



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County

Year Ended June 30, 2011



Debra K. Davenport
Auditor General

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Cochise County
Single Audit Reporting Package
Year Ended June 30, 2011

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Single Audit Reporting Package
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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, 2011, 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 44 percent of the assets and 87 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages i through xi, the Budgetary Comparison Schedules on pages 42 through 45, and the Schedule of Agent Retirement Plan's Funding Progress on page 46 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, 2012, 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, 2012

Management's Discussion and Analysis

As management of Cochise County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cochise County for the fiscal year ended June 30, 2011. 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 \$184,720,160 (net assets). Of this amount, \$52,033,099 (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 \$176,128,827, an increase of \$9,719,902 over the prior year's net assets.
- At the end of the fiscal year, unassigned fund balance in the General Fund was \$29,819,004 or 60.9 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 \$2,086,536 during the current fiscal year. The net decrease is attributable to decreases of \$845,036 for the normal debt service on capital leases and certificates of participation and \$1,241,500 to pay off, in advance, capital leases for graders.

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, the Anti-Racketeering 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 Anti-Racketeering Fund accounts for resources from federal bond forfeitures and proceeds from auctions of equipment and vehicles seized during criminal racketeering activity. The County also holds monies for other governmental entities involved in the seizures until these entities receive approval for monies to be spent on anti-racketeering programs.

Management's Discussion and Analysis

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.

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 the Solid Waste Operations are considered to be major funds and are therefore reported separately. The other proprietary fund, the Bisbee-Douglas International Airport and the internal service funds are also presented in the proprietary fund financial statements.

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

Fiduciary funds are used to account for resources 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 understand the data provided in the government-wide and fund financial statements.

The notes to financial statements can be found on pages 16 through 39 of this report.

Required supplementary information presents budgetary comparison schedules 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 42 through 46 of this report.

Management's Discussion and Analysis

Government-wide Financial Analysis

Below is a comparative analysis between fiscal years for the government-wide statements. Capital assets, net of accumulated depreciation, had a net decrease of \$5,043,090. The County's main capital purchases included \$589,209 for the New World financial and H/R software systems, \$1,167,334 for roads and bridges infrastructure, \$432,212 for airport improvement grants, \$510,253 for Sheriff Border Security vehicles and equipment, \$566,824 for two new graders, and \$779,568 for the drainage system at our Sierra Vista Regional Service Center. The current year's depreciation of capital assets totaled \$6,676,226. There were also assets disposed of or sold with a net book value of \$2,003,293 (\$1,127,917 was for roads annexed by the city of Sierra Vista).

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 \$184,720,160.

Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2010 and 2011

	Governmental Activities		Business-type Activities		Total	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Assets:						
Current and other assets	\$ 66,806,777	\$ 77,323,222	\$13,102,605	\$ 6,389,874	\$ 79,909,382	\$ 83,713,096
Capital assets	<u>119,457,776</u>	<u>114,859,952</u>	<u>8,779,243</u>	<u>8,333,977</u>	<u>128,237,019</u>	<u>123,193,929</u>
Total assets	<u>186,264,553</u>	<u>192,183,174</u>	<u>21,881,848</u>	<u>14,723,851</u>	<u>208,146,401</u>	<u>206,907,025</u>
Liabilities:						
Other liabilities	7,774,413	5,981,143	3,139,214	3,153,277	10,913,627	9,134,420
Long-term liabilities	<u>12,081,215</u>	<u>10,073,204</u>	<u>2,881,544</u>	<u>2,979,241</u>	<u>14,962,759</u>	<u>13,052,445</u>
Total liabilities	<u>19,855,628</u>	<u>16,054,347</u>	<u>6,020,758</u>	<u>6,132,518</u>	<u>25,876,386</u>	<u>22,186,865</u>
Net assets:						
Invested in capital assets, net of related debt	111,405,003	108,893,715	8,610,745	8,245,642	120,015,748	117,139,357
Restricted	10,137,495	13,809,704	1,804,000	1,738,000	11,941,495	15,547,704
Unrestricted	<u>44,866,427</u>	<u>53,425,408</u>	<u>5,446,345</u>	<u>(1,392,309)</u>	<u>50,312,772</u>	<u>52,033,099</u>
Total net assets	<u>\$166,408,925</u>	<u>\$176,128,827</u>	<u>\$15,861,090</u>	<u>\$ 8,591,333</u>	<u>\$182,270,015</u>	<u>\$184,720,160</u>

A large portion of Cochise County's net assets (63.4 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.

Management's Discussion and Analysis

At the end of the fiscal year, except for the negative unrestricted net assets in business-type activities, 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.

The County's total net assets increased by \$2,450,145 during the fiscal year, which was about 53 percent less than the prior fiscal year's increase. A portion of this modest net asset increase is attributable to the decreases in excise taxes and operating grants, charges for services, and other revenues in the amount of \$4,645,050, along with a modest increase of \$1,381,375 in governmental activities expenses and a decrease of \$1,692,874 in business-type activities expenses mainly in Cochise Health Systems. The County has continued its 10 percent reduction in salaries and benefits along with a hard hiring freeze.

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, 2010 and 2011

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
Revenues						
Program revenues:						
Charges for services	\$ 7,382,332	\$ 7,365,336	\$40,004,457	\$38,554,412	\$ 47,386,789	\$ 45,919,748
Operating grants and contributions	23,263,768	22,262,634			23,263,768	22,262,634
General revenues:						
Property taxes	31,764,249	33,103,125			31,764,249	33,103,125
State shared sales tax	10,606,221	10,897,664			10,606,221	10,897,664
Unrestricted vehicle license tax	3,533,336	3,521,915			3,533,336	3,521,915
County excise tax	7,016,714	6,582,461	135,025	135,025	7,151,739	6,717,486
Other	<u>3,932,526</u>	<u>2,414,350</u>	<u>271,676</u>	<u>47,250</u>	<u>4,204,202</u>	<u>2,461,580</u>
Total revenues	<u>87,499,146</u>	<u>86,147,485</u>	<u>40,411,158</u>	<u>38,736,667</u>	<u>127,910,304</u>	<u>124,884,152</u>
Expenses						
General government	35,161,041	35,413,971			35,161,041	35,413,971
Public safety	22,529,065	22,864,116			22,529,065	22,864,116
Highways and streets	11,977,199	12,954,260			11,977,199	12,954,260
Sanitation	684,289	601,445			684,289	601,445
Health and welfare	10,497,644	10,261,189			10,497,644	10,261,189
Culture and recreation	1,194,807	1,430,970			1,194,807	1,430,970
Education	1,026,465	925,934			1,026,465	925,934
Long-term care			34,082,049	32,436,436	34,082,049	32,436,436
Airport			698,263	542,888	698,263	542,888
Solid waste operations			<u>4,894,684</u>	<u>5,002,798</u>	<u>4,894,684</u>	<u>5,002,798</u>
Total expenses	<u>83,070,510</u>	<u>84,451,885</u>	<u>39,674,996</u>	<u>37,982,122</u>	<u>122,745,506</u>	<u>122,434,007</u>
Increase in net assets before transfers	4,428,636	1,695,600	736,162	754,545	5,164,798	2,450,145
Transfers	<u>1,456,017</u>	<u>8,024,302</u>	<u>(1,456,017)</u>	<u>(8,024,302)</u>		
Increase (decrease) in net assets	<u>\$ 5,884,653</u>	<u>\$ 9,719,902</u>	<u>\$ (719,855)</u>	<u>\$ (7,269,757)</u>	<u>\$ 5,164,798</u>	<u>\$ 2,450,145</u>

Management's Discussion and Analysis

Governmental activities—Key elements of the increase in net assets of \$9,719,902 are as follows:

Major Revenues:

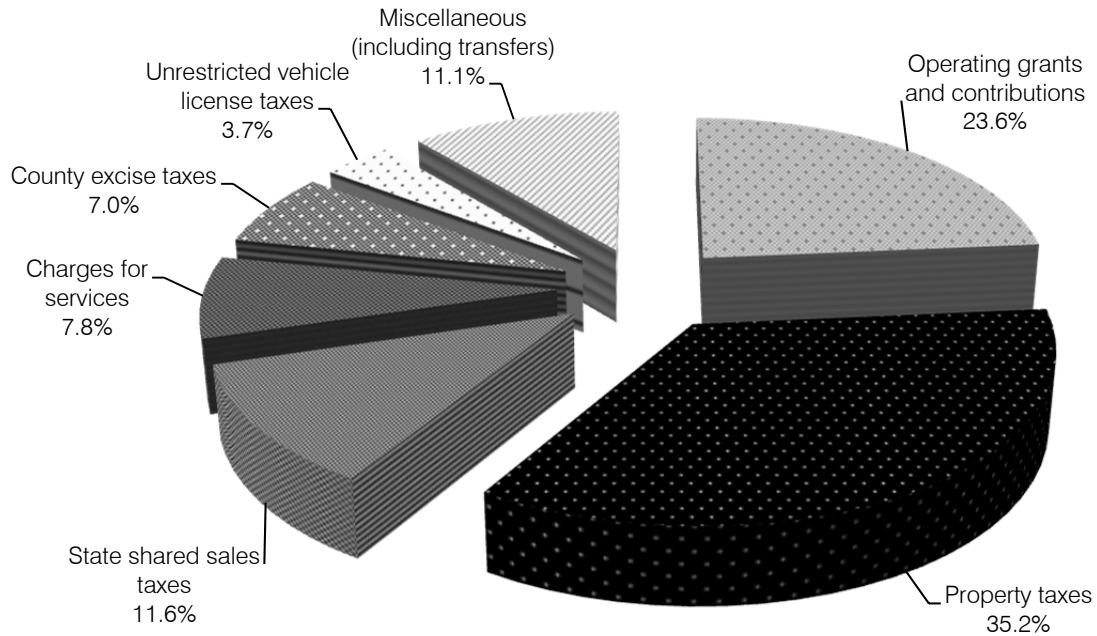
- Operating grants and contributions: These revenues decreased by \$1,001,134, or 4.3 percent, due to decreases in federal grant revenues. This was mainly for decreases in grant programs associated with the airport rehabilitation, election equipment, the job training program, and the Stonegarden public safety program.
- Property taxes: The net assessed value of all taxable property in the County increased by approximately \$55,400,000, or 5.6 percent, over the previous year. With a decrease in the property tax rate from fiscal year 2010 of \$0.0149, property tax revenues increased by \$1,338,876 or 4.2 percent.
- State shared sales tax revenues: Sales tax revenues increased by \$291,443, or 2.7 percent, from the previous year, due to modest improvements in the Arizona economy.
- County excise taxes: The County excise tax revenue decreased by \$434,253 or 6.2 percent. This unfavorable variance is due to a slower recovery in the local economy.
- Other revenues: These revenues decreased by \$1,518,176, or 38.6 percent. The grants and contributions not restricted to specific programs revenues decreased by \$288,215, or 12.8 percent, due to the loss of state lottery revenues of \$309,415, a decrease of \$32,636 in Local Area Transportation revenues and a \$53,836 increase in Payment in Lieu of Tax (PILT) revenues. Miscellaneous revenue also decreased by \$1,047,707 due to various reductions in other sources.

