

A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County

Year Ended June 30, 2009



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov

Cochise County
Single Audit Reporting Package
Year Ended June 30, 2009

Table of Contents	Page
Financial Section	
Independent Auditors' Report	
Required Supplementary Information—Management's Discussion and Analysis	i
Government-wide Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	6
Proprietary Funds	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets	9
Statement of Cash Flows	10
Fiduciary Funds	
Statement of Fiduciary Net Assets	12
Statement of Changes in Fiduciary Net Assets	13
Component Unit Statements	
Combining Statement of Net Assets	14
Combining Statement of Activities	15
Notes to Financial Statements	16
Other Required Supplementary Information	
Budgetary Comparison Schedule—General Fund	41
Budgetary Comparison Schedule—Highway and Streets Fund	42
Budgetary Comparison Schedule—Ft. Huachuca Accommodation School District Fund	43
Notes to Budgetary Comparison Schedules	44
Schedule of Agent Retirement Plan's Funding Progress	45
Supplementary Information	
Schedule of Expenditures of Federal Awards	47

Cochise County
Single Audit Reporting Package
Year Ended June 30, 2009

Table of Contents	Page
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 <i>Government Auditing Standards</i>	52
Single Audit Section	
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	54
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	56
Financial Statement Findings	58
Federal Award Findings and Questioned Costs	63
County Responses	
Corrective Action Plan	66
Summary Schedule of Prior Audit Findings	70



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2009, 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 20 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 61 percent of the assets and 91 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 \$648,019 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, 2009, 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, 2009, 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.

The Management's Discussion and Analysis on pages i through xii, the Budgetary Comparison Schedules on pages 41 through 44, and the Schedule of Agent Retirement Plan's Funding Progress on page 45 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 August 20, 2010, 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

August 20, 2010

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, 2009. 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 \$219,735,391 (net assets). Of this amount, \$43,347,164 (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 \$203,154,446, an increase of \$12,274,006 over the prior year's net assets.
- At the end of the fiscal year, unreserved fund balance in the General Fund was \$21,712,172 or 40.15% 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 \$265,430 during the current fiscal year. The net decrease is attributable to new capital leases in the amount of \$607,430 and decreases of \$872,860 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 statement 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 District 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 District 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 16 through 39 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 41 through 45 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, had a net increase of \$1,496,989. The County's main capital purchases included \$726,171 primarily for developing software systems, \$149,380 for various facilities projects, \$116,632 for the County's network backbone, \$4,159,878 for roads and bridges infrastructure, \$2,037,037 for new vehicles and heavy equipment, \$56,617 for land right of way, \$148,644 for a new vehicle and software for Cochise Health Systems, \$141,576 for recycling equipment for Solid Waste, and \$147,672 for video security equipment for the county jail. The current year's depreciation of capital assets totaled \$7,620,725.

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 \$219,735,391.

Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2008 and 2009

	Governmental Activities		Business-type Activities		Total	
	June 30, 2008*	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008*	June 30, 2009
Assets:						
Current and other assets	\$ 70,250,980	\$ 75,677,166	\$12,902,938	\$12,130,724	\$ 83,153,918	\$ 87,807,890
Capital assets	<u>143,013,012</u>	<u>145,553,489</u>	<u>11,028,674</u>	<u>9,985,186</u>	<u>154,041,686</u>	<u>155,538,675</u>
Total assets	<u>213,263,992</u>	<u>221,230,655</u>	<u>23,931,612</u>	<u>22,115,910</u>	<u>237,195,604</u>	<u>243,346,565</u>
Liabilities:						
Other liabilities	8,727,305	4,766,572	4,001,646	2,781,543	12,728,951	7,548,115
Long-term liabilities	<u>13,656,247</u>	<u>13,309,637</u>	<u>2,438,663</u>	<u>2,753,422</u>	<u>16,094,910</u>	<u>16,063,059</u>
Total liabilities	<u>22,383,552</u>	<u>18,076,209</u>	<u>6,440,309</u>	<u>5,534,965</u>	<u>28,823,861</u>	<u>23,611,174</u>
Net assets:						
Invested in capital assets, net of related debt	133,819,917	136,625,824	10,840,349	9,734,777	144,660,266	146,360,601
Restricted	23,878,819	28,165,626	1,790,000	1,862,000	25,668,819	30,027,626
Unrestricted	<u>33,181,704</u>	<u>38,362,996</u>	<u>4,860,954</u>	<u>4,984,168</u>	<u>38,042,658</u>	<u>43,347,164</u>
Total net assets	<u>\$190,880,440</u>	<u>\$203,154,446</u>	<u>\$17,491,303</u>	<u>\$16,580,945</u>	<u>\$208,371,743</u>	<u>\$219,735,391</u>

* Certain governmental activities amounts for fiscal year 2008 were restated to correct certain cash and deposit activities related to the prior period. See Note 11 – Beginning Balances Restated for additional information.

A large portion of Cochise County's net assets (66.6%) 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 \$11,363,648 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, 2008 and 2009

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Revenues						
Program revenues:						
Charges for services	\$ 7,263,970	\$ 7,159,263	\$37,886,468	\$40,829,834	\$ 45,150,438	\$ 47,989,097
Operating grants and contributions	37,229,352	36,640,730			37,229,352	36,640,730
Capital grants and contributions	689,563				689,563	
General revenues:						
Property taxes	28,006,871	29,457,208			28,006,871	29,457,208
State shared sales tax	12,440,321	11,185,832			12,440,321	11,185,832
Unrestricted vehicle license tax	3,742,135	3,753,778			3,742,135	3,753,778
County excise tax	7,427,359	7,249,483	365,025	135,025	7,792,384	7,384,508
Other	5,432,208	6,201,148	727,516	343,672	6,159,724	6,544,820
Total revenues	<u>102,231,779</u>	<u>101,647,442</u>	<u>38,979,009</u>	<u>41,308,531</u>	<u>141,210,788</u>	<u>142,955,973</u>
Expenses						
General government	35,929,380	36,671,585			35,929,380	36,671,585
Public safety	19,547,114	20,617,763			19,547,114	20,617,763
Highways and streets	11,733,439	8,370,868			11,733,439	8,370,868
Sanitation	926,669	785,111			926,669	785,111
Health and welfare	11,939,959	11,688,042			11,939,959	11,688,042
Culture and recreation	1,079,061	1,108,511			1,079,061	1,108,511
Education	11,572,450	11,410,018			11,572,450	11,410,018
Long-term care			33,631,399	35,360,227	33,631,399	35,360,227
Airport			458,415	477,005	458,415	477,005
Solid waste operations			4,680,127	5,103,195	4,680,127	5,103,195
Total expenses	<u>92,728,072</u>	<u>90,651,898</u>	<u>38,769,941</u>	<u>40,940,427</u>	<u>131,498,013</u>	<u>131,592,325</u>
Increase in net assets before transfers	9,503,707	10,995,544	209,068	368,104	9,712,775	11,363,648
Transfers	818,730	1,278,462	(818,730)	(1,278,462)		
Increase (decrease) in net assets	<u>\$ 10,322,437</u>	<u>\$ 12,274,006</u>	<u>\$ (609,662)</u>	<u>\$ (910,358)</u>	<u>\$ 9,712,775</u>	<u>\$ 11,363,648</u>

Management's Discussion and Analysis

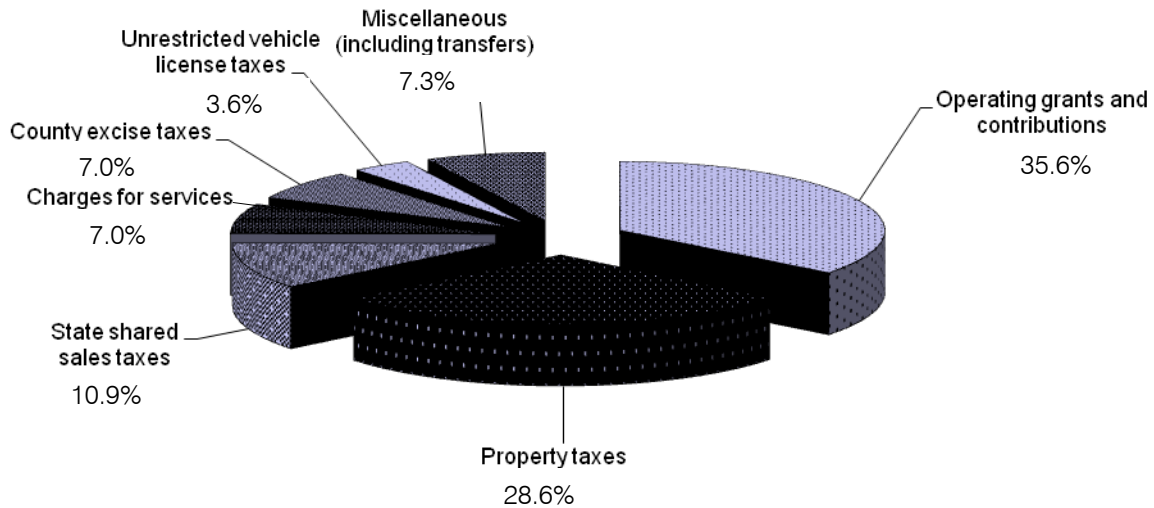
Governmental activities—Key elements of the increase in net assets of \$12,274,006 are as follows:

Major Revenues:

- Operating grants and contributions: These revenues decreased by \$588,622, or 1.6%. The general government change is from an increase in federal grant revenues of \$913,510 to fund job training, increases in LTAF II monies of \$13,000, increase of \$69,390 for a judicial grant called Access to Recovery, and a decrease of \$250,000 for a local water district forming board. Highways and Streets had a combined decrease in highway user revenue and auto lieu tax of \$1,647,267. Public Safety had state increases in jail enhancement of \$41,101 and the Stonegarden program of \$385,267, decreases in DUI Abatement of \$19,832, Emergency Management of \$51,556, and Bioterrorism of \$43,516. The Health and Welfare decrease is due to a decrease in federal grant monies of \$430,660 for Steps Along the Border and \$139,802 less in Tobacco Education. The Fort Huachuca Accommodation School received \$593,441 more in operating grants due primarily to Department of Defense grant monies received for operating purposes and earned \$342,801 less in investment income than in FY2008.
- Capital grants: These revenues decreased by \$689,563. Neither the County nor Fort Huachuca Accommodation School received any capital grant revenues.
- 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 2008 of \$.1894, property tax revenues increased by \$1,450,337, or 5.2%.
- State shared sales tax revenues: Sales tax revenues decreased by \$1,254,489, or 10.1% from the previous year. The decrease in sales tax is indicative of the current recession.
- County sales taxes: The County excise tax revenue decreased by \$177,876, or 2.4%. This unfavorable variance is indicative of the recession.

