

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Cochise County

Year Ended June 30, 2010

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**Debra K. Davenport**  
Auditor General

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Cochise County  
Single Audit Reporting Package  
Year Ended June 30, 2010

Table of Contents	Page
<b>Financial Section</b>	
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	40
Budgetary Comparison Schedule—Highway and Streets Fund	41
Notes to Budgetary Comparison Schedules	42
Schedule of Agent Retirement Plan's Funding Progress	43
Supplementary Information	
Schedule of Expenditures of Federal Awards	46

Cochise County  
Single Audit Reporting Package  
Year Ended June 30, 2010

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>	51
<b>Single Audit Section</b>	
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	57
Financial Statement Findings	59
Federal Award Findings and Questioned Costs	61
<b>County Responses</b>	
Corrective Action Plan	65
Summary Schedule of Prior Audit Findings	71



**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, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cochise Health Systems Fund, which is a major enterprise fund and represents 63 percent of the assets and 86 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 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.

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.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, beginning in fiscal year 2010, the Ft. Huachuca Accommodation School District Fund that was previously reported in the County's basic financial statements as a major governmental fund is no longer fiscally dependent on the County and, therefore, is not reported in the County's basic financial statements. This change constitutes a change in the County's reporting entity.

The Management's Discussion and Analysis on pages i through xi, the Budgetary Comparison Schedules on pages 40 through 42, and the Schedule of Agent Retirement Plan's Funding Progress on page 43 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 March 28, 2011, 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, management, and others within the County, 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

March 28, 2011

## 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 Cochise County's financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements.

### Financial Highlights

- Cochise County's assets exceed its liabilities at the close of the fiscal year by \$182,270,015 (net assets). Of this amount, \$50,312,772 (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 \$166,408,925, an increase of \$5,884,653 over the current year's beginning net assets, as restated.
- At the end of the fiscal year, unreserved fund balance in the General Fund was \$25,234,620, or 49.8 percent 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 \$874,892 during the current fiscal year. The net decrease is attributable to decreases of \$874,892 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 the County's functions 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 County's governmental activities 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 County's funds 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 250 individual governmental funds. Information is presented separately in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and those funds designated as major funds including the Highway and Streets Fund and the Capital Projects Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

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

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

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



## Management's Discussion and Analysis

**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 the County's 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 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 the County holds 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 fully understanding the data provided in the government-wide and fund financial statements.

The notes to financial statements can be found on pages 16 through 38 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 40 through 43 of this report.

### **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 decrease of \$4,301,858. The County's main capital purchases included \$354,876 for developing software systems, \$877,048 for roads and bridges infrastructure, \$881,077 for new vehicles, \$500,579 for airport improvement grants, and \$438,406 for Sheriff and Emergency Services communications equipment, cameras, and thermal imagers. The current year's depreciation of capital assets totaled \$6,988,433.

## Management's Discussion and Analysis

**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 \$182,270,015.

### Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2009 and 2010

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009*	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009*	June 30, 2010
Assets:						
Current and other assets	\$ 54,989,898	\$ 66,806,777	\$12,130,724	\$13,102,605	\$ 67,120,622	\$ 79,909,382
Capital assets	<u>122,553,691</u>	<u>119,457,776</u>	<u>9,985,186</u>	<u>8,779,243</u>	<u>132,538,877</u>	<u>128,237,019</u>
Total assets	<u>177,543,589</u>	<u>186,264,553</u>	<u>22,115,910</u>	<u>21,881,848</u>	<u>199,659,499</u>	<u>208,146,401</u>
Liabilities:						
Other liabilities	3,972,755	7,774,413	2,781,543	3,139,214	6,754,298	10,913,627
Long-term liabilities	<u>13,046,562</u>	<u>12,081,215</u>	<u>2,753,422</u>	<u>2,881,544</u>	<u>15,799,984</u>	<u>14,962,759</u>
Total liabilities	<u>17,019,317</u>	<u>19,855,628</u>	<u>5,534,965</u>	<u>6,020,758</u>	<u>22,554,282</u>	<u>25,876,386</u>
Net assets:						
Invested in capital assets, net of related debt	113,626,026	111,405,003	9,734,777	8,610,745	123,360,803	120,015,748
Restricted	8,535,250	10,137,495	1,862,000	1,804,000	10,397,250	11,941,495
Unrestricted	<u>38,362,996</u>	<u>44,866,427</u>	<u>4,984,168</u>	<u>5,446,345</u>	<u>43,347,164</u>	<u>50,312,772</u>
Total net assets	<u>\$160,524,272</u>	<u>\$166,408,925</u>	<u>\$16,580,945</u>	<u>\$15,861,090</u>	<u>\$177,105,217</u>	<u>\$182,270,015</u>

\*Certain governmental activities amounts for fiscal year 2009 were restated to reflect the change in reporting entity. See Note 2—Beginning Balances Restated for additional information.

A large portion of Cochise County's net assets (65.8 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). This amount is presented less accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

The County's total net assets increased by \$5,164,798 during the fiscal year. A large portion of this increase is attributable to increases in taxes and operating grants, charges for services, and other revenues and controls on expenses, including a 10 percent reduction in salaries and benefits and a hard hiring freeze.

## Management's Discussion and Analysis

**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, 2009 and 2010

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2008-09*	2009-10	2008-09	2009-10	2008-09*	2009-10
Revenues						
Program revenues:						
Charges for services	\$ 7,059,495	\$ 7,382,332	\$40,829,834	\$40,004,457	\$ 47,889,329	\$ 47,386,789
Operating grants and contributions	21,791,781	23,263,768			21,791,781	23,263,768
General revenues:						
Property taxes	29,457,208	31,764,249			29,457,208	31,764,249
State shared sales tax	11,185,832	10,606,221			11,185,832	10,606,221
Unrestricted vehicle license tax	3,753,778	3,533,336			3,753,778	3,533,336
County excise tax	7,249,483	7,016,714	135,025	135,025	7,384,508	7,151,739
Other	<u>5,860,301</u>	<u>3,932,526</u>	<u>343,672</u>	<u>271,676</u>	<u>6,203,973</u>	<u>4,204,202</u>
Total revenues	<u>86,357,878</u>	<u>87,499,146</u>	<u>41,308,531</u>	<u>40,411,158</u>	<u>127,666,409</u>	<u>127,910,304</u>
Expenses						
General government	36,671,585	35,161,041			36,671,585	35,161,041
Public safety	20,617,763	22,529,065			20,617,763	22,529,065
Highways and streets	8,370,868	11,977,199			8,370,868	11,977,199
Sanitation	785,111	684,289			785,111	684,289
Health and welfare	11,688,042	10,497,644			11,688,042	10,497,644
Culture and recreation	1,108,511	1,194,807			1,108,511	1,194,807
Education	1,091,551	1,026,465			1,091,551	1,026,465
Long-term care			35,360,227	34,082,049	35,360,227	34,082,049
Airport			477,005	698,263	477,005	698,263
Solid waste operations			<u>5,103,195</u>	<u>4,894,684</u>	<u>5,103,195</u>	<u>4,894,684</u>
Total expenses	<u>80,333,431</u>	<u>83,070,510</u>	<u>40,940,427</u>	<u>39,674,996</u>	<u>121,273,858</u>	<u>122,745,506</u>
Increase in net assets before transfers	6,024,447	4,428,636	368,104	736,162	6,392,551	5,164,798
Transfers	<u>1,278,462</u>	<u>1,456,017</u>	<u>(1,278,462)</u>	<u>(1,456,017)</u>	<u>                    </u>	<u>                    </u>
Increase (decrease) in net assets	<u>\$ 7,302,909</u>	<u>\$ 5,884,653</u>	<u>\$ (910,358)</u>	<u>\$ (719,855)</u>	<u>\$ 6,392,551</u>	<u>\$ 5,164,798</u>

\*Certain governmental activities amounts for fiscal year 2009 were restated to reflect the change in reporting entity. See Note 2—Beginning Balances Restated for additional information.

## Management's Discussion and Analysis

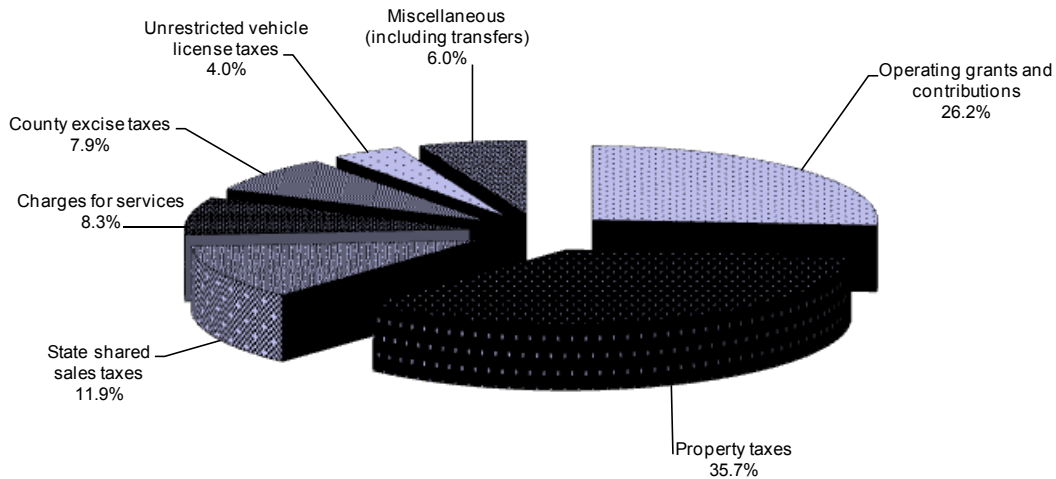
**Governmental activities**—Key elements of the increase in net assets of \$5,884,653 are as follows:

Major Revenues:

- Operating grants and contributions: These revenues increased by \$1,471,987, or 6.8 percent. The general government change resulted from decreases in federal grant revenues of \$531,737 to fund job training, decreases in LTAF II monies of \$21,867, decreases of \$537,957 for judicial grants, and an increase of \$600,661 for airport improvement grants. Highways and Streets had a combined decrease in highway user revenue and auto lieu tax of \$429,969. Public Safety had a state decrease in DUI Abatement of \$10,150, and had federal increases in the Stonegarden program of \$1,213,508, Emergency Management of \$159,951, and Bioterrorism of \$138,266. The Health and Welfare increase is due to an increase in state grant monies of \$161,643 for First Things First, \$95,323 for Tobacco Education, and decreases in Health Director per Capita grant of \$30,589 and Maternal and Child Health of \$46,037. Health and Welfare also had federal grant increases of \$139,443 for H1N1 planning and implementation and a decrease of \$43,234 in the Women, Infants and Children (WIC) program.
- Property taxes: The net assessed value of all taxable property in the County increased by \$83,156,053, or 9.2 percent, over the previous year. With a decrease in the property tax rate from fiscal year 2009 of \$0.0334, property tax revenues increased by \$2,307,041, or 7.8 percent.
- State shared sales tax revenues: Sales tax revenues decreased by \$579,611, or 5.2 percent, from the previous year. The decrease in sales tax is indicative of the current recession.
- County excise tax: The County excise tax revenue decreased by \$232,769, or 3.2 percent. This unfavorable variance is indicative of the recession.