Transfers:

- Transfers: Transfers increased by \$6,568,285 in fiscal year 2011 because a larger amount of Cochise Health Systems' residual equity was transferred into the General and Capital Projects Funds. This was primarily due to the loss of the County's contract with Arizona Health Care Cost Containment System (AHCCCS).

Management's Discussion and Analysis

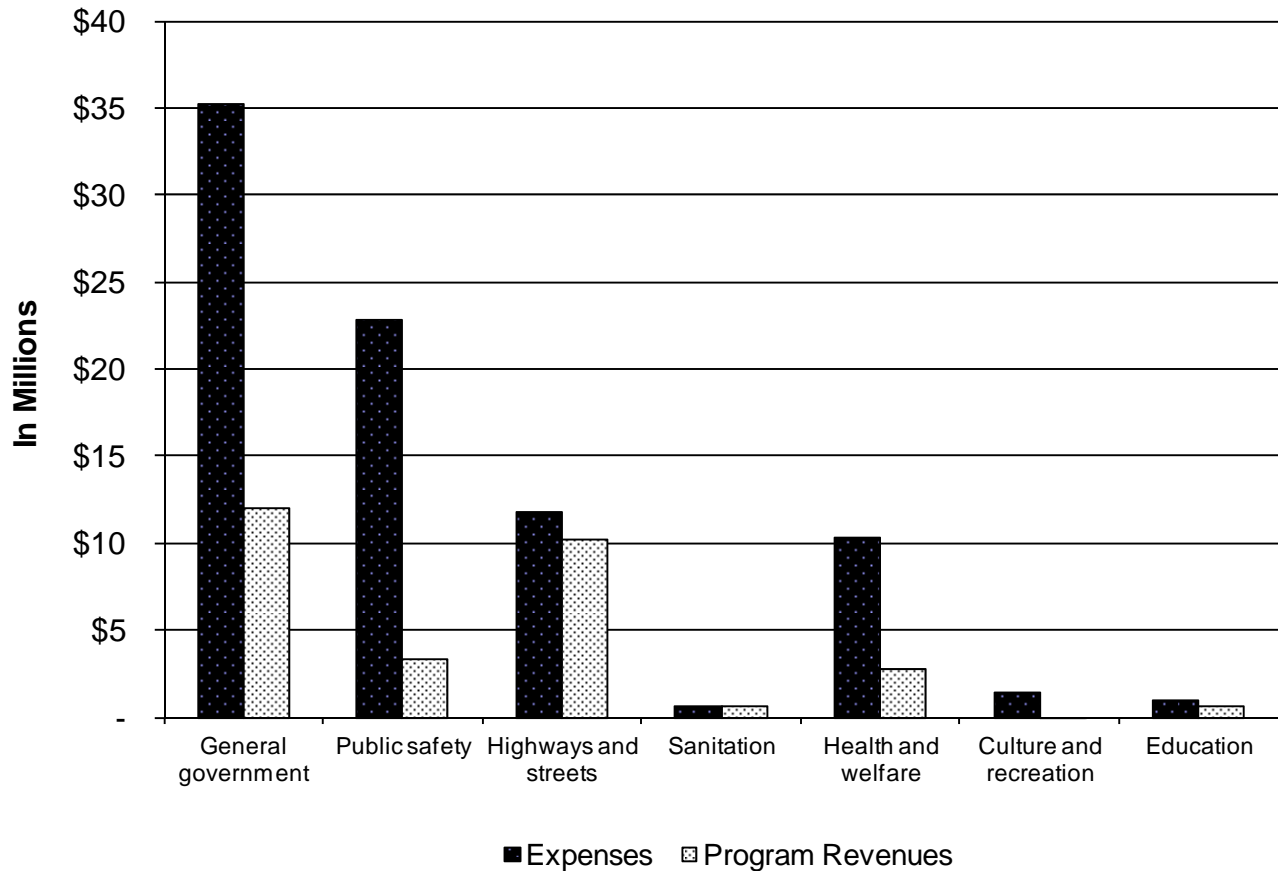
Revenues and Transfers by Source – Governmental Activities Fiscal Year Ended June 30, 2011



Expenses—Overall expenses in the governmental activities increased by \$1,381,375 or 1.7 percent. Retirement expenses increased by \$371,122 which was offset primarily by the County's conservative budgeting philosophy; ongoing 10 percent personnel cut, and reduced spending capacity because of the overall decrease in revenues. Expenses were further decreased by reduced salary expenses because of vacant positions beyond the 10 percent personnel cut. The main reason expenses increased was because the County had a loss on disposal of capital assets of \$1,294,475, which was mainly due to the annexation of roads by the city of Sierra Vista.

Management's Discussion and Analysis

Expenses vs. Revenues by Function – Governmental Activities Fiscal Year Ended June 30, 2011



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

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

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

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

Management's Discussion and Analysis

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

Net assets of the business-type activities decreased by \$7,269,757. This net assets decrease resulted from operating losses in both the Solid Waste and BDI airport activities and the large transfers of Cochise Health Systems' residual equity to the County's General and Capital Projects Fund. 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, 2011, the total fund balance was \$30,640,685. 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, 2011, the fund balance represents 62.6 percent of total General Fund expenditures.

The fund balance of the General Fund increased by \$5,221,498 during the fiscal year, an increase of \$1,514,483 over fiscal year 2010. This increase is mainly attributable to the decreases in health and welfare expenditures of \$150,146, general government expenditures of \$1,506,805, and sanitation expenditures of \$85,888.

The fund balance of the Capital Projects Fund increased by \$6,768,120 during the fiscal year. This increase is mainly attributable to the transfers from the Cochise Health Systems Fund of residual equities totaling \$7,146,446.

The fund balance of the Highway and Streets Fund increased by \$899,765, which was similar to last year's increase of \$880,439. This was due to revenues and expenditures remaining relatively stable from the prior year.

The Anti-Racketeering Fund became a major fund in fiscal year 2011 due to the increase in monies held for other governments obtained from criminal racketeering activity. At June 30, 2011, the fund balance of the Anti-Racketeering Fund decreased by \$40,714, which was similar to last year's decrease of \$58,861. This was due to revenues and expenditures remaining relatively stable from the prior year.

Management's Discussion and Analysis

Proprietary funds—The County's proprietary fund statements provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. The net assets of Bisbee-Douglas International Airport Fund decreased by \$20,452. The net assets of the Solid Waste Operations Fund decreased by \$692,704 (an additional decrease of \$145,998 over fiscal year 2010), primarily due to \$108,487 of additional operating expenses. There was also a decrease of transfers from other funds of \$68,270 over last year. The net assets of Cochise Health Systems decreased by \$6,556,601 primarily due to an equity transfer of \$7,849,225 from Cochise Health Systems to the General Fund and the Capital Projects Fund.

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, 2011, was \$117,139,357 (net of accumulated 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 \$37,719 for the County's network backbone, \$181,446 for an assessor's software system, \$98,177 for the Enterprise Resource Planning System software, \$147,728 for airport improvement grants and \$289,966 for a new service center in Douglas.
- Capital purchases made from the Highway and Streets Fund monies primarily consist of \$1,167,334 for new roads, bridges, culverts, and (and related rights of way) infrastructure.
- Capital asset acquisitions in the Solid Waste Operations Fund totaled \$68,465 for a pit loading chair.
- Programmed vehicle replacement and additions of new vehicles totaled \$159,734 in Fleet Management and \$566,824 for two graders in Heavy Fleet (both Internal Service Funds).
- Capital outlay expenditures from General Fund revenues consisted of \$54,917 for archive shelving.
- Major capital outlay expenditures from special revenue fund monies consist of \$365,038 for Sheriff's Border Security vehicles and \$145,215 for a Sheriff's Ranger vehicle; and \$106,665 for a major upgrade to the County's jail kitchen.

Additional information on the County's capital assets can be found in Note 5 on pages 27 and 28 of this report.

Long-term Debt

At June 30, 2011, the County had certificates of participation and capital lease long-term liabilities outstanding of \$6,054,572, as compared to \$8,221,271 in the prior year. This amount comprised \$5,264,867 of certificates of participation issued in 2002 (including unamortized premium of \$64,867) and \$789,705 in capital leases. The change in these long-term liabilities includes the normal annual debt service of \$925,199 plus \$1,241,500 to pay off all grader leases in advance.

Management's Discussion and Analysis

Cochise County has no general obligation or revenue bonds outstanding.

Budgetary Comparison—General Fund

The favorable variance in revenues of \$673,925 was primarily due to an increase in the County's General Fund State shared sales tax revenue and a long term care contribution refund from the State.

Most of the favorable variances in expenses were due to conservative budgeting and vacancy savings from a hiring freeze. The favorable variance of \$28,845,641 in the General Fund's expenditures resulted primarily from unspent general government contingency funds and lower than expected general government costs. Also, there was a favorable variance in Cochise Aging and Social Services resulting from ARRA monies that covered \$1,608,400 of Arizona Long Term Care System costs.

Economic Factors

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2011, was 8.6 percent compared to 9.3 percent state-wide and 8.8 percent nation-wide. The rate has increased from 8.3 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 5.2 percent in Sierra Vista to the high of 14.9 percent in Benson.
- For fiscal year 2011, 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 18 years.
- The County's expense for employee health insurance increased by 7.26 percent from the previous year, and actual retirement costs went up by \$371,122, which was less than expected due to various vacancies throughout the County.

