



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County

Year Ended June 30, 2008



Debra K. Davenport
Auditor General

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Cochise County
Single Audit Reporting Package
Year Ended June 30, 2008

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2008, 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 Ft. Huachuca Accommodation School District Fund, which is a major governmental fund and represents 19 percent of the assets and 15 percent of the revenues of the County's governmental activities on the government-wide financial statements. In addition, we did not audit the Cochise Health Systems Fund, which is a major enterprise fund and represents 51 percent of the assets and 90 percent of the revenues of the County's business-type activities on the government-wide financial statements. We also did not audit the financial statements of the 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 opinions, insofar as they relate to the amounts included for the Ft. Huachuca Accommodation School District Fund, Cochise Health Systems Fund, Housing Authority of Cochise County, and Cochise Private Industry Council, Inc., are based solely on the reports of the other auditors.

Except as discussed in the following paragraph, 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. The financial statements of the Cochise Health Systems Fund were not audited by the other auditors in accordance with *Government Auditing Standards*. 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.

The Ft. Huachuca Accommodation School District Fund had unreconcilable differences of approximately \$525,000 between its cash and investments held by County Treasurer and the records of the County Treasurer. Accordingly, the other auditors were unable to perform procedures sufficient to achieve the audit objectives for the cash and investment balances presented for the Ft. Huachuca Accommodation School District Fund, a major governmental fund.

In our opinion, based on the report of the other auditors, except for the effects, if any, of the unreconciled differences for cash and investments held by County Treasurer as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Ft. Huachuca Accommodation School District Fund as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In addition, 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, General Fund, Capital Projects Fund, Highway and Streets Fund, Cochise Health Systems Fund, Solid Waste Operations Fund, and aggregate remaining fund information of Cochise County as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represent changes in accounting principles.

The Management's Discussion and Analysis on pages i through xii, the Budgetary Comparison Schedules on pages 43 through 45, and the Schedule of Agent Retirement Plan's Funding Progress on page 47 are not required parts 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 by us and the other auditors 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 connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2009, 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.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, and management 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

June 26, 2009

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, 2008. 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 \$208,101,467 (net assets). Of this amount, \$37,772,382 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the close of the fiscal year, Cochise County's governmental activities reported combined ending net assets of \$190,610,164, an increase of \$10,322,437 over the prior year's net assets.
- At the end of the fiscal year, unreserved fund balance in the General Fund was \$20,618,522, or 39% of total General Fund expenditures for the year.
- Cochise County's total governmental activities debt (certificates of participation and capital leases) decreased by a net \$126,614 during the current fiscal year. The net decrease is attributable to new capital leases in the amount of \$950,735 and decreases of \$1,077,349 for the normal debt service on capital leases and certificates of participation.

Overview of the Financial Statements

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

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

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

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

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets,

Management's Discussion and Analysis

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 225 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, the Capital Projects Fund, and the Ft. Huachuca Accommodation School 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 Ft. Huachuca Accommodation School Fund provides for the education of school-age children on the military reservation of Fort Huachuca. The major sources of revenues for this fund are the state department of education and the federal government.

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

Proprietary funds include two types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for 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 other proprietary fund, the Bisbee-Douglas International Airport, and the internal service funds are also presented in the proprietary fund financial statements.

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

Fiduciary funds are used to account for resources 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 17 through 40 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 43 through 47 of this report.

Management's Discussion and Analysis

Government-wide Financial Analysis

Below is a comparative analysis between fiscal years for the government-wide statements. Capital assets, net of accumulated depreciation, increased by \$9,408,682. The County's capital purchases included \$1,570,674 for construction on the County's building projects in Sierra Vista and Quality Hill and for detention cells in Willcox, \$6,552,265 for construction at Ft. Huachuca for new schools, \$2,927,082 for roads and bridges infrastructure, \$339,253 to replace a chiller unit at the Superior Courthouse in Bisbee, \$2,521,637 for replacement vehicles, new vehicles, and heavy equipment, \$248,108 for Palominas drainage control land, \$103,395 for Recorder's software, \$969,275 for construction in progress, \$336,263 for new software for Cochise Health Systems, \$1,619,646 to complete cell 3 at the Western Regional Landfill, and \$835,484 for various other capital assets. The current year's depreciation of capital totaled \$7,142,577.

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 \$208,101,467.

Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2007 and 2008

	Governmental Activities		Business-type Activities		Total	
	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008
Assets:						
Current and other assets	\$ 69,254,239	\$ 69,980,704	\$ 13,940,393	\$ 12,902,938	\$ 83,194,632	\$ 82,883,642
Capital assets	<u>134,525,434</u>	<u>143,013,012</u>	<u>10,107,570</u>	<u>11,028,674</u>	<u>144,633,004</u>	<u>154,041,686</u>
Total assets	<u>203,779,673</u>	<u>212,993,716</u>	<u>24,047,963</u>	<u>23,931,612</u>	<u>227,827,636</u>	<u>236,925,328</u>
Liabilities:						
Other liabilities	9,820,873	8,727,305	3,695,929	4,001,646	13,516,802	12,728,951
Long-term liabilities	<u>13,671,073</u>	<u>13,656,247</u>	<u>2,251,069</u>	<u>2,438,663</u>	<u>15,922,142</u>	<u>16,094,910</u>
Total Liabilities	<u>23,491,946</u>	<u>22,383,552</u>	<u>5,946,998</u>	<u>6,440,309</u>	<u>29,438,944</u>	<u>28,823,861</u>
Net assets:						
Invested in capital assets, net of related debt	125,317,423	133,819,917	9,854,752	10,840,349	135,172,175	144,660,266
Restricted	24,134,964	23,878,819	1,830,000	1,790,000	25,964,964	25,668,819
Unrestricted	<u>30,835,340</u>	<u>32,911,428</u>	<u>6,416,213</u>	<u>4,860,954</u>	<u>37,251,553</u>	<u>37,772,382</u>
Total net assets	<u>\$ 180,287,727</u>	<u>\$ 190,610,164</u>	<u>\$ 18,100,965</u>	<u>\$ 17,491,303</u>	<u>\$ 198,388,692</u>	<u>\$ 208,101,467</u>

A large portion of Cochise County's net assets (69.5%) 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.

Management's Discussion and Analysis

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 \$9,712,775 during the fiscal year. A large portion of this increase is attributable to the increase in the County's investment in capital assets. The remainder of the growth reflects the net results of increases in taxes and other revenues and controls on expenses.

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

Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2007 and 2008

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
Revenues						
Program revenues:						
Charges for services	\$8,129,698	\$7,263,970	\$37,494,990	\$37,886,468	\$45,624,688	\$45,150,438
Operating grants and contributions	39,763,868	37,229,352			39,763,868	37,229,352
Capital grants and contributions	184,208	689,563			184,208	689,563
General revenues:						
Property taxes	26,015,373	28,006,871			26,015,373	28,006,871
State shared sales tax	12,733,438	12,440,321			12,733,438	12,440,321
Unrestricted vehicle license tax	3,687,501	3,742,135			3,687,501	3,742,135
County excise tax	7,571,115	7,427,359	101,966	365,025	7,673,081	7,792,384
Other	5,334,996	5,432,208	677,420	727,516	6,012,416	6,159,724
Total revenues	<u>103,420,197</u>	<u>102,231,779</u>	<u>38,274,376</u>	<u>38,979,009</u>	<u>141,694,573</u>	<u>141,210,788</u>
Expenses						
General government	33,751,237	35,929,380			33,751,237	35,929,380
Public safety	17,405,368	19,547,114			17,405,368	19,547,114
Highways and streets	12,749,385	11,733,439			12,749,385	11,733,439
Sanitation	956,863	926,669			956,863	926,669
Health and welfare	12,603,740	11,939,959			12,603,740	11,939,959
Culture and recreation	967,559	1,079,061			967,559	1,079,061
Education	13,834,679	11,572,450			13,834,679	11,572,450
Long-term care			29,608,004	33,631,399	29,608,004	33,631,399
Airport			551,254	458,415	551,254	458,415
Solid waste operations			3,924,443	4,680,127	3,924,443	4,680,127
Total expenses	<u>92,268,831</u>	<u>92,728,072</u>	<u>34,083,701</u>	<u>38,769,941</u>	<u>126,352,532</u>	<u>131,498,013</u>
Increase in net assets before transfers	11,151,366	9,503,707	4,190,675	209,068	15,342,041	9,712,775
Transfers	2,028,930	818,730	(2,028,930)	(818,730)		
Increase in net assets	<u>13,180,296</u>	<u>10,322,437</u>	<u>2,161,745</u>	<u>(609,662)</u>	<u>15,342,041</u>	<u>9,712,775</u>

Management's Discussion and Analysis

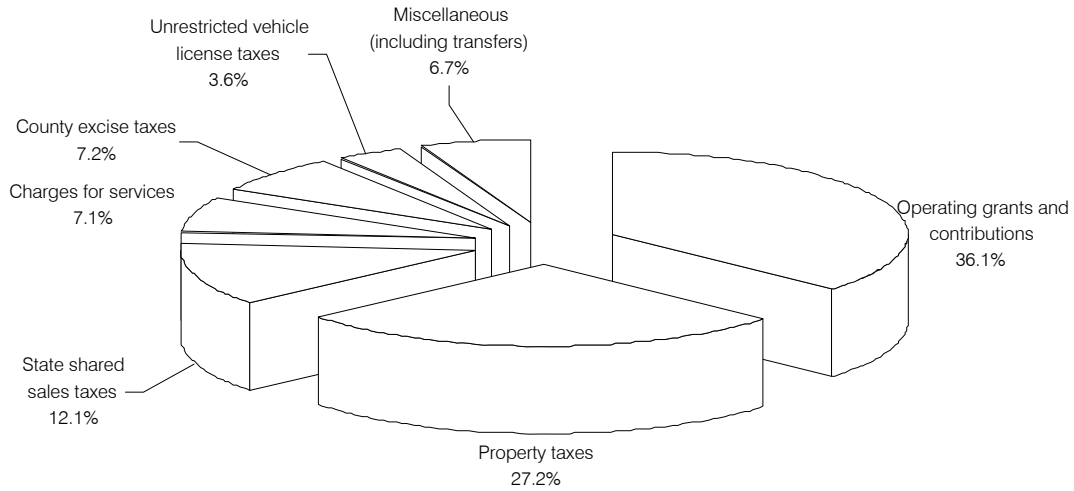
Governmental activities—Key elements of the increase in net assets of \$10,322,436 are as follows:

Major Revenues:

- Operating grants and contributions: These revenues decreased by \$2,534,516 or (6.4%). The general government decrease is from decreases in state grant monies in the amount of \$406,195 for Airport Grants, a decrease in federal grant revenues of \$200,508 to fund job training, a decrease of LTAF of \$67,722 to fund area transportation, and an increase of \$250,000 for a local water district forming board. Highways and Streets has a combined decrease in highway user revenue and auto lieu tax of \$462,071. Public Safety has state decreases in jail enhancement of \$34,919, DUI Abatement of \$24,160, federal revenue decreases in Spay and Neuter program of \$73,628, Emergency Management of \$50,732, and Bioterrorism of \$35,162. The Health and Welfare decrease is due to a significant decrease in Immunization grant awards of \$419,726, a decrease in federal grant monies of \$79,497 for Steps Along the Border, state decreases of \$151,222 for the long-term care contribution refund, \$45,699 less in Tobacco Education, and \$66,775 additional monies for Health Start programs. The County School Superintendent's office turned over the State Technology grant to Pima County for a decrease of \$690,728 from fiscal year 2007.
- Capital grants: These revenues increased by \$505,355. Ft. Huachuca Accommodation School increased capital grants by \$228,067, primarily because of Department of Defense grant monies received for capital purposes. Governmental activities received \$173,240 for specialized voting equipment/maintenance and \$238,599 to install mobile data terminals in deputies' vehicles.
- Property taxes: The net assessed value of all taxable property in the County increased by \$90,799,471, or 11.2%, over the previous year. With a decrease in the property tax rate from fiscal year 2007 of \$.1894, property tax revenues increased by \$1,991,498, or 7.7%.
- State-shared sales tax revenues—Sales tax revenues decreased by \$293,117, or -2.3%, from the previous year. The decrease in sales tax is indicative of the beginning of the economic downturn.
- County sales taxes: The County excise tax revenue decreased by \$143,756, or -1.9%. This small decrease is indicative of the slowing economy.