# Management's Discussion and Analysis

## Revenues by Source—Governmental Activities Fiscal Year Ended June 30, 2010



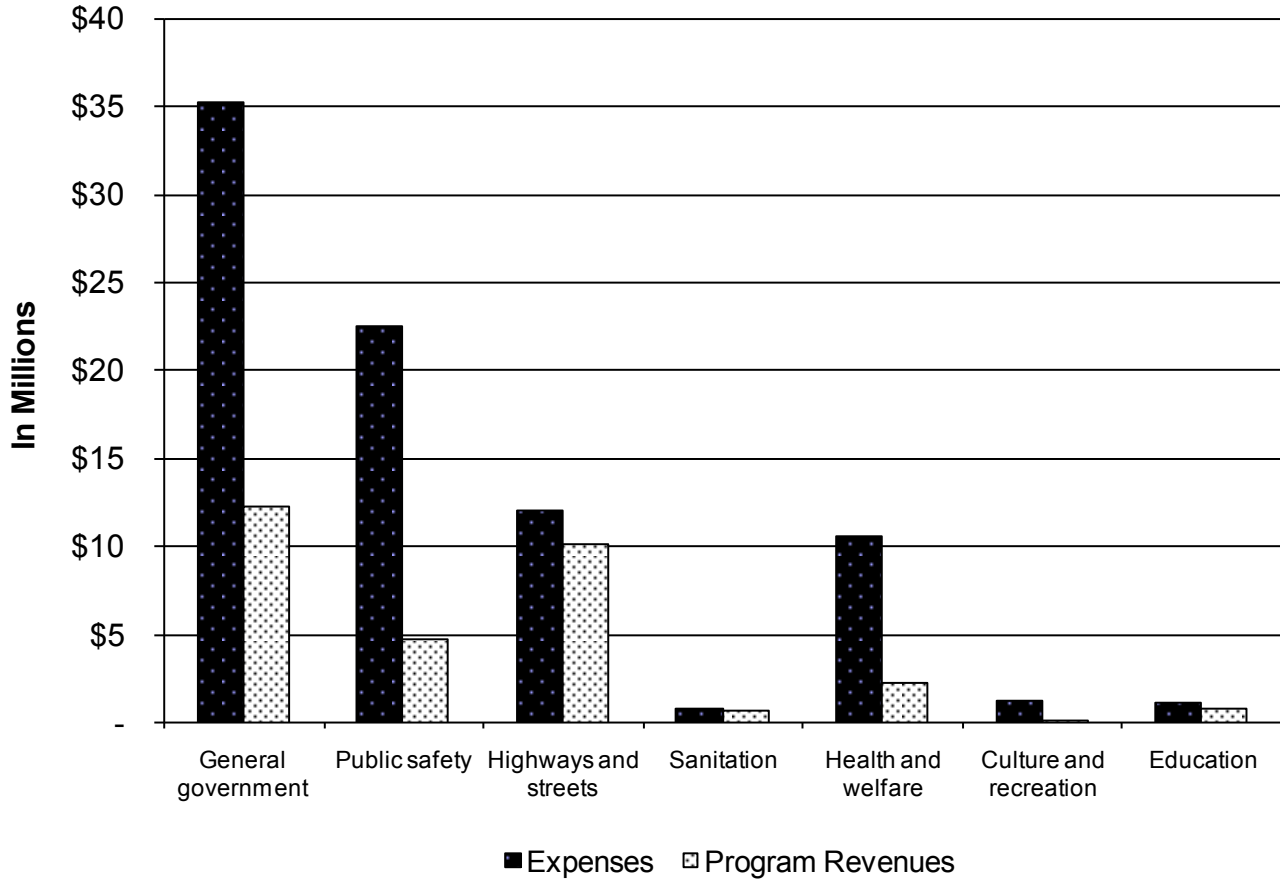
**Expenses**—Overall expenses in the governmental activities increased by \$2,737,079, or 3.4 percent. The overall increase was partially due the Stonegarden grant expenses because of increased Homeland Security federal grant awards in public safety for \$1,911,302.

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 \$877,048 of highways and streets purchases compared to \$3,684,474 in the prior year. This resulted in a current year increase in highways and streets expenses of \$2,807,426.

The remaining decrease resulted from the County's conservative budgeting philosophy, a 10 percent 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. In addition, these changes to revenues and expenses along with the timing of payroll disbursements lead to an increase in cash and investment balances as well as an increase in accrued payroll and benefits.

# Management's Discussion and Analysis

Expenses vs. Revenues by Function—Governmental Activities  
Fiscal Year Ended June 30, 2010



**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 (BDI) 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 the Statement of Cash Flows for the Proprietary Funds on pages 10 and 11.

Net assets of the business-type activities decreased by \$719,855. 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, 2010, the total fund balance was \$25,419,187. 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, 2010, the fund balance represents 50.2 percent of total General Fund expenditures.

The fund balance of the General Fund increased by \$3,707,015 during the fiscal year. This increase is mainly attributable to the decreases in health and welfare expenditures of \$1,559,017, general government expenditures of \$1,213,918, and capital outlay of \$732,592, plus an increase of \$183,952 for monies transferred into the General Fund.

The fund balance of the Capital Projects Fund increased by \$1,257,587 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 \$880,439, which is mainly attributable to lower highway user and auto lieu tax revenues, higher charges for services revenues, an additional \$100,000 influx from the General Fund excise tax revenue, plus lower expenditures due to vacancy savings.

**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 \$167,442. The net assets of the Solid Waste Operations Fund decreased by \$546,706 primarily due to the addition of 10.9 new positions for fiscal year 2009 with most of these filled in fiscal year 2010. The new positions were brought on to bring the transfer of solid waste from the rural transfer stations in house rather than contracting out. There was also an increase in revenue of \$873,970 over last year.

# Management's Discussion and Analysis

## 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, 2010, was \$120,015,748 (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 \$12,844 for the County's network backbone, \$124,964 for an assessor's software system, \$229,912 for the Enterprise Resource Planning System software, and \$500,579 for airport improvement grants.
- Capital purchases made from the Highway and Streets Fund monies primarily consist of \$877,048 for new roads (and related rights of way) infrastructure.
- Capital asset acquisitions in the Solid Waste Operations Fund totaled \$35,652 in construction in progress for expansion on cell number three at the Western Regional Landfill.
- Programmed vehicle replacement and additions of new vehicles totaled \$881,077 in Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in the General Fund consist of \$43,190 for mobile file carriages and \$11,924 for a server.
- Major capital outlay expenditures in the special revenue funds consist of \$45,000 for Treasurer's software; \$304,887 for the Sheriff's department for base stations, cameras, thermal imagers, repeaters, a drive gate, and software; \$133,520 for Emergency Services programmable message boards and a communication system; and \$13,670 for a high-density storage system for Justice Precinct 5.

Additional information on the County's capital assets can be found in Note 5 on pages 26 and 27 of this report.

### Long-term Debt

At June 30, 2010, the County had certificates of participation and capital lease long-term liabilities outstanding of \$8,221,271, as compared to \$9,178,074 in the prior year. This amount comprised \$5,911,084 of certificates of participation issued in 2002 (including unamortized premium of \$81,084) and \$2,310,187 in capital leases. The change in these long-term liabilities includes the normal annual debt service of \$956,803.

Cochise County has no general obligation or revenue bonds outstanding.

### Budgetary Comparison—General Fund

The unfavorable variances in some revenues resulted from the move of the County's excise tax to the Capital Projects Fund and a decrease in interest rates. The favorable variances in most expenditures resulted from conservative budgeting, a hiring freeze, and a reduction of 10 percent in personnel services. Overall, the General Fund's fund balance increased by \$3,707,015.



## Management's Discussion and Analysis

The overall unfavorable variance in revenues of \$(703,086) was primarily due to a decrease in the County's General Fund excise tax revenue because a larger portion was reported as revenue in the Capital Projects Fund this year and from a decrease in auto lieu tax revenue. This unfavorable variance was partially offset by favorable variances because the County underestimated the budgeted revenues for property tax, intergovernmental, and miscellaneous revenue.

There were no material variances in expenditures except for the general government function. The favorable variance of \$19,397,055 in general government resulted primarily from unspent contingency funds and vacancy savings. The favorable variance in Cochise Aging and Social Services resulted from ARRA funds that covered \$1,590,384 of ALTCS cost.

### **Economic Factors**

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2010, was 8.3 percent compared to 9.8 percent state-wide and 9.5 percent nation-wide. The rate has increased from 7.8 percent 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 5 percent in Sierra Vista to the high of 14.5 percent in Benson.
- For fiscal year 2010, the County government was the second largest employer in the County. Ft. Huachuca is the County's largest employer, with 9,438 employees compared to 1,026 for the county government and 1,022 for Sierra Vista Public Schools.
- The County's primary property tax rate has either remained the same or decreased each year for the past 17 years.
- The County's expense for employee health insurance increased by 14.71 percent from the previous year, and actual retirement costs went down by \$77,018.