Request for Information

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

Financial Statements

Cochise County
Statement of Net Assets
June 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash in bank and on hand	\$ 188,455	\$ 20,487	\$ 208,942	\$ 419,705
Cash and investments held by County Treasurer	64,419,304	5,626,228	70,045,532	
Cash and investments held by trustee	878,500		878,500	844,245
Receivables (net of allowances for uncollectibles):				
Property taxes	2,088,461		2,088,461	
Accounts	1,364,848	1,801,560	3,166,408	4,541
Accrued interest	39,502	245	39,747	
Internal balances	1,076,294	(1,076,294)		
Due from other governments	7,267,858	17,648	7,285,506	124,692
Prepaid items				4,138
Other assets				3,876
Capital assets, not being depreciated	3,714,556	1,643,230	5,355,786	
Capital assets, being depreciated, net	<u>111,145,396</u>	<u>6,690,747</u>	<u>117,836,143</u>	<u>46,011</u>
Total assets	<u>192,183,174</u>	<u>14,723,851</u>	<u>206,907,025</u>	<u>1,447,208</u>
Liabilities				
Accounts payable	1,913,291	3,089,527	5,002,818	43,921
Accrued payroll and employee benefits	1,440,107	61,950	1,502,057	12,354
Due to other governments	2,607,509		2,607,509	65,972
Deposits held for others	19,366	1,600	20,966	24,368
Deferred revenue	870	200	1,070	126,277
Noncurrent liabilities				
Due within 1 year	3,687,027	261,627	3,948,654	
Due in more than 1 year	<u>6,386,177</u>	<u>2,717,614</u>	<u>9,103,791</u>	<u>123,764</u>
Total liabilities	<u>16,054,347</u>	<u>6,132,518</u>	<u>22,186,865</u>	<u>396,656</u>
Net Assets				
Invested in capital assets, net of related debt	108,893,715	8,245,642	117,139,357	46,011
Restricted for:				
Anti-racketeering	121,580		121,580	
Education	217,185		217,185	
Flood	4,665,885		4,665,885	
Health	480,680		480,680	
Judicial	2,604,081		2,604,081	
Public safety	1,034,091		1,034,091	
Library	1,021,257		1,021,257	
Highways and streets	1,784,361		1,784,361	
Debt service	878,500		878,500	
Other	1,002,084		1,002,084	
Long-term care		1,738,000	1,738,000	
Housing programs				627,011
Workforce development				95,782
Unrestricted	<u>53,425,408</u>	<u>(1,392,309)</u>	<u>52,033,099</u>	<u>281,748</u>
Total net assets	<u>\$ 176,128,827</u>	<u>\$ 8,591,333</u>	<u>\$ 184,720,160</u>	<u>\$ 1,050,552</u>

See accompanying notes to financial statements.

Cochise County
Statement of Activities
Year Ended June 30, 2011

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Units	
				Governmental Activities	Business-Type Activities		Total
Primary government:							
Governmental activities:							
General government	\$ 35,413,971	\$ 5,381,321	\$ 6,631,820	\$ (23,400,830)		\$ (23,400,830)	
Public safety	22,864,116	741,412	2,588,310	(19,534,394)		(19,534,394)	
Highways and streets	12,954,260	599,176	9,563,960	(2,791,124)		(2,791,124)	
Sanitation	601,445	396,138	222,109	16,802		16,802	
Health and welfare	10,261,189	235,884	2,561,808	(7,463,497)		(7,463,497)	
Culture and recreation	1,430,970		34,965	(1,396,005)		(1,396,005)	
Education	925,934	11,405	659,662	(254,867)		(254,867)	
Total governmental activities	84,451,885	7,365,336	22,262,634	(54,823,915)		(54,823,915)	
Business-type activities:							
Bisbee-Douglas International Airport	542,888	521,548			\$ (21,340)	(21,340)	
Cochise Health Systems	32,436,436	33,680,709			1,244,273	1,244,273	
Solid Waste Operations	5,002,798	4,352,155			(650,643)	(650,643)	
Total business-type activities	37,982,122	38,554,412			572,290	572,290	
Total primary government	\$ 122,434,007	\$ 45,919,748	\$ 22,262,634	(54,823,915)	572,290	(54,251,625)	
Component units:							
Housing Authority of Cochise County	\$ 2,857,598		\$ 2,917,195			\$ 59,597	
Cochise Private Industry Council, Inc.	1,402,180		1,402,027			(153)	
Total component units	\$ 4,259,778		\$ 4,319,222			59,444	
General revenues:							
Taxes							
Property taxes, levied for general purposes				29,131,461		29,131,461	
Property taxes, levied for flood control				2,392,013		2,392,013	
Property taxes, levied for library				1,579,651		1,579,651	
County excise taxes				6,582,461	135,025	6,717,486	
Share of state sales taxes				10,897,664		10,897,664	
Share of unrestricted vehicle license tax				3,521,915		3,521,915	
Grants and contributions not restricted to specific programs				1,961,363		1,961,363	
Investment income				335,469	47,048	382,517	
Miscellaneous				117,518	182	117,700	
Transfers				8,024,302	(8,024,302)		
Total general revenues and transfers				64,543,817	(7,842,047)	56,701,770	
Change in net assets				9,719,902	(7,269,757)	2,450,145	
Net assets, July 1, 2010				166,408,925	15,861,090	182,270,015	
Net assets, June 30, 2011				\$ 176,128,827	\$ 8,591,333	\$ 184,720,160	
						\$ 1,050,552	

See accompanying notes to financial statements.

Cochise County
Balance Sheet
Governmental Funds
June 30, 2011

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Anti- Racketeering Fund	Capital Projects Fund	Highway and Streets Fund		
Assets						
Cash in bank and on hand	\$ 78,689				\$ 109,566	\$ 188,255
Cash and investments held by County Treasurer	27,615,886	\$ 1,259,390	\$ 14,151,057	\$ 5,084,605	10,669,996	58,780,934
Cash and investments held by trustee			878,500			878,500
Receivables (net of allowances for uncollectibles):						
Property taxes	1,725,202				363,259	2,088,461
Accounts	867,914	18,046		37,024	112,633	1,035,617
Accrued interest	17,091		8,514		10,157	35,762
Due from:						
Other funds	1,699,976	100	29,349	7,432	363,779	2,100,636
Other governments	3,340,725		647,073	1,748,920	1,477,303	7,214,021
Total assets	<u>\$35,345,483</u>	<u>\$ 1,277,536</u>	<u>\$ 15,714,493</u>	<u>\$ 6,877,981</u>	<u>\$ 13,106,693</u>	<u>\$ 72,322,186</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 568,022	\$ 723	\$ 367,665	\$ 239,470	\$ 528,574	\$ 1,704,454
Accrued payroll and employee benefits	854,160	915		110,519	457,673	1,423,267
Due to:						
Other funds	304,311	124,778	10,941	490,127	547,972	1,478,129
Other governments	1,590,384	1,017,125				2,607,509
Deposits held for others	7,757	11,609				19,366
Certificates of participation payable			650,000			650,000
Deferred revenue	1,380,164			6,670	289,552	1,676,386
Total liabilities	<u>4,704,798</u>	<u>1,155,150</u>	<u>1,028,606</u>	<u>846,786</u>	<u>1,823,771</u>	<u>9,559,111</u>
Fund balances:						
Restricted		122,386	878,500	2,136,417	11,449,271	14,586,574
Committed	140,060		3,135,264	494,778		3,770,102
Assigned	681,621		10,672,123	3,400,000	389,496	15,143,240
Unassigned	29,819,004				(555,845)	29,263,159
Total fund balances	<u>30,640,685</u>	<u>122,386</u>	<u>14,685,887</u>	<u>6,031,195</u>	<u>11,282,922</u>	<u>62,763,075</u>
Total liabilities and fund balances	<u>\$35,345,483</u>	<u>\$ 1,277,536</u>	<u>\$ 15,714,493</u>	<u>\$ 6,877,981</u>	<u>\$ 13,106,693</u>	<u>\$ 72,322,186</u>

See accompanying notes to financial statements.

Cochise County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2011

Fund balances—total governmental funds			\$ 62,763,075
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.			107,184,678
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			1,675,516
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.			13,576,164
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:			
Certificates of participation payable	(4,614,867)		
Capital leases payable	(496,947)		
Compensated absences payable	<u>(3,958,792)</u>		<u>(9,070,606)</u>
Net assets of governmental activities			<u>\$ 176,128,827</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	Major Funds				Other	Total
	General	Anti-	Capital	Highway	Governmental	Governmental
	Fund	Racketeering	Projects	and Streets	Funds	Funds
		Fund	Fund	Fund		
Revenues:						
Taxes	\$34,631,797		\$ 1,581,926	\$1,800,000	\$ 4,900,209	\$42,913,932
Licenses and permits	25,673					25,673
Fees, fines, and forfeits	1,942,790	\$178,166				2,120,956
Intergovernmental	13,620,035		264,320	9,428,960	11,810,039	35,123,354
Charges for services	2,257,533			599,175	2,334,523	5,191,231
Investment income	203,625	8,618	63,996	22,760	36,470	335,469
Donations	10,000				15,781	25,781
Miscellaneous			117,518			117,518
Total revenues	<u>52,691,453</u>	<u>186,784</u>	<u>2,027,760</u>	<u>11,850,895</u>	<u>19,097,022</u>	<u>85,853,914</u>
Expenditures:						
Current:						
General government	22,788,401	539,309	426,078		8,677,880	32,431,668
Public safety	16,864,483				5,485,440	22,349,923
Highways and streets				10,968,431	210,826	11,179,257
Sanitation	405,279				196,166	601,445
Health and welfare	8,409,420				1,851,769	10,261,189
Culture and recreation					1,430,970	1,430,970
Education	344,345				581,589	925,934
Debt service:						
Principal	87,984		650,000			737,984
Interest and other charges	22,808		230,288			253,096
Capital outlay	54,917		848,349	14,906	620,858	1,539,030
Total expenditures	<u>48,977,637</u>	<u>539,309</u>	<u>2,154,715</u>	<u>10,983,337</u>	<u>19,055,498</u>	<u>81,710,496</u>
Excess (deficiency) of revenues over expenditures	<u>3,713,816</u>	<u>(352,525)</u>	<u>(126,955)</u>	<u>867,558</u>	<u>41,524</u>	<u>4,143,418</u>
Other financing sources (uses):						
Sale of capital assets	82,537	368,100		122,005		572,642
Transfers in	1,649,147		7,146,446	38,342	1,294,082	10,128,017
Transfers out	<u>(224,002)</u>	<u>(56,289)</u>	<u>(251,371)</u>	<u>(128,140)</u>	<u>(1,684,812)</u>	<u>(2,344,614)</u>
Total other financing sources and uses	<u>1,507,682</u>	<u>311,811</u>	<u>6,895,075</u>	<u>32,207</u>	<u>(390,730)</u>	<u>8,356,045</u>
Net change in fund balances	5,221,498	(40,714)	6,768,120	899,765	(349,206)	12,499,463
Fund balances, July 1, 2010	<u>25,419,187</u>	<u>163,100</u>	<u>7,917,767</u>	<u>5,131,430</u>	<u>11,632,128</u>	<u>50,263,612</u>
Fund balances, June 30, 2011	<u>\$30,640,685</u>	<u>\$122,386</u>	<u>\$14,685,887</u>	<u>\$6,031,195</u>	<u>\$11,282,922</u>	<u>\$62,763,075</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, 2011

Net change in fund balances—total governmental funds		\$ 12,499,463
Amounts reported for governmental activities in the Statement of Activities are different because:		
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.		
Capital outlay	2,915,653	
Depreciation expense	<u>(4,747,894)</u>	(1,832,241)
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.		(1,943,141)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		283,564
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.		
Principal repaid	737,984	
Amortization of premium	<u>16,217</u>	754,201
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.		
Increase in compensated absences		(77,043)
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.		<u>35,099</u>
Change in net assets of governmental activities		<u>\$ 9,719,902</u>