Management's Discussion and Analysis

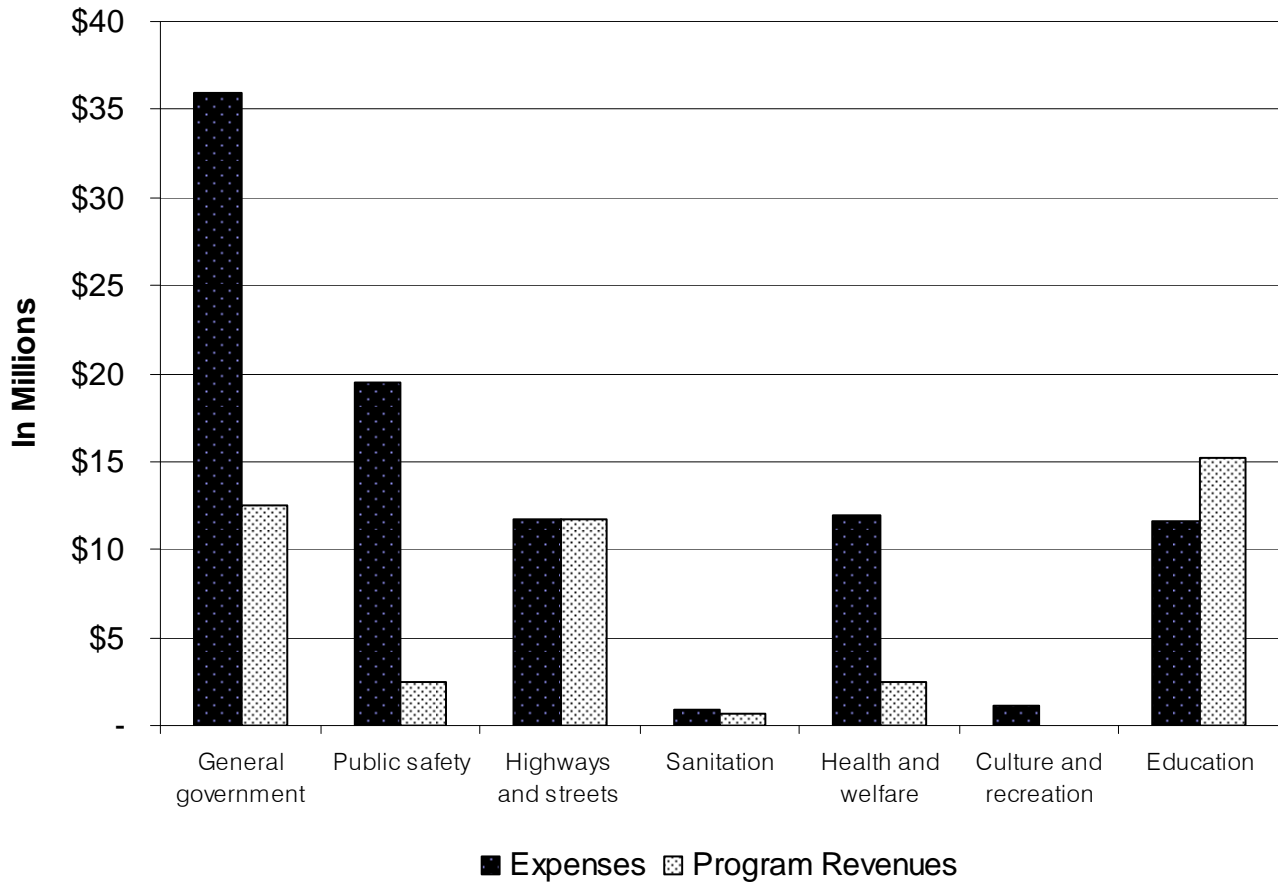
Revenues by Source—Governmental Activities Fiscal Year Ended June 30, 2008



Expenses—Overall expenses in the governmental activities increased by \$459,242, or 0.5%. The increase in expenses is consistent with the County's conservative budgeting philosophy, and the overall decrease in revenues. The largest increases in governmental activities expenses are primarily due to increases in salaries and benefits (retirement rates and health insurance).

Management's Discussion and Analysis

**Expenses vs. Revenues by Function—Governmental Activities
Fiscal Year Ended June 30, 2008**



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

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

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

Management's Discussion and Analysis

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.

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

Current assets decreased by \$1,037,455 and net assets decreased by \$609,662 for business-type activities, which is mainly attributable to the decrease in charges for services in Cochise Health System and Bisbee-Douglas International Airport and an increase in expenses for Cochise Health Systems and Solid Waste.

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, 2008, the total fund balance was \$20,618,522. 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, 2008, the fund balance represents 38.9% of total General Fund expenditures.

The fund balance of the General Fund increased by \$2,668,868 during the fiscal year. This increase is mainly attributable to the increase in property taxes, and miscellaneous revenue and only moderate increases in expenditures.

The fund balance of the Capital Projects Fund decreased by \$423,863 during the fiscal year, which is mainly attributable to overexpenditures on building projects.

The fund balance of the Highway and Streets Fund decreased by \$195,164, which is mainly attributable to lower highway user and auto lieu tax revenues and less charges for services.

Finally, the Ft. Huachuca Accommodation School fund balance decreased by \$1,635,657, primarily because of utilization of a significant fund balance in the Section 8003 Federal Impact Aid fund for construction expenditures related to the building of new schools.

Management's Discussion and Analysis

Proprietary funds—The County's proprietary fund statements provide the same type information found in the government-wide financial statements, but in more detail. The net assets of the Bisbee-Douglas International Airport Fund decreased by \$1,263. The net assets of Solid Waste Operations decreased by \$546,021, primarily because of additional depreciation on cell number three after its completion in fiscal year 2008 at the Western Regional Landfill and the addition of 4.8 new positions.

Capital Asset and Debt Administration

Capital Assets

The County's total amount invested in capital assets for governmental and business-type activities as of June 30, 2008, was \$144,660,266 (net of accumulation depreciation and related debt). Major capital asset events during the current fiscal year include the following:

- Capital outlay expenditures in the Capital Projects Fund primarily consist of \$1,570,674 for completion on the County's building projects in Sierra Vista and Quality Hill and for detention cells in Willcox, \$339,253 for a chiller replacement on the courthouse in Bisbee, and \$969,275 for ongoing construction in progress.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$2,927,082 for new roads (and right of way) infrastructure.
- Capital outlay expenditures in the Solid Waste Operations Fund totaled \$1,619,646 for completion of cell three at the Western Regional Landfill.
- Capital outlay expenditures in Cochise Health Systems included \$336,263 for new software.
- Programmed vehicle replacement and additions of new vehicles totaled \$474,519 in Fleet Management (an Internal Service Fund) and heavy equipment replacement and additions of new equipment totaled \$2,047,118 in Heavy Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in Ft. Huachuca Accommodation School Fund consist of \$6,499,503 for construction expenditures related to the building of new schools and \$52,762 for new vehicles and furniture.
- Capital outlay expenditures in the General Fund consist of \$996,499 for Willcox Airport apron expansion and taxiway improvements included within construction in progress.

Additional information on the County's capital assets can be found in Note 4 on pages 27 and 28 of this report.

Management's Discussion and Analysis

Long-term Debt

At June 30, 2008, the County had certificates of participation and capital lease long-term liabilities outstanding of \$9,381,420 as compared to \$9,572,527 in the prior year. This amount was composed of \$7,143,517 of certificates of participation issued in 2002 (including unamortized premium of \$113,517) and \$2,237,903 in capital leases. The change in these long-term liabilities includes the normal annual debt service of \$1,141,842 and new capital leases of \$950,735.

Cochise County has no general obligation or revenue bonds outstanding.

Budgetary Comparison—General Fund

The favorable variances in most revenues and expenses resulted from conservative budgeting and moderate growth and stability within the County. Overall, the General Fund's fund balance increased by \$2,668,868.

The growth in tax revenue is primarily due to a higher collection rate in delinquent real property tax revenues (\$128,355 over budget), higher than normal property tax penalties and interest (\$168,148 over budget), a decrease in current property taxes of (\$233,469 under budget), and an increase of auto lieu tax revenue (\$259,000 over budget).

The decrease in intergovernmental revenues resulted from a decrease in state-shared sales taxes, which decreased by \$293,117 over fiscal year 2007, a decrease of \$151,222 in the Long Term Care Contribution Refund over fiscal year 2007, and a decrease in monies to reimburse for a probation officer in a Sierra Vista school of \$79,175 over fiscal year 2007.

The unfavorable variance in charges for services is reflective of the slowing housing market with \$114,901 less in recording fees, \$256,986 less in inspection fees and \$47,286 less in septic permits than amounts collected in fiscal year 2007.

There were no material variances in expenditures except for the general government function. The favorable variance of \$15,680,508 resulted primarily from unspent contingency funds and vacancy savings.

Economic Factors

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2008, was 5.0% compared to 5.0% state-wide and 5.5% nation-wide. The rate has increased from approximately 3.9% in the prior year and has been consistently below or near the overall state rate. Within the County, the rate varies widely between the incorporated areas, ranging from a low of 3.0% in Sierra Vista to the high of 8.9% in Benson.
- For fiscal year 2008, the county government rose to the second largest employer in the County, surpassing the Sierra Vista Public Schools. Ft. Huachuca is the County's largest employer, with 8,985 employees compared to 1,021 for the county government and 947 for Sierra Vista Public Schools.

Management's Discussion and Analysis

- The County's primary property tax rate has either remained the same or decreased each year for the past 15 years.
- The County's expense for employee health insurance increased by 2.0% from the previous year, and retirement costs went up by \$449,173.

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, 2008

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash in bank and on hand	\$ 1,147,534	\$ 96,430	\$ 1,243,964	\$ 635,965
Cash and investments held by County Treasurer	56,036,098	11,152,464	67,188,562	
Cash and investments held by trustee	885,482		885,482	32,221
Receivables (net of allowances for uncollectibles):				
Property taxes	1,123,801		1,123,801	
Accounts	1,938,501	1,670,132	3,608,633	18,851
Accrued interest	58,402	992	59,394	
Internal balances	109,102	(109,102)		
Due from other governments	8,449,863	67,022	8,516,885	193,173
Prepaid items	184,567	25,000	209,567	208
Other assets	47,354		47,354	3,878
Capital assets, not being depreciated	13,909,891	1,599,900	15,509,791	
Capital assets, being depreciated, net	129,103,121	9,428,774	138,531,895	106,011
Total assets	<u>212,993,716</u>	<u>23,931,612</u>	<u>236,925,328</u>	<u>990,307</u>
Liabilities				
Accounts payable	5,047,528	3,803,585	8,851,113	333,224
Accrued payroll and employee benefits	2,902,710	193,711	3,096,421	628
Due to other governments	696,269		696,269	
Deposits held for others	12,628	1,600	14,228	
Deferred revenue	68,170	2,750	70,920	6,816
Noncurrent liabilities				
Due within 1 year	3,712,661	266,435	3,979,096	33,908
Due in more than 1 year	9,943,586	2,172,228	12,115,814	29,972
Total liabilities	<u>22,383,552</u>	<u>6,440,309</u>	<u>28,823,861</u>	<u>404,548</u>
Net Assets				
Invested in capital assets, net of related debt	133,819,917	10,840,349	144,660,266	106,011
Restricted for:				
Capital projects	11,574,405		11,574,405	
Education	5,102,287		5,102,287	
Public safety	2,532,668		2,532,668	
Highways and streets	3,783,977		3,783,977	
Debt service	885,482		885,482	
Long-term care		1,790,000	1,790,000	
Housing programs				155,472
Unrestricted	32,911,428	4,860,954	37,772,382	324,276
Total net assets	<u>\$ 190,610,164</u>	<u>\$ 17,491,303</u>	<u>\$ 208,101,467</u>	<u>\$ 585,759</u>

See accompanying notes to financial statements.

