8 Rental Voucher Program. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Authority, but the Authority does not provide services entirely to the County. | Discrete | Housing Authority of Cochise County Old Bisbee High School First Floor P.O. Box 167 Bisbee, Arizona 85603 |

Cochise County
Notes to Financial Statements
June 30, 2004

| Component Unit | Description; Criteria for Inclusion | Reporting Method | For Separate Financial Statements |
|--|--|---------------------|---|
| Cochise County Workforce Development | Administers and coordinates Workforce Investment Act programs. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Workforce Development. However, the Workforce Development does not provide services entirely to the County. | Discrete | Cochise County Workforce Development 1843 Paseo San Luis Sierra Vista, Arizona 85635 |

B. Basis of Presentation

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

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

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

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

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Cochise County
Notes to Financial Statements
June 30, 2004

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

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

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

The County reports the following major governmental funds:

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

The Capital Projects Fund accounts for resources to be used for acquisition or construction of major facilities and automation and communications projects, other than those financed by proprietary funds.

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

The County reports the following major enterprise funds:

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

Cochise County
Notes to Financial Statements
June 30, 2004

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

The County reports the following fund types:

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

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

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

C. Basis of Accounting

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

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

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

Cochise County
Notes to Financial Statements
June 30, 2004

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

D. Cash and Investments

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents. All investments are stated at fair value.

E. Inventories

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

F. Property Tax Calendar

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

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

G. Capital Assets

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

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

Cochise County
Notes to Financial Statements
June 30, 2004

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

H. Investment Income

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

I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, for employees with at least 15 years of service, sick leave benefits up to 1,040 hours do vest and, therefore, are accrued.

Note 2 - Beginning Balances Restated

The following beginning net asset balances were restated to correct errors in reporting capital assets in prior years.

Cochise County
Notes to Financial Statements
June 30, 2004

| | Governmental Activities | Business-type Activities | Solid Waste Operations Enterprise Fund | Other Enterprise Funds | Internal Service Funds |
|---|----------------------------|-----------------------------|---|------------------------------|---------------------------|
| Net assets, June 30, 2003, as previously reported | \$54,587,543 | \$11,522,509 | \$6,638,471 | \$1,682,136 | \$3,515,298 |
| Correction of error | <u>331,120</u> | <u>360,034</u> | <u>149,244</u> | <u>210,790</u> | <u>(15,056)</u> |
| Net assets, July 1, 2003, as restated | <u>\$54,918,663</u> | <u>\$11,882,543</u> | <u>\$6,787,715</u> | <u>\$1,892,926</u> | <u>\$3,500,242</u> |

Note 3 - Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2004, the following funds reported deficits in fund balances:

| Fund | Deficit |
|--|---------|
| Governmental funds: | |
| Adult Probation Community Punishment | \$ 603 |
| Juvenile Probation State Aid Enhancement | 7,063 |
| Diversion Intake | 13,401 |
| Adult Probation I.P.S. Grant | 26,824 |
| Juvenile Probation Surveillance Grant | 2,227 |
| Title II—Improving Teacher Quality | 1,820 |

These deficits resulted from operations during the year, but are expected to be corrected through normal operations or transfers from the General Fund in fiscal year 2005.

Note 4 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; 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. Those monies are pooled with the County's monies for investment purposes.

Cochise County
Notes to Financial Statements
June 30, 2004

Deposits—At June 30, 2004, the carrying amount of the investment pool’s total cash in bank and on hand was \$1,540,414, and the bank balance was \$4,360,175. Of the bank balance, \$400,000 was covered by federal depository insurance and \$3,960,175 was covered by collateral held by the pledging financial institution’s trust department or agent in the County’s name.

Investments—At June 30, 2004, the investments in the County Treasurer’s investment pool consisted of the following:

| | Fair Value |
|--|-----------------------|
| Investment in State Treasurer’s investment pool | \$16,019,713 |
| U.S. government securities | 66,093,890 |
| Repurchase agreement | <u>4,500,000</u> |
| Total | <u>\$86,613,603</u> |

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. Of the total U.S. government securities, \$21,351,757 were registered in the County’s name and \$44,742,133 were held by the counterparty’s agent in the County’s name. The repurchase agreement was collateralized by U.S. government securities held by the counterparty’s agent in the County’s name.

Other deposits—At June 30, 2004, the carrying amount of the County’s total nonpooled cash in bank and on hand was \$3,511,674, and the bank balance was \$3,553,383. Of the bank balance, \$1,473 was covered by federal depository insurance or by collateral held by the County or its agent in the County’s name; \$3,263,360 was covered by collateral held by the pledging financial institution’s trust department or agent in the County’s name; and \$288,550 was uninsured and uncollateralized.

Other investments—At June 30, 2004, the County Treasurer’s nonpooled investments consisted of the following:

| | Fair Value |
|--|-----------------------|
| Investment in State Treasurer’s investment pool | \$2,852,690 |

Cochise County
Notes to Financial Statements
June 30, 2004

Cash and investments held by trustee—At June 30, 2004, the County's cash and investments held by trustee totaling \$881,753 were held for the Series 2002 Certificates of Participation reserve requirements. The balance consisted of securities held by the counterparty, but not in the County's name.

