



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Cochise County

Year Ended June 30, 2006

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**Debra K. Davenport**  
Auditor General

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Cochise County  
Single Audit Reporting Package  
Year Ended June 30, 2006

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ft. Huachuca Accommodation School District Fund, which is both a major fund and 24 percent and 14 percent respectively, of the assets and revenues of the County's governmental activities. In addition, we did not audit the Cochise Health Systems Fund, which is both a major fund and 46 percent and 90 percent, respectively, of the assets and revenues of the County's business-type activities. We also did not audit the financial statements of the discretely presented component units of Cochise County. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Ft. Huachuca Accommodation School District Fund, Cochise Health Systems Fund, Housing Authority of Cochise County, and Cochise County Workforce Development, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Cochise Health System Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through x, the Budgetary Comparison Schedules on pages 39 through 43, and the Schedule of Agent Retirement Plans' Funding Progress on page 44 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport  
Auditor General

April 6, 2007

## 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, 2006. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements.

### Financial Highlights

- The assets of Cochise County exceed its liabilities at the close of the fiscal year by \$128,464,049 (net assets). Of this amount, \$33,372,593 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the close of the fiscal year, Cochise County's governmental activities reported combined ending net assets of \$112,524,829, an increase of \$15,822,683 over the prior year's net assets.
- At the end of the fiscal year, unreserved fund balance in the General Fund was \$14,464,231 or 31.6% 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 \$640,926 during the current fiscal year. The decrease is attributable to the normal debt service on capital leases and certificates of participation.

### Overview of the Financial Statements

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

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

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

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

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, and education. The business-type activities include Cochise Health Systems (long-term care), the Cochise County Solid Waste Operations, and the Bisbee-Douglas International Airport.

## 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 funds of the County can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds.*

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund statements focus on near-term inflows and outflows of spendable resources as well as the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financial position.

Because the focus of governmental funds statements is narrower than the government-wide statements, it is useful to compare the information presented for governmental funds with similar information for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances include a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The County maintains approximately 225 individual governmental funds. Information is presented separately in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and those funds designated as major funds, including the Highway and Streets Fund, the Capital Projects Fund, and the Ft. Huachuca Accommodation School District Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

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

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

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

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



## Management's Discussion and Analysis

**Proprietary funds** include two types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Cochise Health Systems (long-term care), the Cochise County Solid Waste Operations, and the Bisbee-Douglas International Airport. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for fleet operations, the computer replacement program, and the County's participation in the Cochise Combined Trust for providing health insurance and other benefits to County employees. Because these services predominately benefit governmental rather than business-type activities, the net result of the operations has been included within the governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Cochise Health Systems and the Solid Waste Operations are considered to be major funds and are therefore reported separately. The other proprietary fund, the Bisbee-Douglas International Airport and the internal service funds are also presented in the proprietary fund financial statements.

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

**Fiduciary funds** are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 12 and 13 of this report.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to financial statements can be found on pages 16 – 37 of this report.

**Required supplementary information** presents schedules of revenues and expenditures, budget and actual, for the general and major special revenue funds. This section also includes certain information concerning the County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 39 - 44 of this report.

# Management's Discussion and Analysis

## Government-wide Financial Analysis

Below is a comparative analysis between fiscal years for the government-wide statements. Capital assets, net of accumulated depreciation, increased by \$14,118,567. The County's capital purchases included \$1,198,273 for construction on the County's building project in Sierra Vista and Quality Hill and for detention cells in Willcox, and \$8,141,477 for construction at Ft. Huachuca for new schools, \$4,205,933 for roads and bridges infrastructure, \$443,229 for a county-wide simulcast radio system, \$1,019,202 for the Sheriff's mobile data system, \$1,966,096 for replacement and new vehicles and heavy equipment, and \$1,217,565 for various other capital assets. The current year's depreciation of capital totaled \$3,994,099.

**Statement of Net Assets**—As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Cochise County's assets exceeded liabilities by \$128,464,049.

### Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2005 and 2006

	Governmental Activities		Business-type Activities		Total	
	June 30, 2005*	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005*	June 30, 2006
<b>Assets:</b>						
Current and other assets	\$ 62,361,892	\$ 66,183,624	\$ 8,505,374	\$10,518,100	\$ 70,867,266	\$ 76,701,724
Capital assets	<u>52,138,863</u>	<u>66,819,769</u>	<u>11,182,562</u>	<u>10,620,223</u>	<u>63,321,425</u>	<u>77,439,992</u>
Total assets	<u>114,500,755</u>	<u>133,003,393</u>	<u>19,687,936</u>	<u>21,138,323</u>	<u>134,188,691</u>	<u>154,141,716</u>
<b>Liabilities:</b>						
Other liabilities	4,608,703	7,933,759	3,215,936	3,155,796	7,824,639	11,089,555
Long-term liabilities	<u>13,189,906</u>	<u>12,544,805</u>	<u>2,894,809</u>	<u>2,043,307</u>	<u>16,084,715</u>	<u>14,588,112</u>
Total liabilities	<u>17,789,609</u>	<u>20,478,564</u>	<u>6,110,745</u>	<u>5,199,103</u>	<u>23,909,354</u>	<u>25,677,667</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	43,029,463	58,911,295	10,806,761	10,304,934	53,836,224	69,216,229
Restricted	30,804,692	24,027,227	1,880,000	1,848,000	32,684,692	25,875,227
Unrestricted	<u>22,867,991</u>	<u>29,586,307</u>	<u>890,430</u>	<u>3,786,286</u>	<u>23,758,421</u>	<u>33,372,593</u>
Total net assets	<u>\$ 96,702,146</u>	<u>\$112,524,829</u>	<u>\$13,577,191</u>	<u>\$15,939,220</u>	<u>\$110,279,337</u>	<u>\$128,464,049</u>

\* As restated – See Note 2 of financial statements

A large portion of Cochise County's net assets (53.9%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). This amount is presented less accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

## Management's Discussion and Analysis

The County's total net assets increased by \$18,184,712 during the fiscal year. A large portion of this increase is attributable to the increase in the County's investment in capital assets. The remainder of the growth reflects the net results of increases in taxes and other revenues and controls on expenses.

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

### Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2005 and 2006

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2004-05*	2005-06	2004-05	2005-06	2004-05*	2005-06
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 7,145,613	\$ 8,899,974	\$34,663,955	\$36,613,113	\$ 41,809,568	\$ 45,513,087
Operating grants and contributions	35,817,352	38,661,825			35,817,352	38,661,825
Capital grants and contributions	943,957	2,352,572	1,136,808		2,080,765	2,325,572
General revenues:						
Property taxes	21,605,754	23,339,884			21,605,754	23,339,884
State shared sales tax	11,796,386	12,266,596			11,796,386	12,266,596
Unrestricted vehicle license tax	3,567,980	3,322,646			3,567,980	3,322,646
County excise tax	6,280,722	7,044,158	82,494	85,000	6,363,216	7,129,158
Other	<u>3,607,541</u>	<u>5,018,256</u>	<u>245,367</u>	<u>347,839</u>	<u>3,852,908</u>	<u>5,366,095</u>
Total revenues	<u>90,765,305</u>	<u>100,905,911</u>	<u>36,128,624</u>	<u>37,045,952</u>	<u>126,893,929</u>	<u>137,951,863</u>
<b>Expenses</b>						
General government	30,510,969	30,235,435			30,510,969	30,235,435
Public safety	15,392,316	17,551,729			15,392,316	17,551,729
Highways and streets	7,661,051	10,047,024			7,661,051	10,047,024
Sanitation	852,288	800,034			852,288	800,034
Health and welfare	12,364,317	12,904,432			12,364,317	12,904,432
Culture and recreation	915,691	938,550			915,691	938,550
Education	12,052,336	13,474,643			12,052,336	13,474,643
Long-term care			30,347,028	29,797,639	30,347,028	29,797,639
Airport			307,116	400,124	307,116	400,124
Solid waste operations			<u>3,468,954</u>	<u>3,617,541</u>	<u>3,468,954</u>	<u>3,617,541</u>
Total expenses	<u>79,748,968</u>	<u>85,951,847</u>	<u>34,123,098</u>	<u>33,815,304</u>	<u>113,872,066</u>	<u>119,767,151</u>
Increase in net assets before transfers	11,016,337	14,954,064	2,005,526	3,230,648	13,021,863	18,184,712
Transfers	<u>393,052</u>	<u>868,619</u>	<u>(393,052)</u>	<u>(868,619)</u>		
Increase in net assets	<u>\$11,409,389</u>	<u>\$ 15,822,683</u>	<u>\$ 1,612,474</u>	<u>\$ 2,362,029</u>	<u>\$ 13,021,863</u>	<u>\$ 18,184,712</u>

\* As restated – See Note 2 of financial statements.

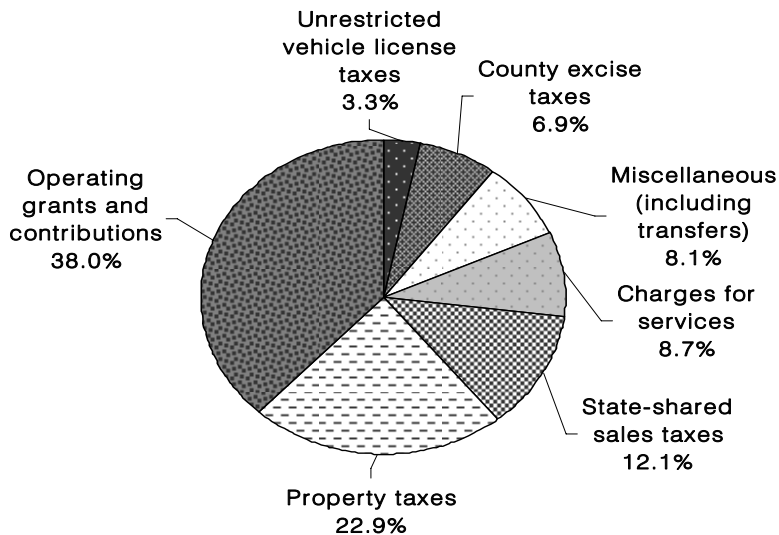
# Management's Discussion and Analysis

**Governmental activities**—Key elements of the increase in net assets of \$15,822,683 are as follows:

Major Revenues:

- Operating grants and contributions: These revenues increased by \$2,844,473 or 7.9% primarily from increases in federal grant monies received. The County received a new grant – the Education Technology State Grants – totaling \$960,272. Also, the County received \$582,865 in additional federal grant monies for the Public Safety Partnership and Community Policing Grants program and \$961,146 in the Homeland Security Grant Program Cluster.
- Property taxes: The net assessed value of all taxable property in the County increased by \$53,926,951 or 8.8%, over the previous year. With no change in the property tax rate from fiscal year 2004, property tax revenues increased by \$1,734,130 or 8.0%.
- State-shared sales tax revenues: Sales tax revenues increased by \$470,210 or 4.0% from the previous year. The increase in sales tax is indicative of the overall economic improvement in the State as well as moderate growth and stability within the County.
- County sales taxes: The County excise tax revenue increased by \$763,436 or 12.2%. This favorable variance is indicative of the growth and stability within the County.

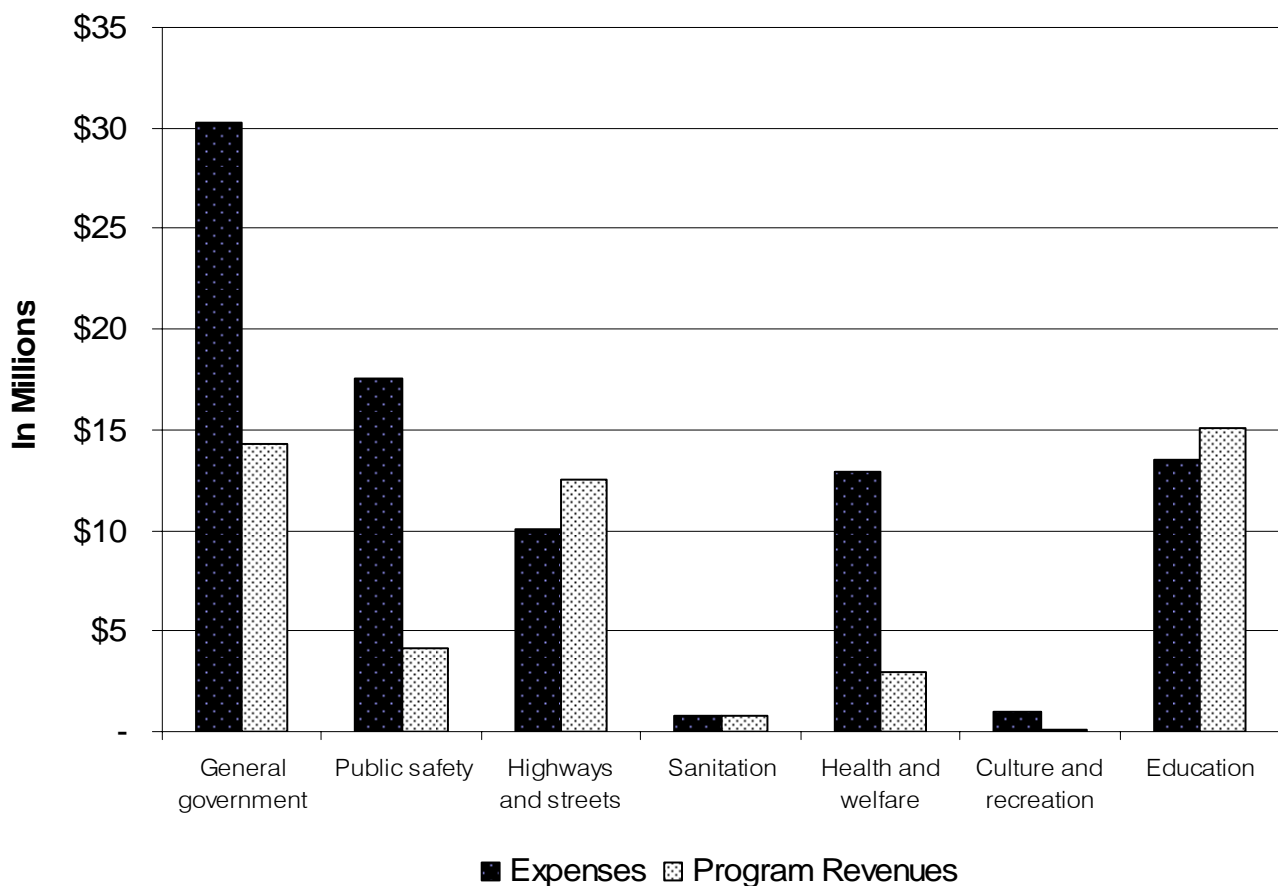
**Revenues by Source—Governmental Activities  
Fiscal Year Ended June 30, 2006**