Cochise County
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 35,929,380	\$ 5,187,558	\$ 6,947,099	\$ 411,836	\$ (23,382,887)		\$ (23,382,887)	
Public safety	19,547,114	773,432	1,728,626		(17,045,056)		(17,045,056)	
Highways and streets	11,733,439	389,888	11,353,494		9,943		9,943	
Sanitation	926,669	435,474	253,266		(237,929)		(237,929)	
Health and welfare	11,939,959	355,062	2,087,107		(9,497,790)		(9,497,790)	
Culture and recreation	1,079,061		36,580		(1,042,481)		(1,042,481)	
Education	11,572,450	122,556	14,823,180	277,727	3,651,013		3,651,013	
Total governmental activities	92,728,072	7,263,970	37,229,352	689,563	(47,545,187)		(47,545,187)	
Business-type activities:								
Bisbee-Douglas International Airport	458,415	257,946				\$ (200,469)	(200,469)	
Cochise Health Systems	33,631,399	33,852,637				221,238	221,238	
Solid Waste Operations	4,680,127	3,775,885				(904,242)	(904,242)	
Total business-type activities	38,769,941	37,886,468				(883,473)	(883,473)	
Total primary government	\$ 131,498,013	\$ 45,150,438	\$ 37,229,352	\$ 689,563	(47,545,187)	(883,473)	(48,428,660)	
Component units:								
Housing Authority of Cochise County	\$ 3,362,574		\$ 3,105,595					\$ (256,979)
Cochise Private Industry Council, Inc.	1,068,823		1,006,751					(62,072)
Total component units	\$ 4,431,397		\$ 4,112,346					(319,051)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					24,909,957		24,909,957	
Property taxes, levied for flood control					1,846,567		1,846,567	
Property taxes, levied for library					1,250,347		1,250,347	
County excise taxes					7,427,359	365,025	7,792,384	
Share of state sales taxes					12,440,321		12,440,321	
Share of unrestricted vehicle license tax					3,742,135		3,742,135	
Grants and contributions not restricted to specific programs					1,842,800		1,842,800	
Investment income					2,262,435	551,385	2,813,820	5,862
Miscellaneous					1,326,973	90,484	1,417,457	56,083
Gain on disposal of capital assets						85,647	85,647	
Transfers					818,730	(818,730)		
Total general revenues and transfers					57,867,624	273,811	58,141,435	61,945
Change in net assets					10,322,437	(609,662)	9,712,775	(257,106)
Net assets, July 1, 2007, as restated					180,287,727	18,100,965	198,388,692	842,865
Net assets, June 30, 2008					\$ 190,610,164	\$ 17,491,303	\$ 208,101,467	\$ 585,759

See accompanying notes to financial statements.

Cochise County
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Capital Projects Fund	Highway and Streets Fund	Ft. Huachuca Accommodation School District Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash in bank and on hand	\$ 787,187			\$ 11,743	\$ 329,803	\$ 1,128,733
Cash and investments held by County Treasurer	17,046,615	\$ 5,415,235	\$ 3,290,026	17,268,684	8,490,270	51,510,830
Cash and investments held by trustee		885,482				885,482
Receivables (net of allowances for uncollectibles):						
Property taxes	948,521				175,280	1,123,801
Accounts	833,768	1,424	81,832		988,078	1,905,102
Accrued interest	25,244	8,265			17,758	51,267
Due from:						
Other funds	682,381	119	146,520		592,264	1,421,284
Other governments	4,218,690	392,152	1,773,272	590,927	1,474,822	8,449,863
Other assets				47,354		47,354
Prepaid items	184,567					184,567
Total assets	<u>\$ 24,726,973</u>	<u>\$ 6,702,677</u>	<u>\$ 5,291,650</u>	<u>\$ 17,918,708</u>	<u>\$ 12,068,275</u>	<u>\$ 66,708,283</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 968,976	\$ 451,187	\$ 921,554	\$ 1,813,928	\$ 503,089	\$ 4,658,734
Accrued payroll and employee benefits	1,831,344		255,628	274,322	487,582	2,848,876
Due to:						
Other funds	638,201	39,692	313,816		759,865	1,751,574
Other governments					696,269	696,269
Deposits held for others	7,757				4,871	12,628
Certificates of participation payable		590,000				590,000
Deferred revenue	662,173		16,675	90,524	117,547	886,919
Total liabilities	<u>4,108,451</u>	<u>1,080,879</u>	<u>1,507,673</u>	<u>2,178,774</u>	<u>2,569,223</u>	<u>11,445,000</u>
Fund balances:						
Unreserved, reported in:						
General fund	20,618,522					20,618,522
Special revenue funds			3,783,977	15,739,934	9,499,052	29,022,963
Capital projects funds		5,621,798				5,621,798
Total fund balances	<u>20,618,522</u>	<u>5,621,798</u>	<u>3,783,977</u>	<u>15,739,934</u>	<u>9,499,052</u>	<u>55,263,283</u>
Total liabilities and fund balances	<u>\$ 24,726,973</u>	<u>\$ 6,702,677</u>	<u>\$ 5,291,650</u>	<u>\$ 17,918,708</u>	<u>\$ 12,068,275</u>	<u>\$ 66,708,283</u>

See accompanying notes to financial statements.

Cochise County
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 June 30, 2008

Fund balances—total governmental funds		\$ 55,263,283
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		134,555,327
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		818,749
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.		11,606,110
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Certificates of participation payable	(6,553,517)	
Capital leases payable	(750,660)	
Compensated absences payable	<u>(4,329,128)</u>	<u>(11,633,305)</u>
Net assets of governmental activities		<u>\$ 190,610,164</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General Fund	Capital Projects Fund	Highway and Streets Fund	Ft. Huachuca Accommodation School District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 33,093,547	\$ 2,057,177			\$ 3,965,097	\$ 39,115,821
Licenses and permits	88,722					88,722
Fees, fines, and forfeits	2,279,973				77,941	2,357,914
Intergovernmental	15,353,569	411,836	\$ 11,213,493	\$ 14,634,789	10,576,295	52,189,982
Charges for services	2,743,617		389,887		1,545,851	4,679,355
Investment income	720,778	266,071	182,393	683,648	409,545	2,262,435
Miscellaneous	786,304	15,744	4,841		520,084	1,326,973
Total revenues	<u>55,066,510</u>	<u>2,750,828</u>	<u>11,790,614</u>	<u>15,318,437</u>	<u>17,094,813</u>	<u>102,021,202</u>
Expenditures:						
Current:						
General government	26,062,970	391,082			8,063,200	34,517,252
Public safety	15,749,824				3,402,617	19,152,441
Highways and streets			11,407,514		18,173	11,425,687
Sanitation	659,441				267,228	926,669
Health and welfare	9,902,695				2,037,264	11,939,959
Culture and recreation					1,045,761	1,045,761
Education	361,851			10,171,498	536,847	11,070,196
Debt service:						
Principal	78,012	590,000	80,148			748,160
Interest and other charges	32,779	289,343	2,876			324,998
Capital outlay	104,769	2,944,036	15,038	6,782,596	739,950	10,586,389
Total expenditures	<u>52,952,341</u>	<u>4,214,461</u>	<u>11,505,576</u>	<u>16,954,094</u>	<u>16,111,040</u>	<u>101,737,512</u>
Excess (deficiency) of revenues over expenditures	<u>2,114,169</u>	<u>(1,463,633)</u>	<u>285,038</u>	<u>(1,635,657)</u>	<u>983,773</u>	<u>283,690</u>
Other financing sources (uses):						
Donations					150,037	150,037
Sale of capital assets	648		12,619		252,315	265,582
Transfers in	1,209,636	1,085,616	86,153		1,508,952	3,890,357
Transfers out	(655,585)	(45,846)	(578,974)		(2,642,364)	(3,922,769)
Total other financing sources and uses	<u>554,699</u>	<u>1,039,770</u>	<u>(480,202)</u>		<u>(731,060)</u>	<u>383,207</u>
Net change in fund balances	2,668,868	(423,863)	(195,164)	(1,635,657)	252,713	666,897
Fund balances, July 1, 2007	<u>17,949,654</u>	<u>6,045,661</u>	<u>3,979,141</u>	<u>17,375,591</u>	<u>9,246,339</u>	<u>54,596,386</u>
Fund balances, June 30, 2008	<u>\$ 20,618,522</u>	<u>\$ 5,621,798</u>	<u>\$ 3,783,977</u>	<u>\$ 15,739,934</u>	<u>\$ 9,499,052</u>	<u>\$ 55,263,283</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, 2008

Net change in fund balances—total governmental funds		\$ 666,897
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	12,723,667	
Depreciation expense	<u>(4,899,183)</u>	7,824,484
<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>		
		(266,829)
<p>Transfers of capital assets between governmental activities and proprietary funds are not reported in the governmental funds but are recognized in the statement of activities.</p>		
		(162,500)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		60,544
<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>		
Principal repaid	748,160	
Amortization of premium	<u>16,216</u>	764,376
<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>		
Increase in compensated absences		(108,580)
<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 of certain internal service funds is reported with governmental activities in the Statement of Activities.</p>		
		<u>1,544,045</u>
Change in net assets of governmental activities		<u>\$ 10,322,437</u>

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise- BDI Airport Fund	Total	Internal Service Funds
Assets					
Current assets:					
Cash in bank and on hand	\$ 20,253	\$ 76,177		\$ 96,430	\$ 18,801
Cash and investments held by County Treasurer	11,083,785		\$ 68,679	11,152,464	4,525,268
Receivables (net of allowances for uncollectibles):					
Accounts	1,177,678	458,997	33,457	1,670,132	33,399
Accrued interest		853	139	992	7,135
Due from:					
Other funds	719	92,109	134,512	227,340	513,262
Other governments		55,822	11,200	67,022	
Prepaid items	25,000			25,000	
Total current assets	<u>12,307,435</u>	<u>683,958</u>	<u>247,987</u>	<u>13,239,380</u>	<u>5,097,865</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation, where applicable:					
Land		24,900	1,575,000	1,599,900	
Buildings, net		3,651,267	11,707	3,662,974	134,534
Improvements other than buildings, net		2,769,882	1,394,721	4,164,603	
Equipment, net	382,121	1,114,179	104,897	1,601,197	8,323,151
Total noncurrent assets	<u>382,121</u>	<u>7,560,228</u>	<u>3,086,325</u>	<u>11,028,674</u>	<u>8,457,685</u>
Total assets	<u>12,689,556</u>	<u>8,244,186</u>	<u>3,334,312</u>	<u>24,268,054</u>	<u>13,555,550</u>
Liabilities					
Current liabilities:					
Accounts payable	3,769,282	15,005	19,298	3,803,585	388,794
Accrued payroll and employee benefits	113,272	74,478	5,961	193,711	53,834
Due to other funds	129,175	204,280	2,987	336,442	73,870
Compensated absences payable, current portion	107,884	67,043	3,432	178,359	134,024
Landfill closure and postclosure care costs payable, current portion		21,495		21,495	
Deposits held for others			1,600	1,600	
Leases payable, current portion		66,581		66,581	137,942
Deferred revenue			2,750	2,750	
Total current liabilities	<u>4,119,613</u>	<u>448,882</u>	<u>36,028</u>	<u>4,604,523</u>	<u>788,464</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2008
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>				Governmental Activities—
	<u>Cochise Health Systems Fund</u>	<u>Solid Waste Operations Fund</u>	<u>Other Enterprise- BDI Airport Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
Noncurrent liabilities:					
Compensated absences payable	\$ 4,105	\$ 7,942	\$ 9,001	\$ 21,048	
Landfill closure and postclosure care costs payable		2,029,436		2,029,436	
Leases payable		121,744		121,744	\$ 1,160,976
Total noncurrent liabilities	<u>4,105</u>	<u>2,159,122</u>	<u>9,001</u>	<u>2,172,228</u>	<u>1,160,976</u>
Total liabilities	<u>4,123,718</u>	<u>2,608,004</u>	<u>45,029</u>	<u>6,776,751</u>	<u>1,949,440</u>
Net Assets					
Invested in capital assets, net of related debt	382,121	7,371,903	3,086,325	10,840,349	7,158,767
Restricted for long-term care	1,790,000			1,790,000	
Unrestricted (deficit)	<u>6,393,717</u>	<u>(1,735,721)</u>	<u>202,958</u>	<u>4,860,954</u>	<u>4,447,343</u>
Total net assets	<u>\$ 8,565,838</u>	<u>\$ 5,636,182</u>	<u>\$ 3,289,283</u>	<u>\$ 17,491,303</u>	<u>\$ 11,606,110</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, 2008