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

Cash and investments:

| | County Treasurer's Investment Pool | Other | Total |
|--------------------------------------|--|--------------------|---------------------|
| Cash on hand | \$ 68,116 | \$ 10,524 | \$ 78,640 |
| Carrying amount of deposits | 1,472,298 | 3,501,150 | 4,973,448 |
| Reported amount of investments | 86,613,603 | 2,852,690 | 89,466,293 |
| Cash and investments held by trustee | <u>881,753</u> | <u>881,753</u> | <u>881,753</u> |
| Total | <u>\$88,154,017</u> | <u>\$7,246,117</u> | <u>\$95,400,134</u> |

Statement of Net Assets:

| | Total Primary Government | Total Fiduciary Funds | Total |
|--|--------------------------------|-----------------------------|---------------------|
| Cash in bank and on hand | \$ 213,005 | \$ 3,298,669 | \$ 3,511,674 |
| Cash and investments held by County Treasurer | 28,513,815 | 62,492,892 | 91,006,707 |
| Cash and investments held by trustee | <u>881,753</u> | <u>881,753</u> | <u>881,753</u> |
| Total | <u>\$29,608,573</u> | <u>\$65,791,561</u> | <u>\$95,400,134</u> |

Note 5 - Due from Other Governments

Due from other governments totaling \$5,781,108 at June 30, 2004, included \$680,581 in state-shared revenue from highway user fees, \$842,263 in state-shared sales taxes, \$448,272 in state-shared vehicle license taxes, and \$999,870 in county excise taxes. The remaining balance of \$2,810,122 represents amounts receivable from various state and federal government grant or agencies.

Cochise County
Notes to Financial Statements
June 30, 2004

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

| | Balance July 1, 2003, as restated | Increases | Decreases | Balance June 30, 2004 |
|--|---|---------------------|---------------------|-----------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,924,817 | \$ 84,501 | \$ 3,000 | \$ 2,006,318 |
| Construction in progress (estimated cost to complete \$147,500) | <u>1,387,970</u> | <u>14,514,887</u> | <u>15,881,608</u> | <u>21,249</u> |
| Total capital assets not being depreciated | <u>3,312,787</u> | <u>14,599,388</u> | <u>15,884,608</u> | <u>2,027,567</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 22,102,042 | 12,872,256 | | 34,974,298 |
| Improvements other than buildings | 1,162,733 | 225,245 | | 1,387,978 |
| Equipment | 19,779,441 | 4,091,461 | 609,488 | 23,261,414 |
| Infrastructure | | <u>1,525,501</u> | | <u>1,525,501</u> |
| Total | <u>43,044,216</u> | <u>18,714,463</u> | <u>609,488</u> | <u>61,149,191</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,932,724 | 411,967 | | 6,344,691 |
| Improvements other than buildings | 527,203 | 58,677 | | 585,880 |
| Equipment | <u>8,862,872</u> | <u>1,653,756</u> | <u>590,341</u> | <u>9,926,287</u> |
| Total | <u>15,322,799</u> | <u>2,124,400</u> | <u>590,341</u> | <u>16,856,858</u> |
| Total capital assets being depreciated, net | <u>27,721,417</u> | <u>16,590,063</u> | <u>19,147</u> | <u>44,292,333</u> |
| Governmental activities capital assets, net | <u>\$31,034,204</u> | <u>\$31,189,451</u> | <u>\$15,903,755</u> | <u>\$46,319,900</u> |
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,596,700 | | | \$ 1,596,700 |
| Construction in progress | <u>132,998</u> | <u>\$ 1,890,398</u> | <u>\$ 2,023,396</u> | <u> </u> |
| Total capital assets not being depreciated | <u>1,729,698</u> | <u>1,890,398</u> | <u>2,023,396</u> | <u>1,596,700</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 4,520,845 | 38,180 | | 4,559,025 |
| Improvements other than buildings | 659,935 | 2,318,559 | 6,463 | 2,972,031 |
| Equipment | <u>2,885,993</u> | <u>651,232</u> | | <u>3,537,225</u> |
| Total | <u>8,066,773</u> | <u>3,007,971</u> | <u>6,463</u> | <u>11,068,281</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 458,984 | 87,194 | | 546,178 |
| Improvements other than buildings | 254,278 | 76,416 | 5,061 | 325,633 |
| Equipment | <u>1,146,586</u> | <u>218,199</u> | | <u>1,364,785</u> |
| Total | <u>1,859,848</u> | <u>381,809</u> | <u>5,061</u> | <u>2,236,596</u> |
| Total capital assets being depreciated, net | <u>6,206,925</u> | <u>2,626,162</u> | <u>1,402</u> | <u>8,831,685</u> |
| Business-type activities capital assets, net | <u>\$ 7,936,623</u> | <u>\$ 4,516,560</u> | <u>\$ 2,024,798</u> | <u>\$10,428,385</u> |

Cochise County
Notes to Financial Statements
June 30, 2004

The July 1, 2003, capital asset balances were restated to correct capital asset classification and valuation errors made in previous years. Note 2 to the financial statements shows the total restatement amounts.

Depreciation expense was charged to functions as follows:

| | |
|---|--------------------|
| Governmental activities: | |
| General government | \$ 771,008 |
| Public safety | 84,888 |
| Highways and streets | 682,498 |
| Health and welfare | 11,245 |
| Culture and recreation | 1,049 |
| Education | 11,047 |
| Internal service funds | <u>562,665</u> |
| Total governmental activities depreciation expense | <u>\$2,124,400</u> |
| | |
| Business-type activities: | |
| Health plans | \$ 38,979 |
| Landfill | 336,009 |
| Airport operations | <u>6,821</u> |
| Total business-type activities depreciation expense | <u>\$381,809</u> |