## Management's Discussion and Analysis

**Expenses**—Overall expenses in the governmental activities increased by \$6,202,879, or 7.8%. The increase in expenses is consistent with the County's conservative budgeting philosophy, overall inflation, and modest salary increases for County employees. The largest increases in governmental activities expenses are primarily due to modest increases in salaries and benefits and grant expenses as well as increases in health and welfare due to increases in the County's mandatory contributions to the State's indigent long-term care program. The County received a new grant for fiscal year 2005-06 – the Education Technology State Grants – and expended \$960,272.

Expenses vs. Revenues by Function – Governmental Activities  
Fiscal Year Ended June 30, 2006



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

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

## Management's Discussion and Analysis

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 Assets for Proprietary Funds on pages 7 and 8, the Statement of Revenues, Expenses, and Changes in Fund Net Assets for Proprietary Funds on page 9, and in the Statement of Cash Flows for the Proprietary Funds on pages 10 and 11.

Net assets for business-type activities increased by \$2,362,029, which is mainly attributable to the increase in charge for services in Cochise Health System and a decrease of long-term care costs of \$549,389.

### **Financial Analysis of the County's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**—The governmental activities are accounted for in the general, special revenue, and capital projects funds. Included in these funds are the special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the primary operating fund of the County. At June 30, 2006, the total fund balance was \$14,464,231. 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, 2006, the fund balance represents 31.6% of total General Fund expenditures.

The fund balance of the General Fund increased by \$3,549,143 during the fiscal year. This increase is mainly attributable to the increase in property taxes, an increase in state-shared sales tax revenues, an increase in the sale of capital assets, and only moderate increases in expenditures.

In addition, the fund balance of the Capital Projects Fund increased by \$1,613,498 during the fiscal year, which is mainly attributable to an increase in excise tax revenues and an increase in homeland security federal grant revenue for capital projects.

The fund balance of the Highway and Streets Fund decreased by \$831,061. This decrease is mainly attributable to the capital outlay for Hereford bridge replacement and construction of the Palominas flood wall.

## Management's Discussion and Analysis

Finally, the Ft. Huachuca Accommodation School District fund balance decreased by \$5,282,421 due primarily to utilization of significant funds provided by Section 8003 Federal Impact Aid for construction expenditures related to the building of new schools.

**Proprietary funds**—The County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the Bisbee-Douglas International Airport Fund decreased by \$95,792 primarily because of an increase in depreciation on capital assets and an increase in supplies for fuel and electrical repairs/maintenance.

### 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, 2006, was \$69,216,229 (net of accumulation depreciation and related debt). In accordance with GASB Statement No. 34, the County will retroactively value all infrastructure assets back to fiscal year 1981 by June 30, 2007. Major capital asset events during the current fiscal year include the following:

- Capital outlay expenditures in the Capital Projects Fund primarily consist of \$1,019,202 toward a mobile data project and \$443,228 for a county-wide simulcast radio system.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$3,539,003 for new roads (and right of way) infrastructure and \$73,037 for equipment modernization.
- Capital outlay expenditures in the Flood Control district primarily consist of \$628,034 for a new flood wall and \$66,710 for erosion control.
- Capitalization of construction project costs in the Solid Waste Operations Fund totaled \$16,850 for completed construction projects.
- Programmed vehicle replacement and additions of new vehicles totaled \$1,223,257 in Fleet Management (an Internal Service Fund) and heavy equipment replacement and additions of new equipment totaled \$742,839 in Heavy Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in the Ft. Huachuca Accommodation School fund primarily consists of \$8,141,477 for building new schools.

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

#### Long-term Debt

At June 30, 2006, the County had certificates of participation and capital lease long-term liabilities outstanding of \$8,783,763 as compared to \$9,485,201 in the prior year. This amount was comprised of \$8,310,949 of certificates of participation issued in 2002 (including unamortized premium of \$145,949) and \$472,814 in capital leases. The change in these long-term liabilities includes the normal annual debt service.

# Management's Discussion and Analysis

Cochise County has no general obligation or revenue bonds outstanding.

## **Budgetary Comparison—General Fund**

The favorable variances in most revenues and expenses resulted from conservative budgeting and moderate growth and stability within the County. Overall, the General Fund's fund balance increased by \$3,549,143.

The growth in intergovernmental revenues resulted from growth in state-shared sales taxes, which increased by \$470,210 over fiscal year 2004-05.

The favorable variance in charges for services is reflective of ongoing efforts to establish fair and reasonable fees for services provided and to collect the fees, especially in the court system.

There were no material variances in expenditures except for the general government function. The favorable variance of \$9,534,565 resulted primarily from unspent contingency funds.

## **Economic Factors**

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2006 was 5.1% compared to 4.4% statewide and 4.6% nation-wide. The rate has increased from approximately 4.8% in the prior year and has been consistently below or near the overall state rate. Within the County, the rate varies widely between the incorporated areas; ranging from a low of 3.0% in Sierra Vista to the high of 9.1% in Benson.
- For the fiscal year ended June 30, 2006, the county government remained the second largest employer in the County. Ft. Huachuca is the County's largest employer with 11,939 employees compared to 1,090 for the County government.
- The County's primary property tax rate has either remained the same or decreased each year for the past thirteen years.
- The County's expense for employee health insurance remained the same as the previous year.

## **Request for Information**

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



Cochise County  
Statement of Net Assets  
June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash in bank and on hand	\$ 207,806	\$ 1,100	\$ 208,906	\$ 462,030
Cash and investments held by County				
Treasurer	34,035,550	9,172,321	43,207,871	
Investments held by trustee	896,120		896,120	
Restricted cash and investments	20,394,179		20,394,179	
Receivables (net of allowances for uncollectibles):				
Property taxes	819,678		819,678	
Accounts	771,691	1,515,943	2,287,634	3,807
Accrued interest	18,331		18,331	
Internal balances	264,692	(264,692)		
Due from other governments	8,444,793	18,428	8,463,221	337,880
Inventories	20,766		20,766	
Other Assets	47,354		47,354	
Prepaid items	262,664	75,000	337,664	3,835
Capital assets, not being depreciated	12,279,967	1,596,700	13,876,667	
Capital assets, being depreciated, net	<u>54,539,802</u>	<u>9,023,523</u>	<u>63,563,325</u>	<u>187,253</u>
Total assets	<u>133,003,393</u>	<u>21,138,323</u>	<u>154,141,716</u>	<u>994,805</u>
<b>Liabilities</b>				
Accounts payable	4,215,190	3,002,088	7,217,279	245,426
Accrued payroll and employee benefits	2,523,449	152,308	2,675,757	5,367
Due to other governments	887,760		887,760	
Deposits held for others	14,366	1,000	15,366	
Deferred revenue	292,994	400	293,394	2,147
Noncurrent liabilities				
Due within 1 year	3,228,193	1,477,647	4,705,840	
Due in more than 1 year	<u>9,316,612</u>	<u>565,660</u>	<u>9,882,272</u>	<u>24,118</u>
Total liabilities	<u>20,478,564</u>	<u>5,199,103</u>	<u>25,677,668</u>	<u>277,058</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	58,911,295	10,304,934	69,216,229	187,253
Restricted for:				
Public Safety	1,171,833		1,171,833	
Capital Projects	5,580,508		5,580,508	
Highways and streets	3,030,500		3,030,500	
Education	13,348,266		13,348,266	
Debt service	896,120		896,120	
Long-term care		1,848,000	1,848,000	
Unrestricted	<u>29,586,307</u>	<u>3,786,286</u>	<u>33,372,593</u>	<u>530,494</u>
Total net assets	<u>\$ 112,524,829</u>	<u>\$ 15,939,220</u>	<u>\$ 128,464,049</u>	<u>\$ 717,747</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Activities  
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 30,235,435	\$ 5,775,234	\$ 6,537,814	\$ 1,990,647	\$ (15,931,740)		\$ (15,931,740)	
Public safety	17,551,729	992,621	3,164,209		(13,394,899)		(13,394,899)	
Highways and streets	10,047,024	900,545	11,364,367	282,220	2,500,108		2,500,108	
Sanitation	800,034	582,782	239,029		21,777		21,777	
Health and welfare	12,904,432	450,933	2,522,993		(9,930,506)		(9,930,506)	
Culture and recreation	938,550		60,704		(877,846)		(877,846)	
Education	13,474,643	197,859	14,772,709	79,705	1,575,630		(1,575,630)	
Total governmental activities	<u>85,951,847</u>	<u>8,899,974</u>	<u>38,661,825</u>	<u>2,352,572</u>	<u>(36,037,476)</u>		<u>(36,037,476)</u>	
Business-type activities:								
Bisbee-Douglas International Airport	400,124	216,751				\$ (183,373)	\$ (183,373)	
Cochise Health Systems	29,797,639	32,987,016				3,189,377	3,189,377	
Solid Waste Operations	<u>3,617,541</u>	<u>3,409,346</u>				<u>(208,195)</u>	<u>(208,195)</u>	
Total business-type activities	<u>33,815,304</u>	<u>36,613,113</u>				<u>2,797,809</u>	<u>2,797,809</u>	
Total primary government	<u>\$ 119,767,151</u>	<u>\$ 45,513,087</u>	<u>\$ 38,661,825</u>	<u>\$ 2,352,572</u>	<u>(36,037,476)</u>	<u>2,797,809</u>	<u>(33,239,667)</u>	
<b>Component units:</b>								
Housing Authority of Cochise County	\$ 2,943,955		\$ 3,148,237					\$ 204,282
Cochise County Workforce Development	<u>1,959,352</u>		<u>1,953,142</u>					<u>(6,210)</u>
Total component units	<u>\$ 4,903,307</u>		<u>\$ 5,101,379</u>					<u>198,072</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					20,908,436		20,908,436	
Property taxes, levied for flood control					1,378,616		1,378,616	
Property taxes, levied for library					1,052,832		1,052,832	
County excise taxes					7,044,158	85,000	7,129,158	
Share of state sales taxes					12,266,596		12,266,596	
Share of unrestricted vehicle license tax					3,322,646		3,322,646	
Grants and contributions not restricted to specific programs					1,942,919		1,942,919	
Investment income					1,801,360	345,664	2,147,024	3,027
Gain on disposal of capital assets					575,413		575,413	
Miscellaneous					698,564	2,175	700,739	30,656
Transfers					<u>868,619</u>	<u>(868,619)</u>		
Total general revenues and transfers					<u>51,860,159</u>	<u>(435,780)</u>	<u>51,424,379</u>	<u>33,683</u>
Change in net assets					15,822,683	2,362,029	18,184,712	231,755
Net assets, July 1, 2005, as restated					<u>96,702,146</u>	<u>13,577,191</u>	<u>110,279,337</u>	<u>485,992</u>
Net assets, June 30, 2006					<u>\$ 112,524,829</u>	<u>\$ 15,939,220</u>	<u>\$ 128,464,049</u>	<u>\$ 717,747</u>

Cochise County  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General Fund	Capital Projects Fund	Highway and Streets Fund	Ft. Huachuca Accommodation School District Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash in bank and on hand	\$ 124,500				\$ 83,106	\$ 207,606
Cash and investments held by County Treasurer	11,647,842	\$6,977,600	\$3,238,688	\$20,394,179	9,893,602	52,151,911
Investments held by trustee		896,120				896,120
Receivables (net of allowances for uncollectibles):						
Property taxes	694,880				124,798	819,678
Accounts	693,051	1,752	20,425		43,005	758,233
Accrued interest	4,032	2,566			11,000	17,598
Due from:						
Other funds	777,586	1,264	20,995		186,589	986,434
Other governments	3,638,583	470,054	1,922,775	786,866	1,626,515	8,444,793
Inventories				20,766		20,766
Other Assets				47,354		47,354
Prepaid items	187,253				75,411	262,664
Total assets	<u>\$17,767,727</u>	<u>\$8,349,356</u>	<u>\$5,202,883</u>	<u>\$21,249,165</u>	<u>\$12,044,026</u>	<u>\$ 64,613,157</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 635,116	\$ 667,886	\$ 485,085	\$ 1,669,529	\$ 356,993	\$ 3,814,609
Accrued payroll and employee benefits	1,468,969		238,046	96,818	565,271	2,369,104
Due to:						
Other funds	372,658	12,425	722,145		282,963	1,390,191
Other governments					887,760	887,760
Deposits held for others	10,757				3,609	14,366
Certificates of participation payable		560,000				560,000
Deferred revenue	815,996			54,568	94,446	965,010
Total liabilities	<u>3,303,496</u>	<u>1,240,311</u>	<u>1,445,276</u>	<u>1,820,915</u>	<u>2,191,042</u>	<u>10,001,040</u>
Fund balances:						
Reserved for Inventory				20,766		20,766
Unreserved, reported in:						
General fund	14,464,231					14,464,231
Special revenue funds			3,757,607	19,407,484	9,852,984	33,018,075
Capital projects funds		7,109,045				7,109,045
Total fund balances	<u>14,464,231</u>	<u>7,109,045</u>	<u>3,757,607</u>	<u>19,428,250</u>	<u>9,852,984</u>	<u>54,612,117</u>
Total liabilities and fund balances	<u>\$17,767,727</u>	<u>\$8,349,356</u>	<u>\$5,202,883</u>	<u>\$21,249,165</u>	<u>\$12,044,026</u>	<u>\$ 64,613,157</u>

See accompanying notes to financial statements.