Management's Discussion and Analysis

Revenues by Source – Governmental Activities Fiscal Year Ended June 30, 2009



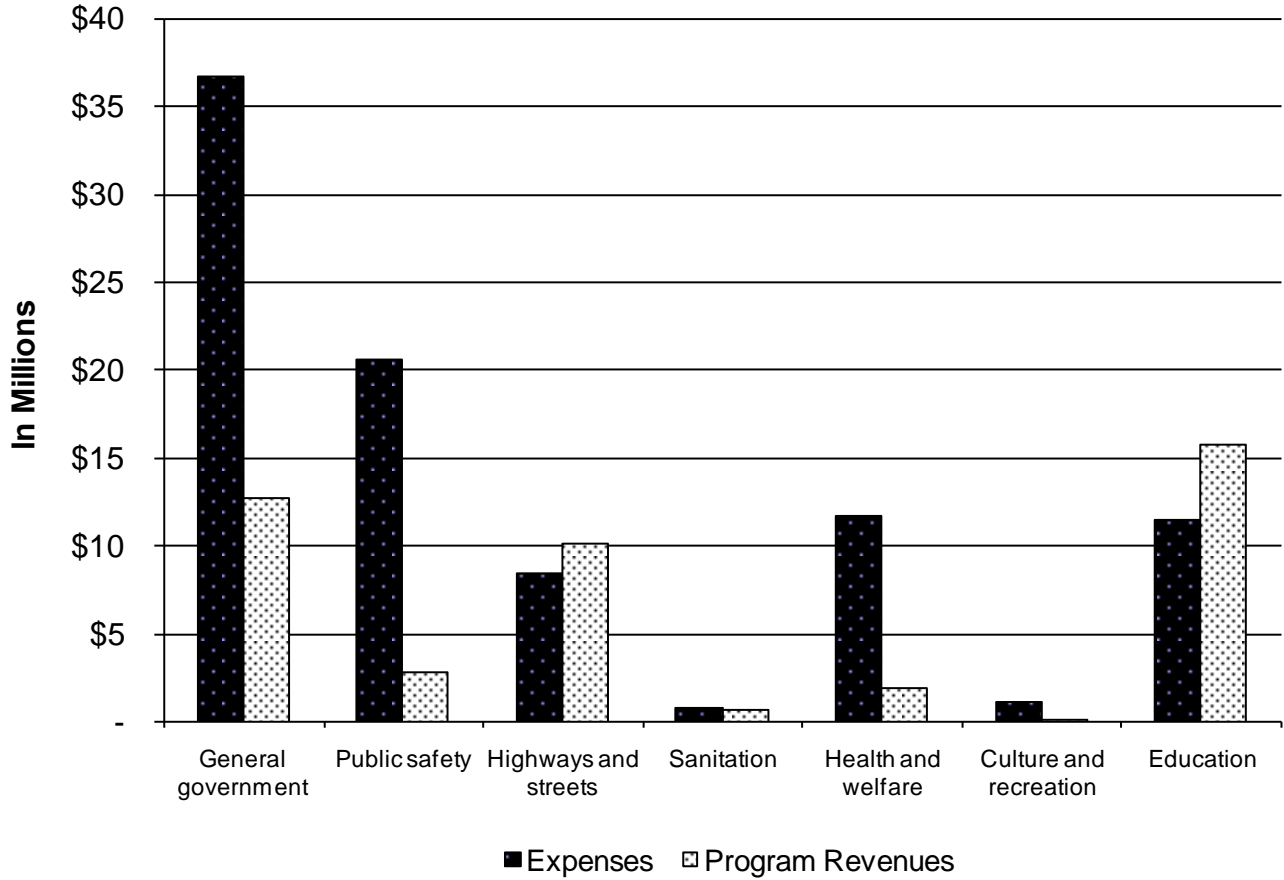
Expenses—Overall expenses in the governmental activities decreased by 2,076,174, or 2.2%. The overall decrease was primarily due to a \$3,362,753 decrease in highways and streets expenses.

Governmental activities in the Statement of Activities are reported using full accrual accounting where the costs of capital assets are not recognized when the assets are purchased. Instead, the cost of capital assets is allocated over their estimated useful lives and is reported as depreciation expense in future periods. During the current fiscal year, the County capitalized \$3,684,474 of highways and streets purchases compared to \$1,025,031 in the prior year. This resulted in a current year decrease in highways and streets expenses of \$2,659,443.

The remaining decrease resulted from the County's conservative budgeting philosophy, a 10% personnel cut, and reduced spending capacity because of the overall decrease in revenues. The largest of these remaining decreases was reduced salary and benefit expenses because of vacant positions.

Management's Discussion and Analysis

Expenses vs. Revenues by Function – Governmental Activities
Fiscal Year Ended June 30, 2009



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

Cochise Health Systems is a Medicaid long-term care HMO under contract with the Arizona Health Care Cost Containment System (AHCCCS). Cochise Health Systems 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 Cochise Health Systems.

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

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

Management's Discussion and Analysis

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

Net assets of the business-type activities decreased by \$910,358. This net assets decrease resulted from operating losses in both the solid waste and BDI airport activities. These business-type activities are separate proprietary funds and additional information on these operating losses can be found in the proprietary funds section of the following Financial Analysis of the County's Funds.

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, 2009, the total fund balance was \$21,712,172. 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, 2009, the fund balance represents 40.15% of total General Fund expenditures.

The fund balance of the General Fund increased by \$1,093,650 during the fiscal year. This increase is mainly attributable to the sale of capital assets for an increase of \$313,214, and \$546,596 increase of monies transferred into the General Fund and \$443,693 less in transfers out from the General Fund than in the prior year.

The fund balance of the Capital Projects Fund increased by \$1,038,382 during the fiscal year which is mainly attributable to the accumulation of monies for future capital asset projects.

The fund balance of the Highway and Streets Fund increased by \$467,014 which is mainly attributable to lower highway user and auto lieu tax revenues, plus an influx from the General Fund excise sales tax revenue, offset with less expenditures due to the cuts in revenue from the state.

Finally, the fund balance of the Ft. Huachuca Accommodation School District Fund increased by \$3,477,661 primarily because of a drop in utilization of the Section 8003 Federal Impact Aid fund for construction expenditures related to the building of new schools. Only \$1.4 million was spent in FY 08/09 compared to \$6.8 million for FY07/08 for the construction of new schools.

Management's Discussion and Analysis

Proprietary funds—The County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of Bisbee-Douglas International Airport Fund decreased by \$167,522. The net assets of the Solid Waste Operations Fund decreased by \$1,811,478 primarily due to additional depreciation on cell number three after its' completion in FY2008 at the Western Regional Landfill and the addition of 10.9 new positions for FY 08/09 with a decrease in revenue of \$480,586 from last year. The new positions were brought on to bring the transfer of solid waste from the rural transfer stations in house rather than contracting out.

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, 2009, was \$146,360,601 (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 \$116,632 for the County's network backbone, \$197,502 for a communication system which was removed from construction in progress and added to capital assets and \$69,155 for two small improvement projects.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$4,159,878 for new roads (and right of way) infrastructure and \$18,689 for construction in progress for a drainage project.
- Capital asset acquisitions in the Solid Waste Operations Fund totaled \$141,576 for recycling equipment and \$7,678 in construction in progress for expansion on cell number three at the Western Regional Landfill.
- Capital outlay purchases in Cochise Health Systems included \$148,644 for a new vehicle and new software.
- Programmed vehicle replacement and additions of new vehicles totaled \$1,007,490 in Fleet Management (an Internal Service Fund) and heavy equipment replacement and additions of new equipment totaled \$1,029,547 in Heavy Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in the Ft. Huachuca Accommodation School District Fund consist of \$1,419,301 for construction expenditures related to the building of new schools, \$20,149 for new vehicles and furniture and \$67,958 for land improvements.
- Capital outlay expenditures in the General Fund consist of \$787,707, \$149,380 for various facilities projects and computer equipment, \$513,363 for construction in progress for the new dotNet software package, and \$124,964 for the Assessor's new Appraisal System.
- Major capital outlay expenditures in the special revenue funds consist of \$147,672 for video security equipment for the County jail and \$56,617 for land right of way.

Additional information on the County's capital assets can be found in Note 4 on pages 26 and 27 of this report.

Management's Discussion and Analysis

Long-term Debt

At June 30, 2009, the County had certificates of participation and capital lease long-term liabilities outstanding of \$9,178,074 as compared to \$9,381,420 in the prior year. This amount was comprised of \$6,537,301 of certificates of participation issued in 2002 (including unamortized premium of \$97,301) and \$2,640,773 in capital leases. The change in these long-term liabilities includes the normal annual debt service of \$952,352 and new capital leases of \$749,006.

Cochise County has no general obligation or revenue bonds outstanding.

Budgetary Comparison—General Fund

The unfavorable variances in most revenues resulted from the recession and reduced taxes and fines and forfeits. The favorable variances in most expenses resulted from conservative budgeting and a hiring freeze of 10% in personnel services. Overall, the General Fund's fund balance increased by a very modest \$1,093,650.

The change in tax revenue is primarily due to a decrease in current property taxes (\$627,910 under budget), an increase of auto lieu tax revenue (\$17,778 over budget), and a decrease in County excise tax (\$263,730 less than budgeted due to deferral of decision packages).

The decrease in intergovernmental revenues resulted from a decrease in state shared sales taxes, which decreased \$1,666,168 from budget, and an increase in PILT of \$1,485,661 over budget. Other intergovernmental revenues were \$118,699 below budget.

The unfavorable variance in charges for services is reflective of the slowing housing market with \$88,143 less in recording fees, \$51,582 more in sheriff fees, and \$72,028 less in environmental health permits than amounts budgeted. The overall decrease from budget is \$123,823.

There were no material variances in expenditures except for the general government function. The favorable variance of \$17,647,241 resulted primarily from unspent contingency funds, vacancy savings and an additional operations cut of 5% over 2007/08.

Economic Factors

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2009 was 7.8% compared to 9.6% statewide and 9.5% nationwide. The rate has increased from 5.0% 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 4.7% in Sierra Vista to the high of 13.6% in Benson.
- For the fiscal year ended June 30, 2009, the county government was the second largest employer in the County. 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 sixteen years.
- The County's expense for employee health insurance increased by 7.3% 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.