Note 7 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2004:

| | Balance July 1, 2003 | Additions | Reductions | Balance June 30, 2004 | Due within 1 year |
|---|-------------------------|--------------------|--------------------|--------------------------|----------------------|
| Governmental activities | | | | | |
| Certificates of participation payable | \$ 9,500,000 | | \$ 250,000 | \$ 9,250,000 | \$ 535,000 |
| Unamortized premium | <u>194,597</u> | | <u>16,216</u> | <u>178,381</u> | <u>16,216</u> |
| Total certificates of participation payable | <u>9,694,597</u> | | <u>266,216</u> | <u>9,428,381</u> | <u>551,216</u> |
| Capital leases payable | 23,471 | \$ 387,398 | 94,444 | 316,425 | 80,030 |
| Compensated absences payable | <u>2,665,793</u> | <u>2,113,787</u> | <u>1,878,626</u> | <u>2,900,954</u> | <u>2,256,569</u> |
| Governmental activities long-term liabilities | <u>\$12,383,861</u> | <u>\$2,501,185</u> | <u>\$2,239,286</u> | <u>\$12,645,760</u> | <u>\$2,887,815</u> |
| Business-type activities | | | | | |
| Capital leases payable | | \$ 448,780 | \$ 14,364 | \$ 434,416 | \$ 63,584 |
| Landfill closure and postclosure care costs payable | \$ 2,038,289 | 207,045 | | 2,245,334 | |
| Compensated absences payable | <u>92,606</u> | <u>113,455</u> | <u>66,013</u> | <u>140,048</u> | <u>118,713</u> |
| Business-type activities long-term liabilities | <u>\$ 2,130,895</u> | <u>\$ 769,280</u> | <u>\$ 80,377</u> | <u>\$ 2,819,798</u> | <u>\$ 182,297</u> |

Cochise County
Notes to Financial Statements
June 30, 2004

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

Certificates outstanding at June 30, 2004, were as follows:

| Description | Original Amount | Maturity Ranges | Interest Rates | Outstanding Principal |
|-----------------------------------|-----------------|-----------------|----------------|-----------------------|
| PHS Mortgage, Inc. 2002 Series | \$9,500,000 | 2005 to 2017 | 2.5 – 4.5% | \$9,250,000 |

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2004:

| Year ending June 30 | <u>Governmental Activities</u> | |
|---------------------|--------------------------------|--------------------|
| | Principal | Interest |
| 2005 | \$ 535,000 | \$ 338,275 |
| 2006 | 550,000 | 324,713 |
| 2007 | 560,000 | 310,838 |
| 2008 | 575,000 | 295,931 |
| 2009 | 590,000 | 279,175 |
| 2010-14 | 3,275,000 | 1,055,925 |
| 2015-17 | <u>3,165,000</u> | <u>284,263</u> |
| Total | <u>\$9,250,000</u> | <u>\$2,889,120</u> |

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

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--------------------------------|--------------------------------|---------------------------------|
| Machinery and equipment | \$459,568 | \$448,780 |
| Less: accumulated depreciation | <u>42,830</u> | <u>14,024</u> |
| Carrying value | <u>\$416,738</u> | <u>\$434,756</u> |

Cochise County
Notes to Financial Statements
June 30, 2004

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2004:

| Year ending June 30 | Governmental Activities | Business-Type Activities |
|--|----------------------------|-----------------------------|
| 2005 | \$ 91,644 | \$ 77,589 |
| 2006 | 87,333 | 71,620 |
| 2007 | 83,024 | 71,621 |
| 2008 | 83,024 | 71,621 |
| 2009 | | 71,621 |
| 2010-11 | | <u>119,366</u> |
| Total minimum lease payments | <u>345,025</u> | <u>483,438</u> |
| Less amount representing interest | <u>28,600</u> | <u>49,022</u> |
| Present value of net minimum lease payments | <u>\$316,425</u> | <u>\$434,416</u> |

Landfill closure and postclosure care costs—State and federal laws and regulations require the County to place a final cover on its solid waste landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each operating period. The amount recognized each year is based on landfill capacity used at the end of each fiscal year. These costs will be paid from solid waste fees recorded in the Solid Waste Enterprise Fund.

At June 30, 2004, the County has reported landfill closure and postclosure care liabilities totaling \$2,245,334. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills. The liability reported for the Eastern Regional landfill of \$1,791,979 is based on 100 percent use of the capacity of the landfill. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$453,355 is based on the 4.06 percent use of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,713,020 as the remaining capacity is filled. The County expects to close this landfill in 2042.

The landfills' closure and postclosure care costs are based on what it would cost to perform all closure and postclosure care in fiscal year 2004. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

Cochise County
Notes to Financial Statements
June 30, 2004

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2004, the County paid for compensated absences as follows: 66 percent from the General Fund, 11 percent from the Highway and Streets Fund, and 23 percent from other funds.

Note 8 - Risk Management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 per occurrence for property claims and \$50,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$10 million per occurrence for liability claims. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience rating formula, that allocates pool expenditures and liabilities among the members.

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

Cochise County
Notes to Financial Statements
June 30, 2004

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

Note 9 - 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.

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 the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

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

ASRS

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

PSPRS, CORP, and EORP

1020 E. Missouri Ave.
Phoenix, AZ 85014
(602) 255-5575

Cochise County
Notes to Financial Statements
June 30, 2004

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, 2004, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2004, 2003, and 2002, were \$1,442,237, \$604,497, and \$581,682, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2004, 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 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, 2004, and related information follows:

| | PSPRS | CORP |
|---------------------|-----------|----------|
| Contribution rates: | | |
| County | 14.14% | 3.59% |
| Plan members | 7.65% | 8.50% |
| Annual pension cost | \$405,246 | \$59,539 |
| Contributions made | \$405,246 | \$59,539 |

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 (excess) actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002, was 20 years.

