



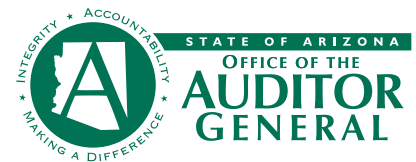
A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County

Year Ended June 30, 2014



Debra K. Davenport
Auditor General

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



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Cochise County
Single Audit Reporting Package
Year Ended June 30, 2014

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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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 have been furnished to us, and our opinions, insofar as they relate to the amounts included for the 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through xi, the Budgetary Comparison Schedules on pages 40 through 43, and the Schedule of Agent Retirement Plans' Funding Progress on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information—Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies

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, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2015, 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* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

February 26, 2015

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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, 2014. 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 \$192,169,319 (net position). Of this amount, \$49,440,853 (unrestricted net position) 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 position of \$188,331,408, an increase of \$4,569,900 over the prior year's net position.
- At the end of the fiscal year, unassigned fund balance in the General Fund was \$31,577,877, or 60.72 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 \$4,029,681 during the current fiscal year. The net decrease is attributable to the normal debt service on capital leases and certificates of participation and the defeasance of the balance of certificates of participation in the amount of \$3,165,000.

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 Position* presents information on all of Cochise County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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, sanitation, health and welfare, culture and recreation, and education. The business-type activities include the Cochise County Solid Waste Operations and the Bisbee-Douglas International Airport.

Management's Discussion and Analysis

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.

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

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

Management's Discussion and Analysis

Proprietary funds include two types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for 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. The Solid Waste Operations is considered to be a major fund and is 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 38 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 40 through 44 of this report.

Government-wide Financial Analysis

Below is a comparative analysis between fiscal years for the government-wide statements. Capital assets, net of accumulated depreciation, had a net increase of \$2,240,777. The County's main capital purchases were \$1,888,096 for roads, guardrails and culverts infrastructure; \$968,702 for new vehicles; \$1,205,203 for heavy equipment; \$1,427,057 for dispatch consoles; \$901,095 for the Douglas Service Center; \$675,124 for Bisbee-Douglas International airport rehabilitation; \$864,529 for an additional landfill cell; and a net decrease of construction in progress of \$151,394. The current year's depreciation of capital assets totaled \$6,609,064.

Management's Discussion and Analysis

Statement of Net Position—As noted earlier, net position 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 \$192,169,319.

Governmental and Business-type Activities Summary Comparison Statement of Net Position June 30, 2013 and 2014

	Governmental Activities		Business-type Activities		Total	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
Assets:						
Current and other assets	\$ 78,208,852	\$ 75,874,320	\$ (464,175)	\$ (373,066)	\$ 77,744,677	\$ 75,501,254
Capital assets	<u>119,336,596</u>	<u>121,698,632</u>	<u>7,894,759</u>	<u>7,773,500</u>	<u>127,231,355</u>	<u>129,472,132</u>
Total assets	<u>197,545,448</u>	<u>197,572,952</u>	<u>7,430,584</u>	<u>7,400,434</u>	<u>204,976,032</u>	<u>204,973,386</u>
Liabilities:						
Other liabilities	5,461,166	4,838,088	54,808	78,289	5,515,974	4,916,377
Long-term liabilities	<u>8,322,774</u>	<u>4,403,456</u>	<u>3,271,047</u>	<u>3,484,234</u>	<u>11,593,821</u>	<u>7,887,690</u>
Total liabilities	<u>13,783,940</u>	<u>9,241,544</u>	<u>3,325,855</u>	<u>3,562,523</u>	<u>17,109,795</u>	<u>12,804,067</u>
Net position:						
Net investment in capital assets	115,096,111	121,487,828	7,864,123	7,773,500	122,960,234	129,261,328
Restricted	14,525,999	13,467,138			14,525,999	13,467,138
Unrestricted	<u>54,139,398</u>	<u>53,376,442</u>	<u>(3,759,394)</u>	<u>(3,935,589)</u>	<u>50,380,004</u>	<u>49,440,853</u>
Total net position	<u>\$183,761,508</u>	<u>\$188,331,408</u>	<u>\$ 4,104,729</u>	<u>\$ 3,837,911</u>	<u>\$187,866,237</u>	<u>\$192,169,319</u>

A large portion of Cochise County's net position (67.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). This amount is presented less accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

The County's total net position increased by \$4,303,082 during the fiscal year, compared to a decrease of \$1,577,911 for the prior fiscal year. This net position increase is attributable to the following factors. The governmental activities had an increase in capital grants/contributions of \$7,955,178 and an increase in other revenue of \$1,909,832. This was offset by a combined decrease in charges for services and operating grants of \$1,049,203 and a decrease in property tax revenue of \$840,220. Total expenses also increased by \$2,746,084 mainly due to project expenses from the contributions. The business-type activities had a decrease in net position of \$266,818 compared to a net decrease of \$1,075,029 in FY12/13. The Bisbee-Douglas International Airport had \$311,079 less in expenses due to the absence of large projects for FY13/14. While they had a net loss of \$72,391, that was an increase of \$264,218 over

Management's Discussion and Analysis

last year's net loss of \$336,609. Solid Waste also had a decrease in their loss of \$543,993 over FY12/13. In FY13/14 they received a one-time transfer of \$358,241 to cover previous year's losses on rural transfer stations and their total personnel costs decreased by \$151,646. The County has continued its 10 percent reduction in salaries and benefits along with a hard hiring freeze and controls on expenses.

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

Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2013 and 2014

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Revenues						
Program revenues:						
Charges for services	\$ 7,400,754	\$ 7,094,313	\$4,266,751	\$4,331,283	\$11,667,505	\$11,425,596
Operating grants and contributions	20,606,282	19,863,520			20,606,282	19,863,520
Capital grants	820,790	8,775,968			820,790	8,775,968
General revenues:						
Property taxes	32,968,573	32,128,353			32,968,573	32,128,353
State shared sales tax	11,512,794	11,879,983			11,512,794	11,879,983
Unrestricted vehicle license tax	3,425,880	3,449,686			3,425,880	3,449,686
County excise tax	6,463,264	6,369,441	281,769	322,602	6,745,033	6,692,043
Other	<u>2,638,097</u>	<u>4,547,929</u>	<u>21,847</u>	<u>28,478</u>	<u>2,659,944</u>	<u>4,576,407</u>
Total revenues	<u>85,836,434</u>	<u>94,109,193</u>	<u>4,570,367</u>	<u>4,682,363</u>	<u>90,406,801</u>	<u>98,791,556</u>
Expenses						
General government	36,817,162	40,428,465			36,817,162	40,428,465
Public safety	22,655,473	25,019,910			22,655,473	25,019,910
Highways and streets	12,164,235	10,616,300			12,164,235	10,616,300
Sanitation	531,099	538,066			531,099	538,066
Health and welfare	11,994,371	10,263,001			11,994,371	10,263,001
Culture and recreation	1,398,218	1,453,798			1,398,218	1,453,798
Education	916,785	903,887			916,785	903,887
Airport			694,351	383,272	694,351	383,272
Solid waste operations			<u>4,813,018</u>	<u>4,881,775</u>	<u>4,813,018</u>	<u>4,881,775</u>
Total expenses	<u>86,477,343</u>	<u>89,223,427</u>	<u>5,507,369</u>	<u>5,265,047</u>	<u>91,984,712</u>	<u>94,488,474</u>
Increase (decrease) in net position before transfers	(640,909)	4,885,766	(937,002)	(582,684)	(1,577,911)	4,303,082
Transfers	<u>138,027</u>	<u>(315,866)</u>	<u>(138,027)</u>	<u>315,866</u>		
Increase (decrease) in net position	<u>\$ (502,882)</u>	<u>\$ 4,569,900</u>	<u>\$ (1,075,029)</u>	<u>\$ (266,818)</u>	<u>\$ (1,577,911)</u>	<u>\$ 4,303,082</u>

Management's Discussion and Analysis

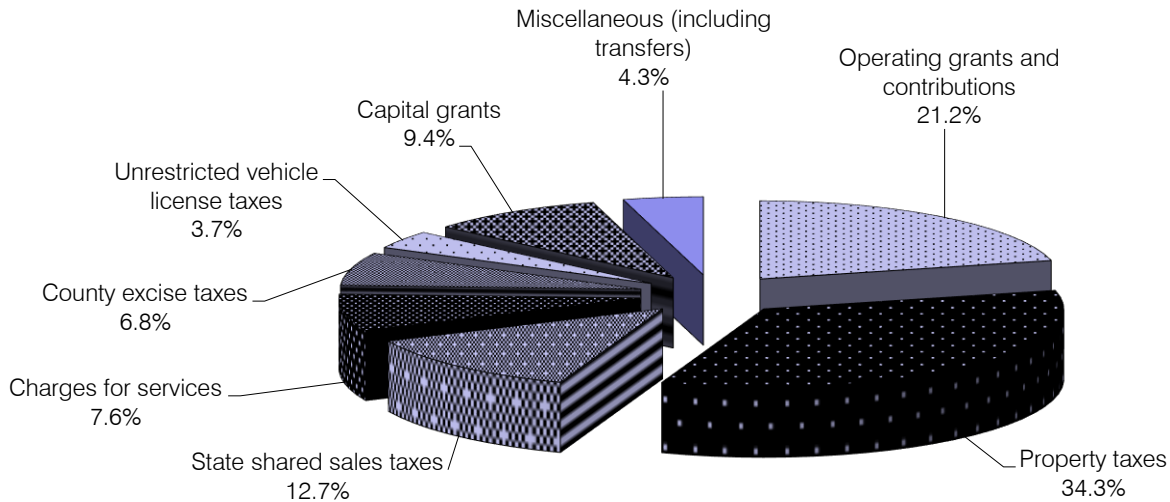
Governmental activities—Key elements of the increase in net position of \$4,569,900 are as follows:

Major Revenues:

- **Charges for services:** These revenues decreased by \$306,441, or 4.1 percent, because of a decrease in general government of \$163,502 mainly consisting of a judicial charges for services decrease of \$76,448 for bond forfeitures and fees and fines, a decrease of \$45,047 for recording fees due to 4,367 less documents being recorded, a decrease in voter registration fees of \$37,386 due to the process for cities to consolidate their elections with primary and general elections reducing revenues to the County for services, and an increase of \$45,000 for trustee sale revenue; an increase in Public Safety of \$44,303 mainly for protective inspections; a decrease in Sanitation of \$104,408 due to a change in the billing process for permitted establishment inspections, which will normalize next year; and an overall decrease in Health and Welfare of \$57,045 due to a decrease in Public Fiduciary fees of \$67,020, which fluctuate with client asset and resource levels.
- **Operating grants and contributions:** These revenues decreased by \$742,762, or 3.6 percent, due to decreases in state and federal grant revenues. The state decrease is mainly attributable to a decrease in the long-term care refund, in-kind support for airport grants, state aid enhancement and intensive surveillance grants. There were increases in state grant revenues for criminal justice enhancement and health start. Federal grant revenues decreased mainly in grant programs associated with border security, technology improvements, airport rehabilitation, emergency watershed, forest fees and pass-through revenue for workforce development training. There were increases in federal grant revenues for the anti-drug grants, driving safety, airport master plans, and immunizations.
- **Capital grants and contributions:** Capital grant revenues increased by \$7,955,178 over the previous year for private donations received for a county communication project, a firing range, K-9 dogs, and various equipment and vehicles.
- **Property taxes:** The net assessed value of all taxable property in the County decreased by \$31,851,677 or 3.07 percent, over the previous year. The property tax rate remained unchanged from the previous year at \$2.6276 which resulted in a decrease in property tax revenues of \$840,220 or 2.55 percent.
- **State shared sales tax revenues:** Sales tax revenues increased by \$367,189 or 3.2 percent, from the previous year, due to modest improvements in the Arizona economy.
- **Unrestricted vehicle license taxes:** The County unrestricted vehicle license tax revenue increased by \$23,806, or 0.7 percent. This small favorable variance shows that Cochise County lags behind the modest improvements in the Arizona economy.
- **Other revenues:** Grants and contributions not restricted increased by \$706,943, or 35.6 percent due to an increase in Payment in Lieu of Taxes of \$156,905 and the reallocation of lottery revenues back to the counties for \$550,038. Investment income increased \$519,802 due to improvement in the fair market value of the County's investments held at fiscal year-end. The gain on sale of assets increase of \$168,322 is primarily from the County's land sale and auction of vehicles. The miscellaneous revenue increase of \$514,765 reflects the change from year to year in unrecorded deposits at fiscal year-end.

Management's Discussion and Analysis

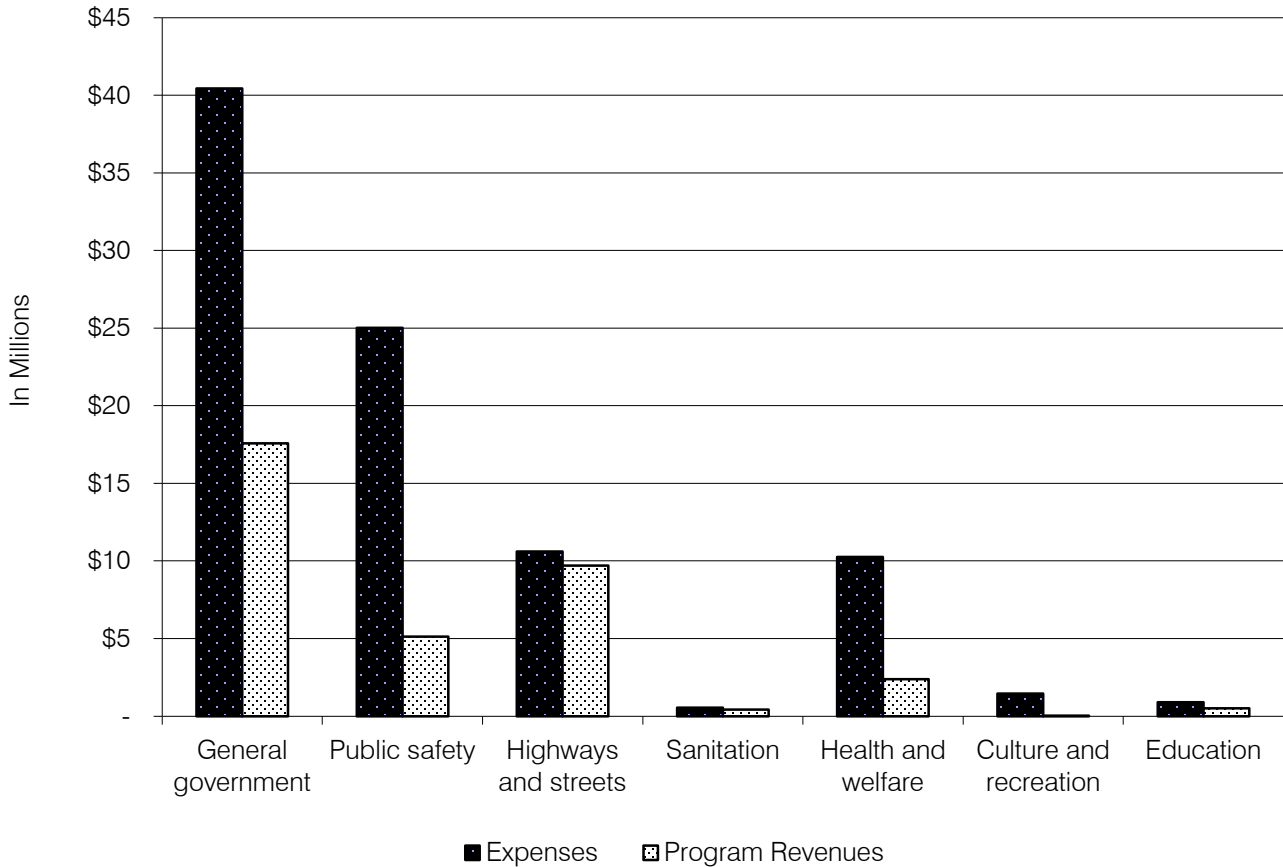
Revenues and Transfers by Source—Governmental Activities Fiscal Year Ended June 30, 2014



Expenses—Overall expenses in the governmental activities increased by \$2,746,084, or 3.18 percent. Retirement expenses increased by \$431,485 and health insurance expenses decreased by \$134,977. General government expenses increased for the communications project for \$2 million dollars transferred to cities within the County and \$3 million dollars spent on small equipment not capitalized, offset by decreases in return to competency, airport improvement grants, pass-through to workforce development training, and formation of a water district board. Public safety expenses increased for annual contributions to operate a helicopter, K-9 units, and 12 additional vehicles. Overtime expense to cover the jail and retirement system increases also contributed to the increase, along with increases in jail enhancement and the anti-drug grants. Flood expenses increased for engineering analysis/design services for projects and aerial photography, for materials for storm damage repairs in many areas and for temporary services for development review, complaints, and flood analysis. Highways and streets expense decreased by \$1.5 million due to suspension of replacement fund contributions and reduction in the number of road miles maintained annually to balance the budget with declining revenues. The County has offset costs where possible primarily by the County's conservative budgeting philosophy, ongoing 10 percent personnel cuts, and reduction in salary expenses due to vacant positions beyond the 10 percent cut.

Management's Discussion and Analysis

Expenses vs. Revenues by Function—Governmental Activities Fiscal Year Ended June 30, 2014



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

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.

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

Management's Discussion and Analysis

Net position of the business-type activities decreased by \$266,818. This net position decrease resulted from operating losses in the Solid Waste Operations Fund and the Bisbee-Douglas International Airport Fund. 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 County's primary operating fund. At June 30, 2014, the total fund balance was \$32,810,881. 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, 2014, the fund balance represents 63.09 percent of total General Fund expenditures.

The fund balance of the General Fund increased by \$2,300,634 during the fiscal year, compared to a decrease of \$3,710,626 for the prior year. Contributing factors were the FY12/13 \$3 million dollar general fund contribution to the Highway and Streets Fund did not occur in FY13/14; a decrease in tax revenue, (property, auto lieu, and excise taxes), fines, and charges for services; an increase in miscellaneous revenue; and decreases in expenses for long-term care costs, airport repairs, postage, and return to competency.

The fund balance of the Capital Projects Fund decreased by \$3,764,362 during the fiscal year, compared to an increase of \$1,474,577 for the prior year. Contributing factors were the increase in revenue of \$4,826,592 mainly from contributions for the communications project, and the increase in debt service and interest expense for defeasance of certificates of participation in the amount of \$2,430,881, a capital outlay increase of \$1,771,508 and general government expense increases of \$4,805,674 for the county communication project, and the decrease in transfers of \$1,057,874.

The fund balance of the Highway and Streets Fund increased by \$1,202,791 during the fiscal year, compared to a decrease of \$166,396 for the prior year. Contributing factors were a \$1 million increase in tax revenue allocated from a half cent excise tax and a \$270,607 increase in HURF and VLT revenues and a decrease of \$2,750,847 of transfers in. There was a decrease in operating expenses of \$2,913,790 due to the suspension of replacement fund contributions and reducing the number of road miles maintained annually to balance the budget with declining revenues. Highway User and Vehicle License revenue for FY13/14 is 78.6 percent of the amount received in FY07/08.

The fund balance of the Anti-Racketeering Fund increased by \$12,584 during the fiscal year, compared to a decrease of \$82,079 for the prior year. Contributing factors were a small increase in revenues and a decrease in transfers to other entities.

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 position of Bisbee-Douglas International Airport Fund decreased by \$72,391, compared to a decrease of \$336,609 for the prior year, primarily due to lower expenses as the water project was completed last year. The net position of the Solid Waste Operations Fund decreased by \$194,427, compared to a decrease of \$738,420 for the prior year. Solid Waste received \$358,241 from a half cent excise tax to cover prior year losses on rural transfer stations and was allocated an additional \$78,487 in excise tax to cover the current year losses. Solid Waste also spent less for transfers to Heavy Fleet management for capital leases that were completed in the first half of the year.