Financial Statements

Cochise County
Statement of Net Assets
June 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash in bank and on hand	\$ 1,089,078	\$ 94,003	\$ 1,183,081	\$ 569,720
Cash and investments held by County Treasurer	60,035,144	11,031,411	71,066,555	
Cash and investments held by trustee	880,501		880,501	173,271
Receivables (net of allowances for uncollectibles):				
Property taxes	1,440,917		1,440,917	
Accounts	1,797,785	2,216,902	4,014,687	2,910
Accrued interest	40,260	347	40,607	54
Internal balances	1,234,354	(1,234,354)		
Due from other governments	9,124,513	22,415	9,146,928	435,941
Prepaid items	34,614		34,614	
Other assets				3,835
Capital assets, not being depreciated	3,996,912	1,607,578	5,604,490	
Capital assets, being depreciated, net	<u>141,556,577</u>	<u>8,377,608</u>	<u>149,934,185</u>	<u>90,364</u>
Total assets	<u>221,230,655</u>	<u>22,115,910</u>	<u>243,346,565</u>	<u>1,276,095</u>
Liabilities				
Accounts payable	2,701,174	2,744,378	5,445,552	408,143
Accrued payroll and employee benefits	1,282,732	33,292	1,316,024	2,581
Due to other governments	729,603		729,603	
Deposits held for others	13,628	1,600	15,228	25,393
Deferred revenue	39,435	2,273	41,708	82,433
Noncurrent liabilities				
Due within 1 year	3,818,609	299,833	4,118,442	
Due in more than 1 year	<u>9,491,028</u>	<u>2,453,589</u>	<u>11,944,617</u>	<u>82,320</u>
Total liabilities	<u>18,076,209</u>	<u>5,534,965</u>	<u>23,611,174</u>	<u>600,870</u>
Net Assets				
Invested in capital assets, net of related debt	136,625,824	9,734,777	146,360,601	90,364
Restricted for:				
Capital projects	8,125,764		8,125,764	
Education	11,504,612		11,504,612	
Public safety	3,403,758		3,403,758	
Highways and streets	4,250,991		4,250,991	
Debt service	880,501		880,501	
Long-term care		1,862,000	1,862,000	
Housing programs				173,271
Unrestricted	<u>38,362,996</u>	<u>4,984,168</u>	<u>43,347,164</u>	<u>411,590</u>
Total net assets	<u>\$ 203,154,446</u>	<u>\$ 16,580,945</u>	<u>\$ 219,735,391</u>	<u>\$ 675,225</u>

See accompanying notes to financial statements.

Cochise County
Statement of Activities
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government:							
Governmental activities:							
General government	\$ 36,671,585	\$ 5,214,988	\$ 7,432,093	\$ (24,024,504)		\$ (24,024,504)	
Public safety	20,617,763	905,120	1,901,335	(17,811,308)		(17,811,308)	
Highways and streets	8,370,868	231,941	9,884,391	1,745,464		1,745,464	
Sanitation	785,111	407,972	208,310	(168,829)		(168,829)	
Health and welfare	11,688,042	288,244	1,575,721	(9,824,077)		(9,824,077)	
Culture and recreation	1,108,511		42,503	(1,066,008)		(1,066,008)	
Education	11,410,018	110,998	15,596,377	4,297,357		4,297,357	
Total governmental activities	<u>90,651,898</u>	<u>7,159,263</u>	<u>36,640,730</u>	<u>(46,851,905)</u>		<u>(46,851,905)</u>	
Business-type activities:							
Bisbee-Douglas International Airport	477,005	305,921			\$ (171,084)	(171,084)	
Cochise Health Systems	35,360,227	37,228,614			1,868,387	1,868,387	
Solid Waste Operations	5,103,195	3,295,299			(1,807,896)	(1,807,896)	
Total business-type activities	<u>40,940,427</u>	<u>40,829,834</u>			<u>(110,593)</u>	<u>(110,593)</u>	
Total primary government	<u>\$ 131,592,325</u>	<u>\$ 47,989,097</u>	<u>\$ 36,640,730</u>	<u>(46,851,905)</u>	<u>(110,593)</u>	<u>(46,962,498)</u>	
Component units:							
Housing Authority of Cochise County	\$ 3,242,382		\$ 3,321,175				\$ 78,793
Cochise Private Industry Council, Inc.	1,671,857		1,628,724				(43,133)
Total component units	<u>\$ 4,914,239</u>		<u>\$ 4,949,899</u>				<u>35,660</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes				25,813,741		25,813,741	
Property taxes, levied for flood control				2,186,973		2,186,973	
Property taxes, levied for library				1,456,494		1,456,494	
County excise taxes				7,249,483	135,025	7,384,508	
Share of state sales taxes				11,185,832		11,185,832	
Share of unrestricted vehicle license tax				3,753,778		3,753,778	
Grants and contributions not restricted to specific programs				3,273,101		3,273,101	
Investment income				1,392,517	274,631	1,667,148	2,773
Miscellaneous				1,037,390	69,041	1,106,431	51,033
Gain on disposal of capital assets				498,140		498,140	
Transfers				1,278,462	(1,278,462)		
Total general revenues and transfers				<u>59,125,911</u>	<u>(799,765)</u>	<u>58,326,146</u>	<u>53,806</u>
Change in net assets				12,274,006	(910,358)	11,363,648	89,466
Net assets, July 1, 2008, as restated				190,880,440	17,491,303	208,371,743	585,759
Net assets, June 30, 2009				<u>\$ 203,154,446</u>	<u>\$ 16,580,945</u>	<u>\$ 219,735,391</u>	<u>\$ 675,225</u>

See accompanying notes to financial statements.

Cochise County
Balance Sheet
Governmental Funds
June 30, 2009

	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	\$ 725,303			\$ 11,770	\$ 324,824	\$ 1,061,897
Cash and investments held by County Treasurer	16,175,274	\$5,642,074	\$3,163,607	18,690,143	11,027,843	54,698,941
Cash and investments held by trustee		880,501				880,501
Receivables (net of allowances for uncollectibles):						
Property taxes	1,192,601				248,316	1,440,917
Accounts	891,916	604,500	200	44,123	224,510	1,765,249
Accrued interest	15,743	5,905			13,042	34,690
Due from:						
Other funds	1,999,788	124,964	140,189		404,226	2,669,167
Other governments	3,498,005	326,074	1,843,754	1,906,618	1,550,062	9,124,513
Prepaid items				34,614		34,614
Total assets	<u>\$24,498,630</u>	<u>\$7,584,018</u>	<u>\$5,147,750</u>	<u>\$20,687,268</u>	<u>\$13,792,823</u>	<u>\$71,710,489</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 836,312	\$ 136,152	\$ 357,650	\$ 267,654	\$ 923,211	\$ 2,520,979
Accrued payroll and employee benefits	638,254		90,264	342,687	202,029	1,273,234
Due to:						
Other funds	437,802	177,686	432,170		1,049,748	2,097,406
Other governments					729,603	729,603
Deposits held for others	7,757				5,871	13,628
Certificates of participation payable		610,000				610,000
Deferred revenue	866,333		16,675	554,442	182,487	1,619,937
Total liabilities	<u>2,786,458</u>	<u>923,838</u>	<u>896,759</u>	<u>1,164,783</u>	<u>3,092,949</u>	<u>8,864,787</u>
Fund balances:						
Reserved for:						
Prepaid items				34,614		34,614
Unreserved, reported in:						
General fund	21,712,172					21,712,172
Special revenue funds			4,250,991	19,487,871	10,699,874	34,438,736
Capital projects funds		6,660,180				6,660,180
Total fund balances	<u>21,712,172</u>	<u>6,660,180</u>	<u>4,250,991</u>	<u>19,522,485</u>	<u>10,699,874</u>	<u>62,845,702</u>
Total liabilities and fund balances	<u>\$24,498,630</u>	<u>\$7,584,018</u>	<u>\$5,147,750</u>	<u>\$20,687,268</u>	<u>\$13,792,823</u>	<u>\$71,710,489</u>

See accompanying notes to financial statements.

Cochise County
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 June 30, 2009

Fund balances—total governmental funds		\$ 62,845,702
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.		136,493,786
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,580,502
Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		13,079,505
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Certificates of participation payable	(5,927,301)	
Capital leases payable	(669,456)	
Compensated absences payable	<u>(4,248,292)</u>	<u>(10,845,049)</u>
Net assets of governmental activities		<u>\$ 203,154,446</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	General Fund	Capital Projects Fund	Highway and Streets Fund	Ft. Huachuca Accommodation School District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$32,753,774	\$1,618,194	\$ 1,200,000		\$ 4,595,360	\$40,167,328
Licenses and permits	83,642					83,642
Fees, fines, and forfeits	2,009,126				124,049	2,133,175
Intergovernmental	15,189,971	113,975	9,842,851	\$14,480,105	11,131,167	50,758,069
Charges for services	2,545,197		231,941		2,034,467	4,811,605
Investment income	497,922	164,923	101,657	340,847	287,168	1,392,517
Miscellaneous	235,091	13,134	2,393		167,272	417,890
Total revenues	<u>53,314,723</u>	<u>1,910,226</u>	<u>11,378,842</u>	<u>14,820,952</u>	<u>18,339,483</u>	<u>99,764,226</u>
Expenditures:						
Current:						
General government	25,509,123	356,459			9,324,386	35,189,968
Public safety	16,587,528				3,719,055	20,306,583
Highways and streets			10,742,846		46,499	10,789,345
Sanitation	588,935				196,176	785,111
Health and welfare	10,118,583				1,569,459	11,688,042
Culture and recreation					1,108,511	1,108,511
Education	375,959			9,823,183	694,636	10,893,778
Debt service:						
Principal	81,204	610,000				691,204
Interest and other charges	29,588	271,800				301,388
Capital outlay	<u>787,707</u>	<u>185,788</u>	<u>44,806</u>	<u>1,520,108</u>	<u>324,528</u>	<u>2,862,937</u>
Total expenditures	<u>54,078,627</u>	<u>1,424,047</u>	<u>10,787,652</u>	<u>11,343,291</u>	<u>16,983,250</u>	<u>94,616,867</u>
Excess (deficiency) of revenues over expenditures	<u>(763,904)</u>	<u>486,179</u>	<u>591,190</u>	<u>3,477,661</u>	<u>1,356,233</u>	<u>5,147,359</u>
Other financing sources (uses):						
Donations					3,822	3,822
Sale of capital assets	313,214				134,576	447,790
Litigation proceeds		619,500				619,500
Transfers in	1,756,232	21,035	1,967		1,164,520	2,943,754
Transfers out	<u>(211,892)</u>	<u>(88,332)</u>	<u>(126,143)</u>		<u>(1,458,329)</u>	<u>(1,884,696)</u>
Total other financing sources and uses	<u>1,857,554</u>	<u>552,203</u>	<u>(124,176)</u>		<u>(155,411)</u>	<u>2,130,170</u>
Net change in fund balances	1,093,650	1,038,382	467,014	3,477,661	1,200,822	7,277,529
Fund balances, July 1, 2008, as restated	20,618,522	5,621,798	3,783,977	16,010,210	9,499,052	55,533,559
Increase in reserve for prepaid items				34,614		34,614
Fund balances, June 30, 2009	<u>\$21,712,172</u>	<u>\$6,660,180</u>	<u>\$ 4,250,991</u>	<u>\$19,522,485</u>	<u>\$10,699,874</u>	<u>\$62,845,702</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, 2009