Cochise County  
 Reconciliation of the Balance Sheet to the Statement of Net Assets  
 Governmental Funds  
 June 30, 2006

Fund balances—total governmental funds		\$ 54,612,117
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		61,648,853
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.		672,016
Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		7,576,648
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds:		
Certificates of participation payable	(7,750,949)	
Capital leases payable	(157,525)	
Compensated absences payable	(4,076,331)	(11,984,805)
Net assets of governmental activities		\$ 112,524,829

See accompanying notes to financial statements.

Cochise County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2006

	General Fund	Capital Projects Fund	Highway and Streets Fund	Ft. Huachuca Accommodation School District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 27,554,205	\$ 3,036,303			\$ 3,106,020	\$ 33,696,528
Licenses and permits	46,509					46,509
Fines and forfeits	2,352,249				535,629	2,887,878
Intergovernmental	15,010,437	1,990,647	\$ 11,085,174	\$ 13,676,468	12,845,615	54,608,341
Charges for services	3,158,498		900,545		1,778,447	5,837,490
Investment income	322,371	224,989	145,975	778,592	329,434	1,801,361
Miscellaneous	243,988	544	5,114		166,697	416,343
Total revenues	<u>48,688,257</u>	<u>5,252,483</u>	<u>12,136,808</u>	<u>14,455,060</u>	<u>18,761,842</u>	<u>99,294,450</u>
Expenditures:						
Current:						
General government	21,270,437	134,897			8,710,151	30,115,485
Public safety	12,692,903				4,303,430	16,996,333
Highways and streets			8,010,381		279,449	8,289,830
Sanitation	572,519				227,515	800,034
Health and welfare	10,261,785				2,186,993	12,448,778
Culture and recreation					938,550	938,550
Education	346,302			11,580,343	1,284,578	13,211,223
Debt service:						
Principal		560,000	74,710			634,710
Interest and other charges		318,983	8,314			327,297
Capital outlay	560,350	2,709,709	4,027,805	8,141,477	598,923	16,038,264
Total expenditures	<u>45,704,296</u>	<u>3,723,589</u>	<u>12,121,210</u>	<u>19,721,820</u>	<u>18,529,589</u>	<u>99,800,504</u>
Excess (deficiency) of revenues over expenditures	<u>2,983,961</u>	<u>1,528,894</u>	<u>15,598</u>	<u>(5,266,760)</u>	<u>232,253</u>	<u>(506,054)</u>
Other financing sources (uses):						
Sale of capital assets	369,411				264,300	633,711
Transfers in	909,666	95,277			1,541,278	2,546,221
Transfers out	(713,895)	(10,673)	(846,659)		(1,320,067)	(2,891,294)
Total other financing sources and uses	<u>565,182</u>	<u>84,604</u>	<u>(846,659)</u>		<u>485,511</u>	<u>288,638</u>
Net change in fund balances	3,549,143	1,613,498	(831,061)	(5,266,760)	717,764	(217,416)
Fund balances, July 1, 2005, as restated	<u>10,915,088</u>	<u>5,495,547</u>	<u>4,588,668</u>	<u>24,710,671</u>	<u>9,135,220</u>	<u>54,845,194</u>
Decrease in reserve for inventory				(15,661)		(15,661)
Fund balances, June 30, 2006	<u>\$ 14,464,231</u>	<u>\$ 7,109,045</u>	<u>\$ 3,757,607</u>	<u>\$ 19,428,250</u>	<u>\$ 9,852,984</u>	<u>\$ 54,612,117</u>

See accompanying notes to financial statements.

Cochise County  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 Governmental Funds  
 Year Ended June 30, 2006

Net change in fund balances—total governmental funds		\$ (217,416)
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	16,038,264	
Depreciation expense	<u>(2,641,106)</u>	13,397,158
<p>In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold.</p>		
		(58,298)
<p>Transfers of capital assets between governmental activities and proprietary funds are not reported in the governmental funds, but are recognized in the statement of activities</p>		
		(95,500)
<p>Donations of capital assets are not reported in the governmental funds as they are not a collection of current financial resources. However these donations are recognized as revenue in the statement of activities.</p>		
		282,220
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
		57,514
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
Principal expenditures	634,710	
Amortization of premium	<u>16,216</u>	650,926
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		4,175
Change in reserve for inventory		(15,661)
<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 (expense) of certain internal service funds is reported with governmental activities.</p>		
		<u>1,817,565</u>
Change in net assets of governmental activities		<u>\$ 15,822,683</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise BDI Airport Fund	Total	Internal Service Funds
<b>Assets</b>					
Current assets:					
Cash in bank and on hand		\$ 1,100		\$ 1,100	\$ 200
Cash and investments held by County Treasurer	\$ 8,530,229	642,092		9,172,321	2,277,818
Receivables (net of allowances for uncollectibles):					
Accounts	1,090,483	378,959	\$ 46,501	1,515,943	13,458
Accrued interest					733
Due from:					
Other funds	1,914	159,891	68,984	230,789	862,655
Other governments		18,428		18,428	
Prepaid items	75,000			75,000	
Total current assets	<u>9,697,626</u>	<u>1,200,470</u>	<u>115,485</u>	<u>11,013,581</u>	<u>3,154,864</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation, where applicable:					
Land		21,700	1,575,000	1,596,700	
Buildings, net		3,825,488	12,591	3,838,079	140,941
Improvements other than buildings, net		1,912,891	1,563,444	3,476,335	
Equipment, net	41,101	1,528,633	139,375	1,709,109	5,029,975
Total noncurrent assets	<u>41,101</u>	<u>7,288,712</u>	<u>3,290,410</u>	<u>10,620,223</u>	<u>5,170,916</u>
Total assets	<u>9,738,727</u>	<u>8,489,182</u>	<u>3,405,895</u>	<u>21,633,804</u>	<u>8,325,780</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	2,975,793	12,507	13,788	3,002,088	400,581
Accrued payroll and employee benefits	95,041	52,134	5,133	152,308	154,345
Due to other funds	209,971	235,712	49,798	495,481	194,206
Compensated absences payable, current portion	101,784	52,400	2,634	156,818	
Landfill closure and postclosure care costs payable, current portion		1,258,358		1,258,358	
Deposits held for others			1,000	1,000	
Leases payable, current portion		62,471		62,471	
Deferred revenue			400	400	
Total current liabilities	<u>3,382,589</u>	<u>1,673,582</u>	<u>72,753</u>	<u>5,128,924</u>	<u>749,132</u>

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006  
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>				<u>Governmental Activities—</u>
	<u>Cochise Health Systems Fund</u>	<u>Solid Waste Operations Fund</u>	<u>Other Enterprise BDI Airport Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
Noncurrent liabilities:					
Compensated absences payable	\$ 8,251	\$ 4,532	\$ 7,962	\$ 20,745	
Landfill closure and postclosure care costs payable		292,097		292,097	
Leases payable		252,818		252,818	
Total noncurrent liabilities	<u>8,251</u>	<u>549,447</u>	<u>7,962</u>	<u>565,660</u>	
Total liabilities	<u>3,390,840</u>	<u>2,223,029</u>	<u>80,715</u>	<u>5,694,584</u>	<u>\$ 749,132</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	41,101	6,973,423	3,290,410	10,304,934	5,170,916
Restricted for long-term care	1,848,000			1,848,000	
Unrestricted (deficit)	<u>4,458,786</u>	<u>(707,270)</u>	<u>34,770</u>	<u>3,786,286</u>	<u>2,405,732</u>
Total net assets	<u>\$ 6,347,887</u>	<u>\$ 6,266,153</u>	<u>\$ 3,325,180</u>	<u>\$ 15,939,220</u>	<u>\$ 7,576,648</u>

See accompanying notes to financial statements.



Cochise County  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
Year Ended June 30, 2006

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise BDI Airport Fund	Total	Internal Service Funds
Operating revenues:					
Charges for services	\$ 32,987,016	\$ 3,409,346	\$ 216,751	\$ 36,613,113	\$ 5,285,310
Health plan contributions					6,070,449
Other					84,299
Total operating revenues	<u>32,987,016</u>	<u>3,409,346</u>	<u>216,751</u>	<u>36,613,113</u>	<u>11,440,058</u>
Operating expenses:					
Personal services	2,470,753	1,301,732	125,225	3,897,710	1,022,204
Professional services	211,794	1,325,499	84,800	1,622,093	6,399,174
Supplies	68,177	80,001	94,307	242,485	2,805,653
Long-term care costs	25,568,869			25,568,869	
Landfill closure and postclosure care costs		277,044		277,044	
Depreciation	47,230	420,045	95,792	563,067	789,926
Other	1,430,816	202,112		1,632,928	451
Total operating expenses	<u>29,797,639</u>	<u>3,606,433</u>	<u>400,124</u>	<u>33,804,196</u>	<u>11,017,408</u>
Operating income (loss)	<u>3,189,377</u>	<u>(197,087)</u>	<u>(183,373)</u>	<u>2,808,917</u>	<u>422,650</u>
Nonoperating revenues (expenses):					
County excise taxes		85,000		85,000	
Investment income	325,425	19,691	548	345,664	61,898
Miscellaneous revenue		2,169	6	2,175	
Interest expense		(11,108)		(11,108)	
Gain (Loss) on disposal of capital assets					23,825
Total nonoperating revenues (expenses)	<u>325,425</u>	<u>95,752</u>	<u>554</u>	<u>421,731</u>	<u>85,723</u>
Income (loss) before other revenues and transfers	3,514,802	(101,335)	(182,819)	3,230,648	508,373
Transfers in			87,027	87,027	1,309,192
Transfers out	(785,508)	(170,138)		(955,646)	
Increase (decrease) in net assets	2,729,294	(271,473)	(95,792)	2,362,029	1,817,565
Total net assets, July 1, 2005	<u>3,618,593</u>	<u>6,537,626</u>	<u>3,420,972</u>	<u>13,577,191</u>	<u>5,759,083</u>
Total net assets, June 30, 2006	<u>\$ 6,347,887</u>	<u>\$ 6,266,153</u>	<u>\$ 3,325,180</u>	<u>\$ 15,939,220</u>	<u>\$ 7,576,648</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2006

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise BDI Airport Fund	Total	Internal Service Funds
Cash flows from operating activities:					
Receipts from customers	\$33,259,678	\$ 3,402,746	\$ 200,423	\$36,862,847	
Receipts from other funds for goods and services provided					\$ 11,220,360
Other receipts					84,299
Payments to suppliers and providers of goods and services	(27,146,132)	(2,655,292)	(171,546)	(29,972,970)	(9,081,740)
Payments to employees	(2,481,166)	(1,286,150)	(127,148)	(3,894,464)	(984,209)
Net cash provided by (used for) operating activities	<u>3,632,380</u>	<u>(538,696)</u>	<u>(98,271)</u>	<u>2,995,513</u>	<u>1,238,710</u>
Cash flows from noncapital financing activities:					
Miscellaneous receipts		87,169	6	87,175	
Cash transfers from other funds			87,027	87,027	1,213,692
Cash transfers to other funds	(785,508)	(170,138)		(955,646)	
Loan payments from other funds			10,690	10,690	
Net cash provided by (used for) noncapital financing activities	<u>(785,508)</u>	<u>(82,969)</u>	<u>97,723</u>	<u>(770,754)</u>	<u>1,213,692</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets					44,669
Purchases of capital assets		(728)		(728)	(1,870,596)
Principal paid on capital leases		(60,512)		(60,512)	
Interest paid on capital leases		(11,108)		(11,108)	
Net cash used for capital and related financing activities		<u>(72,348)</u>		<u>(72,348)</u>	<u>(1,825,927)</u>
Cash flows from investing activities:					
Investment income received on cash and investments held by County Treasurer	329,765	20,979	548	351,292	61,617
Net cash provided by investing activities	<u>329,765</u>	<u>20,979</u>	<u>548</u>	<u>351,292</u>	<u>61,617</u>
Net Increase (decrease) in cash and cash equivalents	3,176,637	(673,034)		2,503,603	688,092
Cash and cash equivalents, July 1, 2005	<u>5,353,592</u>	<u>1,316,226</u>	-	<u>6,669,818</u>	<u>1,589,926</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 8,530,229</u>	<u>\$ 643,192</u>	-	<u>\$ 9,173,421</u>	<u>\$ 2,278,018</u>