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, 2014, was \$129,261,328 (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 \$901,095 to purchase the Douglas Service Center, \$1,427,057 for dispatch consoles for the communications system, \$121,190 for various IT equipment, and \$675,124 for rehabilitation of a taxiway at our Bisbee-Douglas International Airport.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$1,888,096 for new roads, guardrails, and culverts infrastructure, and \$206,354 for construction in progress for roads.
- Capital asset acquisitions in the Solid Waste Operations Fund consist of \$864,529 for completion of cell 3B at the Western Regional Landfill and \$95,980 for truck scales and asphalt at transfer stations.
- Programmed vehicle replacement and additions of new vehicles totaled \$968,702 in Fleet Management (an Internal Service Fund).
- Programmed vehicle replacement and additions of new vehicles totaled \$1,205,203 in Heavy Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in the General Fund consist of \$178,353 for various vehicles and storage.
- Major capital outlay expenditures in the special revenue funds consist of \$123,342 for a safety surface at the Juvenile detention facility and audio-visual equipment, \$402,385 for the Sheriff's department for three K-9 dogs and 12 vehicles, and \$31,250 for a digital platform system for Health. Flood Control spent \$144,336 on land and right of way and \$81,215 for a backhoe.

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

Management's Discussion and Analysis

Long-term Debt

At June 30, 2014, the County had capital lease long-term liabilities outstanding of \$210,804, as compared to a total of \$4,271,121 in the prior year for certificates of participation and capital lease long-term liabilities. The change in these long-term liabilities includes the normal annual debt service payments and the defeasance of the 2002 Certificates of Participation.

Cochise County has no general obligation or revenue bonds outstanding.

Budgetary Comparison—General Fund

The favorable variance in revenues of \$1,632,895 was primarily due to slightly higher than expected intergovernmental revenues, property tax revenues, state shared sales tax, charges for services, and interest/miscellaneous income with lower than expected fines.

Most of the favorable variances in expenses were due to conservative budgeting and vacancy savings from a hiring freeze. The favorable variance of \$28,035,278 in the General Fund's expenditures resulted primarily from unspent general government contingency funds and lower than expected general government, health medical assistance, and public safety costs.

Economic Factors

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2014, was 8.6 percent compared to 6.9 percent state-wide and 6.1 percent nation-wide. The rate has increased from 8.4 percent in the prior year. Within the County, the rate varies widely between the incorporated areas, ranging from a low of 4.1 percent in Tombstone to the high of 14.6 percent in Willcox.
- For fiscal year 2014, the county government was the second largest employer in the County. Ft. Huachuca is the County's largest employer, with 7,874 employees compared to 840 for the county government and 690 for Sierra Vista Unified School District.
- The County's primary property tax rate has either remained the same or decreased each year for the past 21 years.
- The County's budgeted expense for employee health insurance remained the same as FY12/13, and actual retirement costs went up by \$431,485, 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 Position
June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash in bank and on hand	\$ 229,071	\$ 2,150	\$ 231,221	\$ 462,440
Cash and investments held by County Treasurer	63,423,052	39,850	63,462,902	
Cash and investments held by trustee				413,978
Receivables (net of allowances for uncollectibles):				
Property taxes	2,424,791		2,424,791	
Accounts	1,584,617	560,938	2,145,555	
Accrued interest	33,022	748	33,770	
Internal balances	1,034,371	(1,034,371)		
Due from other governments	7,145,396	57,619	7,203,015	187,903
Prepaid items				2,972
Other assets				6,729
Capital assets, not being depreciated	4,065,524	1,599,900	5,665,424	
Capital assets, being depreciated, net	117,633,108	6,173,600	123,806,708	55,291
Total assets	<u>197,572,952</u>	<u>7,400,434</u>	<u>204,973,386</u>	<u>1,129,313</u>
Liabilities				
Accounts payable	2,642,150	43,539	2,685,689	57,814
Accrued payroll and employee benefits	1,430,901	32,034	1,462,935	
Due to other governments	742,989		742,989	93,022
Deposits held for others	21,003	1,600	22,603	55,904
Unearned revenues	1,045	1,116	2,161	45,752
Noncurrent liabilities				
Due within 1 year	2,862,864	105,654	2,968,518	1,949
Due in more than 1 year	1,540,592	3,378,580	4,919,172	136,761
Total liabilities	<u>9,241,544</u>	<u>3,562,523</u>	<u>12,804,067</u>	<u>391,202</u>
Deferred inflows of resources				
Grant revenues received in advance of time requirements				33,109
Total deferred inflows of resources				<u>33,109</u>
Net Position				
Net investment in capital assets	121,487,828	7,773,500	129,261,328	55,291
Restricted for:				
Anti-racketeering	49,104		49,104	
Education	63,747		63,747	
Flood	5,173,006		5,173,006	
Health	622,345		622,345	
Judicial	3,083,376		3,083,376	
Public safety	2,501,734		2,501,734	
Library	1,003,710		1,003,710	
Other	970,116		970,116	
Housing programs				321,325
Workforce development				68,415
Unrestricted (deficit)	53,376,442	(3,935,589)	49,440,853	259,971
Total net position	<u>\$ 188,331,408</u>	<u>\$ 3,837,911</u>	<u>\$ 192,169,319</u>	<u>\$ 705,002</u>

See accompanying notes to financial statements.

Cochise County
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants	Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 40,428,465	\$ 5,245,434	\$ 6,037,062	\$ 6,292,541	\$ (22,853,428)		\$ (22,853,428)	
Public safety	25,019,910	667,704	1,965,410	2,483,427	(19,903,369)		(19,903,369)	
Highways and streets	10,616,300	754,182	8,953,744		(908,374)		(908,374)	
Sanitation	538,066	186,379	230,924		(120,763)		(120,763)	
Health and welfare	10,263,001	214,971	2,171,105		(7,876,925)		(7,876,925)	
Culture and recreation	1,453,798		29,039		(1,424,759)		(1,424,759)	
Education	903,887	25,643	476,236		(402,008)		(402,008)	
Total governmental activities	<u>89,223,427</u>	<u>7,094,313</u>	<u>19,863,520</u>	<u>8,775,968</u>	<u>(53,489,626)</u>		<u>(53,489,626)</u>	
Business-type activities:								
Bisbee-Douglas International Airport	383,272	310,623				\$ (72,649)	(72,649)	
Solid Waste Operations	4,881,775	4,020,660				(861,115)	(861,115)	
Total business-type activities	<u>5,265,047</u>	<u>4,331,283</u>				<u>(933,764)</u>	<u>(933,764)</u>	
Total primary government	<u>\$ 94,488,474</u>	<u>\$ 11,425,596</u>	<u>\$ 19,863,520</u>	<u>\$ 8,775,968</u>	<u>(53,489,626)</u>	<u>(933,764)</u>	<u>(54,423,390)</u>	
Component units:								
Housing Authority of Cochise County	\$ 3,050,820		\$ 3,223,519					\$ 172,699
Cochise Private Industry Council, Inc.	1,522,865		1,483,952					(38,913)
Total component units	<u>\$ 4,573,685</u>		<u>\$ 4,707,471</u>					<u>133,786</u>
General revenues:								
Taxes								
Property taxes, levied for general purposes					28,421,810		28,421,810	
Property taxes, levied for flood control					2,239,445		2,239,445	
Property taxes, levied for library					1,467,098		1,467,098	
County excise taxes					6,369,441	322,602	6,692,043	
Share of state sales taxes					11,879,983		11,879,983	
Share of unrestricted vehicle license tax					3,449,686		3,449,686	
Grants and contributions not restricted to specific programs					2,693,023		2,693,023	
Investment income					653,439	5,345	658,784	914
Miscellaneous					954,359	6,582	960,941	16,370
Gain on sale of capital assets					247,108	16,551	263,659	
Transfers					(315,866)	315,866		
Total general revenues and transfers					<u>58,059,526</u>	<u>666,946</u>	<u>58,726,472</u>	<u>17,284</u>
Change in net position					4,569,900	(266,818)	4,303,082	151,070
Net position, July 1, 2013					<u>183,761,508</u>	<u>4,104,729</u>	<u>187,866,237</u>	<u>553,932</u>
Net position, June 30, 2014					<u>\$ 188,331,408</u>	<u>\$ 3,837,911</u>	<u>\$ 192,169,319</u>	<u>\$ 705,002</u>

See accompanying notes to financial statements.

Cochise County
Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Anti- Racketeering	Capital Projects Fund	Highway and Streets Fund		
Assets						
Cash in bank and on hand	\$ 68,911				\$ 159,960	\$ 228,871
Cash and investments held by County Treasurer	28,530,321	\$ 935,179	\$ 12,867,560	\$ 3,883,707	12,790,697	59,007,464
Receivables (net of allowances for uncollectibles):						
Property taxes	2,029,042				395,749	2,424,791
Accounts	1,000,557	116,886		32,719	398,179	1,548,341
Accrued interest	14,715		6,916		8,933	30,564
Due from:						
Other funds	1,446,708		172,012	8,231	963,713	2,590,664
Other governments	3,277,289		258,417	2,016,712	1,557,371	7,109,789
Total assets	<u>\$ 36,367,543</u>	<u>\$ 1,052,065</u>	<u>\$ 13,304,905</u>	<u>\$ 5,941,369</u>	<u>\$ 16,274,602</u>	<u>\$ 72,940,484</u>
Liabilities						
Accounts payable	\$ 696,302	\$ 16,161	\$ 10,578	\$ 452,218	\$ 1,317,694	\$ 2,492,953
Accrued payroll and employee benefits	1,102,155			118,439	185,532	1,406,126
Due to:						
Other funds	426,899	232,202	704	422,993	991,836	2,074,634
Other governments		742,989				742,989
Deposits held for others	9,394	11,609				21,003
Unearned revenues	1,045					1,045
Total liabilities	<u>2,235,795</u>	<u>1,002,961</u>	<u>11,282</u>	<u>993,650</u>	<u>2,495,062</u>	<u>6,738,750</u>
Deferred inflows of resources						
Unavailable revenue - property taxes	\$ 1,320,867				\$ 258,454	\$ 1,579,321
Total deferred inflows of resources	<u>1,320,867</u>				<u>258,454</u>	<u>1,579,321</u>
Fund balances						
Restricted		49,104			13,805,211	13,854,315
Committed	277,138		1,019,367			1,296,505
Assigned	955,866		12,274,256	4,947,719	257,822	18,435,663
Unassigned	31,577,877				(541,947)	31,035,930
Total fund balances	<u>32,810,881</u>	<u>49,104</u>	<u>13,293,623</u>	<u>4,947,719</u>	<u>13,521,086</u>	<u>64,622,413</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 36,367,543</u>	<u>\$ 1,052,065</u>	<u>\$ 13,304,905</u>	<u>\$ 5,941,369</u>	<u>\$ 16,274,602</u>	<u>\$ 72,940,484</u>

See accompanying notes to financial statements.