Net change in fund balances—total governmental funds		\$ 7,277,529
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	6,935,642	
Depreciation expense	<u>(4,869,632)</u>	2,066,010
<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>		
		(127,551)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		761,753
<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	691,204	
Amortization of premium	<u>16,216</u>	707,420
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.</p>		
Decrease in compensated absences		80,836
<p>Some cash outlays, such as payments for prepaids, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.</p>		
Increase in prepaids		34,614
<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>1,473,395</u>
Change in net assets of governmental activities		<u>\$ 12,274,006</u>

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2009

	<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>
Assets					
Current assets:					
Cash in bank and on hand	\$ 19,828	\$ 74,175		\$ 94,003	\$ 27,181
Cash and investments held by County Treasurer	10,907,873		\$ 123,538	11,031,411	5,336,203
Receivables (net of allowances for uncollectibles):					
Accounts	1,939,159	238,709	39,034	2,216,902	32,536
Accrued interest		211	136	347	5,570
Due from:					
Other funds	12,500	78,572	227	91,299	839,382
Other governments		22,415		22,415	
Total current assets	<u>12,879,360</u>	<u>414,082</u>	<u>162,935</u>	<u>13,456,377</u>	<u>6,240,872</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation, where applicable:					
Land		24,900	1,575,000	1,599,900	
Construction in progress		7,678		7,678	
Buildings, net		3,564,325	11,265	3,575,590	131,331
Improvements other than buildings, net		1,816,371	1,310,360	3,126,731	
Equipment, net	513,140	1,072,407	89,740	1,675,287	8,928,372
Total noncurrent assets	<u>513,140</u>	<u>6,485,681</u>	<u>2,986,365</u>	<u>9,985,186</u>	<u>9,059,703</u>
Total assets	<u>13,392,500</u>	<u>6,899,763</u>	<u>3,149,300</u>	<u>23,441,563</u>	<u>15,300,575</u>
Liabilities					
Current liabilities:					
Accounts payable	2,727,699	15,388	1,291	2,744,378	180,195
Accrued payroll and employee benefits	19,132	13,120	1,040	33,292	9,498
Due to other funds	880,644	440,127	4,882	1,325,653	176,789
Compensated absences payable, current portion	121,318	67,665	6,977	195,960	91,007
Landfill closure and postclosure care costs payable, current portion		21,963		21,963	
Deposits held for others			1,600	1,600	
Capital leases payable, current portion		81,910		81,910	164,349
Deferred revenue			2,273	2,273	
Total current liabilities	<u>3,748,793</u>	<u>640,173</u>	<u>18,063</u>	<u>4,407,029</u>	<u>621,838</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2009
(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	\$ 9,227	\$ 2,204	\$ 9,476	\$ 20,907	\$ 42,673
Landfill closure and postclosure care costs payable		2,264,183		2,264,183	
Capital leases payable		168,499		168,499	1,556,559
Total noncurrent liabilities	<u>9,227</u>	<u>2,434,886</u>	<u>9,476</u>	<u>2,453,589</u>	<u>1,599,232</u>
Total liabilities	<u>3,758,020</u>	<u>3,075,059</u>	<u>27,539</u>	<u>6,860,618</u>	<u>2,221,070</u>
Net Assets					
Invested in capital assets, net of related debt	513,140	6,235,272	2,986,365	9,734,777	7,338,795
Restricted for long-term care	1,862,000			1,862,000	
Unrestricted (deficit)	<u>7,259,340</u>	<u>(2,410,568)</u>	<u>135,396</u>	<u>4,984,168</u>	<u>5,740,710</u>
Total net assets	<u>\$ 9,634,480</u>	<u>\$ 3,824,704</u>	<u>\$ 3,121,761</u>	<u>\$ 16,580,945</u>	<u>\$ 13,079,505</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, 2009

	<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>
Operating revenues:					
Charges for services	\$37,228,614	\$ 3,295,299	\$ 305,921	\$40,829,834	\$ 6,266,499
Charges for health insurance					7,190,507
Other	19,368			19,368	41,669
Total operating revenues	<u>37,247,982</u>	<u>3,295,299</u>	<u>305,921</u>	<u>40,849,202</u>	<u>13,498,675</u>
Operating expenses:					
Personal services	2,609,587	1,739,873	140,951	4,490,411	1,215,987
Professional services	45,775	1,439,829	134,458	1,620,062	7,119,832
Supplies	46,183	128,356	101,636	276,175	2,914,589
Long-term care costs	31,754,457			31,754,457	
Landfill closure and postclosure care costs		242,264		242,264	
Depreciation	17,625	1,223,800	99,960	1,341,385	1,409,708
Other	886,600	321,159		1,207,759	11,478
Total operating expenses	<u>35,360,227</u>	<u>5,095,281</u>	<u>477,005</u>	<u>40,932,513</u>	<u>12,671,594</u>
Operating income (loss)	<u>1,887,755</u>	<u>(1,799,982)</u>	<u>(171,084)</u>	<u>(83,311)</u>	<u>827,081</u>
Nonoperating revenues (expenses):					
County excise taxes		135,025		135,025	
Investment income	291,088	(20,019)	3,562	274,631	221,314
Miscellaneous revenue		49,673		49,673	33,230
Interest expense		(7,914)		(7,914)	(52,799)
Gain on disposal of capital assets					49,164
Total nonoperating revenues	<u>291,088</u>	<u>156,765</u>	<u>3,562</u>	<u>451,415</u>	<u>250,909</u>
Income (loss) before transfers	2,178,843	(1,643,217)	(167,522)	368,104	1,077,990
Transfers in					470,405
Transfers out	<u>(1,110,201)</u>	<u>(168,261)</u>		<u>(1,278,462)</u>	<u>(75,000)</u>
Increase (decrease) in net assets	1,068,642	(1,811,478)	(167,522)	(910,358)	1,473,395
Total net assets, July 1, 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>
Total net assets, June 30, 2009	<u>\$ 9,634,480</u>	<u>\$ 3,824,704</u>	<u>\$3,121,761</u>	<u>\$ 16,580,945</u>	<u>\$ 13,079,505</u>

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009

	<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>
Cash flows from operating activities:					
Receipts from customers	\$ 36,556,098	\$ 3,562,531	\$ 445,352	\$ 40,563,981	
Receipts from other funds for goods and services provided					\$ 13,156,053
Other receipts	19,368			19,368	17,365
Payments to suppliers and providers of goods and services	(33,841,183)	(1,906,648)	(252,206)	(36,000,037)	(10,151,579)
Payments to employees	(2,692,863)	(1,806,347)	(141,852)	(4,641,062)	(1,260,667)
Net cash provided by (used for) operating activities	<u>41,420</u>	<u>(150,464)</u>	<u>51,294</u>	<u>(57,750)</u>	<u>1,761,172</u>
Cash flows from noncapital financing activities:					
Miscellaneous receipts		184,699		184,699	33,230
Cash transfers from other funds					294,404
Cash transfers to other funds	(360,201)	(168,261)		(528,462)	(75,000)
Loan payments to other funds		246,485		246,485	
Net cash provided by (used for) noncapital financing activities	<u>(360,201)</u>	<u>262,923</u>		<u>(97,278)</u>	<u>252,634</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets					67,171
Purchases of capital assets	(148,644)	(7,678)		(156,322)	(1,246,302)
Principal paid on capital leases		(79,492)		(79,492)	(185,440)
Interest paid on capital leases		(7,914)		(7,914)	(52,799)
Net cash used for capital and related financing activities	<u>(148,644)</u>	<u>(95,084)</u>		<u>(243,728)</u>	<u>(1,417,370)</u>
Cash flows from investing activities:					
Investment income received on cash and investments held by County Treasurer	291,088	(19,377)	3,565	275,276	222,879
Net cash provided by (used for) investing activities	<u>291,088</u>	<u>(19,377)</u>	<u>3,565</u>	<u>275,276</u>	<u>222,879</u>
Net increase (decrease) in cash and cash equivalents	(176,337)	(2,002)	54,859	(123,480)	819,315
Cash and cash equivalents, July 1, 2008	<u>11,104,038</u>	<u>76,177</u>	<u>68,679</u>	<u>11,248,894</u>	<u>4,544,069</u>
Cash and cash equivalents, June 30, 2009	<u>\$ 10,927,701</u>	<u>\$ 74,175</u>	<u>\$ 123,538</u>	<u>\$ 11,125,414</u>	<u>\$ 5,363,384</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009
(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>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 1,887,755	\$(1,799,982)	\$(171,084)	\$ (83,311)	\$ 827,081
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	17,625	1,223,800	99,960	1,341,385	1,409,708
Changes in assets and liabilities:					
Accounts receivable	(761,481)	220,288	(5,577)	(546,770)	863
Due from other funds	(11,781)	13,537	134,285	136,041	(326,120)
Due from other governments		33,407	11,200	44,607	
Prepaid items	25,000			25,000	
Accounts payable	(1,041,583)	383	(18,007)	(1,059,207)	(208,599)
Accrued payroll and employee benefits	(94,140)	(61,358)	(4,921)	(160,419)	(44,336)
Due to other funds	1,469	(10,638)	1,895	(7,274)	102,919
Compensated absences payable	18,556	(5,116)	4,020	17,460	(344)
Landfill closure and postclosure care costs payable		235,215		235,215	
Deferred revenue			(477)	(477)	
Net cash provided by (used for) operating activities	<u>\$ 41,420</u>	<u>\$ (150,464)</u>	<u>\$ 51,294</u>	<u>\$ (57,750)</u>	<u>\$ 1,761,172</u>
Cash and cash equivalents, June 30, 2009, consisted of:					
Cash in bank and on hand	\$ 19,828	\$ 74,175		\$ 94,003	\$ 27,181
Cash and investments held by County Treasurer	<u>10,907,873</u>		<u>\$ 123,538</u>	<u>11,031,411</u>	<u>5,336,203</u>
	<u>\$ 10,927,701</u>	<u>\$ 74,175</u>	<u>\$ 123,538</u>	<u>\$ 11,125,414</u>	<u>\$ 5,363,384</u>

Noncash capital financing activities:

The Solid Waste Operations Fund obtained equipment financed by a capital lease in the amount of \$141,576.

The Internal Service Funds sold equipment with a net book value of \$18,007 and received cash of \$65,171.

The Internal Service Funds obtained equipment financed by a capital lease in the amount of \$607,430.

The Internal Service Funds received a transfer of capital assets from the Highway and Streets Fund with a net book value of \$176,001.

See accompanying notes to financial statements.

Cochise County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash in bank and on hand		\$ 1,732,743
Cash and investments held by County Treasurer	<u>\$ 35,900,449</u>	
Total assets	<u>35,900,449</u>	<u>\$ 1,732,743</u>
Liabilities		
Due to other governments		<u>\$ 1,732,743</u>
Total liabilities		<u>\$ 1,732,743</u>
Net Assets		
Held in trust for investment trust participants	<u>\$ 35,900,449</u>	

See accompanying notes to financial statements.