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2006  
(Concluded)

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise BDI Airport Fund	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 3,189,377	\$ (197,087)	\$ (183,373)	\$ 2,808,917	\$ 422,650
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	47,230	420,045	95,792	563,067	789,926
Changes in assets and liabilities:					
Increase in:					
Accounts receivable		(4,898)	(12,936)	(17,834)	(2,996)
Due from other funds	(451)		(2,864)	(3,315)	(132,278)
Due from other governments		(18,428)		(18,428)	
Accounts payable			7,561	7,561	208,538
Accrued payroll and employee benefits	10,927	3,092	391	14,410	37,995
Due to other funds	135,373	57,956		193,329	
Compensated absences payable		12,490		12,490	
Deposits held for others			1,000	1,000	
Decrease in:					
Accounts receivable	273,113			273,113	
Due from other funds		16,726		16,726	
Prepaid items	25,000	5,968		30,968	
Accounts payable	(26,849)	(54,734)		(81,583)	
Due to other funds					(85,000)
Compensated absences payable	(21,340)		(2,314)	(26,654)	
Landfill closure and postclosure care costs		(779,826)		(779,826)	
Deferred revenue			(1,528)	(1,528)	(125)
Net cash provided by (used for) operating activities	<u>\$ 3,632,380</u>	<u>\$ (538,696)</u>	<u>\$ (98,271)</u>	<u>\$ 2,995,413</u>	<u>\$ 1,238,710</u>
Cash and cash equivalents, June 30, 2006, consisted of:					
Cash in bank and on hand		\$ 1,100		\$ 1,100	\$ 200
Cash and investments held by County Treasurer	<u>\$ 8,530,229</u>	<u>642,092</u>		<u>9,172,321</u>	<u>2,227,818</u>
	<u>\$ 8,530,229</u>	<u>\$ 643,192</u>		<u>\$ 9,173,421</u>	<u>\$ 2,228,018</u>

Noncash capital financing activities:

The Internal Service Funds disposed of and sold equipment with a net book value of \$20,844.

The Internal Service Funds received a transfer of capital equipment with a net book value of \$95,500.

See accompanying notes to financial statements.

Cochise County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash in bank and on hand		\$ 780,798
Cash and investments held by County Treasurer	\$ 42,454,206	
Interest receivable	<u>27,703</u>	
Total assets	<u>42,481,909</u>	<u>\$ 780,798</u>
<b>Liabilities</b>		
Due to other governments		\$ 780,798
Total liabilities		<u>\$ 780,798</u>
<b>Net Assets</b>		
Held in trust for investment trust participants	<u>\$ 42,481,909</u>	

See accompanying notes to financial statements.

Cochise County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2006

	<b>Investment Trust Funds</b>
Additions:	
Contributions from participants	\$ 186,838,471
Investment income	<u>(195,961)</u>
Total additions	<u>186,642,510</u>
 Deductions:	
Distributions to participants	<u>187,137,923</u>
Total deductions	<u>187,137,923</u>
 Change in net assets	 (495,413)
 Net assets, July 1, 2005, as restated	 <u>42,977,322</u>
 Net assets, June 30, 2006	 <u>\$ 42,481,909</u>

See accompanying notes to financial statements.

Cochise County  
Combining Statement of Net Assets  
Component Units  
June 30, 2006

	<u>Housing Authority of Cochise County</u>	<u>Cochise County Workforce Development</u>	<u>Total</u>
<b>Assets</b>			
Cash in bank and on hand	\$ 394,776	\$ 67,254	\$ 462,030
Receivables (net of allowances for uncollectibles):			
Accounts	3,781	26	3,807
Due from other governments	61,099	276,781	337,880
Prepaid items		3,835	3,835
Capital assets, being depreciated, net	<u>34,089</u>	<u>153,164</u>	<u>187,253</u>
Total assets	<u>493,745</u>	<u>501,060</u>	<u>994,805</u>
<b>Liabilities</b>			
Accounts payable	125,633	119,793	245,426
Accrued payroll and employee benefits	1,776	3,591	5,367
Deferred revenue	2,147		2,147
Noncurrent liabilities			
Due in more than 1 year	<u>9,327</u>	<u>14,791</u>	<u>24,118</u>
Total liabilities	<u>138,883</u>	<u>138,175</u>	<u>277,058</u>
<b>Net Assets</b>			
Invested in capital assets	34,089	153,164	187,253
Unrestricted	<u>320,773</u>	<u>209,721</u>	<u>530,494</u>
Total net assets	<u>\$ 354,862</u>	<u>\$ 362,885</u>	<u>\$ 717,747</u>

See accompanying notes to financial statements.

Cochise County  
Combining Statement of Activities  
Component Units  
Year Ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
			<u>Housing Authority of Cochise County</u>	<u>Cochise County Workforce Development</u>	
<b>Component units:</b>					
Housing Authority of Cochise County	\$ 2,943,955	\$ 3,148,237	\$ 204,282		\$ 204,282
Cochise County Workforce Development	<u>1,959,352</u>	<u>1,953,142</u>		\$ (6,210)	<u>(6,210)</u>
Total component units	<u>\$ 4,903,307</u>	<u>\$ 5,101,379</u>	<u>204,282</u>	<u>(6,210)</u>	<u>198,072</u>
General revenues:					
Investment income			2,208	819	3,027
Miscellaneous			<u>6,319</u>	<u>24,337</u>	<u>30,656</u>
Total general revenues			<u>8,527</u>	<u>25,156</u>	<u>33,683</u>
Change in net assets			212,809	18,946	231,755
Net assets, July 1, 2005			<u>142,053</u>	<u>343,939</u>	<u>485,992</u>
Net assets, June 30, 2006			<u>\$ 354,862</u>	<u>\$ 362,885</u>	<u>\$ 717,747</u>

See accompanying notes to financial statements.

Cochise County  
Notes to Financial Statements  
June 30, 2006

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 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 combined 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 members of the governing board and is able to impose its will on the Authority, but the Authority does not provide services entirely to the County.	Discrete	Housing Authority of Cochise County Old Bisbee High School First Floor P.O. Box 167 Bisbee, Arizona 85603



Cochise County  
Notes to Financial Statements  
June 30, 2006

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Cochise County Workforce Development	Administers and coordinates Workforce Investment Act programs. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Workforce Development. However, the Workforce Development does not provide services entirely to the County.	Discrete	Cochise County Workforce Development 1843 Paseo San Luis Sierra Vista, Arizona 85635

## B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the County as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

**Government-wide statements**—provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2006

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 investment income, result from transactions that are not associated with the fund's principle activity and revenues generated by ancillary activities are reported as nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered to be nonoperating expenses.

The County reports the following major governmental funds:

*The General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*The Capital Projects Fund* accounts for resources to be used for 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 Fort Huachuca Accommodation School District Fund* accounts for all financial resources used to finance the District's operations.

The County reports the following major enterprise funds:

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

Cochise County  
Notes to Financial Statements  
June 30, 2006

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

*The Bisbee Douglas International (BDI) Airport Fund* accounts for the operation and management of the Bisbee Douglas International Airport. The services include airplane fuel sales and the management of hangar and airplane tie-down facilities.

The County reports the following fund types:

*The internal service funds* account for insurance, automotive and machinery maintenance and operation, telecommunications, and information technology services provided to the County's departments on a cost-reimbursement basis.

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

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

### C. Basis of Accounting

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2006

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

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

#### D. Cash and Investments

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

#### E. Inventories

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

Inventories of the Ft. Huachuca Accommodation School District Fund, a major fund, are valued at cost using the last-in, first-out method.

Inventories of all other governmental funds are immaterial and therefore not reported as assets in the financial statements.

#### F. Property Tax Calendar

The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

Cochise County  
Notes to Financial Statements  
June 30, 2006

### G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

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

### H. Investment Income

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

### I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental fund's financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year end.

Cochise County  
Notes to Financial Statements  
June 30, 2006

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

Note 2 - Beginning Balances Restated

Cochise County's School Superintendent has served as the sole board member for the Ft. Huachuca Accommodation School District, and the District is not a legally separate entity. Therefore, based on its significance, the District is considered to be a major fund of the County's primary government. However, in prior years, the District was excluded from the County's financial statements because the District's legal structure was misunderstood. Therefore, beginning fund balances and net assets were restated to correct the error. Beginning balances, including the District, follow:

Governmental Funds, fund balances, June 30, 2005, as previously reported	\$30,134,523
Correction of error	<u>24,710,671</u>
Governmental Funds, fund balances, July 1, 2005, as restated	<u>\$54,845,194</u>
Governmental Activities, net assets, June 30, 2005, as previously reported	\$69,710,882
Correction of error	<u>26,991,264</u>
Governmental Activities, net assets, July 1, 2005, as restated	<u>\$96,702,146</u>
Fiduciary Funds, net assets, June 30, 2005, as previously reported	\$66,885,949
Correction of error	<u>(23,908,627)</u>
Fiduciary Funds, net assets, July 1, 2005, as restated	<u>\$42,977,322</u>

Note 3 - Deposits and Investments

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

Cochise County  
Notes to Financial Statements  
June 30, 2006

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

**Deposits**—At June 30, 2006, the carrying amount of the County's deposits was \$1,607,181, and the bank balance was \$4,426,586. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2006, \$258,459 of the County's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Investments**—The County's investments at June 30, 2006, were as follows:

Investment Type	Amount
State Treasurer's investment pools	\$ 17,182,664
U.S. Treasury securities	9,336,590
U.S. agency securities	70,290,532
Repurchase agreement	8,600,000
U.S. Treasury money market fund	896,120
	<u>\$106,305,906</u>

Cochise County  
Notes to Financial Statements  
June 30, 2006

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, 2006, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pools	Unrated	Not applicable	\$17,182,664
U.S. agency securities	AAA	Standard & Poor's	70,290,532
U.S. Treasury money market fund	AAAm	Standard & Poor's	<u>896,120</u>
			<u>\$88,369,316</u>

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

At June 30, 2006, the County had an \$896,120 investment held by trustee that was in a U.S. Treasury money market fund. The investment was uninsured, not registered in the County's name, and held by the counterparty.

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

More than 5 percent of the County's investments at June 30, 2006, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$17,068,010	16.1
Federal Home Loan Bank	30,643,090	28.8
Federal Farm Credit Banks	9,856,822	9.3
Federal National Mortgage Association	<u>11,847,200</u>	11.1
	<u>\$69,415,122</u>	

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



Cochise County  
Notes to Financial Statements  
June 30, 2006

At June 30, 2006, maturities of the County's investments were as follows:

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-5 Years
State Treasurer's investment pools	\$ 17,182,664	\$17,182,664	
U.S. Treasury securities	9,336,590	3,877,640	\$ 5,458,950
U.S. agency securities	70,290,532	19,665,000	50,625,532
Repurchase agreement	8,600,000	8,600,000	
U.S. Treasury money market fund	896,120	896,120	
	<u>\$106,305,906</u>	<u>\$50,221,424</u>	<u>\$56,084,482</u>

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

Cash, deposits, and investments:	
Cash on hand	\$ 28,993
Amount of deposits	1,607,181
Amount of investments	<u>106,305,906</u>
Total	<u>\$107,942,080</u>

	Statement of Net Assets		Statement of Fiduciary Net Assets		Total
	Governmental Activities	Business- Type Activities	Investment Trust Funds	Agency Funds	
Cash in bank and on hand	\$ 207,806	\$ 1,100		\$780,798	\$ 989,704
Cash and Investments held by County Treasurer	54,429,729	9,172,321	\$42,454,206		106,056,256
Investments held by trustee	<u>896,120</u>				<u>896,120</u>
Total	<u>\$55,533,655</u>	<u>\$9,173,421</u>	<u>\$42,454,206</u>	<u>\$780,798</u>	<u>\$107,942,080</u>

#### Note 4 - Due from Other Governments

Due from other governments totaling \$8,463,221 at June 30, 2006, included \$1,530,544 in state-shared revenue from highway user fees, \$1,934,610 in state-shared sales taxes, \$1,036,175 in state-shared vehicle license taxes, and \$1,273,770 in county excise taxes. The remaining balance of \$2,688,122 represents amounts receivable from various state and federal government grantor agencies.