Cochise County
 Reconciliation of the Balance Sheet to the Statement of Net Position
 June 30, 2014

Fund balances—total governmental funds		\$ 64,622,413
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		111,103,650
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		1,579,321
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 Position.		15,293,678
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Capital leases payable	(210,804)	
Compensated absences payable	<u>(4,056,850)</u>	<u>(4,267,654)</u>
Net position of governmental activities		<u>\$ 188,331,408</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	Major Funds					Total Governmental Funds
	General Fund	Anti- Racketeering	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	
Revenues:						
Taxes	\$ 34,266,979		\$ 1,896,446	\$ 1,300,000	\$ 4,724,906	\$ 42,188,331
Licenses and permits	28,484					28,484
Fees, fines, and forfeits	1,803,839	\$ 96,393				1,900,232
Intergovernmental	15,139,891		284,848	8,953,744	10,301,387	34,679,870
Charges for services	2,187,598			754,182	2,223,817	5,165,597
Investment income	317,502	3,779	174,876	17,221	140,061	653,439
Miscellaneous	487,661	7,353	6,058,373	370	2,933,225	9,486,982
Total revenues	<u>54,231,954</u>	<u>107,525</u>	<u>8,414,543</u>	<u>11,025,517</u>	<u>20,323,396</u>	<u>94,102,935</u>
Expenditures:						
Current:						
General government	25,088,587	610	5,363,044		7,755,046	38,207,287
Public safety	17,955,432				6,701,974	24,657,406
Highways and streets				10,049,503	204,856	10,254,359
Sanitation	342,746				195,320	538,066
Health and welfare	7,987,791				2,271,043	10,258,834
Culture and recreation					1,449,929	1,449,929
Education	346,021				557,024	903,045
Debt service:						
Principal	99,231		3,165,000			3,264,231
Interest and other charges	11,562		149,019			160,581
Capital outlay	178,353		2,485,608		2,135,607	4,799,568
Total expenditures	<u>52,009,723</u>	<u>610</u>	<u>11,162,671</u>	<u>10,049,503</u>	<u>21,270,799</u>	<u>94,493,306</u>
Excess (deficiency) of revenues over expenditures	<u>2,222,231</u>	<u>106,915</u>	<u>(2,748,128)</u>	<u>976,014</u>	<u>(947,403)</u>	<u>(390,371)</u>
Other financing sources (uses):						
Sale of capital assets	110,616	111,875	407	36,850		259,748
Transfers in	766,548	2,476	172,011	406,250	2,675,744	4,023,029
Transfers out	(798,761)	(208,682)	(1,188,652)	(216,323)	(1,978,876)	(4,391,294)
Total other financing sources and uses	<u>78,403</u>	<u>(94,331)</u>	<u>(1,016,234)</u>	<u>226,777</u>	<u>696,868</u>	<u>(108,517)</u>
Net change in fund balances	2,300,634	12,584	(3,764,362)	1,202,791	(250,535)	(498,888)
Fund balances, July 1, 2013	<u>30,510,247</u>	<u>36,520</u>	<u>17,057,985</u>	<u>3,744,928</u>	<u>13,771,621</u>	<u>65,121,301</u>
Fund balances, June 30, 2014	<u>\$ 32,810,881</u>	<u>\$ 49,104</u>	<u>\$ 13,293,623</u>	<u>\$ 4,947,719</u>	<u>\$ 13,521,086</u>	<u>\$ 64,622,413</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
 Year Ended June 30, 2014

Net change in fund balances—total governmental funds		\$ (498,888)
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	6,316,357	
Depreciation expense	<u>(4,507,115)</u>	1,809,242
<p>In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.</p>		
		(12,640)
<p>Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities.</p>		
		(240,851)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the Statement of Activities.</p>		
Principal repaid	3,264,231	
Amortization of premium	<u>32,433</u>	3,296,664
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.</p>		
Increase in compensated absences		(107,041)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The net revenue of certain internal service funds is reported with governmental activities in the Statement of Activities.</p>		
		<u>323,414</u>
Change in net position of governmental activities		<u>\$ 4,569,900</u>

See accompanying notes to financial statements.

Cochise County
Statement of Net Position
Proprietary Funds
June 30, 2014

	<u>Business-Type Activities—Enterprise Funds</u>			Governmental
	<u>Major Fund</u>			Activities—
	<u>Solid Waste Operations Fund</u>	<u>Other Enterprise— BDI Airport Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
Assets				
Current assets:				
Cash in bank and on hand	\$ 2,150		\$ 2,150	\$ 200
Cash and investments held by County Treasurer		\$ 39,850	39,850	4,415,588
Receivables (net of allowances for uncollectibles):				
Accounts	506,909	54,029	560,938	36,276
Accrued interest	712	36	748	2,458
Due from:				
Other funds	3,367		3,367	543,020
Other governments	57,619		57,619	35,607
Total current assets	<u>570,757</u>	<u>93,915</u>	<u>664,672</u>	<u>5,033,149</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation, where applicable:				
Land	24,900	1,575,000	1,599,900	
Buildings, net	3,129,608	9,057	3,138,665	115,315
Improvements other than buildings, net	1,648,334	886,258	2,534,592	
Equipment, net	411,272	89,071	500,343	10,479,667
Total noncurrent assets	<u>5,214,114</u>	<u>2,559,386</u>	<u>7,773,500</u>	<u>10,594,982</u>
Total assets	<u>5,784,871</u>	<u>2,653,301</u>	<u>8,438,172</u>	<u>15,628,131</u>
Liabilities				
Current liabilities:				
Accounts payable	37,330	6,209	43,539	149,197
Accrued payroll and employee benefits	29,942	2,092	32,034	24,775
Due to other funds	1,036,197	1,541	1,037,738	24,679
Compensated absences payable, current portion	77,631	4,351	81,982	88,015
Landfill closure and postclosure care costs payable, current portion	23,672		23,672	
Deposits held for others		1,600	1,600	
Unearned revenues		1,116	1,116	
Total current liabilities	<u>1,204,772</u>	<u>16,909</u>	<u>1,221,681</u>	<u>286,666</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Net Position
Proprietary Funds
June 30, 2014
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>			Governmental
	<u>Major Fund</u>	Other Enterprise— BDI Airport Fund	<u>Total</u>	Activities— Internal Service Funds
Noncurrent liabilities:				
Compensated absences payable	\$ 4,678	\$ 2,368	\$ 7,046	\$ 47,787
Landfill closure and postclosure care costs payable	<u>3,371,534</u>		<u>3,371,534</u>	
Total noncurrent liabilities	<u>3,376,212</u>	<u>2,368</u>	<u>3,378,580</u>	<u>47,787</u>
 Total liabilities	<u>4,580,984</u>	<u>19,277</u>	<u>4,600,261</u>	<u>334,453</u>
 Net Position				
Net investment in capital assets	5,214,114	2,559,386	7,773,500	10,594,982
Unrestricted (deficit)	<u>(4,010,227)</u>	<u>74,638</u>	<u>(3,935,589)</u>	<u>4,698,696</u>
 Total net position	<u>\$ 1,203,887</u>	<u>\$ 2,634,024</u>	<u>\$ 3,837,911</u>	<u>\$ 15,293,678</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2014

	Business-Type Activities—Enterprise Funds			Governmental
	Major Fund			Activities—
	Solid Waste Operations Fund	Other Enterprise— BDI Airport Fund	Total	Internal Service Funds
Operating revenues:				
Charges for services	\$ 4,020,660	\$ 310,623	\$ 4,331,283	\$ 6,342,113
Charges for health insurance				7,447,013
Other				20,196
Total operating revenues	<u>4,020,660</u>	<u>310,623</u>	<u>4,331,283</u>	<u>13,809,322</u>
Operating expenses:				
Personal services	1,672,979	117,987	1,790,966	1,391,877
Professional services	2,026,672	104,660	2,131,332	7,492,879
Supplies	100,323	65,641	165,964	3,477,209
Landfill closure and postclosure care costs	258,629		258,629	
Depreciation	517,495	94,984	612,479	1,489,470
Other	304,741		304,741	7,770
Total operating expenses	<u>4,880,839</u>	<u>383,272</u>	<u>5,264,111</u>	<u>13,859,205</u>
Operating income (loss)	(860,179)	(72,649)	(932,828)	(49,883)
Nonoperating revenues (expenses):				
County excise taxes	322,602		322,602	200,000
Investment income	5,087	258	5,345	52,370
Miscellaneous revenue	6,582		6,582	7,489
Interest expense	(936)		(936)	(703)
Gain on disposal of capital assets	16,551		16,551	61,742
Total nonoperating revenues (expenses)	<u>349,886</u>	<u>258</u>	<u>350,144</u>	<u>320,898</u>
Income (loss) before transfers	(510,293)	(72,391)	(582,684)	271,015
Transfers in	358,241		358,241	54,875
Transfers out	<u>(42,375)</u>		<u>(42,375)</u>	<u>(2,476)</u>
Increase (decrease) in net position	(194,427)	(72,391)	(266,818)	323,414
Total net position, July 1, 2013	<u>1,398,314</u>	<u>2,706,415</u>	<u>4,104,729</u>	<u>14,970,264</u>
Total net position, June 30, 2014	<u>\$ 1,203,887</u>	<u>\$ 2,634,024</u>	<u>\$ 3,837,911</u>	<u>\$ 15,293,678</u>