Cochise County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2009

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 198,327,163
Investment income	<u>143,025</u>
Total additions	<u>198,470,188</u>
Deductions:	
Distributions to participants	<u>212,037,121</u>
Total deductions	<u>212,037,121</u>
Change in net assets	(13,566,933)
Net assets, July 1, 2008	<u>49,467,382</u>
Net assets, June 30, 2009	<u><u>\$ 35,900,449</u></u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Net Assets
Component Units
June 30, 2009

	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
Assets			
Cash in bank and on hand	\$ 441,191	\$ 128,529	\$ 569,720
Cash and investments held by trustee	173,271		173,271
Receivables (net of allowances for uncollectibles):			
Accounts	1,748	1,162	2,910
Accrued interest	54		54
Due from other governments	79,748	356,193	435,941
Other assets		3,835	3,835
Capital assets, being depreciated, net	<u>29,644</u>	<u>60,720</u>	<u>90,364</u>
Total assets	<u>725,656</u>	<u>550,439</u>	<u>1,276,095</u>
Liabilities			
Accounts payable	148,076	260,067	408,143
Accrued payroll and employee benefits	2,581		2,581
Deposits held for others	25,393		25,393
Deferred revenue		82,433	82,433
Noncurrent liabilities			
Due in more than 1 year	<u>67,529</u>	<u>14,791</u>	<u>82,320</u>
Total liabilities	<u>243,579</u>	<u>357,291</u>	<u>600,870</u>
Net Assets			
Invested in capital assets	29,644	60,720	90,364
Restricted for housing programs	173,271		173,271
Unrestricted	<u>279,162</u>	<u>132,428</u>	<u>411,590</u>
Total net assets	<u>\$ 482,077</u>	<u>\$ 193,148</u>	<u>\$ 675,225</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Activities
Component Units
Year Ended June 30, 2009

		<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	\$ 3,242,382	\$ 3,321,175	\$ 78,793		\$ 78,793
Cochise Private Industry Council, Inc.	<u>1,671,857</u>	<u>1,628,724</u>	<u> </u>	\$ (43,133)	<u>(43,133)</u>
Total component units	<u>\$ 4,914,239</u>	<u>\$ 4,949,899</u>	<u>78,793</u>	<u>(43,133)</u>	<u>35,660</u>
General revenues:					
Investment income			2,201	572	2,773
Miscellaneous			<u>27,883</u>	<u>23,150</u>	<u>51,033</u>
Total general revenues			<u>30,084</u>	<u>23,722</u>	<u>53,806</u>
Change in net assets			108,877	(19,411)	89,466
Net assets, July 1, 2008			<u>373,200</u>	<u>212,559</u>	<u>585,759</u>
Net assets, June 30, 2009			<u>\$ 482,077</u>	<u>\$ 193,148</u>	<u>\$ 675,225</u>

See accompanying notes to financial statements.

Cochise County
Notes to Financial Statements
June 30, 2009

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, 2009, the County implemented the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 establishes standards for accounting and financial reporting, including note disclosure requirements, for pollution remediation obligations. The implementation of this statement did not have an effect on the County's financial statements.

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, 2009

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, 2009

- 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, 2009

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

The investment trust funds account for pooled assets held and invested by the County Treasurer on behalf of the 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, 2009

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, 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 and Prepaid Items

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

In both the government-wide and fund financial statements, payments to suppliers for certain goods or services that pertain to future accounting periods are recorded as assets. These prepaid items are then expensed or expended when consumed. However, the Ft. Huachuca Accommodation School District Fund, a major governmental fund, uses the purchases method in which prepaid items are recorded as expenditures at the time of payment. Any prepaid items remaining at year-end are shown on the balance sheet for informational purposes only and are offset by a fund balance reserve to indicate that they do not constitute available spendable resources.

Cochise County
Notes to Financial Statements
June 30, 2009

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, 2009

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, 2009

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, 2009, the carrying amount of the County's deposits was \$1,884,492, and the bank balance was \$6,149,468. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2009, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$ 30,000,000
U.S. Treasury securities	8,863,364
U.S. agency securities	57,833,397
U.S. Treasury money market fund	880,501
Repurchase agreement	10,300,000
Corporate securities	<u>993,250</u>
	<u>\$108,870,512</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, 2009, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pool 7	Unrated	Not applicable	\$ 30,000,000
U.S. agency securities	AAA	Standard & Poor's	57,833,397
U.S. Treasury money market fund	AAAm	Standard & Poor's	880,501
Repurchase agreement	AAA	Standard & Poor's	10,300,000
Corporate securities	AAA	Standard & Poor's	<u>993,250</u>
			<u>\$100,007,148</u>

Cochise County
Notes to Financial Statements
June 30, 2009

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, 2009, the County had U.S. Treasury money market fund investments and collateral for repurchase agreements consisting of U.S. agency securities totaling \$11,180,501 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, 2009, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$13,039,835	12.0
Federal Home Loan Bank	18,220,640	16.7
Federal National Mortgage Association Financing Corporation	17,322,867	15.9
	<u>6,281,725</u>	5.8
	<u>\$54,865,067</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, 2009, 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 pool 7	\$ 30,000,000	\$30,000,000	
U.S. Treasury securities	8,863,364	2,491,685	\$ 6,371,679
U.S. agency securities	57,833,397	20,291,197	37,542,200
U.S. Treasury money market fund	880,501	880,501	
Repurchase agreement	10,300,000	10,300,000	
Corporate securities	<u>993,250</u>	<u>993,250</u>	
	<u>\$108,870,512</u>	<u>\$64,956,633</u>	<u>\$43,913,879</u>

Cochise County
Notes to Financial Statements
June 30, 2009

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	\$ 8,325
Amount of deposits	1,884,492
Amount of investments	<u>108,870,512</u>
Total	<u>\$110,763,329</u>

	Statement of Net Assets		Statement of Fiduciary Net Assets		
	Governmental Activities	Business- Type Activities	Investment Trust Funds	Agency Funds	Total
Cash in bank and on hand	\$ 1,089,078	\$ 94,003		\$1,732,743	\$ 2,915,824
Cash and investments held by County Treasurer	60,035,144	11,031,411	\$35,900,449		106,967,004
Cash and investments held by trustee	<u>880,501</u>				<u>880,501</u>
Total	<u>\$62,004,723</u>	<u>\$11,125,414</u>	<u>\$35,900,449</u>	<u>\$1,732,743</u>	<u>\$110,763,329</u>

Note 3 - Due from Other Governments

Due from other governments totaling \$9,146,928 at June 30, 2009, included \$1,285,519 in state-shared revenue from highway user fees, \$1,896,505 in state-shared sales taxes, \$1,040,396 in state-shared vehicle license taxes, and \$1,318,531 in county excise taxes. The remaining balance of \$3,605,977 represents amounts receivable from various state and federal government grantor agencies.

Cochise County
Notes to Financial Statements
June 30, 2009

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,442,351	\$ 56,617		\$ 2,498,968
Construction in progress	<u>11,467,540</u>	<u>726,171</u>	<u>\$10,695,767</u>	<u>1,497,944</u>
Total capital assets not being depreciated	<u>13,909,891</u>	<u>782,788</u>	<u>10,695,767</u>	<u>3,996,912</u>
Capital assets being depreciated:				
Buildings	56,724,594	11,829,459		68,554,053
Improvements other than buildings	4,129,291	67,958		4,197,249
Equipment	35,030,292	2,807,423	1,100,205	36,737,510
Infrastructure	<u>91,964,123</u>	<u>4,173,514</u>	<u>13,636</u>	<u>96,124,001</u>
Total	<u>187,848,300</u>	<u>18,878,354</u>	<u>1,113,841</u>	<u>205,612,813</u>
Less accumulated depreciation for:				
Buildings	9,978,995	1,504,112		11,483,107
Improvements other than buildings	1,251,818	188,540		1,440,358
Equipment	17,204,516	3,234,887	954,647	19,484,756
Infrastructure	<u>30,309,850</u>	<u>1,351,801</u>	<u>13,636</u>	<u>31,648,015</u>
Total accumulated depreciation	<u>58,745,179</u>	<u>6,279,340</u>	<u>968,283</u>	<u>64,056,236</u>
Total capital assets being depreciated, net	<u>129,103,121</u>	<u>12,599,014</u>	<u>145,558</u>	<u>141,556,577</u>
Governmental activities capital assets, net	<u>\$143,013,012</u>	<u>\$13,381,802</u>	<u>\$10,841,325</u>	<u>\$145,553,489</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,599,900			\$ 1,599,900
Construction in progress	<u> </u>	<u>\$ 7,678</u>	<u> </u>	<u>7,678</u>
Total capital assets not being depreciated	<u>1,599,900</u>	<u>7,678</u>	<u> </u>	<u>1,607,578</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	5,770,513			5,770,513
Equipment	<u>3,651,131</u>	<u>292,646</u>	<u>\$ 29,760</u>	<u>3,914,017</u>
Total	<u>13,980,669</u>	<u>292,646</u>	<u>29,760</u>	<u>14,243,555</u>
Less accumulated depreciation for:				
Buildings	896,051	87,384		983,435
Improvements other than buildings	1,605,910	1,037,872		2,643,782
Equipment	<u>2,049,934</u>	<u>216,129</u>	<u>27,333</u>	<u>2,238,730</u>
Total	<u>4,551,895</u>	<u>1,341,385</u>	<u>27,333</u>	<u>5,865,947</u>
Total capital assets being depreciated, net	<u>9,428,774</u>	<u>(1,048,739)</u>	<u>2,427</u>	<u>8,377,608</u>
Business-type activities capital assets, net	<u>\$ 11,028,674</u>	<u>\$(1,041,061)</u>	<u>\$ 2,427</u>	<u>\$ 9,985,186</u>

Cochise County
Notes to Financial Statements
June 30, 2009

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$2,406,095
Public safety	192,283
Highways and streets	1,765,027
Health and welfare	5,517
Culture and recreation	4,393
Education	496,317
Internal service funds	<u>1,409,708</u>
Total governmental activities depreciation expense	<u>\$6,279,340</u>
Business-type activities:	
Cochise Health Systems	\$ 17,625
Solid Waste Operations	1,223,800
Bisbee-Douglas International Airport	<u>99,960</u>
Total business-type activities depreciation expense	<u>\$1,341,385</u>

Construction commitments—At June 30, 2009, the County was involved in seven construction projects. The estimated cost to complete the construction projects was \$4,615,985.