Cochise County
Notes to Financial Statements
June 30, 2004

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

| Plan | Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------|-----------------------|------------------------------|-------------------------------------|---------------------------|
| PSPRS | 2004 | \$405,246 | 100% | \$0 |
| | 2003 | 207,186 | 100 | 0 |
| | 2002 | 266,449 | 100 | 0 |
| CORP | 2004 | \$ 59,539 | 100% | \$0 |
| | 2003 | 33,600 | 100 | 0 |
| | 2002 | 31,854 | 100 | 0 |

Note 10 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2004, were as follows:

| Payable from | Payable to | | | | | | | | Total |
|-----------------------------|------------------|-----------------------|--------------------------|--------------------------|-----------------------------|-----------------------------|------------------------|------------------------|--------------------|
| | General Fund | Capital Projects Fund | Highway and Streets Fund | Other Governmental Funds | Cochise Health Systems Fund | Solid Waste Operations Fund | Other Enterprise Funds | Internal Service Funds | |
| General Fund | | | \$ 44 | \$ 45,872 | \$ 299 | | \$80,844 | \$369,013 | \$ 496,072 |
| Capital Projects Fund | \$ 13,478 | | 175 | 8,151 | | \$ 28 | | 205,092 | 226,924 |
| Highway and Streets Fund | 201,902 | | | 819 | | | | 11,345 | 214,066 |
| Other Governmental Funds | 174,304 | \$220,550 | 30,563 | 346,089 | 711 | 2,922 | 124 | 45,076 | 820,339 |
| Cochise Health Systems Fund | 62,545 | | | | | | | 2,753 | 65,298 |
| Solid Waste Operations Fund | 7,767 | | 13 | 183 | | | | 51,175 | 59,138 |
| Other Enterprise Funds | 77,993 | | | | | | | 719 | 78,712 |
| Internal Service Funds | <u>18,749</u> | | | <u>1,136</u> | | | | | <u>19,885</u> |
| Total | <u>\$556,738</u> | <u>\$220,550</u> | <u>\$30,795</u> | <u>\$402,250</u> | <u>\$1,010</u> | <u>\$2,950</u> | <u>\$80,968</u> | <u>\$685,173</u> | <u>\$1,980,434</u> |

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

Cochise County
Notes to Financial Statements
June 30, 2004

Interfund transfers—Interfund transfers for the year ended June 30, 2004, were as follows:

| Transfer from | Transfer to | | | | | | Total |
|-----------------------------------|--------------------|-----------------------------|-----------------------------------|--------------------------------|------------------------------|------------------------------|--------------------|
| | General Fund | Capital Projects Fund | Highway and Streets Fund | Other Governmental Funds | Other Enterprise Funds | Internal Service Funds | |
| General Fund | | \$3,924,963 | | \$ 140,752 | \$80,844 | \$ 16,967 | \$4,163,526 |
| Capital Projects Fund | | | | 28,484 | | | 28,484 |
| Highway and Streets Fund | | 85,851 | | | | | 85,851 |
| Other Governmental Funds | \$ 274,795 | 57,458 | \$121,025 | 1,128,622 | 14,402 | 257,217 | 1,853,519 |
| Cochise Health Systems Fund | 750,000 | | | | | | 750,000 |
| Solid Waste Operations Fund | | | | | | 37,555 | 37,555 |
| Total | <u>\$1,024,795</u> | <u>\$4,068,272</u> | <u>\$121,025</u> | <u>\$1,297,858</u> | <u>\$95,246</u> | <u>\$311,739</u> | <u>\$6,918,935</u> |

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

During the year ended June 30, 2004, the County made a one-time transfer of \$3,325,000 from the General Fund to the Capital Projects Fund to pay for the completion of County building projects.

Note 11 - Condensed Financial Statements of 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.

Details of each major investment classification follow:

Cochise County
Notes to Financial Statements
June 30, 2004

| Investment Type | Principal | Interest Rates | Maturities | Fair Value |
|---|--------------|-------------------------|----------------------|--------------|
| Investment in Arizona State Treasurer's Investment Pool | \$16,019,713 | No stated interest rate | No stated maturities | \$16,019,713 |
| U.S. Government Securities | 67,046,000 | 1.06 – 4.125% | Up to 3 years | 66,093,890 |

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

Statement of Net Assets

| | |
|------------|----------------------|
| Assets | <u>\$ 88,163,815</u> |
| Net assets | <u>\$ 88,163,815</u> |

Net assets held in trust for:

| | |
|--------------------------------|----------------------|
| Internal participants | \$ 26,154,764 |
| External participants | <u>62,009,051</u> |
| Total net assets held in trust | <u>\$ 88,163,815</u> |

Statement of Changes in Net Assets

| | |
|---------------------------|----------------------|
| Total additions | \$333,099,356 |
| Total deductions | <u>336,309,884</u> |
| Net increase (decrease) | <u>(3,210,528)</u> |
| Net assets held in trust: | |
| July 1, 2003 | <u>91,374,343</u> |
| June 30, 2004 | <u>\$ 88,163,815</u> |

Note 12 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

Housing Authority of Cochise County and Cochise County Workforce Development

Basis of Accounting

The discretely presented component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Cochise County
Notes to Financial Statements
June 30, 2004

Cochise County Workforce Development

Due from other governments

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

B. Cash and Investments

Housing Authority of Cochise County

The Housing Authority's deposits (bank balance) at June 30, 2004, were entirely covered by federal depository insurance or by collateral held by the Housing Authority's custodial banks (agent) in the Housing Authority's name.