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	<u>Business-Type Activities—Enterprise Funds</u>			<u>Governmental Activities—</u>
	<u>Major Fund</u>			
	<u>Solid Waste Operations Fund</u>	<u>Other Enterprise— BDI Airport Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:				
Receipts from customers	\$ 4,329,940	\$ 302,087	\$ 4,632,027	
Receipts from other funds for goods and services provided				\$ 13,795,367
Other receipts				20,196
Payments to suppliers and providers of goods and services	(3,672,699)	(169,156)	(3,841,855)	(11,009,977)
Payments to employees	(1,661,511)	(118,188)	(1,779,699)	(1,382,992)
Net cash provided by (used for) operating activities	<u>(1,004,270)</u>	<u>14,743</u>	<u>(989,527)</u>	<u>1,422,594</u>
Cash flows from noncapital financing activities:				
Miscellaneous receipts	329,184		329,184	207,489
Cash transfers from other funds	358,241		358,241	54,875
Cash transfers to other funds	(42,375)		(42,375)	(2,476)
Loan payments received from other funds	811,384		811,384	
Net cash provided by noncapital financing activities	<u>1,456,434</u>		<u>1,456,434</u>	<u>259,888</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	40,795		40,795	180,742
Purchases of capital assets	(466,201)	(49,263)	(515,464)	(2,173,904)
Principal paid on capital leases	(30,636)		(30,636)	(23,017)
Interest paid on capital leases	(936)		(936)	(703)
Net cash used for capital and related financing activities	<u>(456,978)</u>	<u>(49,263)</u>	<u>(506,241)</u>	<u>(2,016,882)</u>
Cash flows from investing activities:				
Investment income received on cash and investments held by County Treasurer	4,814	261	5,075	51,997
Net cash provided by investing activities	<u>4,814</u>	<u>261</u>	<u>5,075</u>	<u>51,997</u>
Net decrease in cash and cash equivalents		(34,259)	(34,259)	(282,403)
Cash and cash equivalents, July 1, 2013	<u>2,150</u>	<u>74,109</u>	<u>76,259</u>	<u>4,698,191</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 2,150</u>	<u>\$ 39,850</u>	<u>\$ 42,000</u>	<u>\$ 4,415,788</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>			<u>Governmental</u>
	<u>Major Fund</u>			<u>Activities—</u>
	<u>Solid Waste</u>	<u>Other</u>		<u>Internal</u>
	<u>Operations</u>	<u>Enterprise—</u>		<u>Service</u>
	<u>Fund</u>	<u>BDI</u>	<u>Total</u>	<u>Funds</u>
		<u>Airport Fund</u>		
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating loss	\$ (860,179)	\$ (72,649)	\$ (932,828)	\$ (49,883)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation	517,495	94,984	612,479	1,489,470
Changes in assets and liabilities:				
Accounts receivable	211,910	(6,388)	205,522	(7,990)
Due from other funds	118,626		118,626	19,975
Due from other governments	(21,256)		(21,256)	(5,744)
Accounts payable	19,628	1,249	20,877	29,401
Accrued payroll and employee benefits	4,490	262	4,752	5,563
Due to other funds	(1,239,270)	(104)	(1,239,374)	(61,520)
Compensated absences payable	6,978	(463)	6,515	3,322
Landfill closure and postclosure care costs payable	237,308		237,308	
Unearned revenues		(2,148)	(2,148)	
Net cash provided by (used for) operating activities	<u>\$ (1,004,270)</u>	<u>\$ 14,743</u>	<u>\$ (989,527)</u>	<u>\$ 1,422,594</u>
Cash and cash equivalents, June 30, 2014, consisted of:				
Cash in bank and on hand	2,150		2,150	200
Cash and investments held by County Treasurer		39,850	39,850	4,415,588
Total cash and cash equivalents	<u>\$ 2,150</u>	<u>\$ 39,850</u>	<u>\$ 42,000</u>	<u>\$ 4,415,788</u>

Noncash capital financing activities:

The Internal Service Funds sold equipment with a net book value of \$119,000 and received cash of \$180,742.
The Solid Waste Operations Fund sold equipment with a net book value of \$24,244 and received cash of \$40,795.

See accompanying notes to financial statements.

Cochise County
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Investment Trust Funds	Agency Funds
Assets		
Cash in bank and on hand		\$ 1,977,239
Cash and investments held by County Treasurer	\$ 39,870,779	
Interest receivable	153	
Total assets	39,870,932	\$ 1,977,239
Liabilities		
Due to other governments		\$ 1,977,239
Total liabilities		\$ 1,977,239
Net Position		
Held in trust for investment trust participants	\$ 39,870,932	

See accompanying notes to financial statements.

Cochise County
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2014

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 207,629,816
Investment income	<u>398,129</u>
Total additions	<u>208,027,945</u>
 Deductions:	
Distributions to participants	<u>203,547,349</u>
Total deductions	<u>203,547,349</u>
 Change in net position	 4,480,596
 Net position, July 1, 2013	 <u>35,390,336</u>
 Net position, June 30, 2014	 <u>\$ 39,870,932</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Net Position
Component Units
June 30, 2014

	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
Assets			
Cash in bank and on hand	\$ 331,727	\$ 130,713	\$ 462,440
Cash and investments held by trustee	413,978		413,978
Due from other governments	11,886	176,017	187,903
Prepaid items	2,972		2,972
Other assets		6,729	6,729
Capital assets, being depreciated, net	9,749	45,542	55,291
Total assets	770,312	359,001	1,129,313
Liabilities			
Accounts payable	7,463	50,351	57,814
Due to other governments	93,022		93,022
Due to related party		55,904	55,904
Unearned revenues	45,752		45,752
Noncurrent liabilities			
Due within 1 year	1,949		1,949
Due in more than 1 year	106,654	30,107	136,761
Total liabilities	254,840	136,362	391,202
Deferred inflows of resources			
Grant revenues received in advance of time requirements		33,109	33,109
Total deferred inflows of resources		33,109	33,109
Net Position			
Invested in capital assets	9,749	45,542	55,291
Restricted for housing programs	321,325		321,325
Restricted for workforce development		68,415	68,415
Unrestricted	184,398	75,573	259,971
Total net position	\$ 515,472	\$ 189,530	\$ 705,002

See accompanying notes to financial statements.

Cochise County
Combining Statement of Activities
Component Units
Year Ended June 30, 2014

		<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
Component units:					
Housing Authority of Cochise County	\$ 3,050,820	\$ 3,223,519	\$ 172,699		\$ 172,699
Cochise Private Industry Council, Inc.	<u>1,522,865</u>	<u>1,483,952</u>	<u> </u>	\$ (38,913)	<u>(38,913)</u>
Total component units	<u>4,573,685</u>	<u>4,707,471</u>	<u>172,699</u>	<u>(38,913)</u>	<u>133,786</u>
General revenues:					
Investment income			914		914
Miscellaneous			<u>4,084</u>	<u>12,286</u>	<u>16,370</u>
Total general revenues			<u>4,998</u>	<u>12,286</u>	<u>17,284</u>
Change in net position			177,697	(26,627)	151,070
Net position, July 1, 2013			<u>337,775</u>	<u>216,157</u>	<u>553,932</u>
Net position, June 30, 2014			<u>\$ 515,472</u>	<u>\$ 189,530</u>	<u>\$ 705,002</u>

See accompanying notes to financial statements.

Cochise County
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are 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
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 County
Notes to Financial Statements
June 30, 2014

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
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 900 Carmelita Dr. 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 position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the County levies or imposes, are reported as general revenues.

Cochise County
Notes to Financial Statements
June 30, 2014

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.

The County reports the following major enterprise fund:

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.

Cochise County
Notes to Financial Statements
June 30, 2014

The County also 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 the County holds as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, special districts, and other governmental entities.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus, but utilize the accrual basis of accounting for reporting its assets and liabilities. 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 resources available to finance the program. The County applies grant resources to such programs before using general revenues.

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, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Cochise County
Notes to Financial Statements
June 30, 2014

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 the County Treasurer to be cash equivalents. All investments are stated at fair value.

E. 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.

F. 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 are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Buildings and improvements	\$10,000	Straight-line	15-50 years
Improvements other than buildings	10,000	Straight-line	10-45 years
Equipment	10,000	Straight-line	5-25 years
Infrastructure	50,000	Straight-line	10-50 years

G. Deferred Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

Cochise County
Notes to Financial Statements
June 30, 2014

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 composed 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 be removed or changed by only the Board.

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.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from any of the classifications, the County will use restricted fund balances first. For the disbursement of unrestricted fund balances, the County will use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

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.

Cochise County
Notes to Financial Statements
June 30, 2014

Employees may accumulate up to 240 hours of vacation depending on years of service, but they forfeit any unused vacation hours in excess of the maximum amount at calendar year-end. Upon terminating employment, the County pays all unused and unforfeited vacation benefits 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 employees forfeit them upon terminating 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.

Note 2 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2014, 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:						
Anti-racketeering		\$49,104				\$ 49,104
Flood control					\$ 5,295,712	5,295,712
Health services					652,878	652,878
Judicial services					3,234,651	3,234,651
Library services					972,240	972,240
Law enforcement					2,574,760	2,574,760
Education services					66,875	66,875
Other services					1,008,095	1,008,095
Total restricted		<u>49,104</u>			<u>13,805,211</u>	<u>13,854,315</u>
Committed to:						
Board of Supervisors	\$ 106,974					106,974
Facilities	170,164					170,164
Capital projects			\$ 1,019,367			1,019,367
Total committed	<u>277,138</u>		<u>1,019,367</u>			<u>1,296,505</u>
Assigned to:						
Capital projects			12,274,256			12,274,256
Highways and streets				\$4,947,719		4,947,719
Health services					177,763	177,763
Education					80,059	80,059
Other	955,866					955,866
Total assigned	<u>955,866</u>		<u>12,274,256</u>	<u>4,947,719</u>	<u>257,822</u>	<u>18,435,663</u>
Unassigned:	<u>31,577,877</u>				<u>(541,947)</u>	<u>31,035,930</u>
Total fund balances	<u>\$32,810,881</u>	<u>\$49,104</u>	<u>\$13,293,623</u>	<u>\$4,947,719</u>	<u>\$13,521,086</u>	<u>\$64,622,413</u>

Cochise County
Notes to Financial Statements
June 30, 2014

Note 3 - Deposits and Investments

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

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.
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 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 unless the investment is denominated in United States dollars.