Cochise County  
Notes to Financial Statements  
June 30, 2006

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005 (as restated)	Increases	Decreases	Balance June 30, 2006
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,015,037	\$ 27,914		\$ 2,042,951
Construction in progress (estimated cost to complete \$13,972,447)	<u>1,049,024</u>	<u>9,202,352</u>	<u>\$ 14,360</u>	<u>10,237,016</u>
Total capital assets not being depreciated	<u>3,064,061</u>	<u>9,230,266</u>	<u>14,360</u>	<u>12,279,967</u>
Capital assets being depreciated:				
Buildings	36,062,907	93,838		36,156,745
Improvements other than buildings	2,395,674	444,436		2,840,110
Equipment	27,871,002	4,230,967	591,262	31,510,707
Infrastructure	<u>3,627,080</u>	<u>4,205,933</u>		<u>7,833,013</u>
Total	<u>69,956,663</u>	<u>8,975,174</u>	<u>591,262</u>	<u>78,340,575</u>
Less accumulated depreciation for:				
Buildings	7,432,177	736,286		8,168,463
Improvements other than buildings	910,247	111,802		1,022,049
Equipment	12,507,944	2,346,609	512,120	14,342,433
Infrastructure	<u>31,493</u>	<u>236,335</u>		<u>267,828</u>
Total	<u>20,881,861</u>	<u>3,431,032</u>	<u>512,120</u>	<u>23,800,773</u>
Total capital assets being depreciated, net	<u>49,074,802</u>	<u>5,544,142</u>	<u>79,142</u>	<u>54,539,802</u>
Governmental activities capital assets, net	<u>\$52,138,863</u>	<u>\$14,774,408</u>	<u>\$ 93,502</u>	<u>\$66,819,769</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,596,700			\$ 1,596,700
Construction in progress	<u>16,122</u>		<u>\$ 16,122</u>	<u>                    </u>
Total capital assets not being depreciated	<u>1,612,822</u>		<u>16,122</u>	<u>1,596,700</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	4,137,990	\$ 16,850		4,154,840
Equipment	<u>3,594,241</u>		<u>143,051</u>	<u>3,451,190</u>
Total	<u>12,291,256</u>	<u>16,850</u>	<u>143,051</u>	<u>12,165,055</u>
Less accumulated depreciation for:				
Buildings	633,562	87,384		720,946
Improvements other than buildings	473,021	205,484		678,505
Equipment	<u>1,614,933</u>	<u>270,199</u>	<u>143,051</u>	<u>1,742,081</u>
Total	<u>2,721,516</u>	<u>563,067</u>	<u>143,051</u>	<u>3,141,533</u>
Total capital assets being depreciated, net	<u>9,569,740</u>	<u>(546,217)</u>		<u>9,023,523</u>
Business-type activities capital assets, net	<u>\$11,182,562</u>	<u>\$ (546,217)</u>	<u>\$ 16,122</u>	<u>\$10,620,223</u>

Cochise County  
Notes to Financial Statements  
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The July 1, 2005 balance was restated to correct the error described in Note 2.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$1,366,631
Public safety	105,861
Highways and streets	879,524
Health and welfare	20,992
Culture and recreation	1,574
Education	266,524
Internal service funds	<u>789,926</u>
Total governmental activities depreciation expense	<u>\$3,431,032</u>
Business-type activities:	
Health systems	\$ 47,230
Landfill	420,045
Airport operations	<u>95,792</u>
Total business-type activities depreciation expense	<u>\$ 563,067</u>

## Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2006:

	Balance July 1, 2005 (as restated)	Additions	Reductions	Balance June 30, 2006	Due within 1 year
<b>Governmental activities</b>					
Certificates of participation payable	\$ 8,715,000		\$ 550,000	\$ 8,165,000	\$ 560,000
Unamortized premium	<u>162,165</u>		<u>16,216</u>	<u>145,949</u>	<u>16,217</u>
Total certificates of participation payable	<u>8,877,165</u>		<u>566,216</u>	<u>8,310,949</u>	<u>576,217</u>
Capital leases payable	232,235		74,710	157,525	77,378
Compensated absences payable	<u>4,080,506</u>	<u>\$2,372,491</u>	<u>2,376,666</u>	<u>4,076,331</u>	<u>2,574,598</u>
Governmental activities long-term liabilities	<u>\$13,189,906</u>	<u>\$2,372,491</u>	<u>\$3,017,592</u>	<u>\$12,544,805</u>	<u>\$3,228,193</u>
<b>Business-type activities</b>					
Capital leases payable	\$ 375,801		\$ 60,512	\$ 315,289	\$ 62,471
Landfill closure and postclosure care costs payable	2,330,281	\$ 277,045	1,056,871	1,550,455	1,258,358
Compensated absences payable	<u>188,727</u>	<u>151,881</u>	<u>163,045</u>	<u>177,563</u>	<u>156,818</u>
Business-type activities long-term liabilities	<u>\$ 2,894,809</u>	<u>\$ 428,926</u>	<u>\$1,280,428</u>	<u>\$ 2,043,307</u>	<u>\$1,477,647</u>

The July 1, 2005 balance was restated to correct the error described in Note 2.

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

Certificates outstanding at June 30, 2006, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2007 to 2017	2.5 – 4.5%	\$8,165,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2006:

Year ending June 30	<u>Governmental Activities</u>	
	Principal	Interest
2007	\$ 560,000	\$ 310,838
2008	575,000	295,931
2009	590,000	279,175
2010	610,000	260,412
2011	630,000	239,475
2012-2017	<u>5,200,000</u>	<u>840,300</u>
Total	<u>\$8,165,000</u>	<u>\$2,226,131</u>

**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:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery and equipment	\$529,568	\$448,780
Less: accumulated depreciation	<u>119,093</u>	<u>126,219</u>
Carrying value	<u>\$410,475</u>	<u>\$322,561</u>

Cochise County  
Notes to Financial Statements  
June 30, 2006

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2006:

Year ending June 30	Governmental Activities	Business-Type Activities
2007	\$ 83,023	\$ 71,620
2008	83,024	71,621
2009		71,621
2010		71,621
2011		<u>53,715</u>
Total minimum lease payments	<u>166,047</u>	<u>340,198</u>
Less amount representing interest	<u>8,522</u>	<u>24,909</u>
Present value of net minimum lease payments	<u>\$157,525</u>	<u>\$315,289</u>

**Landfill closure and postclosure care costs**—State and federal laws and regulations require the County to place a final cover on its solid waste landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the County operates the landfill. These costs will be paid from solid waste fees. At June 30, 2006, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2006, the County has reported landfill closure and post closure care liabilities totaling \$1,550,455. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills. The liability reported for the Eastern Regional landfill of \$661,636 is based on 100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$888,819 is based on the 7.58 percent use of the landfill's capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,837,015 as the remaining capacity is filled. The County expects to close this landfill in 2042.

The landfills' closure and postclosure care costs are based on what it would cost to perform all closure and postclosure care in fiscal year 2006. Actual cost 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 the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

Cochise County  
Notes to Financial Statements  
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**Compensated absences**—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2006, the County paid for compensated absences as follows: 57 percent from the General Fund, 9 percent from the Highway and Streets Fund, 9 percent from the Ft. Huachuca Accommodation School District Fund, 5 percent from Enterprise funds, and 20 percent from other funds.

## Note 7 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Cochise Combined Trust, which are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 per occurrence for property claims and \$50,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

Cochise County  
Notes to Financial Statements  
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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 five 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 - Retirement Plans

**Plan Descriptions**—The County contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. In addition, the County contributes to the Elected Officials Retirement Plan (EORP), which is not described due to the plan's relative insignificance to the County's financial statements.

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

The Public Safety Personnel Retirement System (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The Corrections Officer Retirement Plan (CORP) is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and county employees whose primary duties require direct inmate contact. The CORP is governed by The Fund Manager of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS  
3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or (800) 621-3778

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

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

**Cost-sharing plans**—For the year ended June 30, 2006, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2006, 2005, and 2004, were \$2,616,347, \$1,799,658, and \$1,707,870 respectively, which were equal to the required contributions for the year.

**Agent plans**—For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 18.63 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 5.49 percent.

**Annual Pension Cost**—The County's pension cost for the two agent plans for the year ended June 30, 2006, and related information follows:

	PSPRS	CORP
Contribution rates:		
County	18.63%	5.49%
Plan members	7.65%	8.50%
Annual pension cost	\$637,308	\$92,005
Contributions made	\$637,308	\$92,005

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2004, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 8.75 percent investment rate of return and (b) projected salary increases ranging from 6.25 percent to 9.25 percent per year. Both (a) and (b) included an inflation component of 5.25 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 7-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2004, was 20 years.



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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2006	\$637,308	100%	\$0
	2005	502,942	100	0
	2004	405,246	100	0
CORP	2006	\$ 92,005	100%	\$0
	2005	65,821	100	0
	2004	59,539	100	0

Note 9 - Interfund Balances and Activity

**Interfund receivables and payables**—Interfund balances at June 30, 2006, were as follows:

Payable from	Payable to							Total	
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Cochise Health Systems Fund	Solid Waste Operations Fund	Bisbee-Douglas International Airport Fund		Internal Service Funds
General Fund			\$174,891	\$240,426	\$207,443	\$ 66,787	\$46,965	\$ 41,074	\$ 777,586
Capital Projects Fund			1,264						1,264
Highway and Streets Fund	\$ 435			20,560					20,995
Other Governmental Funds	175,343	\$10,673						573	186,589
Cochise Health Systems Fund				1,914					1,914
Solid Waste Operations Fund	1,649	1,752	417	3,635				152,438	159,891
Bisbee-Douglas International Airport Fund	68,724			139				121	68,984
Internal Service Funds	<u>126,507</u>	<u>          </u>	<u>545,573</u>	<u>16,289</u>	<u>2,528</u>	<u>168,925</u>	<u>2,833</u>	<u>          </u>	<u>862,655</u>
<b>Total</b>	<b><u>\$372,658</u></b>	<b><u>\$12,425</u></b>	<b><u>\$722,145</u></b>	<b><u>\$282,963</u></b>	<b><u>\$209,971</u></b>	<b><u>\$235,712</u></b>	<b><u>\$49,798</u></b>	<b><u>\$194,206</u></b>	<b><u>\$2,079,878</u></b>

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

**Interfund transfers**—Interfund transfers for the year ended June 30, 2006, were as follows:

Transfer from	Transfer to					Total
	General Fund	Capital Projects Fund	Other Governmental Funds	Bisbee-Douglas International Airport Fund	Internal Service Funds	
General Fund		\$17,050	\$ 563,303	\$87,027	\$ 46,515	\$ 713,895
Capital Projects Fund			10,673			10,673
Highway and Streets Fund		1,264			845,395	846,659
Other Governmental Funds	\$159,666	41,455	967,302		151,644	1,320,067
Cochise Health Systems Fund	750,000	35,508				785,508
Solid Waste Operations Fund					170,138	170,138
<b>Subtotal</b>	<u>\$909,666</u>	<u>\$95,277</u>	<u>\$1,541,278</u>	<u>\$87,027</u>	<u>\$1,213,692</u>	<u>\$3,846,940</u>
Transfers of capital assets					95,500	95,500
<b>Total</b>	<u>\$909,666</u>	<u>\$95,277</u>	<u>\$1,541,278</u>	<u>\$87,027</u>	<u>\$1,309,192</u>	<u>\$3,942,440</u>

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

In the fund financial statements, total transfers out of \$3,846,940 are less than total transfers in of \$3,942,440 because \$95,500 of capital assets were transferred to the Internal Service funds from Governmental Activities.

## 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.

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

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$983,854 of deposits, \$1,967,186 of investments in the Arizona State Treasurer's investment pools, and a \$896,120 investment in a U.S. Treasury money market fund. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks disclosed in Note 3.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
Arizona State Treasurer's investment pool	\$15,215,478	None stated	None stated	\$15,215,478
U.S. Treasury securities	9,043,550	Zero coupon	Up to 3 years	9,336,590
U.S. agency securities	71,516,010	2.74 – 5.6%	Up to 3 years	70,290,532
Repurchase agreement	8,600,000	None stated	Overnight	8,600,000

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

**Statement of Net Assets**

Assets	\$104,112,940
Net assets	<u>\$104,112,940</u>

Net assets held in trust for:

Internal participants	\$ 61,631,031
External participants	<u>42,481,909</u>
Total net assets held in trust	<u>\$104,112,940</u>

**Statement of Changes in Net Assets**

Total additions	\$373,079,977
Total deductions	<u>365,572,704</u>
Net increase	<u>7,507,273</u>

Net assets held in trust:

July 1, 2005	<u>96,605,667</u>
June 30, 2006	<u>\$104,112,940</u>

Cochise County  
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Note 11 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

**Housing Authority of Cochise County and Cochise County Workforce Development**

Basis of Accounting

The discretely presented component unit financial 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, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

**Cochise County Workforce Development**

Due from other governments

Due from other governments represents uncollateralized amounts due from the United States federal government and under contractual agreements with the State of Arizona and county governments. Due to the nature of the receivables and the subsequent collection of amounts, no allowance for doubtful accounts has been recorded.

Capital Assets

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

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

Program Revenues

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

B. Cash and Investments

**Housing Authority of Cochise County**

At June 30, 2006, the carrying amount of the Housing Authority's deposits was \$394,776 and the bank balance was \$412,670. At June 30, 2006, the Housing Authority's deposits were entirely covered by Federal depository insurance or by collateral held by the pledging financial institution.