C. Due from other governments

Cochise County Workforce Development

Due from other governments consists of the following grants receivable at June 30, 2004:

| Program | Amount |
|--|------------------|
| WIA Administration | \$ 8,354 |
| WIA Adult Program | 43,869 |
| WIA Youth Program | 128,693 |
| WIA Dislocated Workers | 12,991 |
| Rapid Response | 2,803 |
| Young Offender | 33,766 |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects (H-1B) | 53,247 |
| Incentive Set-Aside Funds | 8,148 |
| Department of Commerce | <u>21,048</u> |
| | <u>\$312,919</u> |

D. Restatement of Financial Information

Cochise County Workforce Development

The beginning net assets were restated to reflect a prior period adjustment of \$42,405 to reduce due from other governments. The adjustment relates to amounts that should not have been recognized as revenues in prior years.

Other Required Supplementary Information

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------|-------------------------|-------------------|---------------------------|---------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 24,396,344 | \$ 24,396,344 | \$ 24,779,035 | \$ 382,691 |
| Licenses and permits | 60,000 | 60,000 | 52,388 | (7,612) |
| Fees, fines, and forfeits | 1,545,849 | 1,545,849 | 2,035,946 | 490,097 |
| Intergovernmental | 12,796,381 | 12,796,381 | 13,159,348 | 362,967 |
| Charges for services | 1,971,172 | 1,971,172 | 2,317,608 | 346,436 |
| Investment income | 249,000 | 249,000 | 72,762 | (176,238) |
| Miscellaneous | 142,620 | 142,620 | 78,740 | (63,880) |
| Total revenues | <u>41,161,366</u> | <u>41,161,366</u> | <u>42,495,827</u> | <u>1,334,461</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | | | | |
| Assessor | 1,484,723 | 1,485,410 | 1,387,262 | 98,148 |
| Attorney | 1,689,020 | 1,686,462 | 1,626,937 | 59,525 |
| Board of Supervisors | 1,079,980 | 990,643 | 796,354 | 194,289 |
| Elections | 185,642 | 186,301 | 120,296 | 66,005 |
| Finance | 666,220 | 668,584 | 676,482 | (7,898) |
| General Government | 7,049,202 | 6,848,937 | (1,036,781) | 7,885,718 |
| Human Resources | 1,160,296 | 1,170,983 | 999,344 | 171,639 |
| Planning and Zoning | 524,357 | 532,433 | 447,198 | 85,235 |
| Recorder | 288,810 | 290,624 | 283,307 | 7,317 |
| Treasurer | 957,477 | 962,656 | 926,042 | 36,614 |
| Public Defender | 1,113,789 | 1,022,865 | 991,133 | 31,732 |
| Legal Defender | 779,642 | 726,031 | 688,926 | 37,105 |
| Willcox Airport | 135,378 | 158,893 | 158,013 | 880 |
| Facilities | 2,485,383 | 2,595,387 | 2,018,284 | 577,103 |
| Utilities | 685,200 | 737,200 | 748,654 | (11,454) |
| Court Administration | 832,015 | 778,789 | 725,642 | 53,147 |
| Superior Court Division | 808,919 | 791,548 | 754,517 | 37,031 |
| Court Security | 314,687 | 320,114 | 297,434 | 22,680 |
| Mandatory Judicial Services | 266,340 | 298,840 | 273,102 | 25,738 |
| Mandatory Indigent Defense | 526,366 | 751,589 | 990,047 | (238,458) |
| Justice of the Peace | 1,700,286 | 1,708,284 | 1,685,872 | 22,412 |
| Clerk of Superior Court | 1,173,674 | 1,170,954 | 1,171,288 | (334) |
| Adult Probation | 382,957 | 387,741 | 382,025 | 5,716 |
| Juvenile Probation | 1,030,971 | 1,043,298 | 1,031,756 | 11,542 |
| Sierra Vista Constable | 109,980 | 109,980 | 104,469 | 5,511 |
| Constables | 66 | 66 | 13 | 53 |

(Continued)

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004
(Continued)

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|-------------------------|--------------------|---------------------------|---------------------------------------|
| | Original | Final | | |
| Information Technology | \$ 1,734,461 | \$ 1,734,461 | \$ 1,656,840 | \$ 77,621 |
| Total general government | <u>29,165,841</u> | <u>29,159,073</u> | <u>19,904,456</u> | <u>9,254,617</u> |
| Public safety | | | | |
| Sheriff | 9,531,663 | 9,525,935 | 9,398,579 | 127,356 |
| Building Inspection | 526,601 | 523,261 | 480,982 | 42,279 |
| Emergency Services | 80,033 | 85,758 | 81,423 | 4,335 |
| Juvenile Detention | 974,088 | 984,369 | 971,200 | 13,169 |
| Juvenile Detention Medical | 108,576 | 108,576 | 93,487 | 15,089 |
| Jail Medical | 460,219 | 512,389 | 522,428 | (10,039) |
| Jail Counselor | 68,067 | 68,067 | 59,159 | 8,908 |
| Medical Examiner | 180,000 | 180,000 | 185,000 | (5,000) |
| Total public safety | <u>11,929,247</u> | <u>11,988,355</u> | <u>11,792,258</u> | <u>196,097</u> |
| Sanitation | <u>569,980</u> | <u>579,240</u> | <u>562,712</u> | <u>16,528</u> |
| Health and welfare | | | | |
| Health | 1,333,402 | 1,271,973 | 1,050,041 | 221,932 |
| Health and Social Services | 8,173,608 | 8,173,437 | 7,629,340 | 544,097 |
| Total Health and welfare | <u>9,507,010</u> | <u>9,445,410</u> | <u>8,679,381</u> | <u>766,029</u> |
| Education | | | | |
| School Superintendent | <u>321,485</u> | <u>321,485</u> | <u>312,459</u> | <u>9,026</u> |
| Total education | <u>321,485</u> | <u>321,485</u> | <u>312,459</u> | <u>9,026</u> |
| Total expenditures | <u>51,493,563</u> | <u>51,493,563</u> | <u>41,251,266</u> | <u>10,242,297</u> |
| Excess (deficiency) of revenues over expenditures | (10,332,197) | (10,332,197) | 1,244,561 | 11,576,758 |
| Other financing sources (uses): | | | | |
| Sale of capital assets | | | 85,500 | 85,500 |
| Transfers in | 783,218 | 783,218 | 1,024,795 | 241,577 |
| Transfers out | - | - | (4,163,526) | (4,163,526) |
| Total other financing sources and uses | <u>783,218</u> | <u>783,218</u> | <u>(3,053,231)</u> | <u>(3,836,449)</u> |
| Net change in fund balances | <u>(9,548,979)</u> | <u>(9,548,979)</u> | <u>(1,808,670)</u> | <u>7,740,309</u> |
| Fund balances, July 1, 2003 | <u>9,548,979</u> | <u>9,548,979</u> | <u>10,536,189</u> | <u>987,210</u> |
| Fund balances, June 30, 2004 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,727,519</u> | <u>\$ 8,727,519</u> |