Note 5 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due within 1 year
Governmental activities					
Capital leases payable	\$ 2,049,578	\$ 607,430	\$ 266,644	\$ 2,390,364	\$ 248,676
Certificates of participation payable	7,030,000		590,000	6,440,000	610,000
Unamortized premium	<u>113,517</u>		<u>16,216</u>	<u>97,301</u>	<u>16,216</u>
Total certificates of participation payable	<u>7,143,517</u>		<u>606,216</u>	<u>6,537,301</u>	<u>626,216</u>
Compensated absences payable	<u>4,463,152</u>	<u>2,668,082</u>	<u>2,749,262</u>	<u>4,381,972</u>	<u>2,943,717</u>
Total governmental activities long-term liabilities	<u>\$13,656,247</u>	<u>\$3,275,512</u>	<u>\$3,622,122</u>	<u>\$13,309,637</u>	<u>\$3,818,609</u>
Business-type activities					
Capital leases payable	\$ 188,325	\$ 141,576	\$ 79,492	\$ 250,409	\$ 81,910
Landfill closure and postclosure care costs payable	2,050,931	242,264	7,049	2,286,146	21,963
Compensated absences payable	<u>199,407</u>	<u>179,760</u>	<u>162,300</u>	<u>216,867</u>	<u>195,960</u>
Total business-type activities long-term liabilities	<u>\$ 2,438,663</u>	<u>\$ 563,600</u>	<u>\$ 248,841</u>	<u>\$ 2,753,422</u>	<u>\$ 299,833</u>

Cochise County
Notes to Financial Statements
June 30, 2009

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	\$4,179,777	\$593,761
Less: accumulated depreciation	<u>508,786</u>	<u>294,948</u>
Carrying value	<u>\$3,670,991</u>	<u>\$298,813</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2009:

Year ending June 30	Governmental Activities	Business-Type Activities
2010	\$ 353,910	\$ 87,406
2011	365,770	85,287
2012	365,770	31,572
2013	322,564	31,572
2014	483,698	31,573
2015-2018	<u>984,033</u>	<u> </u>
Total minimum lease payments	<u>2,875,745</u>	<u>267,410</u>
Less amount representing interest	<u>485,381</u>	<u>17,001</u>
Present value of net minimum lease payments	<u>\$2,390,364</u>	<u>\$250,409</u>

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

Certificates outstanding at June 30, 2009, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2009 to 2017	2.5 – 5.0%	\$6,440,000

Cochise County
Notes to Financial Statements
June 30, 2009

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2009:

Year ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 610,000	\$ 260,412
2011	630,000	239,475
2012	650,000	216,263
2013	675,000	187,200
2014	710,000	152,575
2015-2018	<u>3,165,000</u>	<u>284,262</u>
Total	<u>\$6,440,000</u>	<u>\$1,340,187</u>

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2009, the County paid for compensated absences as follows: 65 percent from the General Fund, 10 percent from the Highway and Streets Fund, 3 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, 2009, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2009, the County reported landfill closure and postclosure care liabilities totaling \$2,286,146. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills and was based on landfill capacity used at June 30, 2009. The liability reported for the Eastern Regional landfill of \$668,126 was 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 \$1,618,020 was based on the use of 12.78 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$11,042,541 as the remaining estimated capacity is filled. The County expects to close this landfill in 2042. The landfills' closure and postclosure care costs were based on what it would cost to perform all closure and postclosure care in fiscal year 2009. 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, 2009

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, 2009

Note 7 - Pensions and Other Postemployment Benefits

Plan Descriptions—The County contributes to four plans, two of which are described below. The Elected Officials Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP) are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute and 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, 2009

Cost-sharing plans—For the year ended June 30, 2009, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 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 9.45 percent (7.99 percent for retirement, 0.96 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
2009	\$2,891,964	\$347,470	\$180,974
2008	2,887,141	376,584	179,325
2007	2,842,703	395,343	188,258

Agent plans—For the year ended June 30, 2009, 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 25.44 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.87 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2009, were established by the June 30, 2007, 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 2009 contribution requirements are as follows:

Cochise County
Notes to Financial Statements
June 30, 2009

Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	29 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%
includes inflation at	5.00%

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the PSPRS for the year ended June 30, 2009, and related information follows:

	PSPRS	
	Pension	Health Insurance
Annual pension/ OPEB cost	\$1,082,198	\$74,498
Contributions made	1,120,340	36,356

Trend Information—Annual pension and OPEB cost information for the current and 2 preceding years follows for each of the agent plans. Separately reported OPEB cost information for the last year of the required trend information will be reported next year when it becomes available.

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ Asset (OPEB Obligation)
PSPRS				
Pension	2009	\$1,082,198	104%	\$38,142
Health Insurance	2009	74,498	49	(38,142)
Pension	2008	782,876	103	20,953
Health insurance	2008	63,742	67	(20,953)
Pension and health insurance	2007	664,871	100	

Cochise County
Notes to Financial Statements
June 30, 2009

Funded Status—The funded status of the plan as of the most recent valuation date, June 30, 2009, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Pension	PSPRS Health Insurance
Actuarial accrued liability (a)	\$25,554,377	\$ 713,540
Actuarial value of assets (b)	13,164,448	0
Unfunded actuarial accrued liability (a) – (b)	12,389,929	713,540
Funded ratio (b)/(a)	51.5%	0.0%
Covered payroll (c)	\$ 4,284,173	\$4,284,173
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a) – (b)] / (c)	289.2%	16.66%

The actuarial methods and assumptions used are the same for all plans and benefits, and for the most recent valuation date, are as follows:

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% – 8.50%
includes inflation at	5.50%

Cochise County
Notes to Financial Statements
June 30, 2009

Note 8 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2009, were as follows:

	Payable to								Total
	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	
Payable from General Fund		\$ 73,037	\$200,494	\$ 343,647	\$879,194	\$336,914	\$2,631	\$163,871	\$1,999,788
Capital Projects Fund	\$124,964								124,964
Highway and Streets Fund	14,692	87,155		21,667		16,675			140,189
Other Governmental Funds	105,208	8,006		289,395		1,431	186		404,226
Cochise Health Systems Fund	12,000			500					12,500
Solid Waste Operations Fund	152	9,488	12	67,546				1,374	78,572
BDI Airport Fund				227					227
Internal Service Funds	<u>180,786</u>	<u> </u>	<u>231,664</u>	<u>326,766</u>	<u>1,450</u>	<u>85,107</u>	<u>2,065</u>	<u>11,544</u>	<u>839,382</u>
Total	<u>\$437,802</u>	<u>\$177,686</u>	<u>\$432,170</u>	<u>\$1,049,748</u>	<u>\$880,644</u>	<u>\$440,127</u>	<u>\$4,882</u>	<u>\$176,789</u>	<u>\$3,599,848</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, 2009

Interfund transfers—Interfund transfers for the year ended June 30, 2009, were as follows:

Transfer from	Transfer to					Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Internal Service Funds	
General Fund			\$1,967	\$ 209,925		\$ 211,892
Capital Projects Fund	\$ 87,400			932		88,332
Highway and Streets Fund					\$126,143	126,143
Other Governmental Funds	483,631	\$21,035		953,663		1,458,329
Cochise Health Systems Fund	1,110,201					1,110,201
Solid Waste Operations Fund					168,261	168,261
Internal Service Funds	<u>75,000</u>					<u>75,000</u>
Subtotal	<u>\$1,756,232</u>	<u>\$21,035</u>	<u>\$1,967</u>	<u>\$1,164,520</u>	<u>\$294,404</u>	<u>\$3,238,158</u>
Transfers of capital assets					<u>176,001</u>	<u>176,001</u>
Total	<u>\$1,756,232</u>	<u>\$21,035</u>	<u>\$1,967</u>	<u>\$1,164,520</u>	<u>\$470,405</u>	<u>\$3,414,159</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 \$3,238,158 are less than total transfers in of \$3,414,159 because \$176,001 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, 2009

A majority of all cash deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$6,325 of cash, \$2,909,499 of deposits, and a \$880,501 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	\$30,000,000	None stated	None stated	\$30,000,000
U.S. Treasury securities	9,000,000	Zero coupon	Up to 3 years	8,863,364
U.S. agency securities	59,500,000	2.14–6.88%	Up to 3 years	57,833,397
Repurchase agreement	10,300,000	None stated	Overnight	10,300,000
Corporate securities	1,000,000	Zero coupon	Less than 1 year	993,250

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

Statement of Net Assets

Assets	<u>\$106,967,004</u>
Net assets	<u>\$106,967,004</u>

Net assets held in trust for:

Internal participants	\$ 71,066,555
External participants	<u>35,900,449</u>
Total net assets held in trust	<u>\$106,967,004</u>

Statement of Changes in Net Assets

Total additions	\$323,456,524
Total deductions	<u>331,189,904</u>
Net decrease	<u>(7,733,380)</u>
Net assets held in trust:	
July 1, 2008	<u>114,700,384</u>
June 30, 2009	<u>\$106,967,004</u>

Cochise County
Notes to Financial Statements
June 30, 2009

Note 10 - Beginning Balances Restated

The Ft. Huachuca Accommodation School District Fund corrected certain cash and deposit activities requiring the restatement of beginning net assets and beginning fund balances.

The following summarizes the restatement of net assets and fund balances:

	Governmental Activities	Ft. Huachuca Accommodation School District Fund
Net assets/Fund balance, June 30, 2008, as previously reported	\$190,610,164	\$15,739,934
Correction of cash and deposit activity	<u>270,276</u>	<u>270,276</u>
Net assets/Fund balance, July 1, 2008, as restated	<u>\$190,880,440</u>	<u>\$16,010,210</u>

Note 11 - 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 based upon compelling reasons offered by HUD, 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. Due to 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 provided using the straight-line method over useful lives ranging from 3 to 20 years as determined by management based on experience for each class of asset.

Cochise County
Notes to Financial Statements
June 30, 2009

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, 2009, the carrying amount of the Housing Authority's deposits was \$614,462 and the bank balance was \$630,757.

Cochise Private Industry Council, Inc.

At June 30, 2009, the carrying amount of the Cochise Private Industry Council's deposits was \$128,529 and the bank balance was \$184,559. During the normal course of business, the Cochise Private Industry Council maintains cash balances in excess of FDIC insurance limits.

The Cochise Private Industry Council does not have any formal policies as it relates to custodial credit risks applicable to its deposits.

C. Due from Other Governments

Cochise Private Industry Council, Inc.