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise- BDI Airport Fund	Total	Internal Service Funds
Operating revenues:					
Charges for services	\$ 33,813,947	\$ 3,775,885	\$ 257,946	\$ 37,847,778	\$ 5,974,515
Charges for health insurance					6,830,454
Other	38,690			38,690	334,370
Total operating revenues	<u>33,852,637</u>	<u>3,775,885</u>	<u>257,946</u>	<u>37,886,468</u>	<u>13,139,339</u>
Operating expenses:					
Personal services	2,655,587	1,611,963	140,415	4,407,965	1,170,930
Professional services	183,225	1,562,498	82,594	1,828,317	7,077,801
Supplies	50,829	73,619	133,363	257,811	3,181,053
Long-term care costs	29,202,312			29,202,312	
Landfill closure and postclosure care costs		263,981		263,981	
Depreciation	12,697	949,789	102,043	1,064,529	1,178,865
Other	1,526,749	211,150		1,737,899	20,334
Total operating expenses	<u>33,631,399</u>	<u>4,673,000</u>	<u>458,415</u>	<u>38,762,814</u>	<u>12,628,983</u>
Operating income (loss)	<u>221,238</u>	<u>(897,115)</u>	<u>(200,469)</u>	<u>(876,346)</u>	<u>510,356</u>
Nonoperating revenues (expenses):					
County excise taxes		305,025	60,000	365,025	
Investment income	466,384	81,236	3,765	551,385	196,513
Miscellaneous revenue		90,348	136	90,484	31,350
Interest expense		(7,127)		(7,127)	(35,565)
Gain (Loss) on disposal of capital assets		85,647		85,647	(172,251)
Total nonoperating revenues	<u>466,384</u>	<u>555,129</u>	<u>63,901</u>	<u>1,085,414</u>	<u>20,047</u>
Income (loss) before transfers	687,622	(341,986)	(136,568)	209,068	530,403
Transfers in			135,305	135,305	1,018,542
Transfers out	(750,000)	(204,035)		(954,035)	(4,900)
Increase (decrease) in net assets	(62,378)	(546,021)	(1,263)	(609,662)	1,544,045
Total net assets, July 1, 2007	<u>8,628,216</u>	<u>6,182,203</u>	<u>3,290,546</u>	<u>18,100,965</u>	<u>10,062,065</u>
Total net assets, June 30, 2008	<u>\$ 8,565,838</u>	<u>\$ 5,636,182</u>	<u>\$ 3,289,283</u>	<u>\$ 17,491,303</u>	<u>\$ 11,606,110</u>

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2008

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise - BDI Airport Fund	Total	Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$ 32,824,139	\$ 3,771,879	\$ 126,371	\$ 36,722,389	
Receipts from other funds for goods and services provided					\$ 13,251,075
Other receipts	38,690			38,690	334,370
Payments to suppliers and providers of goods and services	(30,192,249)	(1,965,086)	(219,880)	(32,377,215)	(11,127,784)
Payments to employees	(2,646,503)	(1,584,121)	(138,509)	(4,369,133)	(1,158,466)
Net cash provided by operating activities	<u>24,077</u>	<u>222,672</u>	<u>(232,018)</u>	<u>14,731</u>	<u>1,299,195</u>
Cash flows from noncapital financing activities:					
Miscellaneous receipts		395,373	60,136	455,509	31,350
Cash transfers from other funds			135,305	135,305	1,018,542
Cash transfers to other funds	(750,000)	(204,035)		(954,035)	(4,900)
Loan payments to other funds		13,615		13,615	
Net cash provided by (used for) noncapital financing activities	<u>(750,000)</u>	<u>204,953</u>	<u>195,441</u>	<u>(349,606)</u>	<u>1,044,992</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets		85,647		85,647	55,873
Purchases of capital assets	(348,073)	(1,637,560)		(1,985,633)	(1,565,352)
Principal paid on capital leases		(64,493)		(64,493)	(327,973)
Interest paid on capital leases		(7,127)		(7,127)	(35,565)
Net cash used for capital and related financing activities	<u>(348,073)</u>	<u>(1,623,533)</u>		<u>(1,971,606)</u>	<u>(1,873,017)</u>
Cash flows from investing activities:					
Investment income received on cash and investments held by County Treasurer	491,391	80,383	3,889	575,663	190,412
Net cash provided by investing activities	<u>491,391</u>	<u>80,383</u>	<u>3,889</u>	<u>575,663</u>	<u>190,412</u>
Net increase (decrease) in cash and cash equivalents	(582,605)	(1,115,525)	(32,688)	(1,730,818)	661,582
Cash and cash equivalents, July 1, 2007	<u>11,686,643</u>	<u>1,191,702</u>	<u>101,367</u>	<u>12,979,712</u>	<u>3,882,487</u>
Cash and cash equivalents, June 30, 2008	<u>\$ 11,104,038</u>	<u>\$ 76,177</u>	<u>\$ 68,679</u>	<u>\$ 11,248,894</u>	<u>\$ 4,544,069</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2008
(Concluded)

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise- BDI Airport Fund	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 221,238	\$ (897,115)	\$ (200,469)	\$ (876,346)	\$ 510,356
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	12,697	949,789	102,043	1,064,529	1,178,865
Changes in assets and liabilities:					
Accounts receivable	(463,394)	(260,165)	14,302	(709,257)	10,771
Due from other funds	4,055	(83,652)	(134,299)	(213,896)	433,769
Due from other governments		339,811	(11,200)	328,611	1,566
Prepaid items	25,000	2,789		27,789	
Accounts payable	295,837	(20,992)	(4,030)	270,815	(640,426)
Accrued payroll and employee benefits	17,420	17,091	769	35,280	9,256
Due to other funds	(77,535)	(87,075)	107	(164,503)	(208,170)
Compensated absences payable	(11,241)	10,751	1,137	647	3,208
Landfill closure and postclosure care costs payable		251,440		251,440	
Deposits held for others			600	600	
Deferred revenue			(978)	(978)	
Net cash provided by operating activities	<u>\$ 24,077</u>	<u>\$ 222,672</u>	<u>\$ (232,018)</u>	<u>\$ 14,731</u>	<u>\$ 1,299,195</u>
Cash and cash equivalents, June 30, 2008, consisted of:					
Cash in bank and on hand	\$ 20,253	\$ 76,177		\$ 96,430	\$ 18,801
Cash and investments held by County Treasurer	<u>11,083,785</u>		<u>\$ 68,679</u>	<u>11,152,464</u>	<u>4,525,268</u>
	<u>\$ 11,104,038</u>	<u>\$ 76,177</u>	<u>\$ 68,679</u>	<u>\$ 11,248,894</u>	<u>\$ 4,544,069</u>

Noncash capital financing activities:

The Solid Waste Operations Fund sold fully depreciated capital assets and received cash of \$85,647.

The Internal Service Funds sold equipment with a net book value of \$228,124 and received cash of \$55,873.

The Internal Service Funds obtained equipment financed by a capital lease in the amount of \$950,735.

The Internal Service Funds received a transfer of capital assets from the Highway and Streets Fund with a net book value of \$162,500.

See accompanying notes to financial statements.

Cochise County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Investment Trust Funds	Agency Funds
Assets		
Cash in bank and on hand		\$ 862,873
Cash and investments held by County Treasurer	\$ 49,466,764	
Interest receivable	618	
Total assets	49,467,382	\$ 862,873
Liabilities		
Due to other governments		\$ 862,873
Total liabilities		\$ 862,873
Net Assets		
Held in trust for investment trust participants	\$ 49,467,382	

See accompanying notes to financial statements.

Cochise County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2008

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 215,532,002
Investment income	<u>317,970</u>
Total additions	<u>215,849,972</u>
 Deductions:	
Distributions to participants	<u>209,608,965</u>
Total deductions	<u>209,608,965</u>
 Change in net assets	 6,241,007
 Net assets, July 1, 2007	 <u>43,226,375</u>
 Net assets, June 30, 2008	 <u>\$ 49,467,382</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Net Assets
Component Units
June 30, 2008

	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
Assets			
Cash in bank and on hand	\$ 477,763	\$ 158,202	\$ 635,965
Cash and investments held by trustee	32,221		32,221
Receivables (net of allowances for uncollectibles):			
Accounts	1,851	17,000	18,851
Due from other governments	83,951	109,222	193,173
Prepaid items	208		208
Other assets		3,878	3,878
Capital assets, being depreciated, net	30,831	75,180	106,011
Total assets	<u>626,825</u>	<u>363,482</u>	<u>990,307</u>
Liabilities			
Accounts payable	197,720	135,504	333,224
Accrued payroll and employee benefits		628	628
Deferred revenue	6,816		6,816
Noncurrent liabilities			
Due within 1 year	33,908		33,908
Due in more than 1 year	15,181	14,791	29,972
Total liabilities	<u>253,625</u>	<u>150,923</u>	<u>404,548</u>
Net Assets			
Invested in capital assets	30,831	75,180	106,011
Restricted for housing programs	155,472		155,472
Unrestricted	186,897	137,379	324,276
Total net assets	<u>\$ 373,200</u>	<u>\$ 212,559</u>	<u>\$ 585,759</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Activities
Component Units
Year Ended June 30, 2008

		<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 Private Industry Council, Inc.</u>	<u>Total</u>
Component units:					
Housing Authority of Cochise County	\$ 3,362,574	\$ 3,105,595	\$ (256,979)		\$ (256,979)
Cochise Private Industry Council, Inc.	<u>1,068,823</u>	<u>1,006,751</u>		\$ (62,072)	<u>(62,072)</u>
Total component units	<u>\$ 4,431,397</u>	<u>\$ 4,112,346</u>	<u>(256,979)</u>	<u>(62,072)</u>	<u>(319,051)</u>
General revenues:					
Investment income			4,343	1,519	5,862
Miscellaneous			<u>25,330</u>	<u>30,753</u>	<u>56,083</u>
Total general revenues			<u>29,673</u>	<u>32,272</u>	<u>61,945</u>
Change in net assets			(227,306)	(29,800)	(257,106)
Net assets, July 1, 2007, as restated			<u>600,506</u>	<u>242,359</u>	<u>842,865</u>
Net assets, June 30, 2008			<u>\$ 373,200</u>	<u>\$ 212,559</u>	<u>\$ 585,759</u>

See accompanying notes to financial statements.

Cochise County
Notes to Financial Statements
June 30, 2008

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).

For the year ended June 30, 2008, the County implemented the provisions of GASB Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and 50, *Pension Disclosure (an amendment of GASB Statements No. 25 and No. 27)*. GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 to require governmental employers to present certain additional pension disclosures in the notes and additional required supplementary information.

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 government-wide financial statements to emphasize they are legally separate from the County. Each blended and discretely presented component unit discussed below has a June 30 year-end.

The following table describes the County's component units:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Cochise County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Cochise County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Cochise County
Notes to Financial Statements
June 30, 2008

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Housing Authority of Cochise County	Administers and coordinates the Section 8 Rental Voucher Program. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Authority, but the Authority does not provide services entirely to the County.	Discrete	Housing Authority of Cochise County Old Bisbee High School First Floor P.O. Box 167 Bisbee, Arizona 85603
Cochise Private Industry Council, Inc.	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 Private Industry Council. However, the Private Industry Council does not provide services entirely to the County.	Discrete	Cochise Private Industry Council 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,

Cochise County
Notes to Financial Statements
June 30, 2008

- operating grants and contributions, and
- capital grants and contributions, including special assessments.

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

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

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

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as charges for services, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as county excise taxes, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment income and revenues generated by ancillary activities. 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 the 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 Ft. Huachuca Accommodation School District Fund accounts for all financial resources used to finance the District's operations.

Cochise County
Notes to Financial Statements
June 30, 2008

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.

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 charges and costs for insurance premiums, automotive and machinery maintenance and operation, telecommunications, and information technology services provided to the County's departments on a cost-reimbursement basis.

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

The agency funds account for assets 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, with the exception of agency funds, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. 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.

Cochise County
Notes to Financial Statements
June 30, 2008

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

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

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

D. Cash and Investments

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

E. Inventories

The County accounts for its inventories in the governmental funds using the purchase method. Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase.

Inventories are immaterial, and therefore, are not reported as assets in the financial statements.

Cochise County
Notes to Financial Statements
June 30, 2008

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:

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

H. Investment Income

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

I. Compensated Absences

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

Cochise County
Notes to Financial Statements
June 30, 2008

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 government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees with at least 15 years of service and who have accumulated at least 241 hours of sick leave receive some benefit payments. Benefit payments vary based on the number of hours accumulated up to 1,040 hours. Consequently, these sick leave benefits do vest and, therefore, are accrued in the government-wide and proprietary funds' financial statements.

Note 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Cochise County
Notes to Financial Statements
June 30, 2008

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

Deposits—At June 30, 2008, the carrying amount of the County's deposits was \$2,253,111, and the bank balance was \$4,778,501. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2008, were as follows:

Investment Type	Amount
State Treasurer's investment pools	\$ 42,577,179
U.S. Treasury securities	9,579,790
U.S. agency securities	64,031,100
U.S. Treasury money market fund	885,482
Repurchase agreement	<u>300,000</u>
	<u>\$117,373,551</u>

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Credit Risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal policy with respect to credit risk.

At June 30, 2008, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pools	Unrated	Not applicable	\$ 42,577,179
U.S. agency securities	AAA	Standard & Poor's	64,031,100
U.S. Treasury money market fund	AAAm	Standard & Poor's	885,482
Repurchase agreement	AAA	Standard & Poor's	<u>300,000</u>
			<u>\$107,793,761</u>

Cochise County
Notes to Financial Statements
June 30, 2008

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty’s failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2008, the County had U.S. agency securities totaling \$38,463,977 that were uninsured and held by the counterparty.