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Highway and Streets Fund
Year Ended June 30, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final</u> |
|--|-------------------------|-------------------|---------------------------|--------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ 9,627,789 | \$ 9,627,789 | \$ 9,698,714 | \$ 70,925 |
| Charges for services | 326,000 | 326,000 | 604,841 | 278,841 |
| Investment income | 60,000 | 60,000 | (42,865) | (102,865) |
| Miscellaneous | <u>1,468,903</u> | <u>2,192,128</u> | <u>1,252</u> | <u>(2,190,876)</u> |
| Total revenues | <u>11,482,692</u> | <u>12,205,917</u> | <u>10,261,942</u> | <u>(1,943,975)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Highways and streets | <u>11,603,692</u> | <u>12,326,917</u> | <u>10,404,224</u> | <u>1,922,693</u> |
| Total expenditures | <u>11,603,692</u> | <u>12,326,917</u> | <u>10,404,224</u> | <u>1,922,693</u> |
| Excess (deficiency) of revenues over expenditures | (121,000) | (121,000) | (142,282) | (21,282) |
| Other financing sources (uses): | | | | |
| Sale of capital assets | | | 64,924 | 64,924 |
| Capital lease agreements | | | 387,398 | 387,398 |
| Transfers in | 121,000 | 121,000 | 121,025 | 25 |
| Transfers out | <u> </u> | <u> </u> | <u>(85,851)</u> | <u>(85,851)</u> |
| Total other financing sources and uses | <u>121,000</u> | <u>121,000</u> | <u>487,496</u> | <u>366,496</u> |
| Net change in fund balances | <u> </u> | <u> </u> | <u>345,214</u> | <u>345,214</u> |
| Fund balances, July 1, 2003 | <u> </u> | <u> </u> | <u>2,178,938</u> | <u>2,178,938</u> |
| Fund balances, June 30, 2004 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,524,152</u> | <u>\$ 2,524,152</u> |

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2004

Note 1 - Budgeting and Budgetary Control

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

Expenditures may not legally exceed appropriations at the department level. The General Fund's budgeted and actual expenditures are presented at a level of detail that includes individual divisions comprising each General Fund department (the legal level of budgetary control). In no case did expenditures exceed appropriations in the General Fund departments. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

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

Note 2 - Budgetary Basis of Accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles, except for the unbudgeted items related to capital lease transactions. The \$387,398 capital lease transaction reported in the Highway and Streets Fund actual amounts as an other financing source and highway and streets expenditure was not budgeted.

Cochise County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2004

Public Safety Personnel Retirement System

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 6/30/04 | \$12,725,616 | \$16,926,781 | \$(4,201,165) | 75.2% | \$3,025,398 | 138.9% |
| 6/30/03 | 13,053,585 | 15,405,210 | (2,351,625) | 84.7 | 2,718,609 | 86.5 |
| 6/30/02 | 13,500,548 | 14,521,441 | (1,020,893) | 93.0 | 2,709,845 | 37.7 |

Corrections Officer Retirement Plan

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 6/30/04 | \$4,051,304 | \$3,643,207 | \$408,097 | 111.2% | \$1,701,777 | - |
| 6/30/03 | 4,031,075 | 3,357,476 | 673,599 | 120.1 | 1,716,580 | - |
| 6/30/02 | 3,929,947 | 2,975,558 | 954,389 | 132.1 | 1,638,829 | - |