### **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 Ln., Building G, Bisbee, AZ 85603.

## Financial Statements

Cochise County  
Statement of Net Assets  
June 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash in bank and on hand	\$ 1,421,322	\$ 149,832	\$ 1,571,154	\$ 384,344
Cash and investments held by County Treasurer	52,225,491	13,035,029	65,260,520	
Cash and investments held by trustee	878,500		878,500	617,127
Receivables (net of allowances for uncollectibles):				
Property taxes	1,841,886		1,841,886	
Accounts	1,082,995	1,404,440	2,487,435	1,686
Accrued interest	27,819	184	28,003	
Internal balances	1,506,467	(1,506,467)		
Due from other governments	7,637,730	19,587	7,657,317	331,283
Prepaid items	184,567		184,567	
Other assets				3,877
Capital assets, not being depreciated	4,960,532	1,643,230	6,603,762	
Capital assets, being depreciated, net	<u>114,497,244</u>	<u>7,136,013</u>	<u>121,633,257</u>	<u>63,381</u>
Total assets	<u>186,264,553</u>	<u>21,881,848</u>	<u>208,146,401</u>	<u>1,401,698</u>
<b>Liabilities</b>				
Accounts payable	2,381,619	2,884,053	5,265,672	248,672
Accrued payroll and employee benefits	3,010,626	253,411	3,264,037	24,113
Due to other governments	2,357,063		2,357,063	41,892
Deposits held for others	25,066	1,600	26,666	
Deferred revenue	39	150	189	1,768
Noncurrent liabilities				
Due within 1 year	3,665,541	315,507	3,981,048	
Due in more than 1 year	<u>8,415,674</u>	<u>2,566,037</u>	<u>10,981,711</u>	<u>117,213</u>
Total liabilities	<u>19,855,628</u>	<u>6,020,758</u>	<u>25,876,386</u>	<u>433,658</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	111,405,003	8,610,745	120,015,748	63,381
Restricted for:				
Public safety	4,127,565		4,127,565	
Highways and streets	5,131,430		5,131,430	
Debt service	878,500		878,500	
Long-term care		1,804,000	1,804,000	
Housing programs				535,432
Unrestricted	<u>44,866,427</u>	<u>5,446,345</u>	<u>50,312,772</u>	<u>369,227</u>
Total net assets	<u>\$ 166,408,925</u>	<u>\$ 15,861,090</u>	<u>\$ 182,270,015</u>	<u>\$ 968,040</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Activities  
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 35,161,041	\$ 5,231,640	\$ 7,019,191	\$ (22,910,210)		\$ (22,910,210)	
Public safety	22,529,065	823,346	3,902,849	(17,802,870)		(17,802,870)	
Highways and streets	11,977,199	643,845	9,454,421	(1,878,933)		(1,878,933)	
Sanitation	684,289	403,626	205,274	(75,389)		(75,389)	
Health and welfare	10,497,644	261,780	1,929,559	(8,306,305)		(8,306,305)	
Culture and recreation	1,194,807		28,842	(1,165,965)		(1,165,965)	
Education	1,026,465	18,095	723,632	(284,738)		(284,738)	
Total governmental activities	<u>83,070,510</u>	<u>7,382,332</u>	<u>23,263,768</u>	<u>(52,424,410)</u>		<u>(52,424,410)</u>	
Business-type activities:							
Bisbee-Douglas International Airport	698,263	529,289			\$ (168,974)	(168,974)	
Cochise Health Systems	34,082,049	35,305,899			1,223,850	1,223,850	
Solid Waste Operations	4,894,684	4,169,269			(725,415)	(725,415)	
Total business-type activities	<u>39,674,996</u>	<u>40,004,457</u>			<u>329,461</u>	<u>329,461</u>	
Total primary government	<u>\$ 122,745,506</u>	<u>\$ 47,386,789</u>	<u>\$ 23,263,768</u>	<u>(52,424,410)</u>	<u>329,461</u>	<u>(52,094,949)</u>	
<b>Component units:</b>							
Housing Authority of Cochise County	\$ 2,712,448		\$ 3,043,843				\$ 331,395
Cochise Private Industry Council, Inc.	2,140,989		2,075,753				(65,236)
Total component units	<u>\$ 4,853,437</u>		<u>\$ 5,119,596</u>				<u>266,159</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes				27,958,113		27,958,113	
Property taxes, levied for flood control				2,285,954		2,285,954	
Property taxes, levied for library				1,520,182		1,520,182	
County excise taxes				7,016,714	135,025	7,151,739	
Share of state sales taxes				10,606,221		10,606,221	
Share of unrestricted vehicle license tax				3,533,336		3,533,336	
Grants and contributions not restricted to specific programs				2,249,578		2,249,578	
Investment income				289,760	175,329	465,089	3,337
Miscellaneous				1,165,224	96,347	1,261,571	23,319
Gain on disposal of capital assets				227,964		227,964	
Transfers				1,456,017	(1,456,017)		
Total general revenues and transfers				<u>58,309,063</u>	<u>(1,049,316)</u>	<u>57,259,747</u>	<u>26,656</u>
Change in net assets				5,884,653	(719,855)	5,164,798	292,815
Net assets, July 1, 2009, as restated				<u>160,524,272</u>	<u>16,580,945</u>	<u>177,105,217</u>	<u>675,225</u>
Net assets, June 30, 2010				<u>\$ 166,408,925</u>	<u>\$ 15,861,090</u>	<u>\$ 182,270,015</u>	<u>\$ 968,040</u>

See accompanying notes to financial statements.

Cochise County  
Balance Sheet  
Governmental Funds  
June 30, 2010

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Highway and Streets Fund</u>		
<b>Assets</b>					
Cash in bank and on hand	\$ 934,149			\$ 456,012	\$ 1,390,161
Cash and investments held by County Treasurer	22,363,375	\$ 7,196,854	\$ 4,375,607	12,497,402	46,433,238
Cash and investments held by trustee		878,500			878,500
Receivables (net of allowances for uncollectibles):					
Property taxes	1,528,618			313,268	1,841,886
Accounts	857,637		80,791	125,929	1,064,357
Accrued interest	11,306	3,483		8,035	22,824
Due from:					
Other funds	2,442,059		369,693	430,868	3,242,620
Other governments	3,289,145	622,135	1,816,650	1,909,800	7,637,730
Prepaid items	184,567				184,567
Total assets	<u>\$ 31,610,856</u>	<u>\$ 8,700,972</u>	<u>\$ 6,642,741</u>	<u>\$ 15,741,314</u>	<u>\$ 62,695,883</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 744,872	\$ 104,375	\$ 334,026	\$ 1,039,121	\$ 2,222,394
Accrued payroll and employee benefits	2,103,129		263,381	583,345	2,949,855
Due to:					
Other funds	604,226	48,830	897,229	1,305,617	2,855,902
Other governments	1,590,384			766,679	2,357,063
Deposits held for others	7,757			17,309	25,066
Certificates of participation payable		630,000			630,000
Deferred revenue	1,141,301		16,675	234,015	1,391,991
Total liabilities	<u>6,191,669</u>	<u>783,205</u>	<u>1,511,311</u>	<u>3,946,086</u>	<u>12,432,271</u>
Fund balances:					
Reserved for:					
Prepaid items	184,567				184,567
Unreserved, reported in:					
General fund	25,234,620				25,234,620
Special revenue funds			5,131,430	11,795,228	16,926,658
Capital projects funds		7,917,767			7,917,767
Total fund balances	<u>25,419,187</u>	<u>7,917,767</u>	<u>5,131,430</u>	<u>11,795,228</u>	<u>50,263,612</u>
Total liabilities and fund balances	<u>\$ 31,610,856</u>	<u>\$ 8,700,972</u>	<u>\$ 6,642,741</u>	<u>\$ 15,741,314</u>	<u>\$ 62,695,883</u>

See accompanying notes to financial statements.

Cochise County  
 Reconciliation of the Balance Sheet to the Statement of Net Assets  
 Governmental Funds  
 June 30, 2010

Fund balances—total governmental funds		\$ 50,263,612
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.		110,960,060
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,391,952
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.		13,541,065
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Certificates of participation payable	(5,281,084)	
Capital leases payable	(584,931)	
Compensated absences payable	(3,881,749)	(9,747,764)
Net assets of governmental activities		\$ 166,408,925

See accompanying notes to financial statements.

Cochise County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2010

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects Fund	Highway and Streets Fund		
Revenues:					
Taxes	\$ 33,537,289	\$ 2,364,660	\$ 1,300,000	\$ 4,784,934	\$ 41,986,883
Licenses and permits	52,886				52,886
Fees, fines, and forfeits	1,942,093			70,011	2,012,104
Intergovernmental	14,033,269	702,321	9,449,421	11,947,845	36,132,856
Charges for services	2,404,183		643,845	2,240,460	5,288,488
Investment income	124,189	50,024	39,950	75,597	289,760
Miscellaneous	618,653	23,595	107,962	415,014	1,165,224
Total revenues	<u>52,712,562</u>	<u>3,140,600</u>	<u>11,541,178</u>	<u>19,533,861</u>	<u>86,928,201</u>
Expenditures:					
Current:					
General government	24,295,206	344,475		8,181,935	32,821,616
Public safety	16,762,370			5,321,089	22,083,459
Highways and streets			10,561,249	131,690	10,692,939
Sanitation	491,167			193,122	684,289
Health and welfare	8,559,566			1,938,078	10,497,644
Culture and recreation				1,194,807	1,194,807
Education	352,311			674,154	1,026,465
Debt service:					
Principal	84,525	630,000			714,525
Interest and other charges	26,266	252,152			278,418
Capital outlay	55,115	883,654	3,209	586,685	1,528,663
Total expenditures	<u>50,626,526</u>	<u>2,110,281</u>	<u>10,564,458</u>	<u>18,221,560</u>	<u>81,522,825</u>
Excess of revenues over expenditures	<u>2,086,036</u>	<u>1,030,319</u>	<u>976,720</u>	<u>1,312,301</u>	<u>5,405,376</u>
Other financing sources (uses):					
Donations				15,565	15,565
Sale of capital assets	98,201		133,418	136,050	367,669
Transfers in	1,940,184	227,268	12,684	1,073,187	3,253,323
Transfers out	(417,406)		(242,383)	(1,441,749)	(2,101,538)
Total other financing sources and uses	<u>1,620,979</u>	<u>227,268</u>	<u>(96,281)</u>	<u>(216,947)</u>	<u>1,535,019</u>
Net change in fund balances	3,707,015	1,257,587	880,439	1,095,354	6,940,395
Fund balances, July 1, 2009, as restated	<u>21,712,172</u>	<u>6,660,180</u>	<u>4,250,991</u>	<u>10,699,874</u>	<u>43,323,217</u>
Fund balances, June 30, 2010	<u>\$ 25,419,187</u>	<u>\$ 7,917,767</u>	<u>\$ 5,131,430</u>	<u>\$ 11,795,228</u>	<u>\$ 50,263,612</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, 2010

Net change in fund balances—total governmental funds		\$ 6,940,395
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	2,405,713	
Depreciation expense	<u>(4,799,936)</u>	(2,394,223)
<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>		
		(139,705)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		327,416
<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	714,525	
Amortization of premium	<u>16,217</u>	730,742
<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>		
Increase in compensated absences		(41,532)
<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>461,560</u>
Change in net assets of governmental activities		<u>\$ 5,884,653</u>

See accompanying notes to financial statements.