Cochise County  
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C. Due from other governments

**Cochise County Workforce Development**

Due from other governments consists of the following grants receivable at June 30, 2006:

Program	Amount
WIA Administration	\$ 15,511
WIA Adult Program	40,460
WIA Youth Program	60,568
WIA Dislocated Workers	18,630
Rapid Response	12,066
Incentive Set-a-Side	28,803
Employment and Training Administration Pilots, Demonstrations, and Research Projects (H-1B)	85,493
IGA Maricopa and other	<u>15,250</u>
	<u>\$276,781</u>

D. Capital Assets

**Cochise County Workforce Development**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets being depreciated:				
Furniture and equipment	\$243,402	\$39,244		\$282,646
Vehicles	<u>60,068</u>			<u>60,068</u>
Total	<u>303,470</u>	<u>39,244</u>		<u>342,714</u>
Less accumulated depreciation	<u>149,476</u>	<u>40,074</u>		<u>189,550</u>
Total capital assets being depreciated, net	<u>\$153,994</u>	<u>\$ (830)</u>		<u>\$153,164</u>

Other Required Supplementary Information

Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 23,250,000	\$ 27,244,255	\$ 27,554,205	\$ 309,950
Licenses and permits	54,959	54,959	46,509	(8,450)
Fines and forfeits	2,461,118	2,477,118	2,352,249	(124,869)
Intergovernmental	14,005,277	14,005,277	15,010,437	1,005,160
Charges for services	2,722,774	2,706,774	3,158,498	451,724
Investment income	110,000	110,000	322,371	212,371
Miscellaneous	132,140	132,140	243,988	111,848
Total revenues	<u>42,736,268</u>	<u>46,730,523</u>	<u>48,688,257</u>	<u>1,957,734</u>
Expenditures:				
Current:				
General Government				
Assessor	1,760,600	1,760,600	1,598,149	162,451
Attorney	1,909,088	1,950,514	1,770,474	180,040
Board of Supervisors	1,155,134	1,166,108	886,945	279,163
Elections	137,632	140,488	128,119	12,369
Finance	923,158	932,497	797,726	134,771
General Government	841,686	844,559	664,420	180,139
General Government Overhead	3,549,465	3,166,253	(2,331,911)	5,498,164
Human Resources	1,220,607	1,294,255	1,270,259	23,996
Planning & Zone	976,248	1,013,487	838,885	174,602
Recorder	329,858	329,858	304,364	25,494
Treasurer	1,160,967	1,160,967	1,052,647	108,320
Public Defender	1,206,401	1,218,741	1,164,230	54,511
Legal Defender	848,613	846,733	770,794	75,939
Willcox Airport	62,932	99,394	13,516	85,878
Facilities	2,014,434	2,180,898	2,115,007	65,891
Economic Development	25,687	26,846	35,552	(8,706)
Utilities	837,700	875,947	875,947	
Court Administration	1,195,570	1,094,640	789,350	305,290
Superior Court Division	894,174	907,233	898,838	8,395
Court Security	303,887	308,181	283,965	24,216
Mandatory Judicial Services	161,491	124,816	98,561	26,255
Mandatory Indigent Defense	942,978	946,955	914,821	32,134
Justice of the Peace	1,958,900	1,995,842	1,976,864	18,978
Clerk of Superior Court	1,384,985	1,433,076	1,416,259	16,817
Adult Probation	445,743	458,585	455,342	3,243
Juvenile Probation	1,185,846	1,191,114	1,147,390	43,724
Sierra Vista Constable	146,110	146,110	138,484	7,626
Constables	65	65	10	55
Information Technology	1,975,500	1,980,004	1,645,241	334,763
Total general government	<u>29,555,459</u>	<u>29,594,766</u>	<u>21,720,248</u>	<u>7,874,520</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006  
(Concluded)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Sheriff	\$ 11,508,994	\$ 11,534,119	\$ 10,505,921	\$ 1,028,198
Building Inspection	584,603	562,673	375,201	187,472
Emergency Services	100,972	100,972	101,072	(100)
Juvenile Detention	1,088,120	1,111,267	1,060,202	51,065
Juvenile Detention Medical	111,668	96,222	94,181	2,041
Jail Medical	461,491	484,836	481,865	2,971
Jail Counselor				
Medical Examiner	180,000	185,000	185,000	
Total public safety	<u>14,035,848</u>	<u>14,075,089</u>	<u>12,803,442</u>	<u>1,271,647</u>
Sanitation	<u>633,785</u>	<u>607,394</u>	<u>572,519</u>	<u>34,874</u>
Health and Welfare				
Health	1,539,112	1,528,381	1,460,042	68,339
Health & Social Services	9,116,954	9,075,528	8,801,743	273,785
Total health & welfare	<u>10,656,066</u>	<u>10,603,909</u>	<u>10,261,785</u>	<u>342,124</u>
Education				
School Superintendent	357,703	357,703	346,302	11,401
Total education	<u>357,703</u>	<u>357,703</u>	<u>346,302</u>	<u>11,401</u>
Total expenditures	<u>55,238,861</u>	<u>55,238,861</u>	<u>45,704,296</u>	<u>9,534,565</u>
Excess (deficiency) of revenues over expenditures	(12,502,593)	(8,508,338)	2,983,961	11,492,299
Other financing sources (uses):				
Sale of capital assets	1,000	1,000	369,411	368,411
Transfers in	4,599,215	604,960	909,666	304,706
Transfers out			(713,895)	(713,895)
Total other financing sources and uses	<u>4,600,215</u>	<u>605,960</u>	<u>565,182</u>	<u>(40,778)</u>
Net change in fund balances	<u>(7,902,378)</u>	<u>(7,902,378)</u>	<u>3,549,143</u>	<u>11,451,521</u>
Fund balance July 1, 2005	<u>7,902,378</u>	<u>7,902,378</u>	<u>10,915,088</u>	<u>3,012,710</u>
Fund balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,464,231</u>	<u>\$ 14,464,231</u>

See accompanying notes to budgetary comparison schedule.



Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
Highway and Streets Fund  
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 10,797,500	\$ 10,797,500	\$ 11,085,174	\$ 287,674
Charges for services	445,000	1,045,000	900,545	(144,455)
Investment Income	25,000	25,000	145,975	120,975
Miscellaneous	1,672,856	4,554,311	5,114	(4,549,197)
Total revenues	<u>12,940,356</u>	<u>16,421,811</u>	<u>12,136,808</u>	<u>(4,285,003)</u>
<b>Expenditures:</b>				
Current:				
Highways and streets	<u>12,940,356</u>	<u>16,421,811</u>	<u>12,121,210</u>	<u>4,300,601</u>
Total expenditures	<u>12,940,356</u>	<u>16,421,811</u>	<u>12,121,210</u>	<u>4,300,601</u>
Excess (deficiency) of revenues over expenditures			15,598	(15,598)
<b>Other financing sources (uses):</b>				
Sale of capital assets				
Transfers in				
Transfers out			(846,659)	(846,659)
Total other financing sources and uses			<u>(846,659)</u>	<u>(846,659)</u>
Net change in fund balances			<u>(831,061)</u>	<u>(831,061)</u>
Fund balance July 1, 2005			<u>4,588,668</u>	<u>4,588,668</u>
Fund balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,757,607</u>	<u>\$ (3,757,607)</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Ft. Huachuca Accommodation School District Fund  
 Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental	\$ 19,573,303	\$ 19,573,303	\$ 13,676,468	\$ (5,896,835)
Investment Income			<u>778,592</u>	<u>778,592</u>
Total Revenues	<u>19,573,303</u>	<u>19,573,303</u>	<u>14,455,060</u>	<u>(5,118,243)</u>
<b>Expenditures</b>				
Education	12,365,878	11,967,878	11,580,343	387,535
Capital outlay	<u>10,846,717</u>	<u>10,846,717</u>	<u>8,141,477</u>	<u>2,705,240</u>
Total	<u>23,212,595</u>	<u>22,814,595</u>	<u>19,721,820</u>	<u>3,092,775</u>
<b>Other financing uses:</b>				
Transfers out	<u>(2,000,281)</u>	<u>(2,000,281)</u>		<u>2,000,281</u>
Total other financing uses:	<u>(2,000,281)</u>	<u>(2,000,281)</u>		<u>2,000,281</u>
Excess (deficiency) of revenues over expenditures	(5,639,573)	(5,241,573)	(5,266,760)	(25,187)
Changes in fund balances	(5,639,573)	(5,241,573)	(5,266,760)	(25,187)
Fund balances, June 30, 2005	_____	_____	<u>24,710,671</u>	<u>24,205,671</u>
Decrease in reserve for inventory	_____	_____	(15,661)	(15,661)
Fund balances, June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,428,250</u>	<u>\$ 19,428,250</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2006

Note 1 - Budgeting and Budgetary Control

A.R.S. require the County to prepare and adopt a balanced budget annually for each governmental fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. The General Fund's budgeted and actual expenditures are presented at a level of detail that includes individual divisions comprising each General Fund department (the legal level of budgetary control). In no case did expenditures exceed appropriations in the General Fund departments. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

The schedules general government and highways and streets actual expenditure amounts differ from the expenditures reported on the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances. In the schedules, the General Fund's general government and public safety budget and actual expenditures include capital outlay expenditures and the Highway and Streets Fund's highways and streets expenditures include capital outlay and debt service expenditures. The capital outlay and debt service expenditures are separately reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Unlike the General Fund and the Highway and Streets Fund, the Ft. Huachuca Accommodation School District Fund's schedule is not presented in the same format as the legally adopted budget. Amounts were consolidated in order to present this on the same basis as the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances. Due to the significant differences in budgetary basis reporting requirement, a schedule indicating amounts at the legal level of budgetary control has not been presented. However, the Ft. Huachuca Accommodation School District Fund's legally adopted budgetary schedules are presented on the budgetary basis as part of the separately issued financial statement report dated September 22, 2006, available from the County. That report indicated that expenditures did not exceed the legal level of budgetary authority.

Cochise County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2006

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/06	\$13,254,499	\$21,438,444	\$(8,183,945)	61.8%	3,300,036	248.0%
6/30/05	12,540,527	19,948,288	(7,407,761)	62.9	3,290,973	225.1
6/30/04	12,725,616	16,926,781	(4,201,165)	75.2	3,025,398	138.9

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/06	\$4,534,842	\$4,472,940	\$ 61,902	101.4%	\$1,712,113	-
6/30/05	4,301,845	4,195,375	106,470	102.5	1,718,623	-
6/30/04	4,051,304	3,643,207	408,097	111.2	1,701,777	-

## Supplementary Information

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Office of National Drug Control Policy</b>			
Passed through Arizona Criminal Justice Commission High Intensity Drug Trafficking Areas	07.16PSAP5012	HT16-06-0513, HT16-06-0512	\$ 178,213
Passed through Pima County Sheriff's Department High Intensity Drug Trafficking Areas	07.14PSAP549	0111C1341941003	70,897
High Intensity Drug Trafficking Areas	07.15PSAP549	0111C1362161004	<u>425,542</u>
Total U.S. Office of National Drug Control Policy			<u>674,652</u>
<b>U.S. Department of Agriculture</b>			
National Forest System—Law Enforcement	10.06LE11030518001		10,287
Passed through the Arizona Department of Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	KR06-0923-EHS	660,260
Commodity Supplemental Food Programs	10.565	KR05-0666	1,243
Farmers Market Nutrition Program	10.572	KR05-1311-EHS	168
Passed through the Arizona State Treasurer Schools and Roads—Grants to States	10.665	122357936	<u>97,663</u>
Total U.S. Department of Agriculture			<u>769,621</u>
<b>U.S. Department of Housing and Urban Development</b>			
Section 8 Housing Choice Vouchers	14.871		1,612,588
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		809,115
Passed through the Arizona Department of Housing Community Development Block Grants/Entitlement Grants	14.218	160-04	64,565
HOME Investment Partnerships Program	14.239	311-03	184,681
Housing Opportunities for Persons with AIDS	14.241	534-04	166,874
Passed through the Arizona Department of Commerce Community Development Block Grants/State's Program	14.228	KR02-0084	<u>60,576</u>
Total U.S. Department of Housing and Urban Development			<u>2,898,399</u>
<b>U.S. Department of the Interior</b>			
Cultural Resource Management	15.224		11,673
Payments in Lieu of Taxes	15.226		1,242,640
Passed through the Arizona Game and Fish Department Payments in Lieu of Taxes	15.226	210012067	<u>4,824</u>
Total Payments in Lieu of Taxes			<u>1,259,137</u>
Passed through the Arizona State Treasurer Distribution of Receipts to State and Local Governments	15.227	37-723	<u>8,693</u>
Total U.S. Department of the Interior			<u>1,267,830</u>

(Continued)

See accompanying notes to schedule.