Due from other governments consists of the following grants receivable at June 30, 2009:

Program	Amount
WIA Youth Program	\$174,947
WIA Adult Program	20,947
WIA-Veterans	33,683
Incentive set-a-side funds	22,037
WIA Dislocated Workers	28,347
WIRED Grant	51,196
Title V	9,347
Community Based Job Training	4,184
WIA Business Outreach	5,916
Rapid Response	<u>5,562</u>
Total	<u>\$356,193</u>

Other Required Supplementary Information

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$33,624,386	\$33,624,386	\$32,753,774	\$ (870,612)
Licenses and permits	74,000	74,000	83,642	9,642
Intergovernmental	15,487,456	15,487,456	15,189,971	(297,485)
Charges for services	2,669,020	2,669,020	2,545,197	(123,823)
Fees, fines, and forfeits	2,361,500	2,361,500	2,009,126	(352,374)
Interest	305,000	305,000	497,922	192,922
Miscellaneous	193,650	193,650	235,091	41,441
Total revenues	<u>54,715,012</u>	<u>54,715,012</u>	<u>53,314,723</u>	<u>(1,400,289)</u>
Expenditures:				
Assessor	1,986,700	1,968,446	1,869,254	99,192
Attorney	2,208,756	2,230,407	2,101,284	129,123
Board of Supervisors	1,412,912	1,414,672	1,081,878	332,794
Cochise Aging and Social Services	9,003,391	9,054,476	9,034,951	19,525
General Government	11,684,044	11,521,222	8,673,675	2,847,547
General Government Contingency	15,469,047	14,799,694		14,799,694
Health	1,400,153	1,354,996	1,130,498	224,498
Judicial System	9,846,880	10,595,645	9,825,836	769,809
Public and Legal Defenders	2,335,126	2,313,572	2,085,213	228,359
Recorder	420,602	408,205	356,566	51,639
School Superintendent	430,077	429,948	406,914	23,034
Sheriff	17,333,049	17,439,454	16,620,663	818,791
Treasurer	1,172,532	1,172,532	1,103,787	68,745
Total Expenditures	<u>74,703,269</u>	<u>74,703,269</u>	<u>54,290,519</u>	<u>20,412,750</u>
Excess (deficiency)	(19,988,257)	(19,988,257)	(975,796)	19,012,461
Other sources:				
Capital assets sales proceeds	201,000	201,000	313,214	112,214
Transfers in	1,721,080	1,113,667	1,756,232	642,565
Total other sources (uses)	<u>1,922,080</u>	<u>1,314,667</u>	<u>2,069,446</u>	<u>754,779</u>
Net change in fund balances	<u>(18,066,177)</u>	<u>(18,673,590)</u>	<u>1,093,650</u>	<u>19,767,240</u>
Fund balances beginning	<u>18,066,177</u>	<u>18,673,590</u>	<u>20,618,522</u>	<u>1,944,932</u>
Fund balances ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,712,172</u>	<u>\$ 21,712,172</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Highway and Streets Fund
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	
Intergovernmental	11,154,714	8,428,832	9,842,851	\$ 1,414,019
Charges for services	343,000	338,000	231,941	(106,059)
Investment income	75,000	50,000	101,657	51,657
Miscellaneous	<u>2,564,904</u>	<u>3,767,638</u>	<u>2,393</u>	<u>(3,765,245)</u>
Total revenues	<u>15,337,618</u>	<u>13,784,470</u>	<u>11,378,842</u>	<u>(2,405,628)</u>
Expenditures:				
Current:				
Highways and streets	<u>15,114,233</u>	<u>13,833,070</u>	<u>10,787,652</u>	<u>3,045,418</u>
Total expenditures	<u>15,114,233</u>	<u>13,833,070</u>	<u>10,787,652</u>	<u>3,045,418</u>
Excess (deficiency) of revenues over expenditures	223,385	(48,600)	591,190	639,790
Other financing sources (uses):				
Sale of capital assets	40,000	10,000		(10,000)
Transfers in	3,335	305,320	1,967	(303,353)
Transfers out	<u>(266,720)</u>	<u>(266,720)</u>	<u>(126,143)</u>	<u>140,577</u>
Total other financing sources and uses	<u>(223,385)</u>	<u>48,600</u>	<u>(124,176)</u>	<u>(172,776)</u>
Net change in fund balances	_____	_____	<u>467,014</u>	<u>467,014</u>
Fund balances, July 1, 2008	_____	_____	<u>3,783,977</u>	<u>3,783,977</u>
Fund balances, June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,250,991</u>	<u>\$ 4,250,991</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income			\$ 340,847	\$ 340,847
State aid and grants			<u>14,480,105</u>	<u>14,480,105</u>
Total revenues			<u>14,820,952</u>	<u>14,820,952</u>
Expenditures				
Education	\$ 13,387,248	\$ 13,323,122	9,823,183	3,499,939
Capital outlay	<u>234,212</u>	<u>7,982,175</u>	<u>1,520,108</u>	<u>6,462,067</u>
Total expenditures	<u>13,621,460</u>	<u>21,305,297</u>	<u>11,343,291</u>	<u>9,962,006</u>
Net change in fund balances	(13,621,460)	(21,305,297)	3,477,661	24,782,958
Fund balances, July 1, 2008, as restated			16,010,210	
Increase in reserve for prepaid items	_____	_____	<u>34,614</u>	_____
Fund balances, June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,522,485</u>	<u>\$ -</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2009

Note 1 - Budgeting and Budgetary Control

A.R.S. requires 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. prohibits 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 Highways 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 10, 2010, 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, 2009

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 6/30/09	\$13,164,448	\$25,554,377	(\$12,389,929)	51.5%	\$4,284,173	289.2%
Health Insurance 6/30/09	0	713,540	(713,540)	0.0%	4,284,173	16.7%
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)	0.0%	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)	0.0%	3,877,378	22.4%

Supplementary Information

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

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	07.17PSAP501Z	HIDTA 17 DHE	\$ 10,000
High Intensity Drug Trafficking Areas	07.18PSAP501Z	HT18-08-0512, HT18-08-0513	482,744
High Intensity Drug Trafficking Areas	07.19PSAP501Z	HT19-09-0513	<u>60,204</u>
Total U.S. Office of National Drug Control Policy			<u>552,948</u>
U.S. Department of Agriculture			
National Forest System—Law Enforcement	10.08LE-11030518-001		10,000
Passed through the Arizona Department of Education			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	8AZ300AZ3	15,362
Cash Assistance:			
National School Lunch Program	10.555	8AZ300AZ3	<u>149,370</u>
Total Child Nutrition Cluster			<u>164,732</u>
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861081	564,340
Commodity Supplemental Food Program	10.565	HG653013	4,778
WIC Farmers' Market Nutrition Program (FMNP)	10.572	HG861327	40
Passed through the Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	Elec Credit	<u>598,243</u>
Total U.S. Department of Agriculture			<u>1,342,133</u>
U.S. Department of Commerce			
Passed through the Arizona State Land Department			
Geodetic Surveys and Services (Geodesy and Applications of the National Geodetic Reference System)	11.400	AZHMP-Cochise County	<u>5,000</u>
U.S. Department of Defense			
Department of Defense Appropriations Act-P.L. 102-484	12.unknown		<u>100,000</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	133-08, 134-08, 135-08	132,751
Home Investment Partnerships Program	14.239		125,501
Housing Opportunities for Persons with AIDS	14.241		144,826
Section 8 Housing Choice Vouchers	14.871		2,334,782

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through the Arizona Department of Housing			
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	None	\$ 716,066
Total U.S. Department of Housing and Urban Development			<u>3,453,926</u>
U.S. Department of the Interior			
Cultural Resource Management	15.224		8,652
Payments in Lieu of Taxes	15.226		2,842,033
Passed through the Arizona State Treasurer			
Distribution of Receipts to State and Local Governments	15.227	Elec Credit	6,585
Total U.S. Department of the Interior			<u>2,857,270</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	7,362
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2007-382	65,261
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-09-050	24,673
Rural Domestic Violence, Dating Violence, Sexual Assault and Stalking Assistance Program	16.589		165,000
Public Safety Partnership and Community Policing Grants	16.710		19,832
Edward Byrne Memorial Justice Assistance Grant Program	16.738		33,854
Passed through the Arizona Criminal Justice Commission			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-09-015, DC-09-012	73,510
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>107,364</u>
Total U.S. Department of Justice			<u>389,492</u>
U.S. Department of Labor			
WIA Cluster:			
Passed through Pima County, Arizona			
WIA Adult Program	17.258	07-69-S-141401-0908	16,198
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	Various	381,590
ARRA—WIA Adult Program	17.258	Various	37,294
Total WIA Adult Program			<u>435,082</u>
WIA Youth Activities	17.259	Various	450,854
ARRA—WIA Youth Activities	17.259	Various	18,004
Total WIA Youth Activities			<u>468,858</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
WIA Dislocated Workers	17.260	Various	\$ 202,620
ARRA—WIA Dislocated Workers	17.260	Various	<u>71,681</u>
Total WIA Dislocated Workers			<u>274,301</u>
Total WIA Cluster			<u>1,178,241</u>
Passed through Pima County, Arizona			
WIA Pilots, Demonstrations, and Research Projects	17.261	11-69-C-140340-0707	83,023
Incentive Grants—WIA Section 503	17.267		139,917
Passed through Pima County, Arizona			
Community Based Job Training Grants	17.269	11-69-C-140340-0707-2	14,061
Veterans' Employment Program	17.802	11-69-C-138580-0706	<u>213,482</u>
Total U.S. Department of Labor			<u>1,628,724</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106		88,751
Highway Safety Cluster:			
Passed through the Governor's Office of Highway Safety			
State and Community Highway Safety	20.600	2008-PT-006	6,975
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	2007-HVE-001, 2008-410-001	82,635
Safety Incentive Grants for Use of Seatbelts	20.604	2008-OP-013	<u>1,156</u>
Total Highway Safety Cluster			<u>90,766</u>
Total U.S. Department of Transportation			<u>179,517</u>
U.S. Department of Education			
Impact Aid	84.041		6,319,019
Passed through the Arizona Supreme Court			
Title I Grants to Local Educational Agencies	84.010	KR08-0068	109,953
Passed through the Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A070003	<u>121,934</u>
Total Title I Grants to Local Educational Agencies			<u>231,887</u>
Special Education Cluster:			
Passed through the Arizona Department of Education			
Special Education—Grants to States	84.027	H027A080007, H027A070007	196,006
Special Education—Preschool Grants	84.173	H173A070003	<u>15,290</u>
Total Special Education Cluster			<u>211,296</u>
Safe and Drug-Free Schools and Communities—State Grants	84.186	Q186A070003	3,942
State Grants for Innovative Programs	84.298	S298A070003	583
Education Technology State Grants	84.318	S318X070003, S318X080005	79,642

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
English Language Acquisition Grants	84.365	T365A30003A	\$ 25,824
Improving Teacher Quality State Grants	84.367	S367A070049	<u>75,066</u>
Total U.S. Department of Education			<u>6,947,259</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	255,241
Passed through the Arizona Department of Health Services			
Public Health Emergency Preparedness Immunization Grants	93.069	HG754193	363,340
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.268	HG854282	105,065
HIV Prevention Activities—Health Department Based	93.283	HG461290	16,294
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.940	HG852278	18,200
Maternal and Child Health Services Block Grant to the States	93.977	HG854323	1,131
93.994	HG854245	31,272	
Passed through the Arizona Department of Economic Security			
Grants to States for Access and Visitation Programs	93.597	ARS 35-148, E7203303	4,677
Passed through the Secretary of State			
Voting Access for Individuals with Disabilities—Grants to States	93.617	42 USC 15461	<u>10,000</u>
Total U.S. Department of Health and Human Services			<u>805,220</u>
U.S. Department of Homeland Security			
Passed through the Arizona Department of Emergency and Military Affairs			
Disaster Grants—Public Assistance (Presidentially Declared Disasters)	97.036	1347-DR-AZ 003-9903	26,722
Emergency Management Performance Grants	97.042	222403-04	79,091
Homeland Security Cluster:			
Homeland Security Grant Program	97.067	333405-01, 333405-02, 333405-03, 333405-04, 333405-05, 444400-04, 444433-01, 444433-02	<u>422,788</u>
Total Homeland Security Cluster			<u>422,788</u>
Total U.S. Department of Homeland Security			<u>528,601</u>
Total Expenditures of Federal Awards			<u>\$ 18,790,090</u>

See accompanying notes to schedule.