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Major Funds		Other	Total	
	Cochise Health Systems Fund	Solid Waste Operations Fund	Enterprise— BDI Airport Fund		Internal Service Funds
Assets					
Current assets:					
Cash in bank and on hand	\$ 18,262	\$ 2,225		\$ 20,487	\$ 200
Cash and investments held by County Treasurer	5,595,094		\$ 31,134	5,626,228	5,638,370
Receivables (net of allowances for uncollectibles):					
Accounts	854,202	803,419	143,939	1,801,560	329,231
Accrued interest		170	75	245	3,740
Due from:					
Other funds	23,197	95,125	538	118,860	568,458
Other governments		17,648		17,648	53,837
Total current assets	<u>6,490,755</u>	<u>918,587</u>	<u>175,686</u>	<u>7,585,028</u>	<u>6,593,836</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	1,778
Buildings, net		3,390,438	10,382	3,400,820	124,925
Improvements other than buildings, net		1,302,113	1,140,720	2,442,833	
Equipment, net	23,671	756,914	66,509	847,094	7,548,571
Total noncurrent assets	<u>23,671</u>	<u>5,517,695</u>	<u>2,792,611</u>	<u>8,333,977</u>	<u>7,675,274</u>
Total assets	<u>6,514,426</u>	<u>6,436,282</u>	<u>2,968,297</u>	<u>15,919,005</u>	<u>14,269,110</u>
Liabilities					
Current liabilities:					
Accounts payable	3,041,518	42,030	5,979	3,089,527	208,837
Accrued payroll and employee benefits	39,080	20,889	1,981	61,950	16,840
Due to other funds	216,581	975,887	2,686	1,195,154	114,671
Compensated absences payable, current portion	130,841	68,226	11,854	210,921	89,623
Landfill closure and postclosure care costs payable, current portion		22,436		22,436	
Deposits held for others			1,600	1,600	
Capital leases payable, current portion		28,270		28,270	115,234
Deferred revenue			200	200	
Total current liabilities	<u>3,428,020</u>	<u>1,157,738</u>	<u>24,300</u>	<u>4,610,058</u>	<u>545,205</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2011
(Concluded)

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Major Funds				
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise—BDI Airport Fund	Total	Internal Service Funds
Noncurrent liabilities:					
Compensated absences payable	\$ 14,234	\$ 5,163	\$ 10,130	\$ 29,527	\$ 58,552
Landfill closure and postclosure care costs payable		2,628,022		2,628,022	
Capital leases payable		60,065		60,065	89,189
Total noncurrent liabilities	<u>14,234</u>	<u>2,693,250</u>	<u>10,130</u>	<u>2,717,614</u>	<u>147,741</u>
Total liabilities	<u>3,442,254</u>	<u>3,850,988</u>	<u>34,430</u>	<u>7,327,672</u>	<u>692,946</u>
Net Assets					
Invested in capital assets, net of related debt	23,671	5,429,360	2,792,611	8,245,642	7,470,851
Restricted for long-term care	1,738,000			1,738,000	
Unrestricted (deficit)	<u>1,310,501</u>	<u>(2,844,066)</u>	<u>141,256</u>	<u>(1,392,309)</u>	<u>6,105,313</u>
Total net assets	<u>\$ 3,072,172</u>	<u>\$2,585,294</u>	<u>\$2,933,867</u>	<u>\$8,591,333</u>	<u>\$13,576,164</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, 2011

	Business-Type Activities—Enterprise Funds				Governmental Activities— Internal Service Funds
	Major Funds		Other Enterprise— BDI Airport Fund	Total	
	Cochise Health Systems Fund	Solid Waste Operations Fund			
Operating revenues:					
Charges for services	\$33,643,327	\$4,352,155	\$ 521,548	\$38,517,030	\$ 5,680,916
Charges for health insurance					7,687,906
Other	37,382			37,382	15,283
Total operating revenues	33,680,709	4,352,155	521,548	38,554,412	13,384,105
Operating expenses:					
Personal services	2,809,749	1,994,504	150,752	4,955,005	1,168,037
Professional services	48,349	1,596,479	100,057	1,744,885	8,213,217
Supplies		202,426	198,327	400,753	3,137,691
Long-term care costs	27,039,516			27,039,516	
Landfill closure and postclosure care costs		236,245		236,245	
Depreciation	11,755	397,261	93,752	502,768	1,425,564
Other	2,516,104	570,760		3,086,864	12,704
Total operating expenses	32,425,473	4,997,675	542,888	37,966,036	13,957,213
Operating income (loss)	1,255,236	(645,520)	(21,340)	588,376	(573,108)
Nonoperating revenues (expenses):					
County excise taxes		135,025		135,025	200,000
Investment income	100,033	(53,691)	706	47,048	25,103
Miscellaneous revenue			182	182	
Interest expense		(5,123)		(5,123)	(65,577)
Gain (loss) on disposal of capital assets	(10,963)			(10,963)	207,782
Total nonoperating revenues (expenses)	89,070	76,211	888	166,169	367,308
Income (loss) before transfers	1,344,306	(569,309)	(20,452)	754,545	(205,800)
Transfers in					240,899
Transfers out	(7,900,907)	(123,395)		(8,024,302)	
Increase (decrease) in net assets	(6,556,601)	(692,704)	(20,452)	(7,269,757)	35,099
Total net assets, July 1, 2010	9,628,773	3,277,998	2,954,319	15,861,090	13,541,065
Total net assets, June 30, 2011	\$ 3,072,172	\$2,585,294	\$2,933,867	\$ 8,591,333	\$13,576,164

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Major Funds		Other		
	Cochise Health Systems Fund	Solid Waste Operations Fund	Enterprise—BDI Airport Fund	Total	Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$33,282,578	\$ 4,385,730	\$ 455,328	\$38,123,636	
Receipts from other funds for goods and services provided					\$ 13,788,475
Other receipts	35,232			35,232	15,283
Payments to suppliers and providers of goods and services	(30,057,461)	(3,008,208)	(299,285)	(33,364,954)	(11,432,121)
Payments to employees	(2,871,779)	(2,082,097)	(154,170)	(5,108,046)	(1,210,486)
Net cash provided by (used for) operating activities	388,570	(704,575)	1,873	(314,132)	1,161,151
Cash flows from noncapital financing activities:					
Miscellaneous receipts		135,025	182	135,207	200,000
Cash transfers from other funds					240,899
Cash transfers to other funds	(7,900,907)	(123,395)		(8,024,302)	
Loan payments to other funds		771,845		771,845	
Net cash provided by (used for) noncapital financing activities	(7,900,907)	783,475	182	(7,117,250)	440,899
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets					332,996
Purchases of capital assets		(68,465)		(68,465)	(728,336)
Principal paid on capital leases		(80,163)		(80,163)	(1,352,335)
Interest paid on capital leases		(5,123)		(5,123)	(65,577)
Net cash used for capital and related financing activities		(153,751)		(153,751)	(1,813,252)
Cash flows from investing activities:					
Investment income received on cash and investments held by County Treasurer	100,033		669	100,702	26,358
Decrease in fair value of investments		(53,715)		(53,715)	
Net cash provided by (used for) investing activities	100,033	(53,715)	669	46,987	26,358
Net increase (decrease) in cash and cash equivalents	(7,412,304)	(128,566)	2,724	(7,538,146)	(184,844)
Cash and cash equivalents, July 1, 2010	13,025,660	130,791	28,410	13,184,861	5,823,414
Cash and cash equivalents, June 30, 2011	\$ 5,613,356	\$ 2,225	\$ 31,134	\$ 5,646,715	\$ 5,638,570

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011
(Concluded)

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Major Funds		Other Enterprise—		Internal Service Funds
	Cochise Health Systems Fund	Solid Waste Operations Fund	BDI Airport Fund	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 1,255,236	\$ (645,520)	\$ (21,340)	\$ 588,376	\$ (573,108)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	11,755	397,261	93,752	502,768	1,425,564
Changes in assets and liabilities:					
Accounts receivable	(207,511)	(123,877)	(65,732)	(397,120)	(310,593)
Due from other funds	(21,557)	155,513	(538)	133,418	784,083
Due from other governments	-	1,939		1,939	(53,837)
Accounts payable	181,265	23,267	942	205,474	49,612
Accrued payroll and employee benefits	(101,521)	(84,262)	(5,678)	(191,461)	(43,931)
Due to other funds	(724,297)	(609,296)	(1,843)	(1,335,436)	(118,121)
Compensated absences payable	(4,800)	(3,331)	2,260	(5,871)	1,482
Landfill closure and postclosure care costs payable		183,731		183,731	
Deferred revenue		-	50	50	
Net cash provided by (used for) operating activities	<u>\$ 388,570</u>	<u>\$ (704,575)</u>	<u>\$ 1,873</u>	<u>\$ (314,132)</u>	<u>\$ 1,161,151</u>
Cash and cash equivalents, June 30, 2011, consisted of:					
Cash in bank and on hand	\$ 18,262	\$ 2,225		\$ 20,487	\$ 200
Cash and investments held by County Treasurer	5,595,094		31,134	5,626,228	5,638,370
Total cash and cash equivalents	<u>\$ 5,613,356</u>	<u>\$ 2,225</u>	<u>\$ 31,134</u>	<u>\$ 5,646,715</u>	<u>\$ 5,638,570</u>

Noncash capital financing activities:

The Internal Services Funds sold equipment with a net book value of \$125,214 and received cash of \$332,996.
Cochise Health Systems disposed of a vehicle with a net book value of \$10,693.

See accompanying notes to financial statements.

Cochise County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash in bank and on hand		\$ 765,401
Cash and investments held by County Treasurer	\$ 62,912,333	
Interest receivable	<u>277</u>	<u> </u>
Total assets	<u>62,912,610</u>	<u>\$ 765,401</u>
 Liabilities		
Due to other governments		<u>\$ 765,401</u>
Total liabilities		<u>\$ 765,401</u>
 Net Assets		
Held in trust for investment trust participants	<u>\$ 62,912,610</u>	

See accompanying notes to financial statements.