Concentration of credit risk—Concentration of credit risk is the risk of loss associated with the significance of investments in a single issuer. The County does not have a formal policy with respect to concentration of credit risk.

Five percent or more of the County’s investments at June 30, 2008, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$10,976,515	9.4
Federal Home Loan Bank	42,297,780	36.0
Federal National Mortgage Association	<u>6,024,271</u>	5.1
	<u>\$59,298,566</u>	

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investment’s fair value. The County does not have a formal policy with respect to interest rate risk.

At June 30, 2008, maturities of the County’s investments were as follows:

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-5 Years
State Treasurer’s investment pools	\$ 42,577,179	\$42,577,179	
U.S. Treasury securities	9,579,790	2,961,840	\$ 6,617,950
U.S. agency securities	64,031,100	16,019,657	48,011,443
U.S. Treasury money market fund	885,482	885,482	
Repurchase agreement	<u>300,000</u>	<u>300,000</u>	
	<u>\$117,373,551</u>	<u>\$62,744,158</u>	<u>\$54,629,393</u>

Cochise County
Notes to Financial Statements
June 30, 2008

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

Cash, deposits, and investments:	
Cash on hand	\$ 20,983
Amount of deposits	2,253,111
Amount of investments	<u>117,373,551</u>
Total	<u>\$119,647,645</u>

	Statement of Net Assets		Statement of Fiduciary Net Assets		Total
	Governmental Activities	Business- Type Activities	Investment Trust Funds	Agency Funds	
Cash in bank and on hand	\$ 1,147,534	\$ 96,430		\$862,873	\$ 2,106,837
Cash and investments held by County Treasurer	56,036,098	11,152,464	\$49,466,764		116,655,326
Cash and investments held by trustee	<u>885,482</u>				<u>885,482</u>
Total	<u>\$58,069,114</u>	<u>\$11,248,894</u>	<u>\$49,466,764</u>	<u>\$862,873</u>	<u>\$119,647,645</u>

Note 3 - Due from Other Governments

Due from other governments totaling \$8,516,885 at June 30, 2008, included \$1,477,174 in state-shared revenue from highway user fees, \$2,040,232 in state-shared sales taxes, \$809,463 in state-shared vehicle license taxes, and \$1,285,781 in county excise taxes. The remaining balance of \$2,904,235 represents amounts receivable from various state and federal government grantor agencies.

Cochise County
Notes to Financial Statements
June 30, 2008

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,104,786	\$ 341,528	\$ 3,963	\$ 2,442,351
Construction in progress	<u>24,280,597</u>	<u>7,376,978</u>	<u>20,190,035</u>	<u>11,467,540</u>
Total capital assets not being depreciated	<u>26,385,383</u>	<u>7,718,506</u>	<u>20,193,998</u>	<u>13,909,891</u>
Capital assets being depreciated:				
Buildings	35,837,590	20,887,004		56,724,594
Improvements other than buildings	2,816,084	1,345,120	31,913	4,129,291
Equipment	34,229,712	3,151,374	2,350,794	35,030,292
Infrastructure	<u>89,497,654</u>	<u>2,927,082</u>	<u>460,613</u>	<u>91,964,123</u>
Total	<u>162,381,040</u>	<u>28,310,580</u>	<u>2,843,320</u>	<u>187,848,300</u>
Less accumulated depreciation for:				
Buildings	8,840,246	1,138,749		9,978,995
Improvements other than buildings	1,130,586	146,222	24,990	1,251,818
Equipment	15,631,224	3,122,160	1,548,868	17,204,516
Infrastructure	<u>28,638,933</u>	<u>1,670,917</u>		<u>30,309,850</u>
Total accumulated depreciation	<u>54,240,989</u>	<u>6,078,048</u>	<u>1,573,858</u>	<u>58,745,179</u>
Total capital assets being depreciated, net	<u>108,140,051</u>	<u>22,232,532</u>	<u>1,269,462</u>	<u>129,103,121</u>
Governmental activities capital assets, net	<u>\$134,525,434</u>	<u>\$29,951,038</u>	<u>\$21,463,460</u>	<u>\$143,013,012</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,596,700	\$ 3,200		\$ 1,599,900
Construction in progress	<u>49,770</u>		<u>\$ 49,770</u>	
Total capital assets not being depreciated	<u>1,646,470</u>	<u>3,200</u>	<u>49,770</u>	<u>1,599,900</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	4,165,247	1,684,130	78,864	5,770,513
Equipment	<u>3,316,272</u>	<u>348,073</u>	<u>13,214</u>	<u>3,651,131</u>
Total	<u>12,040,544</u>	<u>2,032,203</u>	<u>92,078</u>	<u>13,980,669</u>
Less accumulated depreciation for:				
Buildings	808,667	87,384		896,051
Improvements other than buildings	881,341	759,636	35,067	1,605,910
Equipment	<u>1,889,436</u>	<u>217,509</u>	<u>57,011</u>	<u>2,049,934</u>
Total	<u>3,579,444</u>	<u>1,064,529</u>	<u>92,078</u>	<u>4,551,895</u>
Total capital assets being depreciated, net	<u>8,461,100</u>	<u>967,674</u>		<u>9,428,774</u>
Business-type activities capital assets, net	<u>\$ 10,107,570</u>	<u>\$ 970,874</u>	<u>\$ 49,770</u>	<u>\$ 11,028,674</u>

Cochise County
Notes to Financial Statements
June 30, 2008

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$2,241,703
Public safety	181,782
Highways and streets	2,151,224
Health and welfare	5,516
Culture and recreation	4,004
Education	314,954
Internal service funds	<u>1,178,865</u>
Total governmental activities depreciation expense	<u>\$6,078,048</u>
Business-type activities:	
Health plans	\$ 12,697
Landfill	949,789
Airport operations	<u>102,043</u>
Total business-type activities depreciation expense	<u>\$1,064,529</u>

Construction commitments—As of June 30, 2008, the County was involved in 3 construction projects. The estimated cost to complete the construction projects is \$252,202.

Note 5 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within 1 year
Governmental activities					
Capital leases payable	\$ 1,584,976	\$ 950,735	\$ 486,133	\$ 2,049,578	\$ 219,146
Certificates of participation payable	7,605,000		575,000	7,030,000	590,000
Unamortized premium	<u>129,733</u>		<u>16,216</u>	<u>113,517</u>	<u>16,216</u>
Total certificates of participation payable	<u>7,734,733</u>		<u>591,216</u>	<u>7,143,517</u>	<u>606,216</u>
Compensated absences payable	<u>4,351,364</u>	<u>2,826,429</u>	<u>2,714,641</u>	<u>4,463,152</u>	<u>2,887,299</u>
Total governmental activities long-term liabilities	<u>\$13,671,073</u>	<u>\$3,777,164</u>	<u>\$3,791,990</u>	<u>\$13,656,247</u>	<u>\$3,712,661</u>
Business-type activities					
Capital leases payable	\$ 252,818		\$ 64,493	\$ 188,325	\$ 66,581
Landfill closure and postclosure care costs payable	1,799,491	\$ 263,981	12,541	2,050,931	21,495
Compensated absences payable	<u>198,760</u>	<u>180,297</u>	<u>179,650</u>	<u>199,407</u>	<u>178,359</u>
Total business-type activities long-term liabilities	<u>\$ 2,251,069</u>	<u>\$ 444,278</u>	<u>\$ 256,684</u>	<u>\$ 2,438,663</u>	<u>\$ 266,435</u>

Cochise County
Notes to Financial Statements
June 30, 2008

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:

	Governmental Activities	Business-Type Activities
Equipment	\$3,246,697	\$452,185
Less: accumulated depreciation	<u>204,677</u>	<u>233,706</u>
Carrying value	<u>\$3,042,020</u>	<u>\$218,479</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2008:

Year ending June 30	Governmental Activities	Business-Type Activities
2009	\$ 299,471	\$ 71,620
2010	299,471	71,620
2011	299,471	53,715
2012	299,471	
2013	256,264	
2014-2018	<u>974,558</u>	
Total minimum lease payments	<u>2,428,706</u>	<u>196,955</u>
Less amount representing interest	<u>379,128</u>	<u>8,630</u>
Present value of net minimum lease payments	<u>\$2,049,578</u>	<u>\$188,325</u>

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's administration buildings and construct an information technology building and a service center in Benson.

Certificates outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2008 to 2017	2.5 – 5.0%	<u>\$7,030,000</u>

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2008:

Cochise County
Notes to Financial Statements
June 30, 2008

Year ending June 30	Governmental Activities	
	Principal	Interest
2009	\$ 590,000	\$ 279,175
2010	610,000	260,412
2011	630,000	239,475
2012	650,000	216,262
2013	675,000	187,200
2014-2018	<u>3,875,000</u>	<u>436,838</u>
Total	<u>\$7,030,000</u>	<u>\$1,619,362</u>

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2008, the County paid for compensated absences as follows: 62 percent from the General Fund, 10 percent from the Highway and Streets Fund, 6 percent from the Ft. Huachuca Accommodation School District Fund, 4 percent from the Enterprise Funds, and 18 percent from other funds.

Landfill closure and postclosure care costs—State and federal laws and regulations require the County to place a final cover on its solid waste landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the County operates the landfill. These costs will be paid from solid waste fees in the Enterprise Fund. At June 30, 2008, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2008, the County has reported landfill closure and postclosure care costs liabilities totaling \$2,050,931. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills and is based on landfill capacity used at June 30, 2008. The liability reported for the Eastern Regional landfill of \$663,200 is based on 100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$1,387,731 is based on the use of 11.2 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$11,002,719 as the remaining estimated capacity is filled. The County expects to close this landfill in 2042. The landfills' closure and postclosure care costs are based on what it would cost to perform all closure and postclosure care in fiscal year 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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

Cochise County
Notes to Financial Statements
June 30, 2008

Note 6 - 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 \$300 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

The County provides health, prescription, vision, dental, life, and short-term disability benefits to its employees and their dependents through the Cochise Combined Trust which is 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.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. The Cochise Combined Trust receives an independent audit annually. All three pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

Cochise County
Notes to Financial Statements
June 30, 2008

Note 7 - Pensions and Other Postemployment Benefits

Plan Descriptions—The County contributes to the two plans described below. In addition, the County contributes to the Corrections Officer Retirement Plan (CORP) and the Elected Officials Retirement Plan (EORP) which are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating 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.

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 North Central Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or 1-800-621-3778

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

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates for the ASRS, PSPRS, CORP, and EORP.

Cochise County
Notes to Financial Statements
June 30, 2008

Cost-sharing plans—For the year ended June 30, 2008, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

The County's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2008	\$2,887,141	\$376,584	\$179,325
2007	2,842,703	395,343	188,258
2006	2,040,044	399,523	176,780

Agent plans—For the year ended June 30, 2008, 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 19.8 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.64 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2008, were established by the June 30, 2006, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on 1) the plans as understood by the County and plan's members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plan's members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2008 contribution requirements, are as follows:

Cochise County
Notes to Financial Statements
June 30, 2008

Actuarial valuation date	June 30, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	30 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% – 8.50%
Inflation rate	5.00%

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the PSPRS for the year ended June 30, 2008, and related information follows:

	PSPRS	
	Pension	Health Insurance
Annual pension/ OPEB cost	\$782,876	\$63,742
Contributions made	782,876	42,789

Trend Information—Annual pension cost information for the current and 2 preceding years follows. Annual OPEB cost information for the current year (i.e., transition year) is as follows. Information about preceding years will be added over the next 2 years.