Cochise County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

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 2009 *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
High-Intensity Drug Trafficking Areas Edward Byrne Memorial Justice Assistance Grant Program	07.17PSAP501Z	\$ 4,713
WIA Youth Activities	16.738	33,386
Alcohol Impaired Driving Countermeasures Incentive Grants I	17.259	390,707
Safety Incentive Grants for Use of Seatbelts	20.601	48,303
Education Technology State Grants	20.604	331
	84.318	70,769



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 20, 2010. 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 and was modified to include a reference to our reliance on other auditors. 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 09-01, 09-02, 09-03, and 09-04 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 09-02, 09-03, and 09-04 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

August 20, 2010



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2009, 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, 2009. 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 09-101 and 09-102.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with 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.

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 09-101 and 09-102 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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

August 20, 2010

Cochise County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2009

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.

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

Material weaknesses identified?	___	<u>X</u>
Significant deficiencies identified that are 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])? X ___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads—Grants to States
14.241	Housing Opportunities for Persons with AIDS
14.871	Section 8 Housing Choice Vouchers
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
84.041	Impact Aid
97.067	Homeland Security Grant Program Cluster

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Dollar threshold used to distinguish between Type A and Type B programs: \$563,703

	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>	___
---	----------	-----

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Financial Statement Findings

09-01

The County should continue improving its procedures to prepare accurate and timely financial statements

Criteria: The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws, regulations, and grants and contracts.

Condition and context: Auditors noted that the County has been allocating resources to prepare and issue more timely financial statements, including developing written policies and procedures and implementing a new financial management computer system. However, because the County was still in the process of these efforts, it took the County 13 months after year-end to issue its financial statements.

Effect: The County issued its 2009 Single Audit Reporting Package in August 2010, 5 months after the federal reporting deadline. This finding is a significant deficiency in internal control over financial reporting.

Cause: The County did not compile its financial statements in a timely manner due primarily to understaffing and the significant time and effort staff had to spend converting to a new financial management computer system. In addition, staff spent time developing written comprehensive policies and procedures over the financial statements and report preparation process.

Recommendation: To help ensure that the financial statements are prepared accurately and issued in a timely manner, the County should

- Continue to develop and formally adopt written policies and procedures that clearly explain the process for compiling necessary information and preparing the financial statements and accompanying notes. These procedures should include detailed instructions for obtaining information from the new financial management computer system, as well as obtaining information not readily available from the system but necessary for financial statement preparation.
- Evaluate staffing sufficiency and allocate all necessary resources to help ensure the necessary information is prepared accurately and timely so that the Single Audit Reporting Package will meet the federal reporting deadline of March 31, 9 months after fiscal year-end.

This finding is similar to a prior-year finding.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

The other auditors who audited the Ft. Huachuca Accommodation School District Fund reported the following material weaknesses.

09-02

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). In addition, audit adjustments were required to properly record certain transactions incorrectly recorded by the District. 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.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

District staff understand 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.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

09-03

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

A reconciliation of the District's cash on deposit with the County Treasurer was not performed by the County School Superintendent's office. There are unreconciled differences of \$648,019. The District is currently working to reconcile fiscal years 2005 through 2009.

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, 2009, resulted in a qualified opinion for the District's cash balances.

CAUSE

The County School Superintendent's Office established balances for reconciliation at the beginning of fiscal year 2007-08 by taking the district general ledger balances for some funds and the County Treasurer general ledger balances for other funds. The result is an unreconciled difference in the cash balance and the County requires the District to research past records to determine where it believes the discrepancy occurred.

RECOMMENDATION

The District should work with the County School Superintendent's 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.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is revising past financial records to align them in accordance with statute resulting from the passage of House Bill 2495. The District is working with the County School Superintendent's Office to identify unreconciled differences and new reconciliations will be performed as the financial records have been revised.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

09-04

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. Effective internal controls for capital assets, and the Uniform System of Financial Records (USFR) guidelines, require the reconciliations of all capital expenditures to capital asset additions and the timely and accurate recording of 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. During our review of the District's capital asset records and procedures we noted several instances of non-compliance with generally accepted accounting principles and the Uniform System of Financial Records (USFR) guidelines.

1. A capital outlay reconciliation was not performed to compare capital asset additions on the listing to the capital outlay expenditures reported in the general ledger.
2. Approximately \$2.3 million of additions were not included on the capital asset listing.
3. The cumulative asset listing by category, and the cumulative asset listing by function, reported an asset in different categories.
4. For three of 13 assets reviewed, the asset was reported at an incorrect historical cost.
5. The fiscal year 2008-09 listings included one asset that was not purchased until fiscal year 2009-10.
6. The capital list included an asset that was not being depreciated.
7. The stewardship list did not include the location of an asset purchased during the year.
8. For two of three assets selected on the premises, and one of three assets selected from the stewardship list, the location did not agree.
9. For one of three assets selected from the stewardship list, the tag number was not on the asset and the serial number was not included in the list.
10. A physical inventory was not reconciled to the capital asset list.

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 has had significant turnover the past two fiscal years in the position responsible for capital assets. As a result, adequate training and resources have not been allocated to the area of capital assets.

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. To ensure accurate financial reporting, individuals responsible for the capital asset related procedures should be provided with the necessary training and time to devote to the maintenance of the capital asset records.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is performing an extensive review of capital asset procedures in order to develop and implement effective internal controls over its capital assets. Additional training has been planned for District personnel as well as additional monitoring of capital asset records.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Federal Award Findings and Questioned Costs

09-101

CFDA No.: Not applicable

Questioned Cost: N/A

Criteria: Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires the County to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Condition and context: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2010; however, the County did not issue its Single Audit Reporting Package until August 2010.

Effect: The late submission affects all federal programs the County administered. This finding is a deficiency in internal control over compliance and noncompliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320. However, this finding does not result in a control deficiency in internal control over compliance or noncompliance for the individual federal programs, as this was not caused by the programs' administration.

Cause: As discussed in finding 09-01, the late completion of the County's financial statements contributed to the late submission of its Single Audit Reporting Package.

Recommendation: The County should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

The other auditors who audited the Housing Authority of Cochise County reported the following significant deficiency and federal noncompliance.

09-102

Housing Authority of Cochise County
CFDA No.: Not applicable

Questioned Costs: Unable to determine

Condition:

Internal Controls Over Board Minutes

Board minutes are not available for review for the months of November and December, 2008. It is unknown whether or not meetings were actually conducted, and if they were, it is unknown whether or not minutes were prepared and misplaced or whether they were never prepared.

Criteria:

State of Arizona statues regarding Minutes of Public Bodies.

Cause/Effect:

The cause is unknown. The effect is that actions of the Board cannot be determined from the records available for audit.

Recommendation:

We recommend that the Authority establish internal controls over the preparation and retention of the minutes of meetings of the Board of Commissioners. We suggest that duplicate copies of these approved minutes be filed in a separate location for safekeeping.

Reply:

Board Meetings were held and the minutes in question were compiled by the prior Executive Director, however, this information could not be located upon the auditor's arrival. A process will be implemented with notes taken by staff and Board members to reconcile these records.

(This page is left intentionally blank)

Board of Supervisors

Patrick G. Call
Chairman
District 1

Ann English
Vice-Chairman
District 2

Richard R. Searle
Supervisor
District 3



Michael J. Ortega
County Administrator

James E. Vlahovich
Deputy County Administrator

Katie A. Howard
Clerk

August 20, 2010

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

Dear Ms. Davenport:

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

Sincerely,

Lois Klein
Director of Finance
Cochise County

Cochise County
Corrective Action Plan
Year Ended June 30, 2009

Financial Statement Findings

09-01

Cochise County

The County should continue improving its process to prepare accurate and timely financial statements.

Contact: Lois Klein, Finance Director, 520-432-8381

Anticipated Completion Date: December 31, 2010

Corrective Action Plan: To help ensure that financial statements are prepared accurately and issued in a timely manner, the County has allocated resources to:

Continue to develop and formally adopt written policies and procedures that clearly explain the process for compiling necessary information and preparing the financial statements and accompanying notes. The procedures will include detailed instructions for obtaining information from the new financial management system, as well as obtaining information not readily available from the accounting system but necessary for financial statement preparation.

Obtain staffing and allocate all necessary resources to help ensure the necessary information is prepared accurately and timely so that the Single Audit Reporting Package will meet the federal deadline of March 31. The Board of Supervisors has approved a new position for the Finance Department. The County has supplied the auditors with a preliminary schedule of completion dates for schedules and financial statements which will ensure the necessary information is prepared accurately and timely.

09-02 through 09-04

Management's planned corrective action for finding numbers 09-02 through 09-04 are included in the Schedule of Findings and Questioned Costs immediately following each finding.

Cochise County
Corrective Action Plan
Year Ended June 30, 2009

Federal Award Finding and Questioned Costs

09-101
CFDA No.: Not applicable
Contact person: Lois Klein, Finance Director, 520-432-8381
Anticipated Completion Date: December 31, 2010

The County will improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

09-102

Management's planned corrective action for finding number 09-102 is included in the Schedule of Findings and Questioned Costs immediately following the finding.

(This page is left intentionally blank)

Board of Supervisors

Patrick G. Call
Chairman
District 1

Ann English
Vice-Chairman
District 2

Richard R. Searle
Supervisor
District 3



Michael J. Ortega
County Administrator

James E. Vlahovich
Deputy County Administrator

Katie A. Howard
Clerk

August 20, 2010

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, 2009

Status of Federal Award Findings and Questioned Costs

Finding No.: 08-101

CFDA No.: 84.041 Impact Aid

U.S. Department of Education

Status: Not corrected for fiscal year 2008-09 as the District did not expend Federal Impact Aid monies for construction purposes.

Views of Responsible Officials and Planned Corrective Actions:

The District discovered that the Project Manager employed by the District for the previous construction project reviewed the Davis-Bacon compliance requirements prior to approval of any payment requests by the vendor. Since the District has been made aware of the need to further document this compliance, additional procedures have been put in place to notify vendors that Davis-Bacon requirements apply to the construction project and that they must provide documentation of compliance before payment can be made. Proof of compliance with the Davis-Bacon requirements is stated on the purchase order of any construction project that will be paid with Impact Aid or ARRA construction funds.

Finding No.: 08-102

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

Status: Fully corrected.

Finding Nos.: 08-103 and 07-105

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

U.S. Department of Housing and Urban Development

Status: Fully corrected.