Cochise County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2011

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 209,212,874
Investment income	<u>171,259</u>
Total additions	<u>209,384,133</u>
 Deductions:	
Distributions to participants	<u>206,401,358</u>
Total deductions	<u>206,401,358</u>
 Change in net assets	 2,982,775
 Net assets, July 1, 2010	 <u>59,929,835</u>
 Net assets, June 30, 2011	 <u><u>\$ 62,912,610</u></u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Net Assets
Component Units
June 30, 2011

	Housing Authority of Cochise County	Cochise Private Industry Council, Inc.	Total
Assets			
Cash in bank and on hand	\$ 305,230	\$ 114,475	\$ 419,705
Cash and investments held by trustee	844,245		844,245
Receivables (net of allowances for uncollectibles):			
Accounts	4,541		4,541
Due from other governments	37,393	87,299	124,692
Prepaid items	4,138		4,138
Other assets		3,876	3,876
Capital assets, being depreciated, net	<u>20,418</u>	<u>25,593</u>	<u>46,011</u>
Total assets	<u>1,215,965</u>	<u>231,243</u>	<u>1,447,208</u>
Liabilities			
Accounts payable	23,734	20,187	43,921
Accrued payroll and employee benefits	12,354		12,354
Due to other governments	65,972		65,972
Due to related party		24,368	24,368
Deferred revenue	123,196	3,081	126,277
Noncurrent liabilities			
Due in more than 1 year	<u>106,421</u>	<u>17,343</u>	<u>123,764</u>
Total liabilities	<u>331,677</u>	<u>64,979</u>	<u>396,656</u>
Net Assets			
Invested in capital assets	20,418	25,593	46,011
Restricted for housing programs	627,011		627,011
Restricted for workforce development		95,782	95,782
Unrestricted	<u>236,859</u>	<u>44,889</u>	<u>281,748</u>
Total net assets	<u>\$ 884,288</u>	<u>\$ 166,264</u>	<u>\$ 1,050,552</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Activities
Component Units
Year Ended June 30, 2011

		<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
Component units:					
Housing Authority of Cochise County	\$ 2,857,598	\$ 2,917,195	\$ 59,597		\$ 59,597
Cochise Private Industry Council, Inc.	<u>1,402,180</u>	<u>1,402,027</u>		\$ (153)	<u>(153)</u>
Total component units	<u>4,259,778</u>	<u>4,319,222</u>	<u>59,597</u>	<u>(153)</u>	<u>59,444</u>
General revenues:					
Investment income			3,076	51	3,127
Miscellaneous			<u>-</u>	<u>19,941</u>	<u>19,941</u>
Total general revenues			<u>3,076</u>	<u>19,992</u>	<u>23,068</u>
Change in net assets			62,673	19,839	82,512
Net assets, July 1, 2010			<u>821,615</u>	<u>146,425</u>	<u>968,040</u>
Net assets, June 30, 2011			<u>\$ 884,288</u>	<u>\$ 166,264</u>	<u>\$ 1,050,552</u>

See accompanying notes to financial statements.

Cochise County
Notes to Financial Statements
June 30, 2011

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, 2011, the County implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classification of the governmental funds and clarifies existing governmental fund type definitions.

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 so intertwined with the County, that they 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, 2011

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 governing board members 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 governing board members and is able to impose its will on the Private Industry Council, but the Private Industry 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, 2011

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 *Anti-Racketeering Fund* accounts for resources from federal bond forfeitures and proceeds from auctions of equipment and vehicles seized during criminal racketeering activity. The County also holds monies for other governmental entities involved in the seizures until these entities receive approval for monies to be spent on anti-racketeering programs.

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 Fund's most significant revenue source is highway user revenue fees.

Cochise County
Notes to Financial Statements
June 30, 2011

The County reports the following major enterprise funds:

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

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

The County reports the following fund types:

The *internal service funds* account for 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 the Cochise County Community College District, local school districts, and other governmental entities.

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

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of agency funds, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

Cochise County
Notes to Financial Statements
June 30, 2011

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.

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.

Cochise County
Notes to Financial Statements
June 30, 2011

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.

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 and improvements	\$10,000	Straight-line	5-50 years
Improvements other than buildings	5,000	Straight-line	10-40 years
Equipment	5,000	Straight-line	5-20 years
Infrastructure	50,000	Straight-line	10-40 years

H. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted and unrestricted, which includes committed, assigned and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the County's Board of Supervisors, which is the highest level of decision-making authority within the County. The constraints placed on committed fund balances can only be removed or changed by the Board.

Cochise County

Notes to Financial Statements

June 30, 2011

The assigned fund balances are resources constrained by the County's intent to be used for specific purposes but are neither restricted nor committed. The Board of Supervisors has authorized the County Administrator to make assignments of resources for specific purposes.

Unassigned fund balance is the residual amount for the General Fund that is not reported in other classifications. Unassigned fund balance also includes deficits in fund balances in other governmental funds.

When an expenditure is incurred that can be paid from any of the classifications, the County uses restricted fund balances first. For the disbursement of unrestricted fund balances, the County will use committed fund balance, then assigned fund balance, and finally unassigned fund balance.

I. Investment Income

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

J. Compensated Absences

Compensated absences payable consists 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 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.

Cochise County
Notes to Financial Statements
June 30, 2011

Note 2 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2011, were as follows:

	<u>General Fund</u>	<u>Anti- Racketeering Fund</u>	<u>Capital Projects Fund</u>	<u>Highway and Streets Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balances:						
Restricted for:						
Debt service			\$ 878,500			\$ 878,500
Highway and streets				\$2,136,417		2,136,417
Anti-racketeering		\$122,386				122,386
Flood control					\$ 4,559,365	4,559,365
Health services					609,102	609,102
Judicial services					2,984,071	2,984,071
Library services					953,694	953,694
Law enforcement					1,095,144	1,095,144
Education services					223,695	223,695
Other services					<u>1,024,200</u>	<u>1,024,200</u>
Total restricted		<u>122,386</u>	<u>878,500</u>	<u>2,136,417</u>	<u>11,449,271</u>	<u>14,586,574</u>
Committed to:						
Board of Supervisors	\$ 45,881					45,881
Facilities	94,179					94,179
Capital projects			3,135,264			3,135,264
Highways and streets				<u>494,778</u>		<u>494,778</u>
Total committed	<u>140,060</u>		<u>3,135,264</u>	<u>494,778</u>		<u>3,770,102</u>
Assigned to:						
Capital projects			10,672,123			10,672,123
Highways and streets				3,400,000		3,400,000
Health services					333,440	333,440
Education					56,056	56,056
Other	<u>681,621</u>					<u>681,621</u>
Total assigned	<u>681,621</u>		<u>10,672,123</u>	<u>3,400,000</u>	<u>389,496</u>	<u>15,143,240</u>
Unassigned:	<u>29,819,004</u>				<u>(555,845)</u>	<u>29,263,159</u>
Total fund balances	<u>\$30,640,685</u>	<u>\$122,386</u>	<u>\$14,685,887</u>	<u>\$6,031,195</u>	<u>\$11,282,922</u>	<u>\$62,763,075</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, of 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.

Cochise County
Notes to Financial Statements
June 30, 2011

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
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 and certificates of deposit 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. 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, 2011, the carrying amount of the County's deposits was \$14,123,094, and the bank balance was \$16,640,540. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2011, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$ 55,000,000
U.S. Treasury securities	2,498,730
U.S. agency securities	62,302,308
U.S. Treasury money market fund	<u>878,500</u>
	<u>\$120,679,538</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.

Cochise County
Notes to Financial Statements
June 30, 2011

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

At June 30, 2011, 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	62,302,308
U.S. Treasury money market fund	AAAm	Standard & Poor's	<u>878,500</u>
			<u>\$118,180,808</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, 2011, the County had U.S. Treasury money market fund investments totaling \$878,500 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, 2011, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$ 7,026,420	5.8
Federal Home Loan Bank	30,591,048	25.4
Federal National Mortgage Association	<u>14,539,615</u>	12.1
	<u>\$52,157,083</u>	

Interest rate risk—Interest rate risk is the risk that changes in the 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, 2011, maturities of the County's investments were as follows:

Cochise County
Notes to Financial Statements
June 30, 2011

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	2,498,730	2,498,730	
U.S. agency securities	62,302,308	16,038,755	\$46,263,553
U.S. Treasury money market fund	<u>878,500</u>	<u>878,500</u>	
	<u>\$120,679,538</u>	<u>\$74,415,985</u>	<u>\$46,263,553</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	\$ 8,076
Amount of deposits	14,123,094
Amount of investments	<u>120,679,538</u>
Total	<u>\$134,810,708</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	\$ 188,455	\$ 20,487		\$765,401	\$ 974,343
Cash and investments held by County Treasurer	64,419,304	5,626,228	\$62,912,333		132,957,865
Cash and investments held by trustee	<u>878,500</u>				<u>878,500</u>
Total	<u>\$65,486,259</u>	<u>\$5,646,715</u>	<u>\$62,912,333</u>	<u>\$765,401</u>	<u>\$134,810,708</u>

Note 4 - Due from Other Governments

Due from other governments totaling \$7,285,506 at June 30, 2011, included \$1,164,647 in state-shared revenue from highway user fees, \$1,866,487 in state-shared sales taxes, \$912,484 in state-shared vehicle license taxes, and \$1,216,554 in county excise taxes received through the State. The remaining balance of \$2,125,334 represents amounts receivable from various state and federal government grantor agencies.

Cochise County
Notes to Financial Statements
June 30, 2011

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,515,752	\$ 22,629	\$ 392,500	\$ 2,145,881
Construction in progress	<u>2,444,780</u>	<u>1,019,596</u>	<u>1,895,701</u>	<u>1,568,675</u>
Total capital assets not being depreciated	<u>4,960,532</u>	<u>1,042,225</u>	<u>2,288,201</u>	<u>3,714,556</u>
Capital assets being depreciated:				
Buildings	45,598,731		358,985	45,239,746
Improvements other than buildings	3,159,619	1,211,780	18,634	4,352,765
Equipment	35,423,356	2,042,326	1,349,254	36,116,428
Infrastructure	<u>96,954,514</u>	<u>1,167,334</u>	<u>2,720,744</u>	<u>95,401,104</u>
Total	<u>181,136,220</u>	<u>4,421,440</u>	<u>4,447,617</u>	<u>181,110,043</u>
Less accumulated depreciation for:				
Buildings	11,752,526	1,155,504	229,149	12,678,881
Improvements other than buildings	1,097,397	224,178	18,634	1,302,941
Equipment	20,379,460	3,061,100	1,047,394	22,393,166
Infrastructure	<u>33,409,593</u>	<u>1,732,676</u>	<u>1,552,610</u>	<u>33,589,659</u>
Total accumulated depreciation	<u>66,638,976</u>	<u>6,173,458</u>	<u>2,847,787</u>	<u>69,964,647</u>
Total capital assets being depreciated, net	<u>114,497,244</u>	<u>(1,752,018)</u>	<u>1,599,830</u>	<u>111,145,396</u>
Governmental activities capital assets, net	<u>\$119,457,776</u>	<u>\$ (709,793)</u>	<u>\$3,888,031</u>	<u>\$114,859,952</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,599,900			\$ 1,599,900
Construction in progress	<u>43,330</u>			<u>43,330</u>
Total capital assets not being depreciated	<u>1,643,230</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>3,445,867</u>	<u>\$ 68,465</u>	<u>\$ 36,683</u>	<u>3,477,649</u>
Total	<u>13,775,405</u>	<u>68,465</u>	<u>36,683</u>	<u>13,807,187</u>
Less accumulated depreciation for:				
Buildings	1,070,820	87,385		1,158,205
Improvements other than buildings	3,125,283	202,397		3,327,680
Equipment	<u>2,443,289</u>	<u>212,986</u>	<u>25,720</u>	<u>2,630,555</u>
Total	<u>6,639,392</u>	<u>502,768</u>	<u>25,720</u>	<u>7,116,440</u>
Total capital assets being depreciated, net	<u>7,136,013</u>	<u>(434,303)</u>	<u>10,963</u>	<u>6,690,747</u>
Business-type activities capital assets, net	<u>\$ 8,779,243</u>	<u>\$ (434,303)</u>	<u>\$ 10,963</u>	<u>\$ 8,333,977</u>

Cochise County
Notes to Financial Statements
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Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$2,399,490
Public safety	287,390
Highways and streets	2,050,480
Health and welfare	5,634
Culture and recreation	3,868
Education	1,032
Internal service funds	<u>1,425,564</u>
Total governmental activities depreciation expense	<u>\$6,173,458</u>
Business-type activities:	
Cochise Health Systems	\$ 11,755
Solid Waste Operations	397,261
Bisbee-Douglas International Airport	<u>93,752</u>
Total business-type activities depreciation expense	<u>\$ 502,768</u>

Construction commitments—At June 30, 2011, the County was involved in eight construction projects. The estimated cost to complete the construction projects was \$5,148,200.