Cochise County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2010

	Business-Type Activities—Enterprise Funds			Total	Governmental Activities— Internal Service Funds
	Major Funds		Other Enterprise- BDI Airport Fund		
	Cochise Health Systems Fund	Solid Waste Operations Fund			
<b>Assets</b>					
Current assets:					
Cash in bank and on hand	\$ 19,041	\$ 130,791		\$ 149,832	\$ 31,161
Cash and investments held by County Treasurer	13,006,619		\$ 28,410	13,035,029	5,792,253
Receivables (net of allowances for uncollectibles):					
Accounts	646,691	679,542	78,207	1,404,440	18,638
Accrued interest		146	38	184	4,995
Due from:					
Other funds	1,640	250,638		252,278	1,352,541
Other governments		19,587		19,587	
Total current assets	<u>13,673,991</u>	<u>1,080,704</u>	<u>106,655</u>	<u>14,861,350</u>	<u>7,199,588</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation, where applicable:					
Land		24,900	1,575,000	1,599,900	
Construction in progress		43,330		43,330	
Buildings, net		3,477,382	10,823	3,488,205	128,128
Improvements other than buildings, net		1,419,690	1,225,540	2,645,230	
Equipment, net	46,389	881,189	75,000	1,002,578	8,369,588
Total noncurrent assets	<u>46,389</u>	<u>5,846,491</u>	<u>2,886,363</u>	<u>8,779,243</u>	<u>8,497,716</u>
Total assets	<u>13,720,380</u>	<u>6,927,195</u>	<u>2,993,018</u>	<u>23,640,593</u>	<u>15,697,304</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	2,860,253	18,763	5,037	2,884,053	159,225
Accrued payroll and employee benefits	140,601	105,151	7,659	253,411	60,771
Due to other funds	940,878	813,338	4,529	1,758,745	232,792
Compensated absences payable, current portion	130,113	73,357	9,649	213,119	89,110
Landfill closure and postclosure care costs payable, current portion		22,224		22,224	
Deposits held for others			1,600	1,600	
Capital leases payable, current portion		80,164		80,164	181,328
Deferred revenue			150	150	
Total current liabilities	<u>4,071,845</u>	<u>1,112,997</u>	<u>28,624</u>	<u>5,213,466</u>	<u>723,226</u>

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2010  
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>				Governmental
	<u>Major Funds</u>			<u>Total</u>	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	\$ 19,762	\$ 3,363	\$ 10,075	\$ 33,200	\$ 57,583
Landfill closure and postclosure care costs payable		2,444,503		2,444,503	
Capital leases payable		88,334		88,334	1,375,430
Total noncurrent liabilities	<u>19,762</u>	<u>2,536,200</u>	<u>10,075</u>	<u>2,566,037</u>	<u>1,433,013</u>
Total liabilities	<u>4,091,607</u>	<u>3,649,197</u>	<u>38,699</u>	<u>7,779,503</u>	<u>2,156,239</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	46,389	5,677,993	2,886,363	8,610,745	6,940,958
Restricted for long-term care	1,804,000			1,804,000	
Unrestricted (deficit)	<u>7,778,384</u>	<u>(2,399,995)</u>	<u>67,956</u>	<u>5,446,345</u>	<u>6,600,107</u>
Total net assets	<u>\$ 9,628,773</u>	<u>\$ 3,277,998</u>	<u>\$ 2,954,319</u>	<u>\$ 15,861,090</u>	<u>\$ 13,541,065</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, 2010

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Major Funds			Total	
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise- BDI Airport Fund		
Operating revenues:					
Charges for services	\$ 35,268,355	\$ 4,169,269	\$ 529,289	\$ 39,966,913	\$ 5,926,370
Charges for health insurance					7,696,675
Other	37,544			37,544	21,141
Total operating revenues	<u>35,305,899</u>	<u>4,169,269</u>	<u>529,289</u>	<u>40,004,457</u>	<u>13,644,186</u>
Operating expenses:					
Personal services	2,739,470	1,997,164	143,818	4,880,452	1,244,903
Professional services	38,518	1,494,981	161,685	1,695,184	7,851,968
Supplies	26,951	192,804	291,539	511,294	2,882,646
Long-term care costs	29,094,409			29,094,409	
Landfill closure and postclosure care costs		220,664		220,664	
Depreciation	14,965	674,842	100,002	789,809	1,398,688
Other	1,715,645	308,733	1,219	2,025,597	13,835
Total operating expenses	<u>33,629,958</u>	<u>4,889,188</u>	<u>698,263</u>	<u>39,217,409</u>	<u>13,392,040</u>
Operating income (loss)	<u>1,675,941</u>	<u>(719,919)</u>	<u>(168,974)</u>	<u>787,048</u>	<u>252,146</u>
Nonoperating revenues (expenses):					
County excise taxes		135,025		135,025	
Investment income	170,443	3,404	1,482	175,329	(37,650)
Miscellaneous revenue		96,297	50	96,347	27,785
Interest expense		(5,496)		(5,496)	(78,968)
Loss on disposal of capital assets	(452,091)			(452,091)	(5,985)
Total nonoperating revenues (expenses)	<u>(281,648)</u>	<u>229,230</u>	<u>1,532</u>	<u>(50,886)</u>	<u>(94,818)</u>
Income (loss) before transfers	1,394,293	(490,689)	(167,442)	736,162	157,328
Transfers in		68,270		68,270	372,502
Transfers out	(1,400,000)	(124,287)		(1,524,287)	(68,270)
Increase (decrease) in net assets	(5,707)	(546,706)	(167,442)	(719,855)	461,560
Total net assets, July 1, 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>
Total net assets, June 30, 2010	<u>\$ 9,628,773</u>	<u>\$ 3,277,998</u>	<u>\$ 2,954,319</u>	<u>\$ 15,861,090</u>	<u>\$ 13,541,065</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2010

	Business-Type Activities—Enterprise Funds			Governmental Activities—
	Major Funds		Other Enterprise - BDI Airport Fund	
	Cochise Health Systems Fund	Solid Waste Operations Fund		Total
Cash flows from operating activities:				
Receipts from customers	\$ 36,602,748	\$ 3,559,198	\$ 488,220	\$ 40,650,166
Receipts from other funds for goods and services provided				\$ 13,123,784
Other receipts	37,544			21,141
Payments to suppliers and providers of goods and services	(30,673,439)	(1,949,699)	(451,050)	(33,074,188)
Payments to employees	(2,639,337)	(1,898,282)	(133,928)	(4,671,547)
Net cash provided by (used for) operating activities	<u>3,327,516</u>	<u>(288,783)</u>	<u>(96,758)</u>	<u>2,941,975</u>
				<u>1,250,892</u>
Cash flows from noncapital financing activities:				
Miscellaneous receipts		231,322	50	27,785
Cash transfers from other funds		68,270		372,502
Cash transfers to other funds	(1,400,000)	(124,287)		(68,270)
Loan payments to other funds		289,684		289,684
Net cash provided by (used for) noncapital financing activities	<u>(1,400,000)</u>	<u>464,989</u>	<u>50</u>	<u>(934,961)</u>
				<u>332,017</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets				38,391
Purchases of capital assets		(35,652)		(881,077)
Principal paid on capital leases		(81,911)		(164,150)
Interest paid on capital leases		(5,496)		(78,968)
Net cash used for capital and related financing activities		<u>(123,059)</u>		<u>(1,085,804)</u>
Cash flows from investing activities:				
Investment income received on cash and investments held by County Treasurer	170,443	3,469	1,580	(37,075)
Net cash provided by (used for) investing activities	<u>170,443</u>	<u>3,469</u>	<u>1,580</u>	<u>(37,075)</u>
Net increase (decrease) in cash and cash equivalents	2,097,959	56,616	(95,128)	460,030
Cash and cash equivalents, July 1, 2009	<u>10,927,701</u>	<u>74,175</u>	<u>123,538</u>	<u>11,125,414</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 13,025,660</u>	<u>\$ 130,791</u>	<u>\$ 28,410</u>	<u>\$ 13,184,861</u>
				<u>\$ 5,823,414</u>

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2010  
(Concluded)

	Business-Type Activities—Enterprise Funds				Governmental Activities—	
	Major Funds			Total		Internal Service Funds
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise- BDI Airport Fund			
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 1,675,941	\$ (719,919)	\$ (168,974)	\$ 787,048	\$ 252,146	
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	14,965	674,842	100,002	789,809	1,398,688	
Changes in assets and liabilities:						
Accounts receivable	1,292,468	(440,833)	(39,173)	812,462	13,898	
Due from other funds	10,860	(172,066)	227	(160,979)	(513,159)	
Due from other governments		2,828		2,828		
Accounts payable	132,249	3,375	3,746	139,370	(20,970)	
Accrued payroll and employee benefits	121,469	92,031	6,619	220,119	51,273	
Due to other funds	60,234	83,527	(353)	143,408	56,003	
Compensated absences payable	19,330	6,851	3,271	29,452	13,013	
Landfill closure and postclosure care costs payable		180,581		180,581		
Deferred revenue			(2,123)	(2,123)		
Net cash provided by (used for) operating activities	<u>\$ 3,327,516</u>	<u>\$ (288,783)</u>	<u>\$ (96,758)</u>	<u>\$ 2,941,975</u>	<u>\$ 1,250,892</u>	
Cash and cash equivalents, June 30, 2010, consisted of:						
Cash in bank and on hand	\$ 19,041	\$ 130,791		\$ 149,832	\$ 31,161	
Cash and investments held by County Treasurer	<u>13,006,619</u>		<u>\$ 28,410</u>	<u>13,035,029</u>	<u>5,792,253</u>	
Total cash and cash equivalents	<u>\$ 13,025,660</u>	<u>\$ 130,791</u>	<u>\$ 28,410</u>	<u>\$ 13,184,861</u>	<u>\$ 5,823,414</u>	

Noncash capital financing activities:

The Internal Service Funds sold equipment with a net book value of \$44,376 and received cash of \$38,391.

See accompanying notes to financial statements.

Cochise County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2010

	Investment Trust Funds	Agency Funds
<b>Assets</b>		
Cash in bank and on hand		\$ 976,366
Cash and investments held by County Treasurer	\$ 59,929,643	
Interest receivable	192	
Total assets	59,929,835	\$ 976,366
<b>Liabilities</b>		
Due to other governments		\$ 976,366
Total liabilities		\$ 976,366
<b>Net Assets</b>		
Held in trust for investment trust participants	\$ 59,929,835	

See accompanying notes to financial statements.

Cochise County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2010

	<b>Investment Trust Funds</b>
Additions:	
Contributions from participants	\$ 213,212,182
Investment income	<u>(341,380)</u>
Total additions	<u>212,870,802</u>
 Deductions:	
Distributions to participants	<u>207,531,559</u>
Total deductions	<u>207,531,559</u>
 Change in net assets	 5,339,243
 Net assets, July 1, 2009, as restated	 <u>54,590,592</u>
 Net assets, June 30, 2010	 <u>\$ 59,929,835</u>

See accompanying notes to financial statements.

Cochise County  
Combining Statement of Net Assets  
Component Units  
June 30, 2010

	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
<b>Assets</b>			
Cash in bank and on hand	\$ 356,382	\$ 27,962	\$ 384,344
Cash and investments held by trustee	617,127		617,127
Receivables (net of allowances for uncollectibles):			
Accounts	1,686		1,686
Due from other governments	54,439	276,844	331,283
Other assets		3,877	3,877
Capital assets, being depreciated, net	<u>22,867</u>	<u>40,514</u>	<u>63,381</u>
Total assets	<u>1,052,501</u>	<u>349,197</u>	<u>1,401,698</u>
<b>Liabilities</b>			
Accounts payable	73,505	175,167	248,672
Accrued payroll and employee benefits	24,113		24,113
Due to other governments	41,892		41,892
Deferred revenue		1,768	1,768
Noncurrent liabilities			
Due in more than 1 year	<u>91,376</u>	<u>25,837</u>	<u>117,213</u>
Total liabilities	<u>230,886</u>	<u>202,772</u>	<u>433,658</u>
<b>Net Assets</b>			
Invested in capital assets	22,867	40,514	63,381
Restricted for housing programs	535,432		535,432
Unrestricted	<u>263,316</u>	<u>105,911</u>	<u>369,227</u>
Total net assets	<u>\$ 821,615</u>	<u>\$ 146,425</u>	<u>\$ 968,040</u>

See accompanying notes to financial statements.