Supplementary Information

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|--|----------------|----------------------------------|-------------------|
| U.S. Office of National Drug Control Policy | | | |
| Passed through the Pima County Sheriff's Department High Intensity Drug Trafficking Areas | 07.14PSAP549 | 0111C1341941003 | \$ <u>762,010</u> |
| U.S. Department of Agriculture | | | |
| Passed through the Arizona Department of Health Services Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | KR02-1592 | 640,360 |
| Passed through the Arizona State Treasurer Schools and Roads-Grants to States | 10.665 | 97224 | <u>94,242</u> |
| Total U.S. Department of Agriculture | | | <u>734,602</u> |
| U.S. Department of Housing and Urban Development | | | |
| Passed through the Arizona Department of Housing Community Development Block Grants/Entitlement Grants | 14.218 | 160-04 | 4,942 |
| Passed through the Arizona Department of Commerce Community Development Block Grants/State's Program | 14.228 | KR02-0084 | 223,181 |
| Passed through the Arizona Department of Housing HOME Investment Partnerships Program | 14.239 | 311-03 | 6,708 |
| Housing Opportunities for Persons with AIDS | 14.241 | 534-04 | 28,391 |
| Section 8 Housing Choice Vouchers | 14.871 | | 1,661,153 |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | | <u>125,108</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>2,049,483</u> |
| U.S. Department of the Interior | | | |
| Cultural Resource Management | 15.224 | | 9,350 |
| Payments in Lieu of Taxes | 15.226 | | 1,230,027 |
| Passed through the Arizona State Treasurer Distribution of Receipts to State and Local Governments | 15.227 | 37-723 | <u>6,659</u> |
| Total U.S. Department of the Interior | | | <u>1,246,036</u> |
| U.S. Department of Justice | | | |
| Southwest Border Local Assistance Initiative | 16.unknown | | 518,750 |
| Passed through the Arizona Governor's Office for Children, Youth, and Families Juvenile Accountability Incentive Block Grants | 16.523 | 02-43605 | 42,831 |
| Passed through the Arizona Department of Public Safety Crime Victim Assistance | 16.575 | 2003-050, 2002-908 | 62,084 |
| Passed through the Arizona Criminal Justice Commission Crime Victim Compensation | 16.576 | VC-04-050 | 30,297 |
| Byrne Formula Grant Program | 16.579 | KR03-0962 | 288,493 |
| Drug Court Discretionary Grant Program | 16.585 | | 84,195 |
| Rural Domestic Violence and Child Victimization Enforcement Grant Program | 16.589 | | 166,911 |

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|---|----------------|---|------------------|
| Local Law Enforcement Block Grants Program | 16.592 | | \$ 36,279 |
| State Criminal Alien Assistance Program | 16.606 | | 211,067 |
| Community Prosecution and Project Safe Neighborhoods | 16.609 | | 41,786 |
| Public Safety Partnership and Community Policing Grants | 16.710 | | <u>1,051,985</u> |
| Total U.S. Department of Justice | | | <u>2,534,678</u> |
| U.S. Department of Labor | | | |
| Passed through the Arizona Department of Economic Security | | | |
| WIA Cluster: | | | |
| WIA Adult Program | 17.258 | E5703002, E5704002 | 318,647 |
| WIA Youth Activities | 17.259 | E5703002, E5704002 | 402,009 |
| WIA Dislocated Workers | 17.260 | E5703002, E5704002 | <u>202,256</u> |
| Total WIA Cluster | | | <u>922,912</u> |
| Employment and Training Administration Pilots, Demonstrations, and Research Projects | 17.261 | | <u>418,127</u> |
| Total U.S. Department of Labor | | | <u>1,341,039</u> |
| U.S. Department of Transportation | | | |
| Airport Improvement Program | 20.106 | | 279,701 |
| Passed through the Arizona Department of Transportation | | | |
| Airport Improvement Program | 20.106 | E2F44 | <u>13,461</u> |
| Total Airport Improvement Program | | | <u>293,162</u> |
| Passed through the Arizona Department of Public Safety | | | |
| State and Community Highway Safety | 20.600 | 217953989, 218191858, 218395672, 218634038 | 47,653 |
| Passed through the Governor's Office of Highway Safety | | | |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 20.601 | 2004-410-010 | 28,840 |
| Passed through the Arizona Department of Emergency and Military Affairs | | | |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 218000709, 218259370, 218410066 | <u>19,547</u> |
| Total U.S. Department of Transportation | | | <u>389,202</u> |
| U.S. General Services Administration | | | |
| Passed through the Arizona Secretary of State | | | |
| Election Reform Payments | 39.011 | RFP 7500 | <u>420,825</u> |
| National Foundation on the Arts and the Humanities | | | |
| Passed through the Arizona State Library, Archives, and Public Records | | | |
| State Library Program | 45.310 | 231-3-2-(02), 221-1-5-(05) | <u>14,690</u> |

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|---|----------------|---|----------------------|
| U.S. Department of Education | | | |
| Passed through the Arizona Supreme Court Title I to Local Educational Agencies | 84.010 | 218366060, 218445878 | \$ 53,156 |
| Passed through the Arizona Department of Education Special Education—Grants to States | 84.027 | HO27AO10007, 04FESSTT-470666-05A | 25,547 |
| Reading First State Grants | 84.357 | 04FSASRS-470666-04A | 29,950 |
| English Language Acquisition Grants | 84.365 | 03FESPDL-370666-02A, 03FASENG-370666-01A | 30,597 |
| Mathematics and Science Partnerships | 84.366 | 04FAAMSP-470666707A | 46,090 |
| Improving Teacher Quality State Grants | 84.367 | 003FAAITQ-370666-04C | 57,436 |
| Total U.S. Department of Education | | | <u>242,776</u> |
| U.S. Department of Health and Human Services | | | |
| Passed through the Southeastern Arizona Governments Organization | | | |
| Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers | 93.044 | 04-12 | 220,751 |
| Passed through the Arizona Department of Health Services Immunization Grants | 93.268 | KR02-2023 | 109,710 |
| Centers for Disease Control and Prevention—Investigations and Technical Assistance | 93.283 | KR02-0303ALS, KR03-1542 | 362,637 |
| Passed through the Arizona Department of Economic Security Grants to States for Access and Visitation Programs | 93.597 | E7203303 | 13,080 |
| Passed through the Arizona Secretary of State Voting Access for individuals with Disabilities—Grants to States | 93.617 | 42USC 15461 | 455 |
| Passed through the Arizona Department of Health Services HIV Care Formula Grants | 93.917 | 152060 | 220,709 |
| HIV Prevention Activities—Health Department Based | 93.940 | KR 03-0017 | 48,921 |
| Preventive Health Services—Sexually Transmitted Diseases Control Grants | 93.977 | KR04-0148EHS | 3,805 |
| Preventive Health and Health Services Block Grant | 93.991 | KR02-1998 | 58,291 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | KR02-1854 | 30,600 |
| Total U.S. Department of Health and Human Services | | | <u>1,068,959</u> |
| U.S. Department of Homeland Security | | | |
| Passed through the Arizona Department of Emergency and Military Affairs, Division of Emergency Management State Domestic Preparedness Equipment Support Program | 97.004 | 2002-TE-CX-0142 | 131,915 |
| Total Expenditures of Federal Awards | | | <u>\$ 10,936,215</u> |

