



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Cochise County

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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Cochise County
Single Audit Reporting Package
Year Ended June 30, 2007

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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, 2007, 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 10 percent and 15 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 52 percent and 89 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 Private Industry Council, Inc., 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 Systems 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County retroactively reported all major general infrastructure assets as part of the phased implementation requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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 required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Debbie Davenport
Auditor General

September 12, 2008

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, 2007. 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 \$198,388,692 (net assets). Of this amount, \$37,251,553 (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 \$180,287,727, an increase of \$13,180,296 over the prior year's net assets as restated.
- At the end of the fiscal year, unreserved fund balance in the General Fund was \$17,949,654 or 36.3% of total General Fund expenditures for the year.
- Cochise County's total governmental activities debt (certificates of participation and capital leases) increased by a net \$851,235 during the current fiscal year. The net increase is attributable to new capital leases in the amount of \$1,664,165 and decreases of \$812,930 for the normal debt service on capital leases and certificates of participation.

Overview of the Financial Statements

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

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

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

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

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets, 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 statement of revenues, expenditures, and changes in fund balances include a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

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

The basic governmental fund financial statements can be found on pages 3 - 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 Fund, 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.

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 \$12,610,410. The County's capital purchases included \$8,409,544 for construction on the County's building projects in Sierra Vista and Quality Hill and for detention cells in Willcox, and \$5,634,037 for construction at Ft. Huachuca for new schools, \$439,772 for roads and bridges infrastructure, \$565,534 for election equipment, \$885,684 for energy saving devices and equipment, \$3,145,668 for replacement of vehicles and heavy equipment, and \$756,252 for various other capital assets. The current year's depreciation of capital totaled \$6,067,897.

Management's Discussion and Analysis

Statement of Net Assets—As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Cochise County's assets exceeded liabilities by \$198,388,692.

Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2006 and 2007

	Governmental Activities		Business-type Activities		Total	
	June 30, 2006*	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006*	June 30, 2007
Assets:						
Current and other assets	\$ 66,183,624	\$ 69,254,239	\$ 10,518,100	\$ 13,940,393	\$ 76,701,724	\$ 83,194,632
Capital assets	<u>121,402,371</u>	<u>134,525,434</u>	<u>10,620,223</u>	<u>10,107,570</u>	<u>132,022,594</u>	<u>144,633,004</u>
Total assets	<u>187,585,995</u>	<u>203,779,673</u>	<u>21,138,323</u>	<u>24,047,963</u>	<u>208,724,318</u>	<u>227,827,636</u>
Liabilities:						
Other liabilities	7,933,759	9,820,873	3,155,796	3,695,929	11,089,555	13,516,802
Long-term liabilities	<u>12,544,805</u>	<u>13,671,073</u>	<u>2,043,307</u>	<u>2,251,069</u>	<u>14,588,112</u>	<u>15,922,142</u>
Total liabilities	<u>20,478,564</u>	<u>23,491,946</u>	<u>5,199,103</u>	<u>5,946,998</u>	<u>25,677,667</u>	<u>29,438,944</u>
Net assets:						
Invested in capital assets, net of related debt	113,493,897	125,317,423	10,304,934	9,854,752	123,238,831	135,172,175
Restricted	24,027,227	24,134,964	1,848,000	1,830,000	25,875,227	25,964,964
Unrestricted	<u>29,586,307</u>	<u>30,835,340</u>	<u>3,786,286</u>	<u>6,416,213</u>	<u>33,372,593</u>	<u>37,251,553</u>
Total net assets	<u>\$167,107,431</u>	<u>\$180,287,727</u>	<u>\$15,939,220</u>	<u>\$18,100,965</u>	<u>\$183,046,651</u>	<u>\$198,388,692</u>

*As restated, see Note 2 to the financial statements.

A large portion of Cochise County's net assets (68.1%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). This amount is presented less accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

The County's total net assets increased by \$15,342,041 during the fiscal year. A large portion of this increase is attributable to the increase in the County's investment in capital assets, see page ix for further information. 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:

Management's Discussion and Analysis

Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2006 and 2007

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Revenues						
Program revenues:						
Charges for services	\$ 8,899,974	\$ 8,129,698	\$ 36,613,113	\$37,494,990	\$ 45,513,087	\$ 45,624,688
Operating grants and contributions	38,661,825	39,763,868			38,661,825	39,763,868
Capital grants and contributions	2,352,572	184,208			2,325,572	184,208
General revenues:						
Property taxes	23,339,884	26,015,373			23,339,884	26,015,373
State shared sales tax	12,266,596	12,733,438			12,266,596	12,733,438
Unrestricted vehicle license tax	3,322,646	3,687,501			3,322,646	3,687,501
County excise tax	7,044,158	7,571,115	85,000	101,966	7,129,158	7,673,081
Other	<u>5,018,256</u>	<u>5,334,996</u>	<u>347,839</u>	<u>677,420</u>	<u>5,366,095</u>	<u>6,012,416</u>
Total revenues	<u>100,905,911</u>	<u>103,420,197</u>	<u>37,045,952</u>	<u>38,274,376</u>	<u>137,951,863</u>	<u>141,694,573</u>
Expenses						
General government	30,235,435	33,751,237			30,235,435	33,751,237
Public safety	17,551,729	17,405,368			17,551,729	17,405,368
Highways and streets	10,047,024	12,749,385			10,047,024	12,749,385
Sanitation	800,034	956,863			800,034	956,863
Health and welfare	12,904,432	12,603,740			12,904,432	12,603,740
Culture and recreation	938,550	967,559			938,550	967,559
Education	13,474,643	13,834,679			13,474,643	13,834,679
Long-term care			29,797,639	29,608,004	29,797,639	29,608,004
Airport			400,124	551,254	400,124	551,254
Solid waste operations			<u>3,617,541</u>	<u>3,924,443</u>	<u>3,617,541</u>	<u>3,924,443</u>
Total expenses	<u>85,951,847</u>	<u>92,268,831</u>	<u>33,815,304</u>	<u>34,083,701</u>	<u>119,767,151</u>	<u>126,352,532</u>
Increase in net assets before transfers	14,954,064	11,151,366	3,230,648	4,190,675	18,184,712	15,342,041
Transfers	<u>868,619</u>	<u>2,028,930</u>	<u>(868,619)</u>	<u>(2,028,930)</u>		
Increase in net assets	<u>\$ 15,822,683</u>	<u>\$ 13,180,296</u>	<u>\$ 2,362,029</u>	<u>\$ 2,161,745</u>	<u>\$ 18,184,712</u>	<u>\$ 15,342,041</u>

Governmental activities—Key elements of the increase in net assets of \$13,180,296 are as follows:

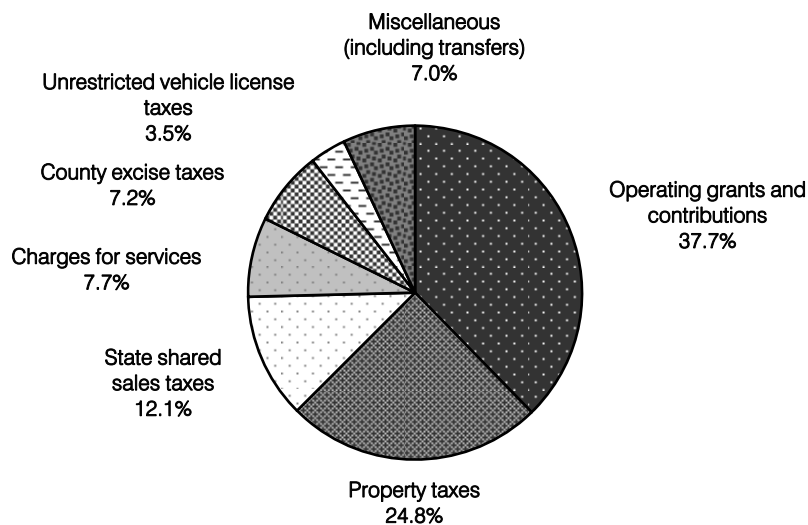
Major Revenues:

- Operating grants and contributions: These revenues increased by \$1,102,043 or 2.9%. The increase is primarily from increases in federal and state grant monies received, in the amounts of \$172,417 and \$579,453 respectively for Community Development and Airport Grants, while the Fort Huachuca Accommodation School received \$813,783 additional unrestricted federal aid.

Management's Discussion and Analysis

- Capital grants: These revenues decreased by \$2,168,364. These were grants received in fiscal year 2005/2006 for various equipment purchases that did not reoccur in fiscal year 2007/2008.
- Property taxes: The net assessed value of all taxable property in the County increased by \$69,874,880 or 10.5%, over the previous year. With a decrease in the property tax rate from fiscal year 2005 of \$0.0213, property tax revenues increased by \$2,675,489, or 11.5%.
- State shared sales tax revenues: Sales tax revenues increased by \$466,842 or 3.8% 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 \$526,957, or 7.5%. This favorable variance is indicative of the growth and stability within the County.