Deposits—At June 30, 2014, the carrying amount of the County's deposits was \$14,607,815, and the bank balance was \$13,341,832. The County does not have a formal policy with respect to custodial credit risk.

Cochise County
Notes to Financial Statements
June 30, 2014

Investments—The County's investments at June 30, 2014, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$35,000,000
U.S. agency securities	<u>55,927,422</u>
	<u>\$90,927,422</u>

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

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

At June 30, 2014, 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	\$35,000,000
U.S. agency securities	AA+	Standard & Poor's	<u>55,927,422</u>
			<u>\$90,927,422</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.

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, 2014, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$10,000,612	11.0
Federal Home Loan Bank	24,443,280	26.9
Federal National Mortgage Association	11,494,450	12.6
Federal Farm Credit Bank	<u>7,986,860</u>	8.8
	<u>\$53,925,202</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.

Cochise County
Notes to Financial Statements
June 30, 2014

At June 30, 2014, maturities of the County's investments in debt securities were as follows:

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-5 Years
State Treasurer's investment pool 7	\$35,000,000	\$35,000,000	
U.S. agency securities	<u>55,927,422</u>	<u>2,002,220</u>	<u>\$53,925,202</u>
	<u>\$90,927,422</u>	<u>\$37,002,220</u>	<u>\$53,925,202</u>

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

Cash, deposits, and investments:	
Cash on hand	\$ 6,904
Amount of deposits	14,607,815
Amount of investments	<u>90,927,422</u>
Total	<u>\$105,542,141</u>

	Statement of Net Position		Statement of Fiduciary Net Position		Total
	Governmental Activities	Business- Type Activities	Investment Trust Funds	Agency Funds	
Cash in bank and on hand	\$ 229,071	\$ 2,150		\$1,977,239	\$ 2,208,460
Cash and investments held by County Treasurer	<u>63,423,052</u>	<u>39,850</u>	<u>\$39,870,779</u>		<u>103,333,681</u>
Total	<u>\$63,652,123</u>	<u>\$42,000</u>	<u>\$39,870,779</u>	<u>\$1,977,239</u>	<u>\$105,542,141</u>

Note 4 - Due from Other Governments

Due from other governments totaling \$7,203,015 at June 30, 2014, included \$1,292,432 in state-shared revenue from highway user fees, \$1,976,435 in state-shared sales taxes, \$926,960 in state-shared vehicle license taxes, and \$1,144,034 in county excise taxes received through the State. The remaining balance of \$1,863,154 represents amounts receivable from various state and federal government grantor agencies.

Cochise County
Notes to Financial Statements
June 30, 2014

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,278,391	\$ 144,337		\$ 2,422,728
Construction in progress	<u>1,299,884</u>	<u>1,623,362</u>	<u>\$1,280,450</u>	<u>1,642,796</u>
Total capital assets not being depreciated	<u>3,578,275</u>	<u>1,767,699</u>	<u>1,280,450</u>	<u>4,065,524</u>
Capital assets being depreciated:				
Buildings	49,949,841	901,095		50,850,936
Improvements other than buildings	4,739,627	722,250		5,461,877
Equipment	40,613,750	4,491,571	1,035,722	44,069,599
Infrastructure	<u>100,095,499</u>	<u>1,888,096</u>		<u>101,983,595</u>
Total	<u>195,398,717</u>	<u>8,003,012</u>	<u>1,035,722</u>	<u>202,366,007</u>
Less accumulated depreciation for:				
Buildings	15,077,580	1,242,526		16,320,106
Improvements other than buildings	1,658,777	206,550		1,865,327
Equipment	25,949,963	2,849,410	904,082	27,895,291
Infrastructure	<u>36,954,076</u>	<u>1,698,099</u>		<u>38,652,175</u>
Total accumulated depreciation	<u>79,640,396</u>	<u>5,996,585</u>	<u>904,082</u>	<u>84,732,899</u>
Total capital assets being depreciated, net	<u>115,758,321</u>	<u>2,006,427</u>	<u>131,640</u>	<u>117,633,108</u>
Governmental activities capital assets, net	<u>\$119,336,596</u>	<u>\$3,774,126</u>	<u>\$1,412,090</u>	<u>\$121,698,632</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,599,900			\$ 1,599,900
Construction in progress	<u>494,306</u>	<u>\$ 370,223</u>	<u>\$ 864,529</u>	<u>1,599,900</u>
Total capital assets not being depreciated	<u>2,094,206</u>	<u>370,223</u>	<u>864,529</u>	<u>1,599,900</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	5,770,513	883,067		6,653,580
Equipment	<u>3,182,430</u>	<u>126,703</u>	<u>360,294</u>	<u>2,948,839</u>
Total	<u>13,511,968</u>	<u>1,009,770</u>	<u>360,294</u>	<u>14,161,444</u>
Less accumulated depreciation for:				
Buildings	1,332,975	87,385		1,420,360
Improvements other than buildings	3,732,474	386,514		4,118,988
Equipment	<u>2,645,966</u>	<u>138,580</u>	<u>336,050</u>	<u>2,448,496</u>
Total	<u>7,711,415</u>	<u>612,479</u>	<u>336,050</u>	<u>7,987,844</u>
Total capital assets being depreciated, net	<u>5,800,553</u>	<u>397,291</u>	<u>24,244</u>	<u>6,173,600</u>
Business-type activities capital assets, net	<u>\$ 7,894,759</u>	<u>\$ 767,514</u>	<u>\$ 888,773</u>	<u>\$ 7,773,500</u>

Cochise County
Notes to Financial Statements
June 30, 2014

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$2,266,991
Public safety	362,504
Highways and streets	1,868,742
Health and welfare	4,167
Culture and recreation	3,869
Education	842
Internal service funds	<u>1,489,470</u>
Total governmental activities depreciation expense	<u>\$5,996,585</u>
Business-type activities:	
Solid Waste Operations	\$ 517,495
Bisbee-Douglas International Airport	<u>94,984</u>
Total business-type activities depreciation expense	<u>\$ 612,479</u>

Construction commitments—At June 30, 2014, the County was involved in six construction projects. The estimated cost to complete the construction projects was \$4,088,228.

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities					
Capital leases payable	\$ 333,052		\$ 122,248	\$ 210,804	\$ 103,289
Certificates of participation payable	3,875,000		3,875,000		
Add: Unamortized premium	<u>32,433</u>		<u>32,433</u>		
Total certificates of participation payable	<u>3,907,433</u>		<u>3,907,433</u>		
Compensated absences payable	<u>4,082,289</u>	<u>\$2,370,215</u>	<u>2,259,852</u>	<u>4,192,652</u>	<u>2,759,575</u>
Total governmental activities long-term liabilities	<u>\$8,322,774</u>	<u>\$2,370,215</u>	<u>\$6,289,533</u>	<u>\$4,403,456</u>	<u>\$2,862,864</u>
Business-type activities					
Capital leases payable	\$ 30,636		\$ 30,636		
Landfill closure and postclosure care costs payable	3,157,898	\$ 258,629	21,321	\$3,395,206	\$ 23,672
Compensated absences payable	<u>82,513</u>	<u>63,816</u>	<u>57,301</u>	<u>89,028</u>	<u>81,982</u>
Total business-type activities long-term liabilities	<u>\$3,271,047</u>	<u>\$ 322,445</u>	<u>\$ 109,258</u>	<u>\$3,484,234</u>	<u>\$ 105,654</u>

Cochise County
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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
Equipment	\$992,054
Less: accumulated depreciation	<u>441,684</u>
Carrying value	<u>\$550,370</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2014:

	Governmental Activities
Year ending June 30	
2015	\$110,792
2016	<u>110,792</u>
Total minimum lease payments	<u>221,584</u>
Less amount representing interest	<u>10,780</u>
Present value of net minimum lease payments	<u>\$210,804</u>

Certificates of participation—In 2014, the County in-substance defeased all remaining outstanding Series 2002 certificates of participation totaling \$3,165,000 with County funds. County funds were placed in irrevocable escrow accounts to provide for future debt service payments of the defeased debt. Accordingly, the escrow account assets and liability for the defeased certificates of participation are not included in the County's financial statements.

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 Solid Waste Operations Enterprise Fund. At June 30, 2014, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2014, the County reported landfill closure and postclosure care liabilities totaling \$3,395,206. 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, 2014. The liability reported for the Eastern Regional landfill of \$596,508 was based on

Cochise County
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100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$2,798,698 was based on the use of 20.64 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,829,012 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 2014. 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 2014, the County paid for compensated absences as follows: 71.58 percent from the General Fund, 8.20 percent from the Highway and Streets Fund, 1.86 percent from the Enterprise Funds, and 18.36 percent from other funds.

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 12 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.

Cochise County
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The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 12 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. If the pool were to become insolvent the County would be assessed an additional contribution.

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. During the fiscal year employees were not required to contribute a portion of the premium, but may be required to in the future. 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.

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. The plans are component units of the State of Arizona and benefits are established by state statute, and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit 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.

Cochise County
Notes to Financial Statements
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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 benefit 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.

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the Pension Fund to the new Health Insurance Fund.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report is available on their Web sites or 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
www.azasrs.gov

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

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

Cost-sharing plan—For the year ended June 30, 2014, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement and 0.24 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 11.54 percent (10.70 percent for retirement, 0.60 percent for health insurance premium benefit, and 0.24 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			
2014	\$2,745,478	\$153,925	\$61,576
2013	2,688,287	170,477	62,946
2012	2,654,802	169,565	66,939

Cochise County
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Agent plan—For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members’ annual covered payroll, and the County was required to contribute 35.47 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.44 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012, 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 plans’ 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 2014 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	24 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	5%–9%
includes inflation at	5%

Cochise County
Notes to Financial Statements
June 30, 2014

Annual Pension/OPEB Cost—The County’s pension/OPEB cost for the PSPRS agent plan for the year ended June 30, 2014, and related information follows:

	Pension	Health Insurance Premium Benefit
Annual pension/OPEB cost	\$1,733,265	\$73,875
Contributions made	1,733,265	73,875

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)
Pension	2014	\$1,733,265	100%	
Health insurance premium benefit	2014	73,875	100	
Pension	2013	1,615,793	102	\$ 37,726
Health insurance premium benefit	2013	77,734	51	(37,726)
Pension	2012	1,293,176	103	41,472
Health insurance premium benefit	2012	80,595	49	(41,472)

Funded Status—The funded status of the plan as of the most recent valuation date, June 30, 2014, 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.