See accompanying notes to schedule.

Cochise County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2004 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

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

| Program Title | CFDA Number | Amount Provided to Subrecipients |
|---|----------------|--|
| High Intensity Drug Trafficking Areas | 07.14PSAP549 | \$350,454 |
| Byrne Formula Grant Program | 16.579 | 90,664 |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 20.601 | 4,409 |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 19,334 |
| State Domestic Preparedness Equipment Support Program | 97.004 | 125,915 |



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 29, 2005. Our report was modified due to our reliance on the reports of other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we will report to the County's management in a separate letter at a future date.

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

Debbie Davenport
Auditor General

April 29, 2005



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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

Compliance

We have audited the compliance of Cochise County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004, except for that portion of the federal programs administered by Cochise County Workforce Development and the Housing Authority of Cochise County. Those entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the compliance of those entities with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, is based solely on the reports of the other auditors. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, Cochise County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 04-101.

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 a certain matter involving internal control over compliance 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 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. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-101.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

Debbie Davenport
Auditor General

April 29, 2005

Cochise County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004

Summary of Auditors' Results

Financial Statements

| | | |
|--|------------|-----------------------------|
| Type of auditors' report issued: | | Unqualified |
| | Yes | No |
| Material weaknesses identified in internal control over financial reporting? | ___ | <u>X</u> |
| Reportable conditions identified not considered to be material weaknesses? | ___ | <u>X</u> (None reported) |
| Noncompliance material to the financial statements noted? | ___ | <u>X</u> |

Federal Awards

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

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 07.I4PSAP549 | High Intensity Drug Trafficking Areas |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 14.871 | Section 8 Housing Choice Vouchers |
| 15.226 | Payments in Lieu of Taxes |
| 16.unknown | Southwest Border Local Assistance Initiative |
| 16.710 | Public Safety Partnership and Community Policing Grants |
| | WIA Cluster: |
| 17.258 | WIA Adult Program |
| 17.259 | WIA Youth Activities |
| 17.260 | WIA Dislocated Workers |
| 17.261 | Employment and Training Administration Pilots, Demonstrations, and Research Projects |
| 39.011 | Election Reform Payments |
| 93.283 | Centers for Disease Control and Prevention—Investigations and Technical Assistance |

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

| | Yes | No |
|---|-------------|--------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | | \$328,086 |
| Auditee qualified as low-risk auditee? | <u> </u> | <u> X </u> |
| <i>Other Matters</i> | | |
| Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? | <u> </u> | <u> X </u> |

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Federal Award Findings and Questioned Costs

04-101

CFDA No.: 07.I4PSAP549 – High Intensity Drug Trafficking Areas

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

All award years and awards

Questioned Cost: Unknown

The Sheriff's Department did not establish adequate policies and procedures to ensure that salaries and wages charged to the High Intensity Drug Trafficking Areas (HIDTA) program were supported. Annually, the Department reported that certain employees will work only on the HIDTA program; however, the Department did not support the actual charges for their salaries and wages with periodic certifications that they worked solely on the HIDTA program. Because of the lack of certifications, we were unable to determine the questioned costs, if any, that may have resulted from this finding.

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, 8.h(3), requires that charges for salaries and wages of employees working solely on a federal program be supported by periodic certifications that the employees worked solely on the program for the period covered by the certification. These certifications must be prepared at least semiannually. Because a cost is allowable for federal reimbursement only if it conforms to the cost principles of OMB Circular A-87, the Sheriff's Department should establish policies and procedures to help ensure compliance with OMB Circular A-87. Those policies and procedures should include the preparation and retention of periodic certifications of actual charges for salaries and wages of employees working solely on a federal program and the signature of the employee or the employee's supervisor.

May 26, 2005

**Debbie Davenport
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,

**Lois Klein
Director of Finance
Cochise County**

COCHISE COUNTY
Corrective Action Plan
Year Ended June 30, 2004

Federal Award Findings and Questioned Costs

04-101

CFDA No: 07.14PSAP549

High Intensity Drug Trafficking Areas

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

All Award Years and Awards

The Sheriff's Department did not support the actual charges for their salaries and wages with periodic certifications that they worked solely on the HIDTA program.

Contact: Frank Martinez

Anticipated completion date: June 3, 2005

County Response

The Cochise County Sheriff's Department is in the process of initiating a new procedure to assure that charges for salaries and wages of employees working solely on a federal program will be supported by periodic certifications that the employees worked solely on the program for the specific period covered by the certification. The Sheriff's Department, with the assistance of the Director of Finance, is designing a form to be attached to each request for reimbursement and supporting documentation which will include terminology specifically stating the federal program, the period covered and the required certification including signature of either the employee or supervisory official having first-hand knowledge of the work performed by the employee. The Department additionally will require said form be attached to each reimbursement request and require at least semi-annual reporting.