Cochise County  
Combining Statement of Activities  
Component Units  
Year Ended June 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
			<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	
<b>Component units:</b>					
Housing Authority of Cochise County	\$ 2,712,448	\$ 3,043,843	\$ 331,395		\$ 331,395
Cochise Private Industry Council, Inc.	<u>2,140,989</u>	<u>2,075,753</u>		\$ (65,236)	<u>(65,236)</u>
Total component units	<u>\$ 4,853,437</u>	<u>\$ 5,119,596</u>	<u>331,395</u>	<u>(65,236)</u>	<u>266,159</u>
General revenues:					
Investment income			3,337		3,337
Miscellaneous			<u>4,806</u>	<u>18,513</u>	<u>23,319</u>
Total general revenues			<u>8,143</u>	<u>18,513</u>	<u>26,656</u>
Change in net assets			339,538	(46,723)	292,815
Net assets, July 1, 2009			<u>482,077</u>	<u>193,148</u>	<u>675,225</u>
Net assets, June 30, 2010			<u>\$ 821,615</u>	<u>\$ 146,425</u>	<u>\$ 968,040</u>

See accompanying notes to financial statements.

Cochise County  
Notes to Financial Statements  
June 30, 2010

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, 2010, the County implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. Implementing this statement did not affect 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, 2010

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, AZ 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 Council, but the Council does not provide services entirely to the County.	Discrete	Cochise Private Industry Council 1843 Paseo San Luis Sierra Vista, AZ 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 and
- operating grants and contributions.

Cochise County  
Notes to Financial Statements  
June 30, 2010

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 County reports the following major enterprise funds:

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

Cochise County  
Notes to Financial Statements  
June 30, 2010

*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 health 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 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.

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.

Cochise County  
Notes to Financial Statements  
June 30, 2010

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.

#### 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 or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

Cochise County  
Notes to Financial Statements  
June 30, 2010

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	10,000	Straight-line	5-40 years
Equipment	10,000	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 payable consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

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

Cochise County  
Notes to Financial Statements  
June 30, 2010

Note 2 - Beginning Balances Restated

For fiscal year 2010, Arizona's laws over military accommodation school governing boards were changed so that those schools are now legally required to have a five-member board. Formerly, the Cochise County School Superintendent was required to serve as the sole board member. As a result, the Fort Huachuca Accommodation School District became a legally separate entity and is no longer a governmental fund or part of the County's reporting entity. This constitutes a change in reporting entity, and therefore, beginning fund balances and net assets were restated as follows:

Governmental activities, net assets, June 30, 2009, as previously reported	\$203,154,446
Change in reporting entity	<u>(42,630,174)</u>
Governmental activities, net assets, July 1, 2009, as restated	<u>\$160,524,272</u>
Governmental funds, fund balances, June 30, 2009, as previously reported	\$ 62,845,702
Change in reporting entity	<u>(19,522,485)</u>
Governmental funds, fund balances, July 1, 2009, as restated	<u>\$ 43,323,217</u>
Fiduciary funds, net assets, June 30, 2009, as previously reported	\$ 35,900,449
Change in reporting entity	<u>18,690,143</u>
Fiduciary funds, net assets, July 1, 2009, as restated	<u>\$ 54,590,592</u>

Note 3 - 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 the 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.



Cochise County  
Notes to Financial Statements  
June 30, 2010

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.

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, 2010, the carrying amount of the County's deposits was \$4,927,356, and the bank balance was \$4,049,874. The County does not have a formal policy with respect to custodial credit risk.

**Investments**—The County's investments at June 30, 2010, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$ 55,000,000
U.S. Treasury securities	6,481,750
U.S. agency securities	53,120,500
U.S. Treasury money market fund	878,500
Repurchase agreement	7,700,000
Corporate securities	<u>500,000</u>
	<u>\$123,680,750</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.

Cochise County  
Notes to Financial Statements  
June 30, 2010

At June 30, 2010, 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	\$ 55,000,000
U.S. agency securities	AAA	Standard & Poor's	53,120,500
U.S. Treasury money market fund	AAAm	Standard & Poor's	878,500
Repurchase agreement	AAA	Standard & Poor's	7,700,000
Corporate securities	AAA	Standard & Poor's	<u>500,000</u>
			<u>\$117,199,000</u>

**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, 2010, the County had U.S. Treasury money market fund investments and collateral for repurchase agreements consisting of U.S. agency securities totaling \$8,578,500 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, 2010, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$10,006,610	8.1
Federal Home Loan Bank	26,618,280	21.5
Federal National Mortgage Association	<u>10,035,660</u>	8.1
	<u>\$46,660,550</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, 2010, maturities of the County's investments were as follows:

Cochise County  
Notes to Financial Statements  
June 30, 2010

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-5 Years
State Treasurer's investment pool 7	\$ 55,000,000	\$55,000,000	
U.S. Treasury securities	6,481,750	3,997,500	\$ 2,484,250
U.S. agency securities	53,120,500	15,496,980	37,623,520
U.S. Treasury money market fund	878,500	878,500	
Repurchase agreement	7,700,000	7,700,000	
Corporate securities	500,000	500,000	
	<u>\$123,680,750</u>	<u>\$83,572,980</u>	<u>\$40,107,770</u>

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	\$ 8,077
Amount of deposits	4,927,356
Amount of investments	<u>123,680,750</u>
Total	<u>\$128,616,183</u>

	Statement of Net Assets		Statement of Fiduciary Net Assets		Total
	Governmental Activities	Business- Type Activities	Investment Trust Funds	Agency Funds	
Cash in bank and on hand	\$ 1,421,322	\$ 149,832		\$976,366	\$ 2,547,520
Cash and investments held by County Treasurer	52,225,491	13,035,029	\$59,929,643		125,190,163
Cash and investments held by trustee	<u>878,500</u>				<u>878,500</u>
Total	<u>\$54,525,313</u>	<u>\$13,184,861</u>	<u>\$59,929,643</u>	<u>\$976,366</u>	<u>\$128,616,183</u>

#### Note 4 - Due from Other Governments

Due from other governments totaling \$7,657,317 at June 30, 2010, included \$1,296,954 in state-shared revenue from highway user fees, \$1,804,418 in state-shared sales taxes, \$973,216 in state-shared vehicle license taxes, and \$1,231,867 in county excise taxes. The remaining balance of \$2,350,862 represents amounts receivable from various state and federal government grantor agencies.

Cochise County  
Notes to Financial Statements  
June 30, 2010

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,498,968	\$ 16,784		\$ 2,515,752
Construction in progress	<u>1,497,944</u>	<u>946,836</u>		<u>2,444,780</u>
Total capital assets not being depreciated	<u>3,996,912</u>	<u>963,620</u>		<u>4,960,532</u>
Capital assets being depreciated:				
Buildings	45,598,731			45,598,731
Improvements other than buildings	3,135,998	23,621		3,159,619
Equipment	34,738,302	1,422,501	\$737,447	35,423,356
Infrastructure	<u>96,124,001</u>	<u>877,048</u>	<u>46,535</u>	<u>96,954,514</u>
Total	<u>179,597,032</u>	<u>2,323,170</u>	<u>783,982</u>	<u>181,136,220</u>
Less accumulated depreciation for:				
Buildings	10,596,786	1,155,740		11,752,526
Improvements other than buildings	964,313	133,084		1,097,397
Equipment	17,831,139	3,125,721	577,400	20,379,460
Infrastructure	<u>31,648,015</u>	<u>1,784,079</u>	<u>22,501</u>	<u>33,409,593</u>
Total accumulated depreciation	<u>61,040,253</u>	<u>6,198,624</u>	<u>599,901</u>	<u>66,638,976</u>
Total capital assets being depreciated, net	<u>118,556,779</u>	<u>(3,875,454)</u>	<u>184,081</u>	<u>114,497,244</u>
Governmental activities capital assets, net	<u>\$122,553,691</u>	<u>\$(2,911,834)</u>	<u>\$184,081</u>	<u>\$119,457,776</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,599,900			\$ 1,599,900
Construction in progress	<u>7,678</u>	<u>\$ 35,652</u>		<u>43,330</u>
Total capital assets not being depreciated	<u>1,607,578</u>	<u>35,652</u>		<u>1,643,230</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	5,770,513			5,770,513
Equipment	<u>3,914,017</u>		\$468,150	<u>3,445,867</u>
Total	<u>14,243,555</u>		<u>468,150</u>	<u>13,775,405</u>
Less accumulated depreciation for:				
Buildings	983,435	87,385		1,070,820
Improvements other than buildings	2,643,782	481,501		3,125,283
Equipment	<u>2,238,730</u>	<u>220,923</u>	<u>16,364</u>	<u>2,443,289</u>
Total	<u>5,865,947</u>	<u>789,809</u>	<u>16,364</u>	<u>6,639,392</u>
Total capital assets being depreciated, net	<u>8,377,608</u>	<u>789,809</u>	<u>451,786</u>	<u>7,136,013</u>
Business-type activities capital assets, net	<u>\$ 9,985,186</u>	<u>\$ 754,157</u>	<u>\$451,786</u>	<u>\$ 8,779,243</u>

The July 1, 2009, balance for governmental activities was restated to reflect the change in reporting entity described in Note 2.

Cochise County  
Notes to Financial Statements  
June 30, 2010

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$2,377,547
Public safety	234,584
Highways and streets	2,175,171
Health and welfare	5,634
Culture and recreation	3,868
Education	3,132
Internal service funds	<u>1,398,688</u>
Total governmental activities depreciation expense	<u>\$6,198,624</u>
Business-type activities:	
Cochise Health Systems	\$ 14,965
Solid Waste Operations	674,842
Bisbee-Douglas International Airport	<u>100,002</u>
Total business-type activities depreciation expense	<u>\$ 789,809</u>

**Construction commitments**—At June 30, 2010, the County was involved in nine construction projects. The estimated cost to complete the construction projects was \$1,913,520.

## Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2010:

	Balance July 1, 2009 (as restated)	Additions	Reductions	Balance June 30, 2010	Due within 1 year
<b>Governmental activities</b>					
Capital leases payable	\$ 2,390,364		\$ 248,675	\$ 2,141,689	\$ 269,311
Certificates of participation payable	6,440,000		610,000	5,830,000	630,000
Add: Unamortized premium	<u>97,301</u>		<u>16,217</u>	<u>81,084</u>	<u>16,216</u>
Total certificates of participation payable	<u>6,537,301</u>		<u>626,217</u>	<u>5,911,084</u>	<u>646,216</u>
Compensated absences payable	<u>3,973,897</u>	<u>\$2,305,807</u>	<u>2,251,262</u>	<u>4,028,442</u>	<u>2,750,014</u>
Total governmental activities long-term liabilities	<u>\$12,901,562</u>	<u>\$2,305,807</u>	<u>\$3,126,154</u>	<u>\$12,081,215</u>	<u>\$3,665,541</u>
<b>Business-type activities</b>					
Capital leases payable	\$ 250,409		\$ 81,911	\$ 168,498	\$ 80,164
Landfill closure and postclosure care costs payable	2,286,146	\$ 220,664	40,083	2,466,727	22,224
Compensated absences payable	<u>216,867</u>	<u>188,806</u>	<u>159,354</u>	<u>246,319</u>	<u>213,119</u>
Total business-type activities long-term liabilities	<u>\$ 2,753,422</u>	<u>\$ 409,470</u>	<u>\$ 281,348</u>	<u>\$ 2,881,544</u>	<u>\$ 315,507</u>

The July 1, 2009, governmental activities compensated absences payable balance was restated to reflect the change in reporting entity described in Note 2.