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within 1 year
Governmental activities					
Capital leases payable	\$ 2,141,689		\$1,440,319	\$ 701,370	\$ 206,817
Certificates of participation payable	5,830,000		630,000	5,200,000	650,000
Add: Unamortized premium	<u>81,084</u>		<u>16,217</u>	<u>64,867</u>	<u>16,217</u>
Total certificates of participation payable	<u>5,911,084</u>		<u>646,217</u>	<u>5,264,867</u>	<u>666,217</u>
Compensated absences payable	<u>4,028,442</u>	<u>\$2,306,809</u>	<u>2,228,284</u>	<u>4,106,967</u>	<u>2,813,993</u>
Total governmental activities long-term liabilities	<u>\$12,081,215</u>	<u>\$2,306,809</u>	<u>\$4,314,820</u>	<u>\$10,073,204</u>	<u>\$3,687,027</u>
Business-type activities					
Capital leases payable	\$ 168,498		\$ 80,163	\$ 88,335	\$ 28,270
Landfill closure and postclosure care costs payable	2,466,727	\$ 236,245	52,514	2,650,458	22,436
Compensated absences payable	<u>246,319</u>	<u>156,581</u>	<u>162,452</u>	<u>240,448</u>	<u>210,921</u>
Total business-type activities long-term liabilities	<u>\$ 2,881,544</u>	<u>\$ 392,826</u>	<u>\$ 295,129</u>	<u>\$ 2,979,241</u>	<u>\$ 261,627</u>

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

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Equipment	\$1,601,861	\$141,576
Less: accumulated depreciation	<u>464,714</u>	<u>33,034</u>
Carrying value	<u>\$1,137,147</u>	<u>\$108,542</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2011:

Year ending June 30	Governmental Activities	Business-Type Activities
2012	\$234,187	\$31,572
2013	180,548	31,572
2014	134,512	31,572
2015	110,792	
2016	<u>110,792</u>	<u> </u>
Total minimum lease payments	<u>770,831</u>	<u>94,716</u>
Less amount representing interest	<u>69,461</u>	<u>6,381</u>
Present value of net minimum lease payments	<u>\$701,370</u>	<u>\$88,335</u>

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

Certificates outstanding at June 30, 2011, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2011 to 2017	2.5 – 5.0%	\$5,200,000

Cochise County
Notes to Financial Statements
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The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2011:

Year ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 650,000	\$216,263
2013	675,000	187,200
2014	710,000	152,575
2015	745,000	119,925
2016	775,000	89,525
2017-2018	<u>1,645,000</u>	<u>74,812</u>
Total	<u>\$5,200,000</u>	<u>\$840,300</u>

Landfill closure and postclosure care costs—State and federal laws and regulations require the County to place a final cover on its solid waste landfill sites when 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 landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the County operates the landfill. These costs will be paid from solid waste fees in the Enterprise Fund. At June 30, 2011, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2011, the County reported landfill closure and postclosure care liabilities totaling \$2,650,458. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills and was based on landfill capacity used at June 30, 2011. The liability reported for the Eastern Regional landfill of \$587,615 was based on 100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$2,062,843 was based on the use of 15.95 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,870,341 as the remaining estimated capacity is filled. The County expects to close this landfill in 2042. The landfills' closure and postclosure care costs were based on what it would cost to perform all closure and postclosure care in fiscal year 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2011, the County paid for compensated absences as follows: 67.04 percent from the General Fund, 8.32 percent from the Highway and Streets Fund, 4.94 percent from the Enterprise Funds, and 19.7 percent from other funds.

Cochise County
Notes to Financial Statements
June 30, 2011

Note 7 - Risk Management

The County is exposed to various risk 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 currently composed of two member entities. The Trust provides the benefits through a self-funding agreement with its participants and has contracted with a third party to administer the program. The County is responsible for paying the premium and may require its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for a proportional share of any claims run-out costs, including administrative costs, that exceed trust fund reserves. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

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

Cochise County
Notes to Financial Statements
June 30, 2011

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 towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona and participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a seven-member board, known as The Board of Trustees, 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
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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 plan—For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent for retirement and 0.25 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 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premiums, and 0.25 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:

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Year ended June 30			
2011	\$2,541,038	\$166,394	\$ 70,506
2010	2,402,383	190,117	115,222
2009	2,891,964	347,470	180,974

Agent plan—For the year ended June 30, 2011, 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 26.29 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.77 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2011, were established by the June 30, 2009, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on 1) the plan as understood by the County and plan's members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plan's members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2011 contribution requirements are as follows:

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

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the PSPRS agent plan for the year ended June 30, 2011, and related information follows:

	PSPRS	
	Pension	Health Insurance
Annual pension/OPEB cost	\$1,178,270	\$75,341
Contributions made	1,214,186	39,425

Trend Information—Annual pension and OPEB cost information for the current and 2 preceding years follows for the PSPRS agent plan.

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ (OPEB Obligation)
PSPRS				
Pension	2011	\$1,178,270	103%	\$35,916
Health insurance	2011	75,341	52	(35,916)
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)

Cochise County
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Funded Status—The funded status of the plan as of the most recent valuation date, June 30, 2011, 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)	\$30,854,097	\$ 869,714
Actuarial value of assets (b)	14,386,319	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	16,467,778	869,714
Funded ratio (b)/(a)	46.60%	0%
Covered payroll (c)	\$ 4,862,547	\$4,862,547
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a) – (b)] / (c)	338.70%	17.89%

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

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	25 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.0% – 8.0%
includes inflation at	5.0%

Cochise County
Notes to Financial Statements
June 30, 2011

Note 9 - Interfund Transactions

Interfund receivables and payables—Interfund balances at June 30, 2011, were as follows:

Payable from	Payable to									Total
	General Fund	Anti-Racketeering Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Cochise Health Systems Fund	Solid Waste Operations Fund	BDI Airport Fund	Internal Service Funds	
General Fund			\$18,636	\$ 732	\$ 81,390	\$23,150	\$ 66		\$180,337	\$ 304,311
Anti-Racketeering Fund					124,778					124,778
Capital Projects Fund	\$ 10,941									10,941
Highway and Streets Fund	302,711				335				187,081	490,127
Other Governmental Funds	352,439	\$100	10,713		157,276	47	22,000		5,397	547,972
Cochise Health Systems Fund	215,177								1,404	216,581
Solid Waste Operations Fund	777,587			6,670					191,630	975,887
BDI Airport Fund	77								2,609	2,686
Internal Service Funds	41,044			30			73,059	538		114,671
Total	<u>\$1,699,976</u>	<u>\$100</u>	<u>\$29,349</u>	<u>\$7,432</u>	<u>\$363,779</u>	<u>\$23,197</u>	<u>\$95,125</u>	<u>\$538</u>	<u>\$568,548</u>	<u>\$2,787,954</u>

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, 2011, were as follows:

Transfers from	Transfers to					Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Internal Service Funds	
General Fund		\$ 31,500		\$ 192,502		\$ 224,002
Anti-Racketeering Fund				56,289		56,289
Capital Projects Fund	\$ 245,867				\$ 5,504	251,371
Highway and Streets Fund	15,805			335	112,000	128,140
Other Governmental Funds	487,768	113,746	\$38,342	1,044,956		1,684,812
Cochise Health Systems Fund	899,707	7,001,200				7,900,907
Solid Waste Operations Fund					123,395	123,395
Total	<u>\$1,649,147</u>	<u>\$7,146,446</u>	<u>\$38,342</u>	<u>\$1,294,082</u>	<u>\$240,899</u>	<u>\$10,368,916</u>

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

Cochise County
Notes to Financial Statements
June 30, 2011

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, and all 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 deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$6,076 of cash, \$968,267 of deposits, and an \$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 7	\$55,000,000	None stated	None stated	\$55,000,000
U.S. Treasury securities	2,500,000	Zero coupon	Less than 1 year	2,498,730
U.S. agency securities	61,000,000	.26–2.35%	Up to 5 years	62,302,308

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

Statement of Net Assets

Assets	<u>\$132,958,142</u>
Net assets	<u>\$132,958,142</u>

Net assets held in trust for:

Internal participants	\$ 70,045,532
External participants	<u>62,912,610</u>
Total net assets held in trust	<u>\$132,958,142</u>

Statement of Changes in Net Assets

Total additions	\$331,081,016
Total deductions	<u>323,313,037</u>
Net increase	<u>7,767,979</u>
Net assets held in trust:	
July 1, 2010	<u>125,190,163</u>
June 30, 2011	<u>\$132,958,142</u>

Cochise County
Notes to Financial Statements
June 30, 2011

Note 11 - Subsequent Events

Cochise County's contract with the Arizona Health Care Cost Containment System expired on September 30, 2011. The Cochise Health Systems Fund, a major enterprise fund, intends to continue paying authorized claims through September 30, 2012, in accordance with the contract. As a result, the Cochise Health Systems Fund is scheduled to be closed at or before September 2012.

Note 12 - 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 one 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.

Program Revenues

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

Cochise County
Notes to Financial Statements
June 30, 2011

B. Cash and Investments

Housing Authority of Cochise County

At June 30, 2011, the carrying amount of the Housing Authority's deposits was \$1,149,475 and the bank balance was \$1,201,646.

Cochise Private Industry Council, Inc.

At June 30, 2011, the carrying amount of the Cochise Private Industry Council, Inc.'s deposits was \$114,475 and the bank balance was \$147,137.