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Justice</b>			
Southwest Border Local Assistance Initiative Passed through the Community Policy Office	16.unknown		\$ 103,138
Juvenile Accountability Incentive Block Grant Passed through the Arizona Governor's Office for Children, Youth, and Families	16.523	JB-IGA-05-7273-04	21,282
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	J2-CSG-06-6273-00	8,100
Passed through the Arizona Department of Public Safety Crime Victim Assistance	16.575	2005-101	67,504
Edward Byrne Memorial Formula Grant Program	16.579	2005-DJ-BX-1348	1,981
Passed through the Arizona Criminal Justice Commission Edward Byrne Memorial Formula Grant Program	16.579	PC-060-06, AC-080-05	<u>169,348</u>
Total Edward Bryne Memorial Formula Grant Program			<u>171,329</u>
Drug Court Enhancement Grant	16.585		33,798
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589		135,847
State Criminal Alien Assistance Program	16.606		72,681
Community Prosecution and Project Safe Neighborhoods	16.609		10,703
Public Safety Partnership and Community Policing Grants	16.710		<u>1,011,515</u>
Total U.S. Department of Justice			<u>1,635,897</u>
<b>U.S. Department of Labor</b>			
WIA Cluster			
Passed through Maricopa County, Arizona			
WIA Dislocated Workers	17.260	C-22-06-149-2	49,389
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	E5706002, E5705002	416,541
WIA Youth Activities	17.259	E5706002, E5705002	604,649
WIA Dislocated Workers	17.260	E5706002, E5705002	<u>216,839</u>
Total WIA Cluster			1,287,418
WIA Pilots, Demonstrations, and Research Projects	17.261		<u>665,002</u>
Total U.S. Department of Labor			<u>1,952,420</u>

(Continued)

See accompanying notes to schedule.

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Transportation</b>			
Passed through the Governor's Office of Highway Safety State and Community Highway Safety	20.600	2005-157B-026, 2005-PT-016, 2005-157A-001, 2005-AL-005, 2005-157A-002, 2006-AL-012, 2006-OP-014	\$ 249,300
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2005-163SES-014	<u>23,596</u>
Total U.S. Department of Transportation			<u>272,896</u>
<b>U.S. Institute of Museum and Library Services</b>			
Passed through the Arizona Department Library, Archives and Public Records Grants to States	45.310	241-6-2-(19)	<u>1,000</u>
<b>U.S. Department of Education</b>			
Passed through the Arizona Supreme Court Title I Grants to Local Educational Agencies	84.010	28072	62,281
Passed through the Arizona Department of Education Special Education—Grants to States	84.027	H027A020007, H027A050007	13,076
Education Technology State Grants	84.318	CTD No. 299999001	960,272
Reading First State Grants	84.357	S357A020003	15,233
English Language Acquisition Grants	84.365	T365A30003A	29,630
Improving Teacher Quality State Grants	84.367	S367A040049	<u>16,868</u>
Total U.S. Department of Education			<u>1,097,360</u>
<b>U.S. Department of Health and Human Services</b>			
Passed through the Southeastern Arizona Governments Organization Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	12	250,684
Passed through the Arizona Department of Health Services Immunization Grants	93.268	HG352 189	493,688
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	KR04-1552-EHS, KR05-1206EHS	822,320
HIV Prevention Activities—Health Department Based	93.940	KR04-171OEHS	21,856
HIV Care Formula Grants	93.917	152060	32,636

(Continued)

See accompanying notes to schedule.



Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	KR05-0084EHS	\$ 3,258
Preventive Health and Health Services Block Grant	93.991	KR02-1998	36,386
Maternal and Child Health Services Block Grant to the States	93.994	KR05-1223-EHS, KR06-0645-EHS	31,134
Passed through the Arizona Department of Economic Security Grants to States for Access and Visitation Programs	93.597	E7203303	<u>7,521</u>
Total U.S. Department of Health and Human Services			<u>1,699,483</u>
<b>Homeland Security Grant Program Cluster</b>			
<b>U.S. Department of Justice</b>			
Passed through the Arizona Department of Emergency and Military Affairs			
State Domestic Preparedness Equipment Support Program	16.007	2003-MU-T3-0034	427,316
<b>U.S. Department of Homeland Security</b>			
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0051	343,179
Emergency Management Performance Grants	97.042	974042	36,751
Citizens Corps	97.053	None	4,000
State Homeland Security Program	97.073	975042	2,179
Law Enforcement Terrorism Prevention Program	97.074	2005-GE-T5-0030	<u>245,974</u>
Total U.S. Department of Homeland Security			<u>632,083</u>
Total Homeland Security Grant Program Cluster			<u>1,059,399</u>
Total Expenditures of Federal Awards			<u>\$ 13,328,957</u>

See accompanying notes to schedule.

Cochise County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cochise County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2006 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount
High Intensity Drug Trafficking Areas Edward Byrne Memorial Formula Grant Program	07.15PSAP549  16.579	\$125,847  39,874
WIA Youth Activities	17.259	387,652
State and Community Highway Safety Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.600  20.601	21,964  5,252
Education Technology State Grants	84.318	746,438
Homeland Security Grant Program Cluster:		
Citizen Corps	97.053	4,000
State Homeland Security Program	97.073	2,179



**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 6, 2007. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Ft. Huachuca Accommodation School District Fund, Cochise Health Systems Fund, Housing Authority of Cochise County, and Cochise County Workforce Development, 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. The financial statements of the Cochise Health Systems Fund were not audited by the other auditors in accordance with *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, the other auditors noted a matter involving internal control over financial reporting and its operation that they consider to be a reportable condition. Reportable conditions involve matters coming to auditors' attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in auditors' judgment, could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Auditors' consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the other auditors believe that the reportable condition described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we will report to the County's management in a separate letter at a future date.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

April 6, 2007



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

### Compliance

We have audited the compliance of Cochise County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006, except for that portion of the federal programs administered by Cochise County Workforce Development and the Housing Authority of Cochise County. Those entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the compliance of those entities with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, is based solely on the reports of the other auditors. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the reports of the other auditors.

Cochise County's basic financial statements include the operations of the Ft. Huachuca Accommodation School District Fund, which received \$9,533,161 in federal awards that are not included in the Schedule of Expenditures of Federal Awards during the year ended June 30, 2006. Our audit, described below, did not include the operations of the Ft. Huachuca Accommodation School District Fund because the District engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in item 06-101 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding subrecipient monitoring that are applicable to its Education Technology State Grants program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, based on our audit and the reports of the other auditors, except for the noncompliance described in the preceding paragraph, Cochise County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 06-102 through 06-107.

### **Internal Control over Compliance**

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-101 through 06-107.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-101 to be a material weakness.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

April 6, 2007

Cochise County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2006

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:	Unqualified	
	<b>Yes</b>	<b>No</b>
Material weakness identified in internal control over financial reporting?	___	<u>X</u>
Reportable condition identified not considered to be a material weakness?	<u>X</u>	___
Noncompliance material to the financial statements noted?	___	<u>X</u>

***Federal Awards***

Material weaknesses identified in internal control over major programs?	<u>X</u>	___
Reportable conditions identified not considered to be material weaknesses?	<u>X</u>	___
Type of auditors' report issued on compliance for major programs:	Unqualified for all major programs except for the Education Technology State Grants program, which was qualified.	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
07.unknown, 07.I4PSAP549, and 07.I5PSAP549	High Intensity Drug Trafficking Areas
14.871	Section 8 Housing Choice Vouchers
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
84.318	Education Technology State Grants
93.268	Immunization Grants
	Homeland Security Grant Program Cluster:
16.007	State and Local Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program
97.042	Emergency Management Performance Grants

Cochise County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2006

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.053	Citizen Corps
97.073	State Homeland Security Program
97.074	Law Enforcement Terrorism Prevention Program

Dollar threshold used to distinguish between Type A and Type B programs: \$399,869

Auditee qualified as low-risk auditee? Yes    No  
  X          

***Other Matters***

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



Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

Financial Statement Finding

The other auditors that audited the Ft. Huachuca Accommodation School District Fund reported the following reportable condition and the views of responsible officials and planned corrective actions.

06-1 **CONDITION/CONTEXT**

The District deposits Federal Impact Aid revenues in a special revenue fund.

**CRITERIA**

According to the Uniform System of Financial Records (USFR) Section VI-F-9, Federal Impact Aid receipts should be recorded as revenues in the Maintenance and Operation Fund.

**EFFECT**

The District is not in compliance with the USFR requirements for the proper recording of Impact Aid revenues.

**CAUSE**

The District was unaware of the requirement to deposit Federal Impact Aid revenues in the Maintenance and Operation Fund.

**RECOMMENDATION**

The District should deposit non-construction Federal Impact Aid revenues in the Maintenance and Operation Fund. In addition, the District should consult legal counsel to determine the proper disposition of the fund balance of the Special Revenue Fund which accounts for Federal Impact Aid revenues.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS**

Federal Impact Aid revenues are currently being recorded in Fund 349, a proper account for federal dollars. At Ft. Huachuca Accommodation School this fund has been used for a number of years for Federal Impact Aid monies. It is considered a Special Revenue Fund necessary for operating expenses for the District and all expenditures meet the appropriate criteria for use of these monies. A change requires a major revision of the current District financial structure. The District will pursue further research on the issue. If the decision is made to place Impact Aid revenue into the Maintenance and Operation Fund the preference is to wait until the fiscal year 2007-08 academic year.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

06-101

CFDA No.: 84.318 **Education Technology State Grants**

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

Award Year: 2006

Award Number: CTD No. 299999001

Subrecipient Monitoring

Questioned Cost: Unknown

The County School Superintendent's Office did not have adequate policies and procedures to ensure compliance with federal subrecipient monitoring requirements. The Office passed through \$746,438, or 78 percent, of Education Technology State Grants program monies to 10 subrecipients. However, the Office lacked policies and procedures to ensure that subrecipients were in compliance with certain program requirements as prescribed by OMB Circular A-133, Subpart D, §.400(d) as evidenced by the following deficiencies. First, the Office did not provide documentation to the subrecipients identifying the specific federal award information including the federal program title and CFDA number, awarding agency, program requirements, and the specific subrecipient's compliance responsibilities. In addition, the Office did not have procedures in place to require subrecipients to have OMB Circular A-133 audits performed or to obtain current audit reports from any of the subrecipients. Finally, the Office did not have procedures in place to review all monthly reports and supporting documentation received from the subrecipients to ensure their reports were accurate and expenditures were allowable.

Auditors determined it was not practicable to extend our auditing procedures to determine whether the subrecipients were reimbursed for any unallowable costs. Therefore, the total questioned costs are unknown. However, because of the significance of the subrecipient monitoring compliance requirements, auditors consider this finding to be a material internal control weakness and material noncompliance.

To comply with the subrecipient monitoring requirements described in OMB Circular A-133, the County School Superintendent's Office should establish the following procedures:

- Provide all subrecipients with key grant information.
- Request that each subrecipient obtain annual single or program specific audits.
- Ensure copies of the subrecipient audit reports are received and that reports are reviewed and management decisions are issued for any applicable findings within 6 months of receiving the reports.
- Review all subrecipient monthly reports and supporting documentation and follow up on any questionable items or missing information.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

06-102

CFDA No.: 84.318 **Education Technology State Grants**

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

Award Year: 2006

Award Number: CTD No. 299999001

Allowable Costs/Cost Principles

Questioned Cost: Unknown

The County School Superintendent's Office did not ensure compliance with federal cost principles for the Education Technology State Grants program. The Office had three employees who worked solely on the program during the fiscal year. The total salary expenditures charged to this program were \$91,760 during fiscal year 2006. However, the Office did not maintain the federally-required payroll certifications for these employees. Auditors performed certain limited additional procedures to verify that the employees worked on the program during the applicable periods; however, it was not practicable to extend our auditing procedures to determine the amount of questioned costs, if any, that may have resulted from this finding.

In order to comply with OMB Circular A-87, Attachment B, §8.h(3), the County School Superintendent's Office must prepare semiannual certifications to support charges for salaries and wages for employees who work solely on a single federal award. These certifications must be signed by the employee and state that the employee worked solely on the federal program for the certification period.

06-103

CFDA No.: 84.318 **Education Technology State Grants**

U.S. Department of Education, passed through the Arizona Department of Education (ADE)

Award Year: 2006

Award Number: CTD No. 299999001

Cash Management and Reporting

Questioned Cost: Unknown

The County School Superintendent's Office did not have adequate policies and procedures to ensure compliance with ADE's cash management and reporting requirements. ADE requires monthly cash management reports that include encumbrances for expenditures expected to be incurred in the next 30 days and the month-end cash balance. The Office prepared the monthly reports but did not reconcile the reported monthly cash balances to the County's general ledger system and, therefore, may have incorrectly reduced the reported cash balance for expenditures that had not yet been paid rather than reporting them as encumbrances.

In addition, ADE Grants Management Business Rules require that grantees report as encumbrances only those expenses that do not exceed a 30-day accumulation, and that they maintain an adjusted cash balance, defined as cash balance less encumbrances, at or below \$0. Also, any interest earned on advances of federal monies in excess of \$100 during the fiscal year are required to be returned to ADE at least quarterly. The Office did not have policies and procedures to monitor whether reported encumbrances were paid within 30 days and whether reported adjusted cash balances were at or below \$0. Consequently, there were also no procedures to monitor interest earned on cash balances or to remit interest earned in excess of \$100 to ADE.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

Auditors analyzed the program's daily cash balances and determined that there were positive cash balances that varied from \$600 to as much as \$77,000 for more than 30 days at three different times during the fiscal year. It was not practicable to extend our auditing procedures to determine the actual interest that was earned on the positive cash balances. Therefore, the total questioned costs are unknown. However, auditors determined the likely questioned costs would not have exceeded \$10,000.