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS				
Pension	2008	\$782,876	100%	
Health insurance	2008	63,742	67	\$20,953
Pension and health insurance	2007	664,871	100	
	2006	637,308	100	

Funded Status—The funded status of the plan as of the most recent valuation date, June 30, 2008, along with the actuarial assumptions and methods used in those valuations follow. Additionally, the required schedule of funding progress presented on page 47 presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Cochise County
Notes to Financial Statements
June 30, 2008

Funded Status

	PSPRS Pension	PSPRS Health Insurance
Actuarial accrued liability (a)	\$24,043,729	\$ 730,085
Actuarial value of assets (b)	13,278,444	0
Unfunded actuarial accrued liability (a) – (b)	10,765,285	730,085
Funded ratio (b)/(a)	55.2%	0.0%
Covered payroll (c)	\$ 3,983,864	\$3,983,864
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a) – (b)] / (c)	270.2%	18.33%

The actuarial methods and assumptions used for the PSPRS plan for the most recent valuation date, are as follows:

Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% – 8.50%
Inflation rate	5.00%

Cochise County
Notes to Financial Statements
June 30, 2008

Note 8 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2008, were as follows:

	Payable to								
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Cochise Health Systems Fund	Solid Waste Operations Fund	BDI Airport Fund	Internal Service Funds	Total
Payable from General Fund		\$ 15,074	\$119,070	\$290,176	\$126,311	\$ 81,567	\$1,557	\$48,626	\$ 682,381
Capital Projects Fund				119					119
Highway and Streets Fund	\$ 7,538			122,307		16,675			146,520
Other Governmental Funds	314,150	24,618		241,985	784			10,727	592,264
Cochise Health Systems Fund	14			705					719
Solid Waste Operations Fund	140		17	90,608				1,344	92,109
BDI Airport Fund	134,289			223					134,512
Internal Service Funds	<u>182,070</u>	<u> </u>	<u>194,729</u>	<u>13,742</u>	<u>2,080</u>	<u>106,038</u>	<u>1,430</u>	<u>13,173</u>	<u>513,262</u>
Total	<u>\$638,201</u>	<u>\$ 39,692</u>	<u>\$313,816</u>	<u>\$759,865</u>	<u>\$129,175</u>	<u>\$204,280</u>	<u>\$2,987</u>	<u>\$73,870</u>	<u>\$2,161,886</u>

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

Cochise County
Notes to Financial Statements
June 30, 2008

Interfund transfers—Interfund transfers for the year ended June 30, 2008, were as follows:

Transfer from	Transfer to						Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	BDI Airport Fund	Internal Service Funds	
General Fund		\$ 31,685	\$ 2,481	\$ 440,614	\$135,305	\$ 45,500	\$ 655,585
Capital Projects Fund	\$ 20,000			25,846			45,846
Highway and Streets Fund				74,500		504,474	578,974
Other Governmental Funds	439,636	1,053,931	83,672	937,992		127,133	2,642,364
Cochise Health Systems Fund	750,000						750,000
Solid Waste Operations Fund				30,000		174,035	204,035
Internal Service Funds						4,900	4,900
Subtotal	<u>\$1,209,636</u>	<u>\$1,085,616</u>	<u>\$86,153</u>	<u>\$1,508,952</u>	<u>\$135,305</u>	<u>\$ 856,042</u>	<u>\$4,881,704</u>
Transfers of capital assets						<u>162,500</u>	<u>162,500</u>
Total	<u>\$1,209,636</u>	<u>\$1,085,616</u>	<u>\$86,153</u>	<u>\$1,508,952</u>	<u>\$135,305</u>	<u>\$1,018,542</u>	<u>\$5,044,204</u>

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

In the fund financial statements, total transfers out of \$4,881,704 are less than total transfers in of \$5,044,204 because \$162,500 of capital assets were transferred to the Internal Service funds from governmental activities.

Note 9 - County Treasurer's Investment Pool

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

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

Cochise County
Notes to Financial Statements
June 30, 2008

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$2,063,864 of deposits, \$2,023,230 of investments in the Arizona State Treasurer's investment pools, and a \$885,482 investment in a U.S. Treasury money market fund. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks disclosed in Note 2.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
Arizona State Treasurer's investment pool	\$40,553,949	None stated	None stated	\$40,553,949
U.S. Treasury securities	10,000,000	Zero coupon	Up to 3 years	9,579,790
U.S. agency securities	63,840,000	2.14 – 6.88%	Up to 3 years	64,031,100
Repurchase agreement	300,000	None stated	Overnight	300,000

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

Statement of Net Assets

Assets	<u>\$114,700,384</u>
Net assets	<u>\$114,700,384</u>

Net assets held in trust for:

Internal participants	\$ 65,233,620
External participants	<u>49,466,764</u>
Total net assets held in trust	<u>\$114,700,384</u>

Statement of Changes in Net Assets

Total additions	\$422,102,775
Total deductions	<u>418,612,786</u>
Net increase	<u>3,489,989</u>
Net assets held in trust:	
July 1, 2007	<u>111,210,395</u>
June 30, 2008	<u>\$114,700,384</u>

Cochise County
Notes to Financial Statements
June 30, 2008

Note 10 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

Housing Authority of Cochise County and Cochise Private Industry Council, Inc.

Basis of Accounting

The Housing Authority of Cochise County financial statements are reported as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund). Both discretely presented component units use the flow of economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the 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 Private Industry Council, Inc.

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. Because of the nature of the receivables and the subsequent collections of amounts, no allowance for doubtful accounts has been recorded.

Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful life of the assets:

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

Program Revenues

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

B. Cash and Investments

Housing Authority of Cochise County

At June 30, 2008, the carrying amount of the Housing Authority's deposits was \$509,984 and the bank balance was \$515,998. At June 30, 2008, the Housing Authority's deposits were entirely covered by federal depository insurance or by collateral held by the pledging financial institution.

Cochise County
Notes to Financial Statements
June 30, 2008

C. Due from Other Governments

Cochise Private Industry Council, Inc.

Due from other governments consists of the following grants receivable at June 30, 2008:

Program	Amount
WIA Youth Program	\$ 43,182
WIA Adult Program	5,500
WIA-Veterans	24,588
Incentive set-a-side funds	21,055
WIA Dislocated Workers	8,000
WIRED Grant	4,557
Title V	1,340
Rapid Response	<u>1,000</u>
Total	<u>\$109,222</u>

D. Capital Assets

Cochise Private Industry Council, Inc.

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets being depreciated:				
Furniture and equipment	\$285,776	\$ 2,919		\$288,695
Vehicles	<u>38,567</u>	<u> </u>	<u> </u>	<u>38,567</u>
Total capital assets being depreciated	<u>324,343</u>	<u>2,919</u>	<u> </u>	<u>327,262</u>
Less accumulated depreciation	<u>217,916</u>	<u>34,166</u>	<u> </u>	<u>252,082</u>
Total capital assets being depreciated, net	<u>\$106,427</u>	<u>\$(31,247)</u>	<u> </u>	<u>\$ 75,180</u>

E. Restatement of Net Assets

Cochise Private Industry Council, Inc.

During 2008, corrections were made to net assets for errors made in revenue recognition on cost reimbursement grants in the previous year. The effect of these corrections follows:

	Net Assets
Net assets as of July 1, 2007, as previously reported	\$228,690
Correction of revenues	<u>13,669</u>
Net assets as of July 1, 2007, as restated	<u>\$242,359</u>

Other Required Supplementary Information

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 32,714,925	\$ 32,714,925	\$ 33,093,547	\$ 378,622
Licenses and permits	49,500	49,500	88,722	39,222
Intergovernmental	15,991,649	15,991,649	15,353,569	(638,080)
Charges for services	2,873,965	2,873,965	2,743,617	(130,348)
Fees, fines, and forfeits	2,388,500	2,388,500	2,279,973	(108,527)
Interest	310,000	310,000	720,778	410,778
Miscellaneous	926,218	882,911	786,304	(96,607)
Total revenues	<u>55,254,757</u>	<u>55,211,450</u>	<u>55,066,510</u>	<u>(144,940)</u>
Expenditures:				
Assessor	2,041,462	2,041,462	1,778,108	263,354
Attorney	2,163,398	2,208,633	2,069,049	139,584
Board of Supervisors	1,258,497	1,256,360	1,100,751	155,609
Cochise Aging and Social Services	9,105,188	9,015,316	8,756,446	258,870
General Government	11,248,784	10,192,484	9,555,752	636,732
General Government Contingency	14,034,491	15,043,776		15,043,776
Health	2,795,990	2,838,723	2,727,521	111,202
Judicial System	10,252,437	10,271,302	9,651,015	620,287
Public and Legal Defenders	3,287,331	3,303,718	3,241,318	62,400
Recorder	375,732	375,732	349,554	26,178
School Superintendent	411,078	404,366	378,440	25,926
Sheriff	13,559,833	13,582,349	12,874,954	707,395
Treasurer	1,180,098	1,180,098	1,125,018	55,080
Total Expenditures	<u>71,714,319</u>	<u>71,714,319</u>	<u>53,607,926</u>	<u>18,106,393</u>
Excess (deficiency)	(16,459,562)	(16,502,869)	1,458,584	17,961,435
Other sources:				
Capital assets sales proceeds	1,000	1,000	648	(352)
Transfers in	382,169	425,476	1,209,636	784,160
Total other sources (uses)	<u>383,169</u>	<u>426,476</u>	<u>1,210,284</u>	<u>783,808</u>
Net change in fund balances	<u>(16,076,393)</u>	<u>(16,076,393)</u>	<u>2,668,868</u>	<u>18,745,261</u>
Fund balances beginning	<u>16,076,393</u>	<u>16,076,393</u>	<u>17,949,654</u>	<u>1,873,261</u>
Fund balances ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,618,522</u>	<u>\$ 20,618,522</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Highway and Streets Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 11,952,602	\$ 11,952,602	\$ 11,213,493	\$ (739,109)
Charges for services	787,000	787,000	389,887	(397,113)
Investment income	80,000	80,000	182,393	102,393
Miscellaneous	<u>2,695,054</u>	<u>3,957,931</u>	<u>4,841</u>	<u>(3,953,090)</u>
Total revenues	<u>15,514,656</u>	<u>16,777,533</u>	<u>11,790,614</u>	<u>(4,986,919)</u>
Expenditures:				
Current:				
Highways and streets	<u>14,944,033</u>	<u>16,427,563</u>	<u>11,505,576</u>	<u>4,921,987</u>
Total expenditures	<u>14,944,033</u>	<u>16,427,563</u>	<u>11,505,576</u>	<u>4,921,987</u>
Excess (deficiency) of revenues over expenditures	570,623	349,970	285,038	(64,932)
Other financing sources (uses):				
Sale of capital assets		70,000	12,619	(57,381)
Transfers in		86,153	86,153	
Transfers out	<u>(570,623)</u>	<u>(506,123)</u>	<u>(578,974)</u>	<u>(72,851)</u>
Total other financing sources and uses	<u>(570,623)</u>	<u>(349,970)</u>	<u>(480,202)</u>	<u>(130,232)</u>
Net change in fund balances	<u> </u>	<u> </u>	<u>(195,164)</u>	<u>(195,164)</u>
Fund balances, July 1, 2007	<u> </u>	<u> </u>	<u>3,979,141</u>	<u>3,979,141</u>
Fund balances, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,783,977</u>	<u>\$ 3,783,977</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Ft. Huachuca Accommodation School District Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income			\$ 683,648	\$ 683,648
State aid and grants			<u>14,634,789</u>	<u>14,634,789</u>
Total revenues			<u>15,318,437</u>	<u>15,318,437</u>
Expenditures				
Education	\$ 9,100,085	\$ 12,996,812	10,171,498	2,825,314
Capital outlay	<u>1,489,907</u>	<u>10,041,946</u>	<u>6,782,596</u>	<u>3,259,350</u>
Total expenditures	<u>10,589,992</u>	<u>23,038,758</u>	<u>16,954,094</u>	<u>6,084,664</u>
Net change in fund balances	(10,589,992)	(23,038,758)	(1,635,657)	21,403,101
Fund balances, July 1, 2007	_____	_____	<u>17,375,591</u>	_____
Fund balances, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,739,934</u>	<u>\$ -</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2008

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. 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 General Fund's actual expenditures differ from the expenditures reported on the Governmental Fund's Statement of Revenues, Expenditures and Changes in Fund Balances because transfers out were budgeted as expenditures.

Unlike the General Fund and the Highway and Streets Fund, the Ft. Huachuca Accommodation School District Fund's schedule is not presented in the same format as the legally adopted budget. Amounts were consolidated in order to present this on the same basis as the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances. Because of the significant differences in budgetary basis reporting requirements, a schedule indicating amounts at the legal level of budgetary control has not been presented. However, the Ft. Huachuca Accommodation School District Fund's legally adopted budgetary schedules are presented on the budgetary basis as part of the separately issued financial statement report dated March 14, 2008, available from the County. That report indicated that expenditures did not exceed the legal level of budgetary authority.