Cochise County  
Notes to Financial Statements  
June 30, 2010

**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:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Equipment	\$4,179,777	\$593,761
Less: accumulated depreciation	<u>851,570</u>	<u>367,090</u>
Carrying value	<u>\$3,328,207</u>	<u>\$226,671</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2010:

Year ending June 30	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
2011	\$ 365,770	\$ 85,287
2012	365,770	31,572
2013	322,564	31,572
2014	483,698	31,572
2015	609,412	
2016	<u>374,623</u>	
Total minimum lease payments	<u>2,521,837</u>	<u>180,003</u>
Less amount representing interest	<u>380,148</u>	<u>11,505</u>
Present value of net minimum lease payments	<u>\$2,141,689</u>	<u>\$168,498</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, 2010, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2010 to 2017	2.50 – 5.00%	\$5,830,000

Cochise County  
Notes to Financial Statements  
June 30, 2010

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2010:

Year ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 630,000	\$ 239,475
2012	650,000	216,263
2013	675,000	187,200
2014	710,000	152,575
2015	745,000	119,925
2016-2018	<u>2,420,000</u>	<u>164,337</u>
Total	<u>\$5,830,000</u>	<u>\$1,079,775</u>

**Compensated absences**—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2010, the County paid for compensated absences as follows: 67 percent from the General Fund, 9 percent from the Highway and Streets Fund, 5 percent from the Enterprise Funds, and 19 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 they stop 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 landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the County operates the landfills. These costs will be paid from solid waste fees in the Enterprise Fund. At June 30, 2010, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2010, the County has reported landfill closure and postclosure care costs liabilities totaling \$2,466,727. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills and is based on landfill capacity used at June 30, 2010. The liability reported for the Eastern Regional landfill of \$634,722 is based on 100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$1,832,005 is based on the use of 14.3 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,979,216 as the remaining estimated capacity is filled. The County expects to close this landfill in 2042. The landfills' closure and postclosure care costs are based on what it would cost to perform all closure and post-closure care in fiscal year 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Cochise County  
Notes to Financial Statements  
June 30, 2010

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.

#### Note 7 - 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 exceeds trust fund reserves. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.



Cochise County  
Notes to Financial Statements  
June 30, 2010

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.

Note 8 - 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 toward 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, and 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 and 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

Cochise County  
Notes to Financial Statements  
June 30, 2010

**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.

*Cost-sharing plans*—For the year ended June 30, 2010, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.4 percent (9.0 percent for retirement and 0.4 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 9.4 percent (8.34 percent for retirement, 0.66 percent for health insurance premium, and 0.4 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
2010	\$2,402,383	\$190,117	\$115,222
2009	2,891,964	347,470	180,974
2008	2,887,141	376,584	179,325

*Agent plans*—For the year ended June 30, 2010, 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 24.45 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.64 percent of covered payroll.

*Actuarial methods and assumptions*—The contribution requirements for the year ended June 30, 2010, were established by the June 30, 2008, 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 the 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 plans' 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 significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2010 contribution requirements, are as follows:

Cochise County  
Notes to Financial Statements  
June 30, 2010

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

**Annual Pension/OPEB Cost**—The County's pension/OPEB cost for the PSPRS agent plan for the year ended June 30, 2010, and related information follows:

	PSPRS	
	Pension	Health Insurance
Annual pension/ OPEB cost	\$1,124,113	\$60,555
Contributions made	1,143,482	41,186

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

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ (OPEB Obligation)
<b>PSPRS</b>				
Pension	2010	\$1,124,113	102%	\$19,369
Health insurance	2010	60,555	68	(19,369)
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)

Cochise County  
Notes to Financial Statements  
June 30, 2010

**Funded Status**—The funded status of the plans as of the most recent valuation date, June 30, 2010, along with the actuarial assumptions and methods used in those valuations follow. Additionally, the required Schedule of Agent Retirement Plan's Funding Progress presented in the Other Required Supplementary Information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

	PSPRS	
	Pension	Health Insurance
Actuarial accrued liability (a)	\$27,387,342	\$ 772,318
Actuarial value of assets (b)	14,002,055	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	13,385,287	772,318
Funded ratio (b)/(a)	51.1%	0%
Covered payroll (c)	\$ 4,701,972	\$4,701,972
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a) – (b)] / (c)	284.7%	16.43%

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

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	26 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, 2010

Note 9 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2010, were as follows:

Payable from	Payable to						Total
	General Fund	Highway and Streets Fund	Other Governmental Funds	Cochise Health Systems Fund	Solid Waste Operations Fund	Internal Service Funds	
General Fund		\$217,323	\$ 95,432	\$1,640	\$ 74,709	\$ 215,122	\$ 604,226
Capital Projects Fund	\$ 48,830						48,830
Highway and Streets Fund	467,203		107			429,919	897,229
Other Governmental Funds	421,247	118,908	334,229		80,012	351,221	1,305,617
Cochise Health Systems Fund	939,064		225			1,589	940,878
Solid Waste Operations Fund	464,457	10,005	875			338,001	813,338
BDI Airport Fund	1,285					3,244	4,529
Internal Service Funds	<u>99,973</u>	<u>23,457</u>			<u>95,917</u>	<u>13,445</u>	<u>232,792</u>
<b>Total</b>	<b><u>\$2,442,059</u></b>	<b><u>\$369,693</u></b>	<b><u>\$430,868</u></b>	<b><u>\$1,640</u></b>	<b><u>\$250,638</u></b>	<b><u>\$1,352,541</u></b>	<b><u>\$4,847,439</u></b>

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

Interfund transfers—Interfund transfers for the year ended June 30, 2010, were as follows:

Transfer from	Transfer to						Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Solid Waste Operations Fund	Internal Service Funds	
General Fund		\$227,268		\$ 190,138			\$ 417,406
Highway and Streets Fund						\$242,383	242,383
Other Governmental Funds	\$ 540,184		\$12,684	883,049		5,832	1,441,749
Cochise Health Systems Fund	1,400,000						1,400,000
Solid Waste Operations Fund						124,287	124,287
Internal Service Funds					\$68,270		68,270
<b>Total</b>	<b><u>\$1,940,184</u></b>	<b><u>\$227,268</u></b>	<b><u>\$12,684</u></b>	<b><u>\$1,073,187</u></b>	<b><u>\$68,270</u></b>	<b><u>\$372,502</u></b>	<b><u>\$3,694,095</u></b>

Cochise County  
Notes to Financial Statements  
June 30, 2010

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

Note 10 - 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.

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 \$6,077 of cash, \$2,541,443 of deposits, and a \$878,500 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 3.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
State Treasurer's investment pool	\$55,000,000	None stated	None stated	\$55,000,000
U.S. Treasury securities	9,000,000	Zero coupon	Up to 3 years	6,481,750
U.S. agency securities	53,000,000	0.3–4.6%	Up to 3 years	53,120,500
Repurchase agreement	7,700,000	None stated	Overnight	7,700,000
Corporate securities	500,000	Zero coupon	Less than 1 year	500,000

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

**Statement of Net Assets**

Assets	<u>\$125,190,163</u>
Net assets	<u>\$125,190,163</u>
Net assets held in trust for:	
Internal participants	\$ 65,260,520
External participants	<u>59,929,643</u>
Total net assets held in trust	<u>\$125,190,163</u>

Cochise County  
Notes to Financial Statements  
June 30, 2010

**Statement of Changes in Net Assets**

Total additions	\$341,978,860
Total deductions	<u>323,755,701</u>
Net increase	<u>18,223,159</u>
Net assets held in trust:	
July 1, 2009	<u>106,967,004</u>
June 30, 2010	<u>\$125,190,163</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 computed using the straight-line method over the 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, 2010

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, 2010, the carrying amount of the Housing Authority's deposits was \$973,509 and the bank balance was \$1,004,304.

**Cochise Private Industry Council, Inc.**

At June 30, 2010, the carrying amount of the Cochise Private Industry Council's deposits was \$27,962 and the bank balance was \$186,077.

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, 2010:

<b>Program</b>	<b>Amount</b>
<i>Cochise County, Arizona</i>	
WIA Youth Program	\$ 14,775
WIA Adult Program	54,839
WIA Dislocated Workers	40,276
WIA Business Outreach	12,463
WIA Rapid Response	13,426
 <i>Pima County, Arizona</i>	
HIB WIRED Grant	96,893
WIA Adult Program	22,136
Community Based Job Training	17,780
Veterans Employment Program	3,489
Other	<u>767</u>
Total	<u>\$276,844</u>



## Other Required Supplementary Information

Cochise County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 34,603,418	\$ 34,628,418	\$ 33,537,289	\$ (1,091,129)
Licenses and permits	69,500	69,500	52,886	(16,614)
Intergovernmental	13,835,939	13,835,939	14,033,269	197,330
Charges for services	2,393,894	2,384,563	2,404,183	19,620
Fees, fines, and forfeits	1,986,968	1,986,968	1,942,093	(44,875)
Interest	302,500	302,500	124,189	(178,311)
Miscellaneous	207,760	207,760	618,653	410,893
Total revenues	<u>53,399,979</u>	<u>53,415,648</u>	<u>52,712,562</u>	<u>(703,086)</u>
Expenditures:				
Assessor	2,550,229	2,550,229	1,738,691	811,538
Attorney	2,187,989	2,144,824	2,071,124	73,700
Board of Supervisors	2,229,992	2,261,244	1,762,011	499,233
Cochise Aging and Social Services	9,093,733	9,093,733	7,596,326	1,497,407
General Government	9,451,539	9,792,587	7,362,164	2,430,423
General Government Contingency	17,365,544	16,966,632		16,966,632
Health	1,362,764	1,353,663	1,010,105	343,558
Judicial System	9,692,285	9,870,755	8,932,566	938,189
Public and Legal Defenders	2,327,190	2,142,002	2,142,002	
Recorder	376,178	376,178	327,962	48,216
School Superintendent	393,715	393,715	362,311	31,404
Sheriff	17,420,649	17,512,204	16,731,975	780,229
Treasurer	1,143,199	1,137,240	1,006,695	130,545
Total expenditures	<u>75,595,006</u>	<u>75,595,006</u>	<u>51,043,932</u>	<u>24,551,074</u>
Excess (deficiency) of revenues over expenditures	(22,195,027)	(22,179,358)	1,668,630	23,847,988
Other financing sources:				
Capital assets sales proceeds	101,000	101,000	98,201	(2,799)
Transfers in	1,655,100	1,664,431	1,940,184	275,753
Total other financing sources	<u>1,756,100</u>	<u>1,765,431</u>	<u>2,038,385</u>	<u>272,954</u>
Net change in fund balances	<u>(20,438,927)</u>	<u>(20,413,927)</u>	<u>3,707,015</u>	<u>24,120,942</u>
Fund balances beginning	<u>20,438,927</u>	<u>20,413,927</u>	<u>21,712,172</u>	<u>1,298,245</u>
Fund balances ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,419,187</u>	<u>\$ 25,419,187</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
Highway and Streets Fund  
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	
Intergovernmental	8,760,000	8,760,000	9,449,421	\$ 689,421
Charges for services	1,027,500	1,027,500	643,845	(383,655)
Investment income	75,000	75,000	39,950	(35,050)
Miscellaneous	<u>2,674,139</u>	<u>4,236,927</u>	<u>107,962</u>	<u>(4,128,965)</u>
Total revenues	<u>13,836,639</u>	<u>15,399,427</u>	<u>11,541,178</u>	<u>(3,858,249)</u>
Expenditures:				
Current:				
Highways and streets	<u>13,650,093</u>	<u>15,225,565</u>	<u>10,564,458</u>	<u>4,661,107</u>
Total expenditures	<u>13,650,093</u>	<u>15,225,565</u>	<u>10,564,458</u>	<u>4,661,107</u>
Excess (deficiency) of revenues over expenditures	186,546	173,862	976,720	802,858
Other financing sources (uses):				
Sale of capital assets	10,000	10,000	133,418	123,418
Transfers in		12,684	12,684	
Transfers out	<u>(196,546)</u>	<u>(196,546)</u>	<u>(242,383)</u>	<u>(45,837)</u>
Total other financing sources and uses	<u>(186,546)</u>	<u>(173,862)</u>	<u>(96,281)</u>	<u>77,581</u>
Net change in fund balances	_____	_____	<u>880,439</u>	<u>880,439</u>
Fund balances, July 1, 2009	_____	_____	<u>4,250,991</u>	<u>4,250,991</u>
Fund balances, June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,131,430</u>	<u>\$ 5,131,430</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2010