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Notes to Financial Statements
June 30, 2014

	Pension	Health Insurance Premium Benefit
Actuarial accrued liability (a)	\$41,801,873	\$ 867,652
Actuarial value of assets (b)	13,272,277	1,060,455
Unfunded actuarial accrued liability (funding excess) (a) – (b)	28,529,596	(192,803)
Funded ratio (b)/(a)	31.8%	122.22%
Annual Covered payroll (c)	\$ 4,612,963	\$4,612,963
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) – (b)) / (c)	618.5%	(4.2)%

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

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0% – 8.0%
includes inflation at	4.0%

Cochise County
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Note 9 - Interfund Transactions

Interfund receivables and payables—Interfund balances at June 30, 2014, were as follows:

Payable from	Payable to						Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Solid Waste Operations Fund	Internal Service Funds	
General Fund		\$172,012		\$ 63,493	\$2,928	\$188,466	\$ 426,899
Anti-Racketeering Fund	\$ 4,067			228,135			232,202
Capital Projects Fund	704						704
Highway and Streets Fund	249,625					173,368	422,993
Other Governmental Funds	285,714		\$8,231	672,085		25,806	991,836
Solid Waste Operations Fund	882,172					154,025	1,036,197
BDI Airport Fund	186					1,355	1,541
Internal Service Funds	24,240				439		24,679
Total	<u>\$1,446,708</u>	<u>\$172,012</u>	<u>\$8,231</u>	<u>\$963,713</u>	<u>\$3,367</u>	<u>\$543,020</u>	<u>\$3,137,051</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, 2014, were as follows:

Transfers from	Transfers to							Total
	General Fund	Anti-Racketeering Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Solid Waste Operations Fund	Internal Service Funds	
General Fund			\$172,011	\$232,000	\$ 394,750			\$ 798,761
Anti-Racketeering Fund					208,682			208,682
Capital Projects Fund	\$198,413			174,250	457,748	\$358,241		1,188,652
Highway and Streets Fund	16,073				187,750		\$12,500	216,323
Other Governmental Funds	552,062				1,426,814			1,978,876
Solid Waste Operations Fund							42,375	42,375
Internal Service Funds		\$2,476						2,476
Total	<u>\$766,548</u>	<u>\$2,476</u>	<u>\$172,011</u>	<u>\$406,250</u>	<u>\$2,675,744</u>	<u>\$358,241</u>	<u>\$54,875</u>	<u>\$4,436,145</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, 2014

Note 10 - County Treasurer's Investment Pool

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

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

The Treasurer allocates interest earnings to each of the pool's participants.

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$6,904 of cash and \$2,201,556 of deposits. 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	\$35,000,000	None stated	None stated	\$35,000,000
U.S. agency securities	55,940,000	.27-2.00%	Up to 5 years	55,927,422

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

Statement of Net Position

Assets	<u>\$103,333,681</u>
Net position	<u>\$103,333,681</u>

Net position held in trust for:

Internal participants	\$ 63,462,902
External participants	<u>39,870,779</u>
Total net position held in trust	<u>\$103,333,681</u>

Statement of Changes in Net Position

Total additions	\$304,329,039
Total deductions	<u>302,193,007</u>
Net decrease	<u>2,136,032</u>
Net position held in trust:	
July 1, 2013	<u>101,197,649</u>
June 30, 2014	<u>\$103,333,681</u>

Cochise County
Notes to Financial Statements
June 30, 2014

Note 11 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

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

Basis of Accounting

Based upon compelling reasons offered by HUD, the Housing Authority reports its basic financial statements as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Cochise Private Industry Council, Inc.

Basis of Accounting

The statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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.

B. Cash and Investments

Housing Authority of Cochise County

At June 30, 2014, the carrying amount of the Housing Authority's deposits was \$745,705 and the bank balance was \$803,664.

The Housing Authority's custodial agreement policy prohibits counterparties holding securities not in the Housing Authority's name.

Cochise Private Industry Council, Inc.

At June 30, 2014, the carrying amount of the Cochise Private Industry Council, Inc.'s deposits was \$130,713 and the bank balance was \$138,644.

Cochise County
Notes to Financial Statements
June 30, 2014

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, 2014:

Program	Amount
<i>Cochise County, Arizona</i>	
WIA Adult Program	\$ 48,038
WIA Dislocated Workers	34,556
WIA Youth Program	70,354
WIA Rapid Response	3,593
WIA Section 503 Incentives	3,333
 <i>Pima County, Arizona</i>	
Veterans Employment Program	11,364
Other	4,736
United Way	43
Total	<u>\$176,017</u>

D. Schedule of Changes in Noncurrent Liabilities

Housing Authority of Cochise County

	<u>June 30, 2013</u>		<u>Year Ended June 30, 2014</u>		<u>June 30, 2014</u>	
	<u>Long-term Portion</u>	<u>Current Portion</u>	<u>Additions</u>	<u>Payments and Adjustments</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Accrued compensated absences	\$11,961	\$1,506	\$ 7,203	\$(4,702)	\$1,949	\$ 14,001
Family self-sufficiency	<u>71,422</u>		<u>21,231</u>			<u>92,653</u>
	<u>\$83,383</u>	<u>\$1,506</u>	<u>\$28,434</u>	<u>\$(4,720)</u>	<u>\$1,949</u>	<u>\$106,654</u>

Other Required Supplementary Information

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 33,711,331	\$ 33,711,331	\$ 34,266,979	\$ 555,648
Licenses and permits	16,000	16,000	28,484	12,484
Intergovernmental	14,420,147	14,420,147	15,139,891	719,744
Charges for services	2,019,159	2,019,159	2,187,598	168,439
Fees, fines, and forfeits	2,022,287	2,022,287	1,803,839	(218,448)
Investment income	200,000	200,000	317,502	117,502
Miscellaneous	185,135	210,135	487,661	277,526
Total revenues	<u>52,574,059</u>	<u>52,599,059</u>	<u>54,231,954</u>	<u>1,632,895</u>
Expenditures:				
Assessor	1,801,932	1,801,336	1,821,356	(20,020)
Attorney	2,083,837	2,148,617	2,107,521	41,096
Board of Supervisors	1,080,994	1,077,154	1,051,950	25,204
Cochise Aging and Social Services	8,715,291	8,729,618	6,892,492	1,837,126
General Government	11,053,505	11,594,020	8,185,071	3,408,949
General Government Contingency	22,547,343	21,472,683		21,472,683
Health	1,209,462	1,276,508	1,182,991	93,517
Judicial System	9,625,068	10,013,991	9,450,109	563,882
Public and Legal Defenders	2,326,237	2,242,710	2,279,758	(37,048)
Recorder	399,179	405,940	384,977	20,963
Public Safety	18,577,865	18,688,460	18,019,064	669,396
School Superintendent	353,177	350,314	356,021	(5,707)
Treasurer	1,069,872	1,042,411	1,077,174	(34,763)
Total expenditures	<u>80,843,762</u>	<u>80,843,762</u>	<u>52,808,484</u>	<u>28,035,278</u>
Excess (deficiency) of revenues over expenditures	(28,269,703)	(28,244,703)	1,423,470	29,668,173
Other financing sources:				
Capital assets sales proceeds	20,000	20,000	110,616	90,616
Transfers in	357,407	776,010	766,548	(9,462)
Total other financing sources	<u>377,407</u>	<u>796,010</u>	<u>877,164</u>	<u>81,154</u>
Net change in fund balances	(27,892,296)	(27,448,693)	2,300,634	29,749,327
Fund balances, July 1, 2013	<u>27,892,296</u>	<u>27,448,693</u>	<u>30,510,247</u>	<u>3,061,554</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,810,881</u>	<u>\$ 32,810,881</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Highway and Streets Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final		
Revenues				
Taxes	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	
Intergovernmental	8,300,000	8,300,000	8,953,744	\$ 653,744
Charges for services	1,132,667	1,132,667	754,182	(378,485)
Investment income	20,000	20,000	17,221	(2,779)
Miscellaneous	4,357,111	3,834,163	370	(3,833,793)
Total revenues	<u>15,109,778</u>	<u>14,586,830</u>	<u>11,025,517</u>	<u>(3,561,313)</u>
Expenditures:				
Highways and streets	<u>15,113,705</u>	<u>14,822,757</u>	<u>10,049,503</u>	<u>4,773,254</u>
Total expenditures	<u>15,113,705</u>	<u>14,822,757</u>	<u>10,049,503</u>	<u>4,773,254</u>
Excess (deficiency) of revenues over expenditures	(3,927)	(235,927)	976,014	1,211,941
Other financing sources (uses):				
Sale of capital assets	20,000	20,000	36,850	16,850
Transfers in	174,250	406,250	406,250	
Transfers out	<u>(190,323)</u>	<u>(190,323)</u>	<u>(216,323)</u>	<u>(26,000)</u>
Total other financing sources and uses	<u>3,927</u>	<u>235,927</u>	<u>226,777</u>	<u>(9,150)</u>
Net change in fund balances			<u>1,202,791</u>	<u>1,202,791</u>
Fund balances, July 1, 2013			<u>3,744,928</u>	<u>3,744,928</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,947,719</u>	<u>\$ 4,947,719</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Anti-Racketeering Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final		
Revenues				
Fines and forfeits	\$ 65,000	\$ 65,000	\$ 96,393	\$ 31,393
Investment income	9,100	9,100	3,779	(5,321)
Miscellaneous	1,153,424	1,153,424	7,353	(1,146,071)
Total revenues	<u>1,227,524</u>	<u>1,227,524</u>	<u>107,525</u>	<u>(1,119,999)</u>
Expenditures:				
Rico expenditures	446,524	377,568	(76,048)	453,616
Transfers to other entities	250,000	250,700	76,658	174,042
Total expenditures	<u>696,524</u>	<u>628,268</u>	<u>610</u>	<u>627,658</u>
Excess (deficiency) of revenues over expenditures	531,000	599,256	106,915	(492,341)
Other financing sources (uses):				
Sale of property	97,000	97,000	111,875	14,875
Transfers in		2,476	2,476	-
Transfers out	(628,000)	(698,732)	(208,682)	490,050
Total other financing sources and uses	<u>(531,000)</u>	<u>(599,256)</u>	<u>(94,331)</u>	<u>504,925</u>
Net change in fund balances			<u>12,584</u>	<u>12,584</u>
Fund balances, July 1, 2013			<u>36,520</u>	<u>36,520</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,104</u>	<u>\$ 49,104</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2014

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 County Administrator's or 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.