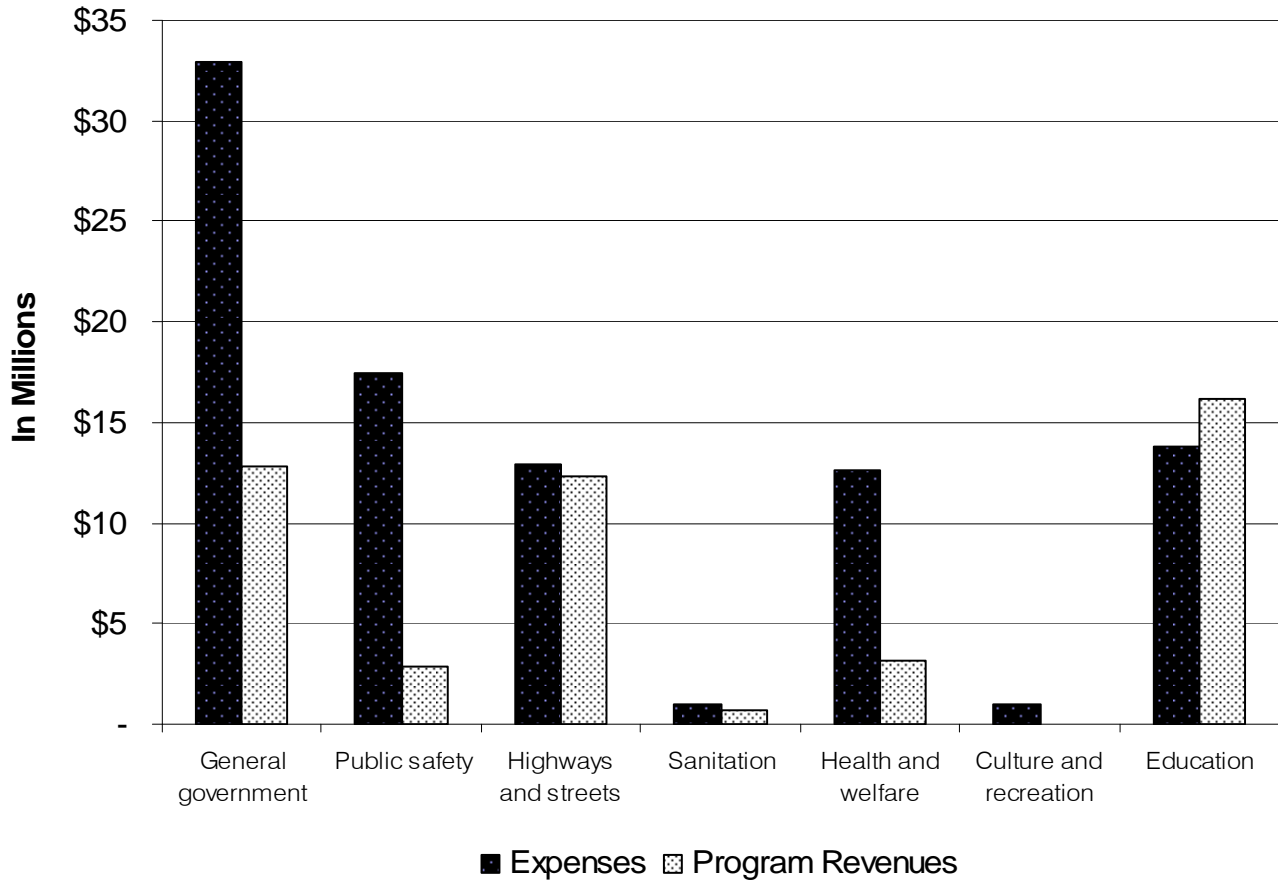
Revenues by Source—Governmental Activities
Fiscal Year Ended June 30, 2007



Expenses—Overall expenses in the governmental activities increased by \$6,316,984, or 7.3%, primarily from increases in general government and highways and streets functions. 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 increases in salaries and benefits (retirement rates and health insurance) and the addition of infrastructure assets back to July 1, 1980, resulting in \$1,698,622 in additional depreciation expense.

Management's Discussion and Analysis

Expenses vs. Revenues by Function – Governmental Activities
Fiscal Year Ended June 30, 2007



Business-type activities—The County’s business-type activities include Cochise Health Systems, the Solid Waste Operations, and Other Enterprise-BDI Airport Fund.