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.

Cochise County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plan's Funding Progress  
 June 30, 2010

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 6/30/10	\$14,002,055	\$27,387,342	(\$13,385,287)	51.1%	\$4,701,972	284.7%
Health Insurance 6/30/10	0	772,318	(772,318)	0.0%	4,701,972	16.4%
Pension 6/30/09	13,164,488	25,554,377	(12,389,889)	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%

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## Supplementary Information

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Office of National Drug Control Policy</b>			
Passed through Arizona Criminal Justice Commission			
High-Intensity Drug Trafficking Areas	07.I7PSAP501Z	HT17-07-0513	\$ 53,686
High-Intensity Drug Trafficking Areas	07.I8PSAP501Z	HT18-08-0512, HT18-08-0513	46,238
High-Intensity Drug Trafficking Areas	07.I9PSAP501Z	HT19-09-0513	226,567
Passed through the City of Tucson			
High-Intensity Drug Trafficking Areas	07.I9PSAP501Z	HT19-09-0512, HT19-09-2711	185,825
High Intensity Drug Trafficking Areas	07.I0PSAP501Z	HT20-10-0513	70,908
Total U.S. Office of National Drug Control Policy			<u>583,224</u>
<b>U.S. Department of Agriculture</b>			
National Forest System—Law Enforcement	10.08LE-11030518-001		9,529
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861081	607,638
Commodity Supplemental Food Program	10.565	HG653013	3,555
WIC Farmers' Market Nutrition Program (FMNP)	10.572	HG861327	938
Passed through the Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	Elec Credit	526,310
Total U.S. Department of Agriculture			<u>1,147,970</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through the Arizona Department of Housing			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	124-10, 127-10, 133-08, 135-08	290,856
Home Investment Partnerships Program	14.239		95,764
Housing Opportunities for Persons with AIDS	14.241		171,494
Section 8 Housing Choice Vouchers	14.871		2,408,318
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		230,845
Total U.S. Department of Housing and Urban Development			<u>3,197,277</u>
<b>U.S. Department of the Interior</b>			
Cultural Resource Management	15.224		4,731
Payments in Lieu of Taxes	15.226		1,860,869
Passed through the Arizona State Treasurer			
Distribution of Receipts to State and Local Governments	15.227	Elec Credit	6,124
National Wildlife Refuge Fund	15.659		2,461
Total U.S. Department of the Interior			<u>1,874,185</u>

(Continued)

See accompanying notes to schedule.



Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2010  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Justice</b>			
Passed through the Arizona Governor's Office for Children, Youth and Families			
Juvenile Accountability Block Grants	16.523	JB-CSG-09-0273-13, JB-CSG-10-1273-01	\$ 13,470
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2008-482	54,252
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-10-050	24,006
Edward Byrne Memorial Formula Grant Program	16.579		19,304
Rural Domestic Violence, Dating Violence, Sexual Assault and Stalking Assistance Program			
State Criminal Alien Assistance Program	16.589		165,000
Edward Byrne Memorial Justice Assistance Grant Program	16.606		664,261
Passed through the Arizona Criminal Justice Commission Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-10-031	<u>7,879</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>105,878</u>
Southwest Border Prosecution Initiative	16.755		20,963
Passed through the Arizona Criminal Justice Commission			
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	DC-10-005, DC-10-030	<u>342,855</u>
Total U.S. Department of Justice			<u>1,409,989</u>
<b>U.S. Department of Labor</b>			
WIA Cluster:			
Passed through Pima County, Arizona			
WIA Adult Program	17.258	07-69-C-142871-0110	22,136
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	Various	369,733
ARRA—WIA Adult Program	17.258	Various	<u>167,262</u>
Total WIA Adult Program			<u>559,131</u>
WIA Youth Activities	17.259	Various	273,731
ARRA—WIA Youth Activities	17.259	Various	<u>183,104</u>
Total WIA Youth Activities			<u>456,835</u>
WIA Dislocated Workers	17.260	Various	223,170
ARRA—WIA Dislocated Workers	17.260	Various	<u>157,113</u>
Total WIA Dislocated Workers			<u>380,283</u>
Total WIA Cluster			<u>1,396,249</u>
Passed through Pima County, Arizona			
H-1B Job Training Grants	17.268	11-69-C-140340-0707	573,971

(Continued)

See accompanying notes to schedule.

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2010  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Community Based Job Training Grants	17.269	11-69-C-140340-0707-2	\$ 81,412
Veterans' Employment Program	17.802	07-69-C-142723-0709	<u>15,478</u>
Total U.S. Department of Labor			<u>2,067,110</u>
<b>U.S. Department of Transportation</b>			
Airport Improvement Program	20.106		627,482
Highway Safety Cluster: Passed through the Governor's Office of Highway Safety			
State and Community Highway Safety	20.600	2008-PT-006, 2010-PT-048, 2010-PT-049	45,293
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	2008-410-001, 2010-410-050	62,550
Safety Incentive Grants for Use of Seatbelts	20.604	2009-OP-021	<u>3,396</u>
Total Highway Safety Cluster			<u>111,239</u>
Total U.S. Department of Transportation			<u>738,721</u>
<b>U.S. Department of Energy</b>			
ARRA—Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		<u>14,775</u>
<b>U.S. Department of Education</b>			
Passed through the Arizona Supreme Court			
Title I Grants to Local Educational Agencies	84.010	28072	77,678
Passed through the Arizona Department of Education			
Special Education—Grants to States	84.027	H027A090007	5,262
Education Technology State Grants	84.318	S318X90005	80,923
English Language Acquisition Grants	84.365	T365A90003A	12,722
Improving Teacher Quality State Grants	84.367	S367A070049	<u>60,177</u>
Total U.S. Department of Education			<u>236,762</u>
<b>U.S. Election Assistance Commission</b>			
Passed through the Arizona Secretary of State			
Help America Vote Act Requirements Payments	90.401	Ck# 213829254, Ck# 213518473, Ck# 3518477	<u>75,220</u>
<b>U.S. Department of Health and Human Services</b>			
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	243,993
Passed through the Arizona Department of Health Services			
Public Health Emergency Preparedness	93.069	HG754193	364,348

(Continued)

See accompanying notes to schedule.

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2010  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Immunization Grants Passed through the Governor's Office of Children, Youth and Families, Division for Substance Abuse Policy Substance Abuse and Mental Health Services—Access to Recovery	93.268	HG854282	\$ 100,891
Passed through the Arizona Department of Health Services HIV Prevention Activities—Health Department Based Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.275	AR-GSA-09-9273-05Y2	133,950
Maternal and Child Health Services Block Grant to the States	93.940	HG852278	18,320
Passed through the Arizona Department of Economic Security Grants to States for Access and Visitation Programs	93.977	HG854323	1,961
	93.994	HG854245	38,083
	93.597	ARS 35-148, E7203303	<u>3,000</u>
Total U.S. Department of Health and Human Services			<u>904,546</u>
<b>U.S. Department of Homeland Security</b>			
Passed through the Arizona Department of Emergency and Military Affairs Emergency Management Performance Grants Homeland Security Cluster: Homeland Security Grant Program	97.042	222403-04	93,466
	97.067	08-AZDOHS-OPSG-444433-01, 444433-02, 555415-01, 555415-02, 555415-03, 555415-04, 555400-01, 555400-02, 333405-06, 555400-03, 555400-04, 555400-05, 555400-06	<u>1,786,060</u>
Total Homeland Security Cluster			<u>1,786,060</u>
Total U.S. Department of Homeland Security			<u>1,879,526</u>
Total Expenditures of Federal Awards			<u>\$ 14,129,305</u>

See accompanying notes to schedule.

Cochise County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2010

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 2010 *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.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount
WIA Youth Activities	17.259	\$358,650
H-1B Job Training Grants	17.268	45,604
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	33,977
Safety Incentive Grants for Use of Seatbelts	20.604	969
Education Technology State Grants	84.318	75,162



**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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 28, 2011. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the 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.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 10-01 and 10-02 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **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 presented on pages 65 through 70. 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, others within the County, 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

March 28, 2011



**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  
That Could Have a Direct and Material Effect on 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 Cochise County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010, except for that portion of the federal programs administered by 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.

As described in item 10-101 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding eligibility and reporting that are applicable to its State Criminal Alien Assistance Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Cochise County did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the State Criminal Alien Assistance Program. Also, in our opinion, based on our audit and the reports of the other auditors, Cochise County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2010. The results of our auditing procedures and the reports of the other auditors also disclosed other 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 10-102 and 10-103.

### **Internal Control over Compliance**

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we and the reports of the other auditors identified a deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-101 to be material a weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-102 and 10-103 to be significant deficiencies.