The Cochise Private Industry Council does not have any formal policies as it relates to custodial credit risk 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, 2011:

Program	Amount
<i>Cochise County, Arizona</i>	
WIA Youth Program	\$30,890
WIA Adult Program	22,183
WIA Dislocated Workers	19,590
WIA Rapid Response	2,757
 <i>Pima County, Arizona</i>	
State Energy Sector Grant	5,774
WIA Adult Program	1,671
Veterans Employment Program	942
Other	<u>3,492</u>
Total	<u>\$87,299</u>

D. Schedule of Changes in Noncurrent Liabilities

Housing Authority of Cochise County

	June 30, 2010		Year Ended June 30, 2011		June 30, 2011	
	Long-term Portion	Current Portion	Additions	Payments and Adjustments	Current Portion	Long-term Portion
Accrued compensated absences	\$ 9,681	\$6,793	\$ 9,923	\$ (1,660)	\$12,354	\$ 12,383
Family self-sufficiency	<u>81,695</u>		<u>37,800</u>	<u>(25,457)</u>		<u>94,038</u>
	<u>\$91,376</u>	<u>\$6,793</u>	<u>\$47,723</u>	<u>\$(27,117)</u>	<u>\$12,354</u>	<u>\$106,421</u>

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Other Required Supplementary Information

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 34,405,681	\$ 34,581,806	\$ 34,631,797	\$ 49,991
Licenses and permits	35,000	35,000	25,673	(9,327)
Intergovernmental	12,679,958	12,679,958	13,620,035	940,077
Charges for services	2,309,304	2,309,304	2,257,533	(51,771)
Fees, fines, and forfeits	1,918,600	1,918,600	1,942,790	24,190
Interest	302,500	302,500	203,625	(98,875)
Miscellaneous	180,360	180,360		(180,360)
Donations			10,000	10,000
Total revenues	<u>51,831,403</u>	<u>52,007,528</u>	<u>52,691,453</u>	<u>683,925</u>
Expenditures:				
Assessor	1,950,009	1,915,738	1,605,153	310,585
Attorney	2,257,728	2,257,685	1,890,841	366,844
Board of Supervisors	1,417,272	1,416,497	904,273	512,224
Cochise Aging and Social Services	9,133,181	9,133,181	7,438,474	1,694,707
General Government	9,926,086	10,240,572	6,526,653	3,713,919
General Government Contingency	20,618,322	20,108,971		20,108,971
Health	1,369,890	1,366,739	1,017,811	348,928
Judicial System	9,581,775	9,781,747	8,975,179	806,568
Public and Legal Defenders	2,271,681	2,221,413	2,215,650	5,763
Recorder	404,914	404,914	360,548	44,366
Public Safety	17,574,465	17,660,011	16,864,889	795,122
School Superintendent	380,262	378,117	354,345	23,772
Treasurer	1,161,695	1,161,695	1,047,823	113,872
Total expenditures	<u>78,047,280</u>	<u>78,047,280</u>	<u>49,201,639</u>	<u>28,845,641</u>
Excess (deficiency) of revenues over expenditures	(26,215,877)	(26,039,752)	3,489,814	29,529,566
Other financing sources:				
Capital assets sales proceeds	126,000	126,000	82,537	(43,463)
Transfers in	<u>1,530,695</u>	<u>1,773,627</u>	<u>1,649,147</u>	<u>(124,480)</u>
Total other financing sources	<u>1,656,695</u>	<u>1,899,627</u>	<u>1,731,684</u>	<u>(167,943)</u>
Net change in fund balances	(24,559,182)	(24,140,125)	5,221,498	29,361,623
Fund balances, July 1, 2010	<u>24,559,182</u>	<u>24,140,125</u>	<u>25,419,187</u>	<u>1,279,062</u>
Fund balances, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,640,685</u>	<u>\$ 30,640,685</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Highway and Streets Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final
Revenues				
Taxes	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	
Intergovernmental	8,725,000	8,725,000	9,428,960	\$ 703,960
Charges for services	1,026,200	1,026,200	599,175	(427,025)
Investment income	75,000	75,000	22,760	(52,240)
Miscellaneous	3,458,166	5,121,843	-	(5,121,843)
Total revenues	<u>15,084,366</u>	<u>16,748,043</u>	<u>11,850,895</u>	<u>(4,897,148)</u>
Expenditures:				
Current:				
Highways and streets	<u>14,842,651</u>	<u>16,544,670</u>	<u>10,983,337</u>	<u>5,561,333</u>
Total expenditures	<u>14,842,651</u>	<u>16,544,670</u>	<u>10,983,337</u>	<u>5,561,333</u>
Excess (deficiency) of revenues over expenditures	241,715	203,373	867,558	664,185
Other financing sources (uses):				
Sale of capital assets	10,000	10,000	122,005	112,005
Transfers in	-	38,342	38,342	-
Transfers out	<u>(251,715)</u>	<u>(251,715)</u>	<u>(128,140)</u>	<u>123,575</u>
Total other financing sources and uses	<u>(241,715)</u>	<u>(203,373)</u>	<u>32,207</u>	<u>235,580</u>
Net change in fund balances	<u> </u>	<u> </u>	<u>899,765</u>	<u>899,765</u>
Fund balances, July 1, 2010	<u> </u>	<u> </u>	<u>5,131,430</u>	<u>5,131,430</u>
Fund balances, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,031,195</u>	<u>\$ 6,031,195</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Anti-Racketeering Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final
Revenues				
Fines and forfeits	\$ 31,000	\$ 31,000	\$ 178,166	\$ 147,166
Investment income	21,000	21,000	8,618	(12,382)
Miscellaneous	808,586	808,586	-	(808,586)
Total revenues	<u>860,586</u>	<u>860,586</u>	<u>186,784</u>	<u>(673,802)</u>
Expenditures:				
General government	<u>759,868</u>	<u>759,868</u>	<u>539,309</u>	<u>220,559</u>
Total expenditures	<u>759,868</u>	<u>759,868</u>	<u>539,309</u>	<u>220,559</u>
Excess (deficiency) of revenues over expenditures	100,718	100,718	(352,525)	(453,243)
Other financing sources (uses):				
Sale of capital assets	239,000	239,000	368,100	129,100
Transfers out	<u>(339,718)</u>	<u>(339,718)</u>	<u>(56,289)</u>	<u>283,429</u>
Total other financing sources and uses	<u>(100,718)</u>	<u>(100,718)</u>	<u>311,811</u>	<u>412,529</u>
Net change in fund balances	<u> </u>	<u> </u>	<u>(40,714)</u>	<u>(40,714)</u>
Fund balances, July 1, 2010	<u> </u>	<u> </u>	<u>163,100</u>	<u>163,100</u>
Fund balances, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,386</u>	<u>\$ 122,386</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2011

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, 2011

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 6/30/11	\$14,386,319	\$30,854,097	(\$16,467,778)	46.6%	\$4,862,547	338.7%
Health Insurance 6/30/11	0	869,714	(869,714)	0.0%	4,862,547	17.9%
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%

Supplementary Information

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
Passed through the City of Tucson			
High-Intensity Drug Trafficking Areas	07.I9PSAP501Z	HT19-09-0512, HT19-09-2711	\$ 63,387
High-Intensity Drug Trafficking Areas	07.I0PSAP501Z	HT20-10-0512, HT20-10-0513	403,603
High-Intensity Drug Trafficking Areas	07.I1PSAP501Z	HT21-11-0513	81,651
Total U.S. Office of National Drug Control Policy			<u>548,641</u>
U.S. Department of Agriculture			
National Forest System—Law Enforcement	10.11-LE-11030518-001		7,509
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861081, HG050274	622,519
Commodity Supplemental Food Program	10.565	HG653013	3,967
WIC Farmers' Market Nutrition Program (FMNP)	10.572	HG861327	490
Passed through Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	Elec Credit	442,387
Total U.S. Department of Agriculture			<u>1,076,872</u>
U.S. Department of Housing and Urban Development			
Passed through the City of Sierra Vista			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	None	58,225
Passed through the Arizona Department of Housing			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	125-10, 127-10, 133-08	192,972
Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii			<u>251,197</u>
Passed through the Arizona Department of Housing			
Home Investment Partnerships Program	14.239	None	132,901
Housing Opportunities for Persons with AIDS	14.241		208,907
Section 8 Housing Choice Vouchers	14.871		2,250,247
Veterans Affairs Supportive Housing	14.VSH		47,947
Total U.S. Department of Housing and Urban Development			<u>2,891,199</u>
U.S. Department of the Interior			
Cultural Resource Management	15.224		4,631
Payments in Lieu of Taxes	15.226		1,914,753
Passed through the Arizona State Treasurer			
Distribution of Receipts to State and Local Governments	15.227	Elec Credit	6,072
Total U.S. Department of Interior			<u>1,925,456</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Justice			
Passed through the Arizona Governor's Office for Children, Youth and Families			
Juvenile Accountability Block Grants	16.523	JB-CSG-11-1273-01	\$ 22,453
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2009-VA-GX-0060	57,792
Edward Byrne Memorial Formula Grant Program	16.579		72,042
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589		165,000
State Criminal Alien Assistance Program	16.606		76,329
Passed through the Governor's Office of Highway Safety			
Enforcing Underage Drinking Laws Program	16.727	2011-DOJ-013 (2010)	1,859
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		67,906
Passed through the Arizona Criminal Justice Commission			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-11-105	52,325
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>120,231</u>
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	378,479
Total JAG Program Cluster			<u>498,710</u>
Total U.S. Department of Justice			<u>894,185</u>
U.S. Department of Labor			
WIA Cluster:			
Passed through Pima County, Arizona			
WIA Adult Program	17.258	07-69-C-142871-0110	23,183
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	DE101054001/ DE111004001	376,222
ARRA—WIA Adult Program	17.258	DE091205001	9,229
Total WIA Adult Program			<u>408,634</u>
WIA Youth Activities	17.259	DE101054001/ DE111004001	245,506
ARRA—WIA Youth Activities	17.259	DE091205001	3,959
Total WIA Youth Activities Program			<u>249,465</u>
WIA Dislocated Worker Formula Grants	17.278	DE101054001/ DE111004001	235,170
ARRA—WIA Dislocated Workers	17.260	DE091205001	41,728
Total WIA Dislocated Worker Program			<u>276,898</u>
Total WIA Cluster			<u>934,997</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through Pima County, Arizona			
Community Based Job Training Grants	17.269	11-69-C-140340-0707-2	\$ 274,236
ARRA—Programs of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	07-69-C-143280-0710	77,453
Veterans' Employment Program	17.802	07-69-C-142723-0709	51,825
Total U.S. Department of Labor			<u>1,338,511</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106		264,470
Highway Safety Cluster:			
Passed through the Governor's Office of Highway Safety State and Community Highway Safety	20.600	2011-AL-019, 2010-PT-048, 2011-PT-013	14,744
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	2008-410-001, 2010-410-050	50,281
Total Highway Safety Cluster			<u>65,025</u>
Total U.S. Department of Transportation			<u>329,495</u>
U.S. Institute of Museum and Library Services			
Passed through the Arizona State Library, Archives and Public Records			
Grants to States	45.310	2010-390462, 2010-30104-01	11,802
U.S. Department of Energy			
ARRA—Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		<u>327,351</u>
U.S. Department of Education			
Passed through the Arizona Supreme Court			
Title I Grants To Local Educational Agencies	84.010	28072	90,837
Passed through the Arizona Department of Education			
Special Education—Grants to States	84.027	H027A050007	5,000
Education Technology State Grants	84.318	11FETSTP-160950-02A	93,300
English Language Acquisition Grants	84.365	T365A90003A	11,172
Improving Teacher Quality State Grants	84.367	S367A070049	83,784
Passed through the Governor's Office of Economic Recovery			
ARRA—State Fiscal Stabilization Fund (SFSF)— Government Services, Recovery Act	84.397	OER-11-IGA-GS-12, OER-11-IGA-GS-28	959,071
Total U.S. Department of Education			<u>1,243,164</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Election Assistance Commission			
Passed through the Arizona Secretary of State Help America Vote Act Requirements Payments	90.401	Ck # 213518473	\$ <u>26,173</u>
U.S. Department of Health and Human Services			
Passed through the Southeastern Arizona Governments Organization			
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	12 Amendment 11-1	267,711
Passed through the Arizona Department of Health Services Public Health Emergency Preparedness	93.069	HG754193	276,699
Immunization Cluster:			
Immunization Grants	93.268	HG854282	88,111
ARRA—Immunization	93.712	HG854282	<u>30,555</u>
Total Immunization Cluster			<u>118,666</u>
HIV Prevention Activities—Health Department Based Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.940	HG852278	16,856
Maternal and Child Health Services Block Grant to the States	93.977	HG854323	2,672
Passed through the Arizona Department of Economic Security Grants to States for Access and Visitation Programs	93.994	HG854245, HU05217.	35,764
	93.597	DE111155001	<u>3,534</u>
Total U.S. Department of Health and Human Services			<u>721,902</u>
Department of Homeland Security			
Passed through the Arizona Department of Emergency and Military Affairs			
Emergency Management Performance Grants	97.042	222403-04	93,646
Homeland Security Cluster:			
Passed through the Arizona Department of Homeland Security Homeland Security Grant Program	97.067	08-AZDOHS-OPSG- 444433-03, 09-AZDOHS- OPSG-555415-01, 555415-02, 555415-04, 777400-01, 777400-02, 777400-03, 777400-04, 10-AZDOHS-OPSG- 777404-03, 777404-04	975,467
Passed through the Arizona State Emergency Response Commission			
Homeland Security Grant Program	97.067	None	<u>6,979</u>
Total Homeland Security Cluster			<u>982,446</u>
Total Department of Homeland Security			<u>1,076,092</u>
Total Expenditures of Federal Awards			<u>\$ 12,410,843</u>