Cochise County
 Required Supplementary Information
 Schedule of Agent Retirement Plan's Funding Progress
 June 30, 2008

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
Pension 6/30/08	\$13,278,444	\$24,043,729	\$(10,765,285)	55.2%	\$3,983,864	270.2%
Health Insurance 6/30/08	0	730,085	(730,085)	0	3,983,864	18.3
Pension 6/30/07	12,991,873	24,549,955	(11,558,082)	52.9	3,877,378	298.1
Health Insurance 6/30/07	0	870,266	(870,266)	0	3,877,378	22.4
Pension 6/30/06	13,254,499	21,438,444	(8,183,945)	61.8	3,300,036	248.0
Health Insurance 6/30/06	0	732,733	(732,733)	0	3,300,036	22.2

Supplementary Information

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
Passed through Arizona Criminal Justice Commission			
High Intensity Drug Trafficking Areas	07.I6PSAP501Z	HT16-06-0512, HT16-06-0513	\$ 248,960
High Intensity Drug Trafficking Areas	07.I7PSAP501Z	HT17-07-0513	208,030
High Intensity Drug Trafficking Areas	07.I8PSAP501Z	HT18-08-0513	53,725
Total U.S. Office of National Drug Control Policy			<u>510,715</u>
U.S. Department of Agriculture			
National Forest System—Law Enforcement	10.08LE-11030518-001		20,000
Passed through the Arizona Department of Education			
Food Donation	10.550	None	16,438
National School Lunch Program	10.555	7AZ300AZ3	140,057
State Administrative Expenses for Child Nutrition	10.560	HS461319	73
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861080, HG861081	524,621
Commodity Supplemental Food Program	10.565	HG653013	5,391
WIC Farmers' Market Nutrition Program	10.572	HG861327	1,008
Passed through the Arizona State Treasurer			
Secure Payments for States and Counties Containing Federal Land	10.665	Elec Credit	98,437
Total U.S. Department of Agriculture			<u>806,025</u>
U.S. Department of Defense			
Department of Defense Appropriations Act-P.L. 102-484	12.unknown		<u>628</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Commerce			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	105-06, 107-06, 108-06, 133-08, 134-08, 135-08	82,689
Home Investment Partnerships Program	14.239		102,285
Housing Opportunities for Persons with AIDS	14.241		158,633
Section 8 Housing Choice Vouchers	14.871		2,034,667
Passed through the Arizona Department of Housing			
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	None	752,779
Owner-Occupied Housing Rehabilitation	14.Unknown	None	57,231
Total U.S. Department of Housing and Urban Development			<u>3,188,284</u>
U.S. Department of the Interior			
Cultural Resource Management	15.224		36,351
Payments in Lieu of Taxes	15.226		1,283,747

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through the Arizona State Treasurer			
Distribution of Receipts to State and Local Governments	15.227	Elec Credit	\$ 6,354
Fish, Wildlife and Plant Conservation Resource Management	15.231	Elec Credit	<u>2,374</u>
Total U.S. Department of the Interior			<u>1,328,826</u>
U.S. Department of Justice			
Passed through the Arizona Governor's Office for Children, Youth and Families			
Juvenile Accountability Block Grants	16.523	JB-CSG-08-9273-01	8,311
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	J2-CSG-06-6273-09 Y3, J2-CSG-08-8182-00	9,291
Passed through the Arizona Internet Crimes Against Children Task Force			
Missing Children's Assistance	16.543	2005-MC-CX-K009	11,364
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2006-390	55,045
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-08-050	19,453
Rural Domestic Violence, Dating Violence, Sexual Assault and Stalking Assistance Program	16.589		230,000
State Criminal Alien Assistance Program	16.606		91,638
Public Safety Partnership and Community Policing Grants	16.710		317,169
Edward Byrne Memorial Justice Assistance Grant Program	16.738		2,453
Passed through the Arizona Criminal Justice Commission			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	PC-08-050, AC-08-080	<u>123,591</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>126,044</u>
Southwest Border Prosecution Initiative	16.unknown		<u>5,234</u>
Total U.S. Department of Justice			<u>873,549</u>
U.S. Department of Labor			
WIA Cluster:			
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	Various	251,780
WIA Youth Activities	17.259	Various	284,628
WIA Dislocated Workers	17.260	Various	<u>111,478</u>
Total WIA Cluster			<u>647,886</u>
WIA Pilots, Demonstrations, and Research Projects	17.261		34,807
Passed through Pima County, Arizona			
WIA Pilots, Demonstrations, and Research Projects	17.261	11-69-C-140340-0707	<u>21,584</u>
Total WIA Pilots, Demonstrations, and Research Projects			<u>56,391</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Incentive Grants—WIA Section 503	17.267		\$ 32,185
Community Based Job Training Grants Passed through Pima County, Arizona	17.269		27,029
Veterans' Employment Program	17.802	11-69-C-138580-0706	<u>206,793</u>
Total U.S. Department of Labor			<u>970,284</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106		46,646
Highway Safety Cluster: Passed through the Governor's Office of Highway Safety			
State and Community Highway Safety	20.600	2007-PT-008	10,270
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2007-HVE-001, 2007-K8HV-012	62,473
Safety Incentive Grants for Use of Seatbelts	20.604	2008-OP-013	<u>6,729</u>
Total Highway Safety Cluster			<u>79,472</u>
Total U.S. Department of Transportation			<u>126,118</u>
U.S. Department of Library			
Passed through the Arizona Department of Library Grants to States	45.310	271-5-1-(04)	<u>9,000</u>
U.S. Department of Education			
Impact Aid	84.041		8,080,631
Passed through the Arizona Supreme Court			
Title I Grants to Local Educational Agencies	84.010	KR08-0068	56,399
Passed through the Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A070003	<u>108,668</u>
Total Title I Grants to Local Educational Agencies			<u>165,067</u>
Special Education Cluster: Passed through the Arizona Department of Education			
Special Education—Grants to States	84.027	H027A050007, H027A070007	209,461
Special Education—Preschool Grants	84.173	H173A070003	<u>15,539</u>
Total Special Education Cluster			<u>225,000</u>
Safe and Drug-Free Schools and Communities—State Grants	84.186	Q186A070003	4,099
State Grants for Innovative Programs	84.298	S298A070003	1,138
Education Technology State Grants	84.318	S318X060003, S318X070003	199,751
English Language Acquisition Grants	84.365	T365A30003A	13,617
Improving Teacher Quality State Grants	84.367	S367A070049	<u>71,552</u>
Total U.S. Department of Education			<u>8,760,855</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Election Assistance Commission			
Passed through Arizona Secretary of State Help America Vote Act Requirements Payments	90.401	VRA2II, Ck#212814908 CK#2814909, CK#2234706 CK#2234707	\$ <u>79,331</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	12	266,441
Passed through the Arizona Department of Health Services Immunization Grants	93.268	HG352189, HG854282	111,754
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	HG754193, HG461290	853,641
HIV Prevention Activities—Health Department Based Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.940	HG352264, HG852278	8,844
Maternal and Child Health Services Block Grant to the States	93.977	HG354254	1,008
Passed through the Arizona Department of Economic Security Grants to States for Access and Visitation Programs	93.994	HG854245	27,206
Passed through the Secretary of State Voting Access for Individuals with Disabilities—Grants to	93.597	ARS 35-148, E7203303	7,000
Passed through the Governor's Office for Children, Youth and Families Children's Justice Grants to States	93.617	42 USC 15461	8,350
Total U.S. Department of Health and Human Services	93.643	CJ-WSG-07-7273-00	<u>3,824</u> <u>1,288,068</u>
U.S. Department of Homeland Security			
Passed through the Arizona Department of Emergency and Military Affairs Emergency Management Performance Grants	97.042	974042	56,172
Homeland Security Cluster: Homeland Security Grant Program	97.067	2005-GE-T5-0030, 222403-04	5,368
Law Enforcement Terrorism Prevention Program	97.074	2005-GE-T5-0030, 2006-GE-T6-0007	<u>81,086</u>
Total Homeland Security Cluster			<u>86,454</u>
Total U.S. Department of Homeland Security			<u>142,626</u>
Total Expenditures of Federal Awards			<u>\$ 18,084,309</u>

See accompanying notes to schedule.

Cochise County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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 2008 *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
Secure Payments for States and Counties Containing Federal Land	10.665	\$ 55,674
Edward Byrne Memorial Justice Assistance Grant Program	16.738	51,023
WIA Youth Activities	17.259	212,234
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	29,661
Safety Incentive Grants for Use of Seatbelts	20.604	1,808
Education Technology State Grants	84.318	153,079



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 26, 2009. Our report was modified for a qualification of opinion due to a scope limitation on the financial statements of the Ft. Huachuca Accommodation School District Fund. In addition, our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45 and 50. Except as discussed above, 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. Other auditors audited the financial statements of the Ft. Huachuca Accommodation School District Fund, Cochise Health Systems Fund, Housing Authority of Cochise County, and Cochise Private Industry Council, Inc., as described in our report on the County's financial statements. The financial statements of the Cochise Health Systems Fund were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 08-01, 08-02, 08-03, 08-04, 08-05, and 08-06 described in the Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-02, 08-03, and 08-06 to be material weaknesses.

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 those of the other auditors disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 08-06.

Cochise County's responses to the findings identified in our audit are included herein. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, 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

June 26, 2009



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

Compliance

We have audited the compliance of Cochise County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008, except for that portion of the federal programs administered by the Ft. Huachuca Accommodation School District Fund, the Housing Authority of Cochise County, and the Cochise Private Industry Council, Inc., 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 of 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, 2008. However, the results of our auditing procedures and the

reports of the other auditors disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 08-101, 08-102 and 08-103.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we and the reports of the other auditors identified certain deficiencies in internal control over compliance, that we consider to be significant deficiencies and another that we consider to be a material weakness.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 08-101, 08-102 and 08-103 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 08-102 to be a material weakness.

Cochise County's responses to the findings identified in our audit are included herein. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, 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

June 26, 2009

Cochise County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2008

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified for all opinion units except for the Ft. Huachuca Accommodation School District Fund, which was qualified.

	Yes	No
Material weaknesses identified in internal control over financial reporting?	<u>X</u>	___
Significant deficiencies identified not considered to be material weaknesses?	<u>X</u>	___
Noncompliance material to the financial statements noted?	___	<u>X</u>

Federal Awards

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871	Section 8 Housing Choice Vouchers
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
84.041	Impact Aid
93.268	Immunization Grants

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Dollar threshold used to distinguish between Type A and Type B programs: \$542,529

	Yes	No
Auditee qualified as low-risk auditee?	___	<u>X</u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___
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Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Financial Statement Findings

08-01

The County should develop written procedures for financial statement preparation

Written policies and procedures provide the basic framework needed to prepare accurate and timely financial statements and related schedules and reports. However, because the County has experienced limited employee turnover in its finance department, the County has not formally adopted comprehensive written policies and procedures over its financial reporting processes. Instead, the County has relied on the experience of its finance department employees and limited informal written procedures to compile and report its financial information. As a result, the County's financial statements and related schedules and reports could omit important and required information or contain other misstatements.

The County should develop and formally adopt detailed, written policies and procedures over the financial statement and related financial reporting processes that include the following:

- Sufficient guidance for the year-end closing of the general ledger, including a formal listing of common closing and adjusting entries used in the general ledger closing process and in preparing the financial statements.
- Clearly defined roles and responsibilities for the staff involved in financial reporting and the preparation of the financial statements.
- Documentation showing how the financial statements are supported by the source systems and general ledger accounts. This documentation should clearly identify every source of information and how it should be accumulated and summarized to make up the key balances and disclosures in the financial statements.
- Procedures for performing required reconciliations between the various related amounts and disclosures within the financial statements.
- Supervisory review of all closing and adjusting entries; supporting schedules; and preliminary statements, schedules, and disclosures. All supervisory reviews should be documented.
- The use of established tools such as checklists and implementation guides that are available to assist in compiling and reviewing financial statements.
- Timetables for preparing and reviewing the financial statements, including critical phases such as closing the general ledger, preparing the financial statements and disclosures, and performing specific quality control procedures.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

The other auditors who audited the Ft. Huachuca Accommodation School District Fund and the Cochise Private Industry Council, Inc., reported the following significant deficiencies and material weaknesses. Findings 08-02 through 08-06 were considered to be significant deficiencies, and findings 08-02, 08-03, and 08-06 were also considered to be material weaknesses.

08-02

Ft. Huachuca Accommodation School District Fund

Financial Statement Preparation

CRITERIA

District management is responsible for establishing and maintaining internal controls that include controls for the GAAP basis financial statements issued by the District. The District's system of internal controls must extend beyond the cash basis general ledger and the supporting schedules prepared by the District; rather it must also include controls over the GAAP basis financial statements. As such, management requested the auditors to prepare a draft of the financial statements, including related note disclosures. The outsourcing of these services is not unusual in school districts and is a result of management's cost benefit decision to rely on the accounting expertise of the auditors.

CONDITION/CONTEXT

The District's management did not have adequate internal control procedures in place over the financial statements issued by the District using the basis of accounting required by generally accepted accounting principles (GAAP). While the District's management and staff have an understanding of Arizona statutes, budgetary controls, general ledger controls, and compliance requirements, sufficient internal controls are not in place for the fund-based and government-wide financial statements and related notes to the financial statements.