Cochise County's responses to the findings identified in our audit are presented on pages 65 through 70. 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, others within the County, 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

March 28, 2011

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Cochise County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2010

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:		Unqualified	
Internal control over financial reporting:			
Material weaknesses identified?	Yes	No	
	___	<u>X</u>	
Significant deficiencies identified?	<u>X</u>	___	
Noncompliance material to the financial statements noted?	___	<u>X</u>	

***Federal Awards***

Internal control over major programs:			
Material weakness identified?	<u>X</u>	___	
Significant deficiencies identified?	<u>X</u>	___	
Type of auditors' report issued on compliance for major programs:			
Unqualified for all major programs except for the State Criminal Alien Assistance Program, which was adverse.			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
07.17PSAP501Z	High-Intensity Drug Trafficking Areas
07.18PSAP501Z	High-Intensity Drug Trafficking Areas
07.19PSAP501Z	High-Intensity Drug Trafficking Areas
07.10PSAP501Z	High-Intensity Drug Trafficking Areas
14.871	Section 8 Housing Choice Vouchers
14.900	Lead-Based Paint Hazard Control In Privately-Owned Housing
15.226	Payments in Lieu of Taxes
16.606	State Criminal Alien Assistance Program
16.803	ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities

Cochise County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2010

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
17.260	WIA Dislocated Workers
17.268	H-1B Job Training Grants
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$423,879

Auditee qualified as low-risk auditee? Yes    No  
\_\_\_    X

***Other Matters***

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? X    \_\_\_

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

## Financial Statement Findings

10-01

### **The County should strengthen controls preventing unauthorized access of its financial information**

Criteria: The County should have effective controls over its general ledger information system to prevent and detect unauthorized use or modification of sensitive financial information.

Condition and context: All of the County's financial transactions are recorded and processed on the County's general ledger information system. However, the County's written policies and procedures relating to the system access were outdated, superuser and other similar unrestricted access was not monitored, and some users were not required to change their passwords for 6 months during fiscal year 2010.

Effect: Because financial information could be changed without detection, the County's financial statements could have been materially misstated. Additionally, sensitive financial information could have been obtained and misused by employees or others. This finding is a significant deficiency in internal control over financial reporting.

Cause: County management stated that the recommended controls had not been implemented because the County has not been able to retain sufficient IT department employees.

Recommendation: To help strengthen controls over its general ledger information system, the County should:

- Update its written policies and procedures for any updates.
- Actively monitor superuser accounts and investigate any unusual activity.
- Eliminate any other unauthorized and unmonitored access to general ledger information such as "back-door" access.
- Require frequent and regular password changes.

10-02

### **The County should improve procedures over infrastructure capital asset reporting**

Criteria: The County should have effective internal controls over capital asset reporting to ensure its infrastructure capital assets are accurately valued and reported in the correct fiscal year.

Condition and context: The County valued its infrastructure capital assets based on estimated costs rather than actual and capitalized in the current year a portion of actual costs that were incurred in the subsequent fiscal year.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

Effect: The County reported net infrastructure capital assets of \$63,544,921 at June 30, 2010. This infrastructure balance was initially overstated by \$320,587 because the County based the value of several infrastructure construction projects on estimated costs but corrected this overstatement after our audit inquiries. In addition, the County overstated the assets by \$79,520 for costs capitalized in the current year. However, those costs were actually incurred in the subsequent fiscal year. This finding is a significant deficiency in internal control over financial reporting.

Cause: The County lacked sufficient internal control policies and procedures to help ensure that the infrastructure cost information provided by the County's Highways and Streets Department was accurately valued. In addition, the County's policies and procedures lacked appropriate guidance to help ensure that infrastructure costs were capitalized in the correct fiscal year.

Recommendation: To help strengthen controls over infrastructure capital asset reporting, the County should improve its capital asset policies and procedures to ensure that:

- Infrastructure assets are capitalized at actual historical cost during the fiscal year the costs were incurred and properly categorized as construction in progress or infrastructure based on when the construction is completed.
- Cost documentation is retained and supports the amounts capitalized.
- A responsible person reviews all infrastructure capital costs for accuracy and proper reporting.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

10-101

CFDA No.: 16.606 **State Criminal Alien Assistance Program (SCAAP)**

**U.S. Department of Justice**

Award Year: 2009

Award Number: 2009-F6739-AZ-AP

Eligibility and reporting

Questioned Cost: \$597,644

**Criteria:** The SCAAP Guidelines specify that applications to receive federal monies include only the salaries paid to correctional officers without the associated benefits. The SCAAP Guidelines also specify that applications include the total number of days that all inmates are housed in the County jail, regardless of their status, citizenship, disposition, or length of stay. Finally, these guidelines specify that in order for inmates to be eligible for the program, they must meet certain requirements, including being convicted of a felony or second misdemeanor for violations of state or local law, within the reporting period.

**Condition and context:** The County's SCAAP application incorrectly included the benefit amounts associated with its correctional officers' salaries, which overstated the reported amount by \$811,444. The application also incorrectly included only the number of days associated with illegal aliens, which understated the total number of days inmates were housed in the County jail by 69,049 days. Finally, the County's SCAAP application incorrectly included inmates that did not meet the Program's eligibility requirements. Specifically, 3 out of 25 inmates tested, had not been convicted of a felony or second misdemeanor within the reporting period.

**Effect:** Due to the application reporting errors, the County received an over award of \$597,644 because the SCAAP award amount was calculated based on the over reported expenditure amounts and the under reported inmate days. It was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs, if any, that may have resulted from the eligibility errors reported on the application. This finding is a material weakness in internal control over compliance and material noncompliance with the Program's reporting and eligibility requirements.

**Cause:** The County did not have policies and procedures in place to ensure that the Program's application information was properly supported and reviewed for accuracy prior to the application being submitted to the U.S. Department of Justice.

**Recommendation:** To help ensure that application information submitted to the U.S. Department of Justice is accurate and in compliance with the Program's guidelines, the County should implement policies and procedures that require someone who is knowledgeable about the guidelines to review and approve application information before it is submitted.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

10-102

CFDA No.: 20.106 **Airport Improvement Program**

**U.S. Department of Transportation**

Award Year: 2009-10

Award Number: 3-04-0013-05 and 3-04-0049-02

Allowable costs/cost principles

Questioned Cost: \$41,744

**Criteria:** In accordance with 2 Code of Federal Regulations, Part 225, Appendix B and the County's policy, salaries and benefits charged to federal programs must be supported with personnel activity reports or equivalent documentation that reflect an after-the-fact distribution of the actual activity of each employee and account for the total activity for which each employee is compensated. The employees must prepare and sign these reports at least monthly.

**Condition and context:** The County charged the Program \$41,744 of the grant administrator's salaries and benefits but did not adequately support these charges with a personnel activity report signed by the grant administrator.

**Effect:** The County did not fully comply with the allowable costs/cost principles requirements over salary and benefit expenditures or with county policy. This finding is a significant deficiency in internal control over compliance and noncompliance with the Program's allowable costs/cost principles requirements.

**Cause:** The grant administrator was not aware of the specific personnel activity reports required by cost principles and the County's policy.

**Recommendation:** In order to comply with 2 Code of Federal Regulations, Part 225, Appendix B and the County's policy, the County should ensure that employees are aware of established policies and procedures that require all employees who work on federal programs to prepare and sign at least monthly personnel activity reports that reflect and certify an after-the-fact distribution of each employee's actual activity and account for the total activity for which each employee is compensated.



Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

**Other auditors' finding:**

The other auditors who audited the Housing Authority of Cochise County reported the following significant deficiency:

10-103 Housing Authority of Cochise County CFDA No.: 14.871 <b>Section 8 Housing Choice Vouchers</b> U.S. Department of Housing and Urban Development Eligibility	Questioned Cost: Unknown
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**Condition:**

**Deficiencies in Internal Controls Over Tenant File Maintenance**

In a sample of 24 Housing Choice Voucher tenant files, the following deficiencies were noted:

- 1 file did not contain the social security for a dependent
- 2 files did not contain a signed notice of dangers of lead-based paint
- 2 files did not document the order of selection from the waiting list
- 2 files did not give evidence that the criminal history background check was performed.

**Criteria:**

Tenant eligibility and documentation requirements as presented in 24 CFR.

**Cause/Effect:**

The Authority does not have a system of second party file review. Additionally, the files do not contain checklists for each item to be contained within.

**Recommendation:**

We recommend that the Authority establish a system of controls sufficient to ensure that each file continually contains all HUD-required documentation.

**Reply:**

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

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# 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

March 10, 2011

Debbie Davenport  
Auditor General  
2910 N. 44<sup>th</sup> 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, 2010

## Financial Statement Findings

**10-01**

**The County should strengthen controls preventing unauthorized access of its financial information**

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

Anticipated Completion Date: April 15, 2011

Corrective Action Plan: The County will deactivate the general ledger super-user login and password. The County will revise policies and procedures to incorporate the changes needed due to the conversion to a new financial system. The County will review the network layer and application layer user and Administrator access to the financial system and (if necessary) modify security rights to the general ledger information to prevent 'back-door' access. The County has already implemented a required 90 day password change for all users. All of these changes will strengthen controls preventing unauthorized access of our financial information.

Cochise County  
Corrective Action Plan  
Year Ended June 30, 2010

**10-02**

**The County should improve procedures over infrastructure capital asset reporting**

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

**Anticipated Completion Date: June 30, 2011**

Corrective Action Plan: The County will capitalize infrastructure assets at actual historical cost during the fiscal year the costs were incurred and properly categorize as construction in progress or infrastructure based on when the construction is completed. Finance staff will review all infrastructure capital costs for accuracy and proper reporting.

Cochise County  
Corrective Action Plan  
Year Ended June 30, 2010

Federal Award Finding and Questioned Costs

10-101  
CFDA No.: 16.606 **State Criminal Alien Assistance Program (SCAAP)**  
**U.S. Department of Justice**  
Award Year: 2009  
Award Number: 2009-F6739-AZ-AP  
Eligibility and reporting  
Contact: Kenny Bradshaw, Jail Commander, 520-432-7543  
Anticipated Completion Date: March 31, 2011

Corrective Action Plan: The Sheriff's office will ensure that SCAAP application information submitted to the U. S. Department of Justice is accurate and in compliance with the Program's guidelines by implementing a procedure requiring a Commander or above to review and approve the application information before it is submitted.

Cochise County  
Corrective Action Plan  
Year Ended June 30, 2010

10-102  
CFDA No.: 20.106 **Airport Improvement Program**  
**U.S. Department of Transportation**  
Award Year: 2009-10  
Award Number: 3-04-0013-05 and 3-04-0049-02  
Allowable Costs/Cost Principles  
Contact: Lois Klein, Finance Director, 520-432-8381  
Anticipated completion Date: 3/18/11

Corrective Action Plan: In order to comply with 2 Code of Federal Regulations, Part 225, Appendix B and County policy, and to make sure employees are aware of these policies and procedures, the County will have the policies posted to the intranet and will publish this through an all County email.

Cochise County  
Corrective Action Plan  
Year Ended June 30, 2010

10-103

Housing Authority of Cochise County

CFDA No.: 14.871 **Section 8 Housing Choice Vouchers**

**U.S. Department of Housing and Urban Development**

Eligibility

Questioned Cost: Unknown

Management's planned corrective action for finding number 10-103 is included in the Schedule of Findings and Questioned Costs immediately following the finding.



# 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

March 9, 2011

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> 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, 2010

Status of Federal Award Findings and Questioned Costs

Finding No.: 09-101  
CFDA No.: Not applicable  
Status: Fully Corrected

Finding No.: 09-102  
Housing Authority of Cochise County  
CFDA No.: Not Applicable  
Status: Fully corrected.