See accompanying notes to schedule.

Cochise County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

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 2011 *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
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	\$ 34,829
WIA Youth Activities	17.259	165,000
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	20,227
Education Technology State Grants	84.318	78,615
Homeland Security Grant Program	97.067	6,979



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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 28, 2012. Our report was modified to include a reference to our reliance on other auditors and as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. 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

The County's management is responsible for establishing and maintaining effective 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 and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 11-01 that we consider to be a significant deficiency 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 response to the finding identified in our audit is presented on page 66. We did not audit the County's response and, accordingly, we express no opinion on it.

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, 2012



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, 2011, 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 11-101 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding the Davis-Bacon Act that are applicable to its ARRA—Energy Efficiency and Conservation Block Grant Program (EECBG). Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, based on our audit and the reports of the other auditors, except for the noncompliance described in the preceding paragraph, 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 major federal programs for the year ended June 30, 2011. The results of our auditing procedures and the reports of the other auditors also disclosed another instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 11-102.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 another deficiency that we consider to be a significant deficiency.

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 11-101 to be a material 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-102 to be a significant deficiency.

Cochise County's responses to the findings identified in our audit are presented on page 67. 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, 2012

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Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

	Yes	No
Material weaknesses identified?	—	<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 ARRA—Energy Efficiency and Conservation Block Grant Program (EECBG), which was qualified.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])? X —

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871	Section 8 Housing Choice Vouchers
15.226	Payments in Lieu of Taxes
16.738, 16.803	JAG Program Cluster
17.258, 17.259, 17.260, 17.278	WIA Cluster
81.128	ARRA—Energy Efficiency and Conservation Block Grant Program (EECBG)
84.397	ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Dollar threshold used to distinguish between Type A and Type B programs: \$372,325

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

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u> X </u>	<u> </u>
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Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Financial Statement Findings

11-01

The County should continue to strengthen its controls over preventing unauthorized use or modification of its financial information

Criteria: The County should have adequate and effective controls over its general ledger information system to prevent and detect unauthorized access and 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 did not monitor access to or modifications of its general ledger database information. Therefore, if financial information was incorrectly or inappropriately used or modified, the County would not have detected it. In addition, the County upgraded its general ledger information system during fiscal year 2010 and changes were made to various system operations. However, the County had not updated its written policies and procedures for these changes. Also, the County does not have written policies and procedures for monitoring system activity.

Effect: Because financial information could have been inappropriately accessed or modified without timely detection, the County's financial information could have been materially altered. In addition, 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: The County's management stated that they have not had the needed resources to update and develop the system's policies and procedures and adequately monitor access to the system's financial information because the County has experienced high turnover in its Information Technology Department employees.

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

- Update the system's written policies and procedures for operational changes due to system upgrades
- Develop policies and procedures over monitoring and actively monitor system activity logs and databases for access to and modifications of general ledger database information.

This finding is similar to a prior-year finding.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Federal Award Findings and Questioned Costs

11-101

CFDA No.: 81.128 **ARRA—Energy Efficiency and Conservation Block Grant Program (EECBG)**

U.S. Department of Energy

Award Period: 12/21/2009 through 12/20/2012

Award Number: SC0003348

Davis-Bacon Act

Questioned Cost: \$36,886

Criteria: According to the Davis-Bacon Act, as set forth in 29 Code of Federal Regulations (CFR) §5.5, the County must require all contractors and subcontractors that are awarded more than \$2,000 in federal monies for construction and minor remodeling projects to pay wages at least equal to rates prevailing for similar projects in the area, as determined by the U.S. Secretary of Labor.

Condition and context: For two of the three contractors hired by the County for the Program, the County did not include the required Davis-Bacon Act requirements in the contract agreements or monitor the contractors to determine if they paid the prevailing wage rates to their workers. Those workers were paid a total of \$36,886, which represented 11 percent of the Program's total expenditures of \$327,351.

Effect: The County failed to demonstrate that it complied with the Davis-Bacon Act requirements. This finding is a material weakness in internal control over compliance and material noncompliance with the Program's Davis-Bacon Act requirements.

Cause: Toward the end of one of the Program's projects, the County found it necessary to quickly hire two additional construction contractors but neglected to include the David-Bacon Act requirements in their contract agreements or monitor them to ensure they paid prevailing wages. Therefore, the County did not have adequate procedures in place to ensure that its Davis-Bacon contracting policies were followed.

Recommendation: In order to comply with Davis-Bacon Act requirements, the County should establish procedures to ensure that its contracting policies and procedures are followed and applicable construction contracts include the Davis-Bacon Act requirements, and all contractors are adequately monitored to ensure they pay the prevailing wage rates to their workers.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Other auditors' finding:

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

11-102

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

Condition:

Deficiencies in Internal Controls Over Tenant File Maintenance

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

- 3 files did not show income verification
- 1 file contained an incorrect utility allowance
- 3 files had incorrect rent calculation
- 2 files did have documentation of rent reasonableness

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

Richard R. Searle
Chairman
District 3

Patrick G. Call
Vice-Chairman
District 1

Ann English
Supervisor
District 2



Michael J. Ortega
County Administrator

James E. Vlahovich
Deputy County Administrator

Katie A. Howard
Clerk

March 16, 2012

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards*, and 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 Questions costs.

Sincerely,

Lois Klein
Director of Finance
Cochise County

Cochise County
Corrective Action Plan
Year Ended June 30, 2011

Financial Statement Findings

11-01

The County should continue to strengthen its controls over preventing unauthorized use or modification of its financial information

Contact: Travis Cutright, IT Director, 520-432-8303

Anticipated Completion Date: March 19, 2012

Corrective Action Plan:

The County IT Department will enable logging on the Microsoft servers to monitor and track who has accessed the system. They will also review and update as necessary, their procedures related to securing and reviewing access to the New World server.

Cochise County
Corrective Action Plan
Year Ended June 30, 2011

Federal Award Findings and Questioned Costs

11-101

CFDA No.: 81.128 **ARRA—Energy Efficiency and Conservation Block Grant Program (EECBG)**

U.S. Department of Energy

Award Period: December 21, 2009 through December 20, 2012

Award Number: SC0003348

Davis-Bacon Act

Contact: Eddie Levins, Facilities Director, 520-432-9734

Anticipated Completed Date: March 15, 2012

Corrective Action Plan:

To ensure this finding is fully corrected, the Facilities Management Department will require that all applicable construction contracts associated with federal grant programs include the Davis-Bacon Act requirements and that the contracts are properly reviewed for compliance with Davis-Bacon Act. The review will be conducted by the Facilities Director and the designated representative from the Cochise County Procurement Department. A signed memorandum will be included in the grant management file indicating that the review was conducted. A procedure will be established to outline provisions for monitoring of contractor and subcontractor compliance with prevailing wage requirements and submittal of appropriate documentation for the record.

11-102

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 11-102 is included in the Schedule of Findings and Questioned Costs immediately following the finding. A contact person and an anticipated completion date were not provided.

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Board of Supervisors

Richard R. Searle
Chairman
District 3

Patrick G. Call
Vice-Chairman
District 1

Ann English
Supervisor
District 2



Michael J. Ortega
County Administrator

James E. Vlahovich
Deputy County Administrator

Katie A. Howard
Clerk

March 16, 2012

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

Dear Ms. Davenport:

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

Sincerely,

Lois Klein
Director of Finance
Cochise County, Arizona

Cochise County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Status of Federal Award Findings and Questioned Costs

Finding No.: 10-101

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

U. S. Department of Justice

Status: Fully Corrected

Finding No.: 10-102

CFDA No.: 20.106 Airport Improvement Program

U. S. Department of Transportation

Status: Partially corrected.

The County posted the policies for wage documentation on federal programs and published where to find these policies in an all County e-mail, 3/18/11. This was to ensure that employees were aware of established policies and procedures. While the employee documented time spent on this program, they did not follow the policy to account for the total activity for which they were compensated.

To ensure this finding is fully corrected the Facilities Department will verify 100% compliance with the current County policy, requiring all employees working on federal grant programs to prepare and properly authenticate by signature, a personnel time distribution report to certify an accurate accountability of the total time each employee is compensated while working in connection with a federal grant program for each pay period. The personnel time distribution report will also be verified and signed by the immediate supervisor, to be in compliance with current County policy. Staff will also be required to attend formal grants management training for proper administration of grant programs.

Finding No.: 10-103

Housing Authority of Cochise County

CFDA No.: 14.871 Section 8 Housing Choice vouchers

U. S. Department of Housing and Urban Development

Status: This finding continues as finding 11-102