To comply with ADE guidelines, the County School Superintendent's Office should establish policies and procedures to ensure that it complies with the program's cash management and reporting requirements. Specifically, the Office should establish procedures to:

- Calculate and report monthly adjusted cash balances based on actual incurred expenses.
- Reconcile program expenditures and cash balances monthly to the County's general ledger system.
- Pay reported encumbrances within 30 days.
- Calculate interest earnings on cash balances and remit interest quarterly to ADE if annual interest earnings exceed \$100.

06-104

CFDA No.: 93.268 **Immunization Grants**

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

Award Year: 2006

Award Number: HG352 189

Special Tests and Provisions

Questioned Costs: None

The County Health Department did not have adequate policies and procedures in place to ensure compliance with the Immunization Grants program's immunization recording requirements. Section 300aa-25 of 42 United States Code (USC) requires that a healthcare provider who administers a vaccine to any person shall record in that person's permanent medical record the date the vaccine was administered; the vaccine manufacturer and lot number; and the name, address, and title of the healthcare provider administering the vaccine.

Although the County Health Department maintained immunization administration records for most individuals, these records did not always contain the required information. Of the 42 records examined, 30 did not include the name and address of the site where the vaccine was administered, 28 did not include the title of the provider administering the vaccine, and 1 was not updated to reflect that a vaccination was given at a school. Additionally, auditors discovered that for one vaccine given at a school, there was no immunization administration record prepared.

To comply with 42 USC § 300aa-25, the County Health Department should establish policies and procedures to ensure that immunization administration records are properly prepared and maintained for each program participant.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

06-105

CFDA No.: 93.268 **Immunization Grants**

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

Award Year: 2006

Award Number: HG352 189

Allowable Costs/Cost Principles

Questioned Cost: Unknown

The County Health Department did not ensure compliance with federal cost principles for its Immunization Grants program. The Department had one program coordinator who administered the Immunization Grants program and one employee who worked as administrative support. Both employees worked on several federal programs during the year and the salaries charged to the program totaled \$59,202. The Department did not prepare or maintain the required documentation supporting these employees' activities, and therefore, auditors were unable to determine the amount of questioned costs, if any. OMB Circular A-87, Attachment B, §8.h(4) requires that salaries and wages of employees who work on multiple activities be supported by personnel activity reports or equivalent documentation that record an after-the-fact distribution of the total actual activity of each employee.

To comply with OMB Circular A-87, the Department should prepare and retain personnel activity reports or equivalent documentation showing payroll distributions for employees who perform multiple activities including a federal program.

06-106

CFDA No.: 93.268 **Immunization Grants**

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

Award Year: 2006

Award Number: HG352 189

Special Tests and Provisions

Questioned Costs: None

The Department of Health and Human Services *Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments* contained in 45 Code of Federal Regulations (CFR) §92.20 requires that effective control and accountability be maintained for all grant cash, real and personal property, and other assets. However, the County Health Department did not have adequate policies and procedures in place to record and safeguard the Immunization Grants program's immunization vaccines.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

The Department is required to periodically report the ending inventory balances and vaccine orders on a Vaccine Order/Reporting Form. However, the Department did not reconcile the balance reported on the Vaccine Order/Reporting Forms to the balance reported for the previous Vaccine Order/Reporting Forms adjusted for quantities received and used. Additionally, from reviewing the Vaccine Order/Reporting Forms and vaccine receiving reports, auditors discovered that the responsibilities of ordering and receiving vaccines were not separated. Therefore, auditors could not determine whether all vaccines received by the Department were distributed to patients or reported as waste.

To comply with 45 CFR §92.20 and to properly record and safeguard immunization vaccines, the County Health Department should establish the following procedures:

- Reconcile the physical inventory count reported on the Vaccine Order/Reporting Form to the previous count by performing the following calculation: Add vaccines received from the receiving reports to the prior inventory count and subtract the vaccines used as recorded on the VFC Patient Immunization Logs. Investigate all discrepancies and make all necessary corrections.
- Separate the responsibilities of ordering and receiving vaccines between two employees.

06-107

CFDA No.: 97.004 **State Domestic Preparedness Equipment Support Program**

Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Year: 2004

Award Number: 2004-GE-T4-0051

Allowable Costs/ Cost Principles and Procurement and Suspension and Debarment

Questioned Cost: Unknown

The County used \$264,041 of State Domestic Preparedness Equipment Support Program monies to purchase a mobile command vehicle and \$74,921 of Program monies to purchase a set of radios and related equipment to be used at five area hospitals. According to the County's management, certain Homeland Security programs had short timelines to purchase items, and some items were in high demand across the country and were only available from a few vendors. Therefore, there were long waiting periods between order and delivery. Consequently, the County limited its procurement procedures for certain purchases to ensure the required items would be delivered within the required time period. However, the County did not have policies and procedures to ensure that minimum federal procurement requirements were followed when making these types of purchases. As a result, the County did not comply with federal requirements when using Program monies to purchase the mobile command vehicle and the set of radios. Auditors noted that the County performed certain limited procedures to ensure it purchased these items at a reasonable price. However, auditors determined that it was not practicable to extend our auditing procedures to determine the amount of questioned costs, if any, that may have resulted from this finding.

28 CFR §66 requires the County to use the same policies and procedures for purchases made with federal monies as those made with nonfederal monies. It also mandates minimum procurement procedures that must be performed for purchases using federal monies whether or not the procedures are required by the County.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

For purchases of more than \$100,000, 28 CFR §66.36(d)(2) requires the County to publicly solicit sealed bids. For purchases of less than \$100,000, 28 CFR §66.36(d)(1) requires the County to obtain price or rate information from an adequate number of qualified sources. When a purchase is available from only one source or when a noncompetitive process is used, 28 CFR §1403.36(d)(4)(ii) requires the County to perform a cost analysis and evaluate the specific elements of a contract's cost for reasonability. In addition, OMB Circular A-87, Attachment A, §C requires that costs conform to applicable federal procurement guidelines in order to be allowable.

The County should implement policies and procedures to ensure that minimum federal requirements are followed when limiting its procurement procedures for the safety and effectiveness of its homeland security programs. As required by 28 CFR §66 and OMB Circular A-87, these minimum policies and procedures should include a cost analysis when items are available from only one source. In addition, for purchases of more than \$100,000, the County should publicly solicit sealed bids. Also, for purchases under \$100,000, the County should obtain price information from an adequate number of sources. By implementing these policies and procedures, the County will help ensure that all costs paid with federal monies are reasonable and allowable.

# Board of Supervisors

**Richard R. Searle**  
Chairman District 3

**Patrick G. Call**  
Vice-Chairman  
District 1

**Paul Newman**  
District 2



**Jody N. Klein**  
County Administrator

**James E. Vlahovich**  
Deputy County Administrator

**Katie A. Howard**  
Clerk

April 6, 2007

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

Dear Ms. Davenport:

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

Sincerely,

Lois Klein  
Director of Finance  
Cochise County, Arizona

Cochise County· 1415 Melody Lane, Building G· Bisbee, Arizona 85603  
(520) 432-9200· FAX: (520) 432-5016· email: [board@co.cochise.az.us](mailto:board@co.cochise.az.us)  
<http://www.cochisecounty.com> or <http://www.co.cochise.az.us>



Cochise County  
Corrective Action Plan  
Year Ended June 30, 2006

## Federal Award Findings and Questioned Costs

06-101

CFDA No.: 84.318 Education Technology State Grants  
Department of Education, passed through the Arizona Department of Education  
Award Year: 2006  
Award No.: 299999001  
Contact: Trudy Berry  
Anticipated completion date: April 30, 2007

### County Response

The Cochise County School Superintendent's Office has provided all subrecipients with key grant information, including CFDA number, awarding agency, program requirements, and the specific subrecipient's compliance responsibilities. Mandatory webinars will be conducted to provide this information to subrecipients annually.

The Cochise County School Superintendent's Office will establish procedures to request in writing from each subrecipient, that they have OMB A-133 audits performed and will send copies to Cochise County. The procedure will also include the Office to review the Auditor General's website to find audits completed for all subrecipients and review the list of findings to ensure subrecipients are not deficient in meeting Federal guidelines. If findings exist, the Office will follow up with the subrecipient to ensure deficiencies are corrected and will issue management decisions on any applicable findings within six months of receipt of the reports.

The Office will develop a policy to review all monthly cash balance reports and supporting documentation and will follow up on any questionable items or missing documentation.

06-102

CFDA No: 84.318 Education Technology State Grants  
Department of Education, passed through the Arizona Department of Education  
Award Year: 2006  
Award No.: 299999001  
Contact: Trudy Berry  
Anticipated completion date: March 1, 2007

### County Response

The Cochise County School Superintendent's Office has implemented a procedure to ensure that employees working solely on a federal program will be supported by periodic signed certifications that the employee worked solely on the program for the specific period covered by the certification, as per County Resolution 07-01 covering Required Documentation on All Wages Charged to Federal Programs. The Office additionally will require said form be attached to each reimbursement request to the grantor and require at least quarterly certifications.

Cochise County  
Corrective Action Plan  
Year Ended June 30, 2006

06-103

CFDA No.: 84.318 Education Technology State Grants

Department of Education, passed through the Arizona Department of Education

Award Year: 2006

Award No.: 299999001

Contact: Trudy Berry

Anticipated completion date: April 1, 2007

County Response

The County School Superintendent's Office will establish procedures to ensure compliance with the program's cash management and reporting requirements including assurance that monthly reported adjusted cash balances are calculated based on actual incurred expenses, that program expenses and cash balances are reconciled monthly to the county's general ledger system and reported encumbrances are incurred and paid in the next 30 days.

When the Office resolves these cash management issues, the cash balances will be much lower making the interest issue immaterial and the County will therefore not collect interest on this grant.

06-104

CFDA No.: 93.268 Immunization Grants

Department of Health and Human Services, passed through the Arizona Department of Health Services

Award Year: 2006

Award No.: HG352 189

Contact: Vaira Harik

Anticipated completion date: April 25, 2007

County Response

The County Health Department has written detailed procedures for filing and recordkeeping throughout the vaccination process. The protocols are entitled "Pre-Vaccination Procedure", "Client Vaccination", "Adult Immunization Program", "Records Management" and "Arizona State Immunization Information System". These procedures have been disseminated and the Program Coordinator is following up at all five sites to ensure the procedures are instituted properly and adhered to.

Cochise County  
Corrective Action Plan  
Year Ended June 30, 2006

06-105

CFDA No.: 93.268 Immunization Grants

Department of Health and Human Services, passed through the Arizona Department of Health Services

Award Year: 2006

Award No.: HG352 189

Contact: Vaira Harik

Anticipated completion date: May 1, 2007

County Response

The Cochise County Health Department will record the hours spent on this grant with personnel activity reports as required by County Resolution 07-01 covering Required Documentation on All Wages Charged to Federal Programs. Clinical staff will charge for their services attributable to this grant along with the administrative services attributable to the Immunization program. The personnel activity forms will be attached to each quarterly report sent to the grantor. Salaries and wages for FY06/07 will be corrected accordingly.

06-106

CFDA No.: 93.268 Immunization Grants

Department of Health and Human Services, passed through the Arizona Department of Health Services

Award Year: 2006

Award No.: HG352 189

Contact: Vaira Harik

Anticipated completion date: April 25, 2007

County Response

The Cochise County Health Department has established detailed procedures for vaccine management throughout the vaccination process. The protocol is entitled "Vaccine Management" and has been disseminated to all sites. The Program Coordinator is following up at all five sites on a weekly basis to ensure that the policy is instituted properly and adhered to.

06-107

CFDA No.: 97.004 State Domestic Preparedness Equipment Support Program

Department of Homeland Security, passed through the Arizona Department of Emergency and Military Affairs

Award Year: 2004

Award No.: 2004-GE-T4-0051

Contact: Mike Evans/Bill Greer

Anticipated completion date: December 5, 2006

County Response

The Cochise County Purchasing Division received approval of a new Procurement Policy on December 5, 2006. This policy addressed issues regarding limited procurement purchases and the requirements of such purchases over \$50,000 in section 9.8.2.4. The County requires any aggregate amount over \$50,000, proposed to be a sole-source purchase, to be published in the newspaper to establish potential suppliers. If additional suppliers are identified then the purchase must be completed through the formal competitive bid process.

# Board of Supervisors

**Richard R. Searle**  
Chairman District 3

**Patrick G. Call**  
Vice-Chairman  
District 1

**Paul Newman**  
District 2



**Jody N. Klein**  
County Administrator

**James E. Vlahovich**  
Deputy County Administrator

**Katie A. Howard**  
Clerk

April 6, 2007

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

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. No audit findings from a prior Summary Schedule of Prior Audit Findings were required to be reported on this schedule.

Sincerely,

Lois Klein  
Director of Finance  
Cochise County, Arizona

Cochise County· 1415 Melody Lane, Building G· Bisbee, Arizona 85603  
(520) 432-9200· FAX: (520) 432-5016· email: [board@co.cochise.az.us](mailto:board@co.cochise.az.us)  
<http://www.cochisecounty.com> or <http://www.co.cochise.az.us>

Cochise County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2006

Status of Federal Award Findings and Questioned Costs

Finding No.: 05-101  
CFDA No.: 20.106 Airport Improvement Program  
U. S. Department of Transportation  
Status: Fully corrected.

Finding No.: 05-102  
CFDA No.: 16.585 Drug Court Discretionary Grant Program  
U. S. Department of Justice  
Status: Fully Corrected.