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2014, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Department/Fund	Excess
Assessor	\$20,020
Public and Legal Defenders	37,048
School Superintendent	5,707
Treasurer	<u>34,763</u>
Total	<u>\$97,538</u>

These expenditures were funded by greater than anticipated revenues.

Cochise County
 Required Supplementary Information
 Schedule of Agent Retirement Plan's Funding Progress
 June 30, 2014

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b)-(a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as a percentage of covered payroll ([b-a]/c)
Pension 6/30/14	\$13,272,277	\$41,801,873	\$28,529,596	31.8%	\$4,612,963	618.5%
Health insurance premium benefit 6/30/14	1,060,455	867,652	(192,803)	122.22%	4,612,963	(4.2)%
Pension 6/30/13	\$14,410,210	\$34,414,106	\$20,003,896	41.9%	\$4,425,898	452.0%
Health insurance premium benefit 6/30/13	0	807,377	807,377	0.0%	4,425,898	18.2%
Pension 6/30/12	\$14,427,189	\$33,144,070	\$18,716,881	43.5%	\$4,621,170	405.0%
Health insurance premium benefit 6/30/12	0	873,393	873,393	0.0%	4,621,170	18.9%

Note - Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same pension fund. During fiscal year 2014, the plans transferred prior year health insurance premium benefit contributions that exceeded benefit payments from the pension fund to the new health insurance fund.

Supplementary Information

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 12-LE-11030518-001	National Forest System—Law Enforcement				\$ 27,329	
10 555	National School Lunch Program				24,045	
10 557	Special Supplemental Nutrition Program for Women, Infants and Children		Arizona Department of Health Services	ADHS14-053052	573,258	
10 565	Commodity Supplemental Food Program		Arizona Department of Health Services	ADHS14-053052	41,667	
10 665	Schools and Roads—Grants to States		Arizona State Treasurer	Elec Credit	366,659	
Total Department of Agriculture					<u>1,032,958</u>	
Department of Commerce						
11 558 ARRA	National Telecommunications & Information Administration State Broadband Data and Development Grant Program		Arizona Strategic Enterprise Technology	Elec Credit	80,745	
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	134-12, 135-12, 120-14, 121-14	126,547	
14 241	Housing Opportunities for Persons with AIDS		Arizona Department of Housing	AZH110018	195,060	
14 871	Section 8 Housing Choice Vouchers		Arizona Department of Housing	None	2,806,998	
Total Department of Housing and Urban Development					<u>3,128,605</u>	
Department of the Interior						
15 226	Payments in Lieu of Taxes				2,142,985	
15 227	Distribution of Receipts to State and Local Governments		Arizona State Treasurer	Elec Credit	5,109	
15 228	National Fire Plan—Wildland Urban Interface Community Fire Assistance				20,000	
Total Department of the Interior					<u>2,168,094</u>	
Department of Justice						
16 523	Juvenile Accountability Block Grants (JABG)		Arizona Governor's Office for Children, Youth & Families	JB-CSG-14-4365-01	19,443	
16 606	State Criminal Alien Assistance Program (SCAAP)				31,423	
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-14-011, DC-14-014	138,913	
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster			19,802	
<i>Total JAG Program Cluster</i>					<u>158,715</u>	
Total Department of Justice					<u>209,581</u>	
Department of Labor						
17 258	WIA Adult Program	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE111004001	465,031	
17 259	WIA Youth Activities	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE101054001/DE111004001	390,199	\$ 240,798
17 267	Workforce Investment Act-Section 503 Incentive Grants	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE111004001	110,365	

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
17 278	Workforce Investment Act-Dislocated Workers	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE111004001	405,945	
	<i>Total Workforce Investment Act (WIA) Cluster</i>				<u>1,371,540</u>	<u>240,798</u>
17 268	HIB Job Training Grant		Pima County, Arizona	CT-13-404	7,385	
17 802	Veterans' Employment Program		Pima County, Arizona	CT-13-403	55,771	
	Total Department of Labor				<u>1,434,696</u>	<u>240,798</u>
Department of Transportation						
20 106	Airport Improvement Program		Arizona Department of Transportation	2-04-0013-007-2012, 3-04-0013-008-2013, 3-04-0049-004-2013	333,284	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2013-AL-020, 2013-AL-021, 2013-PT-021, 2014-AL-001, 2014-164-050	90,139	
	Total Department of Transportation				<u>423,423</u>	
Department of Education						
84 010	Title 1 Grants to Local Educational Agencies		Arizona Supreme Court	KR12-0085	106,360	
84 027	Special Education—Grants to States		Arizona Department of Education	H027A050007	13,184	
84 365	English Language Acquisition Grants		Arizona Department of Education	T365A30003A	21,476	
84 413	2013-Race to the Top		Arizona Department of Education	B413A1200005	34,893	
	Total Department of Education				<u>175,913</u>	
Election Assistance Commission						
90 401	Help America Vote Act Requirements Payments		Arizona Secretary of State	Check #6493828	8,910	
Department of Health and Human Services						
93 044	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers		Southern Arizona Governments	12 Amendment 14-1, 14-2, 14-3	261,029	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007884	236,934	
93 116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		Arizona Department of Health Services	ADHS13-049245	11,839	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041535	108,919	
93 505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		Arizona Department of Health Services	ADHS14-053682	64,366	58,211
93 597	Grants to States for Access and Visitation Programs		Arizona Department of Economic Security	DE111155001	23,556	
93 977	Preventive Health Services—Sexually Transmitted Diseases Control Grants		Arizona Department of Health Services	ADHS14-071556	1,717	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS14-063015	15,381	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS13-034429	47,800	
	Total Department of Health and Human Services				<u>771,541</u>	<u>58,211</u>

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number(s)	Program expenditures	Amount provided to subrecipients
Executive Office of the President of the United States						
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT-13-2329, HT-13-2330, HT-14-2329, HT-14-2330	298,691	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2013-EP-000024	93,282	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	11-AZDOHS-OPSG-888421-03, 11-AZDOHS-OPSG-888421-04, 12-AZDOHS-OPSG-999419-01, 12-AZDOHS-OPSG-999419-03, 13-AZDOHS-OPSG-130412-02, 13-AZDOHS-OPSG-130412-01, 130402-02, 999400-04	887,844	
	Total Department of Homeland Security				<u>981,126</u>	
State Justice Institute						
99 SJI-12-T-170	Rural Court Community Collaboration Planning				7,227	
	Total expenditures of federal awards				<u>\$ 10,721,510</u>	<u>\$ 299,009</u>

See accompanying notes to schedule.

Cochise County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes Cochise County's federal grant activity 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 2014 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used.

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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 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, 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 26, 2015. Our report includes a reference to other auditors who audited the financial statements of the Housing Authority of Cochise County and Cochise Private Industry Council, Inc., as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Debbie Davenport
Auditor General

February 26, 2015



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 for Each Major Federal
Program and Report on Internal Control over Compliance**

Members of the Arizona State Legislature

The Board of Supervisors of
Cochise County, Arizona

Report on Compliance for Each Major Federal Program

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, 2014, except for the Section 8 Housing Choice Vouchers program (14.871) administered by the Housing Authority of Cochise County and the Workforce Investment Act (WIA) Cluster of programs (17.258, 17.259, 17.267, and 17.278) administered by the Cochise Private Industry Council, Inc. Those major federal programs were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to those major federal programs' compliance 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, based on our audit and the reports of the other auditors, Cochise County complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We and the reports of the other auditors did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Debbie Davenport
Auditor General

February 26, 2015

Cochise County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unmodified	
Internal control over financial reporting:			
Material weakness identified?	___	<u> X </u>	
Significant deficiency identified?	___	<u> X </u> (None reported)	
Noncompliance material to the financial statements noted?	___	<u> X </u>	

Federal Awards

Internal control over major programs:			
Material weakness identified?	___	<u> X </u>	
Significant deficiency identified?	___	<u> X </u> (None reported)	
Type of auditors' report issued on compliance for major programs:		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___	<u> X </u>	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program For Women, Infants, and Children
14.871	Section 8 Housing Choice Vouchers
15.226	Payments in Lieu of Taxes
17.258, 17.259, 17.267, 17.278	Workforce Investment Act (WIA) Cluster
95.001	High Intensity Drug Trafficking Areas Program

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Dollar threshold used to distinguish between Type A and Type B programs: \$321,645

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

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___
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Cochise County Board of Supervisors

Public Programs...Personal Service
www.cochise.az.gov

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Chairman
District 1

MICHAEL J. ORTEGA
County Administrator

ANN ENGLISH
Vice-Chairman
District 2

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Deputy County Administrator

RICHARD R. SEARLE
Supervisor District 3

ARLETHE G. RIOS
Clerk of the Board

Debbie Davenport
Auditor General
2910 N. 44th St., Ste. 140
Phoenix, AZ 85018

Dear Ms. Davenport:

We have prepared the accompanying Summary Schedule of Prior Audit Findings 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

Cochise County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Status of Federal Award Findings and Questioned Costs

CFDA No.: 97.042 *Emergency Management Performance Grants*

Finding No.: 2013-101

Status: Fully corrected.

CFDA No.: 97.042 *Emergency Management Performance Grants*

Finding No.: 2013-102

Status: Fully corrected.