EFFECT

The District's internal controls over financial reporting at the financial statement level are not adequate to ensure that a misstatement would be prevented and/or detected.

CAUSE

The District's small size and limited resources contribute to difficulties in establishing controls over financial reporting at the financial statement level.

RECOMMENDATION

The District must design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements. Specifically, the District should use checklists to aid in the review of the financial statements and related notes to the financial statements.

The District personnel should obtain additional training to increase their understanding of the GAAP basis financial statements drafted by the audit firm as well as the related adjusting entries posted during the conversion of the cash basis general ledger to the accrual basis financial statements.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

District staff understands the need to put adequate internal control procedures over the financial statements issued by the District using the basis of accounting required by generally accepted accounting principles (GAAP) in place. Further training and implementation activities have been planned for the upcoming year.

08-03

Ft. Huachuca Accommodation School District Fund

Cash Reconciliation

CRITERIA

Effective internal controls over cash and investments, and the Uniform System of Financial Records (USFR) guidelines require the District's records of cash to be reconciled to the records of the County Treasurer on a timely basis to ensure funds on deposit with the County Treasurer are complete and accurate.

CONDITION/CONTEXT

Although a reconciliation of the District's cash on deposit with the County Treasurer was performed by the County School Superintendent's office, the reconciliation included unreconciled differences of \$526,044.

EFFECT

The lack of internal controls for cash and investments could potentially result in a material misstatement to the cash and investment balances for financial reporting and/or compliance requirement purposes.

The unreconciled differences at June 30, 2008, resulted in a qualified opinion for the District's cash balances.

CAUSE

Past year reconciliations by the County School Superintendent's office with the County Treasurer were not performed in a timely manner, which resulted in the County determining a starting figure at the beginning of fiscal year 2007-08 and moving forward from that point with the reconciliations. The District did not agree with the starting figure because of the unreconciled difference, but the County requires the District to research past records to determine where it believes the discrepancy occurred.

RECOMMENDATION

The District should work with the CSS Office to ensure the monthly cash reconciliations are completed on a timely basis. Any reconciling items noted should be investigated and resolved promptly to ensure the accounting records are accurate.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is presently in the process of revising past fiscal year records to align them in accordance with the revisions made to A.R.S. §§ 15-905, 15-947, 15-973, and 15-974 due to the passage of House Bill 2495. As the records are revised a new reconciliation for those years will be performed and the unreconciled differences will be researched and addressed with the County School Superintendent's Office.

08-04

Ft. Huachuca Accommodation School District Fund
Expenditure Cut-Off

CRITERIA

Generally accepted accounting principles (GAAP) require proper accounting of expenditures in the period during which they were incurred.

CONDITION/CONTEXT

The District recorded expenditures of \$451,158 incurred in fiscal year 2007-08 in the fiscal year 2008-09 accounting records.

EFFECT

The lack of internal controls for expenditures could potentially result in material misstatements to the expenditure balances for financial reporting and/or compliance requirement purposes.

CAUSE

The District was required by the State to move all expenditures out of the Impact Aid Fund to various appropriate funds that applied to the expenditure. House Bill 2495 had an impact on the Revenue Control Limit in the General Fund and it was not passed until the end of fiscal year 2007-08. The new budget reflecting the changes was not authorized for upload to Arizona Department of Education School Finance until the end of the fiscal year. Due to the uncertainty of the changes and the time of the budget upload, the District had to carry over expenditures into the next fiscal year.

RECOMMENDATION

The District should implement effective internal control procedures to ensure expenditures incurred at fiscal year-end are recorded in the proper accounting period.

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The extenuating circumstances that caused the expenditures to carry over into the next fiscal year are no longer a factor since House Bill 2495 was passed and revisions to A.R.S. §§ 15-905, 15-947, 15-973, and 15-974 were made. Future expenses will take place in the proper fiscal year as required.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

08-05

Ft. Huachuca Accommodation School District Fund

Capital Assets

CRITERIA

District's management is responsible for establishing and maintaining internal controls that includes controls for the District's capital assets. Controls should include reconciliation of all capital expenditures to capital asset additions.

CONDITION/CONTEXT

The District's management did not have adequate internal controls in place to detect errors in the capital asset schedules provided for financial reporting. Current year expenditures for capital assets were not properly reconciled to capital asset additions, resulting in the exclusion of \$1.1 million capital asset additions from the listing.

EFFECT

The District's controls over capital assets with respect to financial reporting were not adequate to ensure that a misstatement for capital assets would be prevented and/or detected.

CAUSE

The District accounting software was not set up to import capital assets coded to construction services into the capital assets module. Projects coded to construction services have to be manually added as a capital asset.

RECOMMENDATION

The District should implement effective internal control procedures to ensure the capital asset list provided to auditors for inclusion in the District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and District policy.

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The capital assets module has been revised to include importing those items coded to construction services so they are not overlooked as a capital asset. This will allow the District to track the expenditures that may overlap fiscal years so they may be reported as a capital asset when they are complete or as construction in progress until their completion. Additional capital assets training has been planned.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

08-06

Cochise Private Industry Council, Inc.

Improve the Accounting for Grant Revenue

Condition: CCWD did not record intergovernmental revenues based on actual expenditures incurred for certain expenditure-driven grants. Accordingly, revenues recognized did not equal the expenditures incurred for the grant resulting in an understatement of revenues during 2007 and an overstatement in 2008.

Criteria: U.S. generally accepted accounting principles requires that revenue be recognized for expenditure-driven grants when the underlying costs are incurred.

Cause: The cause is a lack of a year-end reconciliation between the grant expenditures and the revenues recorded.

Effect: The effect was that errors occurred resulting in the overstatement of intergovernmental revenues, which in turn resulted in inaccurate financial information being reported to management and the board of directors.

Management response:

Name of

Contact Person: Ms. Vada Phelps, Executive Director

Phone Number: (520) 458-9309

Anticipated

Completion Date: June 30, 2009

Corrective Action: Drawdown requested will be recorded as intergovernmental revenues based on when the underlying expenditures were incurred. As part of the year-end closing process, revenues recognized for cost reimbursement grant will be reconciled to the total expenditures incurred and adjustments made, if necessary, in order for them to equal.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

The other auditors who audited the Ft. Huachuca Accommodation School District Fund, the Cochise Private Industry Council, Inc., and the Housing Authority of Cochise County reported the following significant deficiencies and material weakness. Findings 08-101, 08-102, and 08-103 were considered to be significant deficiencies and Finding 08-102 was also considered to be a material weakness.

08-101

Ft. Huachuca Accommodation School District Fund

CFDA No.: 84.041 **Impact Aid**

U.S. Department of Education

Award Years: Unknown

Award Number: S041B-2008-0208

Davis-Bacon Act

Questioned Costs: None

CRITERIA

The use of Impact Aid monies for construction projects contracts financed by federal assistance using laborers must include weekly submission of certified payroll reports to the District to ensure wages are not less than those established for the locality of the project (20 USC 1232b Labor Standards).

CONDITION/CONTEXT

The District included standard language in contracts for construction projects, which required the payment of prevailing wages and compliance with the Davis-Bacon Act; however, no additional procedures were performed to ensure the contractor was actually paying prevailing wage rates.

EFFECT

The District did not document verification of the prevailing wages compliance requirements of the Impact Aid program.

CAUSE

All contractors must be in compliance with the Davis-Bacon Act to work on a military installation; therefore, the District did not document verification.

RECOMMENDATION

The District should implement controls over reviewing certified payroll reports to ensure contractors are paying the prevailing wage rate on all Impact Aid funded construction projects.

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District's unique situation of its boundaries being conterminous with a federal installation makes contractors subject to installation regulations. Contractors allowed to work on a federal installation are

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

required to comply with the Davis-Bacon Act or authorization to work on the installation is prohibited. School construction projects have been coordinated with installation entities requiring contractors to be authorized to work on the installation therefore requiring them to be in compliance. The District may not contract with contractors not authorized by the installation. The District will review the U.S. Department of Education documentation verification of the prevailing wages compliance requirement of the Impact Aid program.

Contact Person: Karen Nieto, Manager of Finance and Business Operations
Anticipated Completion Date: May 30, 2008

08-102

Cochise Private Industry Council, Inc.

WIA Cluster

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.260 **WIA Dislocated Workers**

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Grant Period: June 30, 2008 through 2010

Grant or Contract Numbers: Various

Other

Questioned Costs: None

Due to the effect on the major federal award programs, the financial statement finding reported as Finding 08-06 is also an instance of noncompliance as it relates to such federal awards.

Management response:

Name of

Contact Person: Ms. Vada Phelps, Executive Director

Phone Number: (520) 458-9309

Anticipated

Completion Date: June 30, 2009

Corrective Action:

Drawdown requested will be recorded as intergovernmental revenues based on when the underlying expenditures were incurred. As part of the year-end closing process, revenues recognized for cost reimbursement grant will be reconciled to the total expenditures incurred and adjustments made, if necessary, in order for them to equal.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

08-103

Housing Authority of Cochise County
CFDA No.: 14.871 Section 8 Housing Choice Vouchers
U.S. Department of Housing and Urban Development
Award Years: Unknown
Award Number: None
Special Tests and Provisions

Questioned Costs: None

Condition: Section 8 Housing Quality Standards (HQS) Reinspection Deficiency

We noted that all reinspections performed by the Authority's management for the year were performed in one single operation. In order for this HQS requirement to be effective, the reinspections must occur sporadically and on a surprise basis, without prior knowledge of the first inspector.

Cause/Effect: It appears that management may not have fully understood the purpose of the reinspection, and did not understand that manner in which compliance must be achieved.

Criteria: 24 CFR sections 5.410, 982.59, 982.201-982.207 and 985.3.

Recommendation: We recommend that management acquire necessary training in HQS compliance matters and implement internal controls sufficient to ensure compliance.

Management response:

Reply: We concur with this finding and the auditor's recommendation.

Corrective Action: None provided.

Board of Supervisors

Ann English
Chairman
District 2

Richard R. Searle
Vice-Chairman
District 3

Patrick G. Call
Supervisor
District 1



Michael J. Ortega
County Administrator

James E. Vlahovich
Deputy County Administrator

Katie A. Howard
Clerk

June 26, 2009

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, Arizona

COCHISE COUNTY
Corrective Action Plan
Year Ended June 30, 2008

Financial Statement Findings

08-01

Cochise County

The County should develop written procedures for financial statement preparation.

Contact: Lois Klein

Completion: FY08/09

The County will develop and formally adopt detailed, written policies and procedures over the financial statement and related financial reporting processes that include the recommendations of the auditors as listed on page 63. Cochise County's finance department has already begun this documentation process.

Board of Supervisors

Ann English
Chairman
District 2

Richard R. Searle
Vice-Chairman
District 3

Patrick G. Call
Supervisor
District 1



Michael J. Ortega
County Administrator

James E. Vlahovich
Deputy County Administrator

Katie A. Howard
Clerk

June 26, 2009

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

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards.

Sincerely,

Lois Klein
Director of Finance
Cochise County, Arizona

Cochise County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Status of Federal Award Findings and Questioned Costs

Finding No.: 07-101

CFDA No.: 84.318 Education Technology State Grants

U.S. Department of Education, passed through the Arizona Department of Education.

Status: Fully corrected.

Finding No.: 07-102

CFDA No.: 84.318 Education Technology State Grants

U.S. Department of Education, passed through the Arizona Department of Education.

Status: Fully corrected.

Finding No.: 07-103

CFDA No.: 93.268 Immunization Grants

U.S. Department of Health and Human Services passed through the Arizona Department of Health Services.

Status: Fully corrected.

Finding No.: 07-104

CFDA No.: 17.258, 17.259, and 17.260 WIA Cluster

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Status: Fully corrected.

Finding No.: 07-105

CFDA No.: 17.258, 17.259, and 17.260 WIA Cluster

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Status: A similar audit finding applicable to the Cochise Private Industry Council, Inc.'s federal awards was noted in fiscal year 2008 as Item 08-103.

Finding No.: 07-106

CFDA No.: 17.258, 17.259, and 17.260 WIA Cluster

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Status: Fully corrected.

Cochise County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Finding No.: 07-107

CFDA No.: 17.258, 17.259, and 17.260 WIA Cluster

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Status: Fully corrected.

Finding No.: 07-108

CFDA No.: 17.258, 17.259, and 17.260 WIA Cluster

U.S. Department of Labor, passed through the Arizona Department of Economic Security

Status: Fully corrected.

Finding No.: 07-109

CFDA No.: 14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing

U.S. Department of Housing and Urban Development

Status: Fully corrected.

Finding No.: 07-110

CFDA No.: 14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing

U.S. Department of Housing and Urban Development

Status: Fully corrected.