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.

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

Management's Discussion and Analysis

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

Current assets increased by \$3,422,293 and net assets increased by \$2,161,745 for business-type activities, which is mainly attributable to the increase in charges for services revenues in Cochise Health Systems.

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, 2007, the total fund balance was \$17,949,654. 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, 2007, the fund balance represents 36.3% of total General Fund expenditures.

The fund balance of the General Fund increased by \$3,485,423 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 investment income and only moderate increases in expenditures.

The fund balance of the Capital Projects Fund decreased by \$1,063,384 during the fiscal year which is mainly attributable to a significant increase in capital outlay for building projects, which was offset by an increase in transfers from other funds.

The fund balance of the Highway and Streets Fund increased by \$221,534 which is mainly attributable to lower capital outlay.

Finally, the Ft. Huachuca Accommodation School District fund balance decreased by \$2,052,659 due primarily to utilization of a significant fund balance in the Section 8003 Federal Impact Aid fund 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 \$34,634, primarily because of an increase in supplies for fuel. Net assets of Solid Waste Operations decreased by \$83,950 primarily due to a 1-time special cleanup of Douglas and Sierra Vista transfer stations at a cost of nearly \$150,000. As mentioned above, Cochise Health Systems' current and net assets increases are primarily due to the increase in charges for services revenue.

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

The County's total amount invested in capital assets for governmental and business-type activities as of June 30, 2007, was \$135,172,175 (net of accumulation depreciation and related debt). In accordance with GASB Statement No. 34, the County has retroactively valued all infrastructure assets back to fiscal year 1981 and beginning balances have been restated. Major capital asset events during the current fiscal year include the following:

- Capital outlay expenditures in the Capital Projects Fund primarily consist of \$8,409,544 for construction on the County's building projects in Sierra Vista and Quality Hill and for detention cells in Willcox and \$565,534 for election equipment and \$9,129 for voter registration equipment.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$439,772 for new roads (and right of way) infrastructure and \$14,000 for software.
- Purchases of capital assets in the Solid Waste Operations Fund totaled \$49,770 for construction costs and \$10,407 for other building improvements, and \$16,183 for new equipment.
- Programmed vehicle replacement and additions of new vehicles totaled \$842,880 in Fleet Management (an Internal Service Fund) and heavy equipment replacement and additions of new equipment totaled \$2,302,788 in Heavy Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in Fort Huachuca Accommodation School District Fund consist of \$5,634,037 for construction expenditures related to the building of new schools.
- Capital outlay expenditures in the General Fund consist of \$885,684 for energy saving equipment installed throughout the County.

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, 2007, the County had certificates of participation and capital lease long-term liabilities outstanding of \$9,572,527 as compared to \$8,783,763 in the prior year. This amount was comprised of \$7,734,733 of certificates of participation issued in 2002 (including unamortized premium of \$129,733) and \$1,837,794 in capital leases. The change in these long-term liabilities includes the normal annual debt service and new capital leases of \$1,664,165.

Cochise County has no general obligation or revenue bonds outstanding.

Management's Discussion and Analysis

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 \$3,485,423.

The growth in tax revenue is primarily due to a higher collection rate in real and personal property tax revenues (\$315,037 over budget) and increased auto lieu tax revenue (\$287,501 over budget).

The growth in intergovernmental revenues resulted from growth in state shared sales taxes, which increased by \$466,842 over FY 2006 and the receipt of \$151,222 for long term care contribution refunds normally budgeted at \$80,000.

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 \$9,889,968 resulted primarily from unspent contingency funds and vacancy savings.

Economic Factors

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2007, was 3.9% compared to 3.7% statewide and 4.6% nationwide. The rate has decreased from approximately 5.1% 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 2.3% in Sierra Vista to the high of 7.0% in Benson.
- For the fiscal year ended June 30, 2007, the county government fell to the third largest employer in the County, being surpassed by Sierra Vista Public Schools. Ft. Huachuca is the County's largest employer with 8,456 employees compared to 1,039 for the County government and 1,109 for Sierra Vista Public Schools.
- The County's primary property tax rate has either remained the same or decreased each year for the past fourteen years.
- The County's expense for employee health insurance increased by 9.3 percent from the previous year and retirement costs went up by \$433,170.

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, 2007

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash in bank and on hand	\$ 400,227	\$ 43,513	\$ 443,740	\$ 557,678
Cash and investments held by County Treasurer	57,005,897	12,936,199	69,942,096	
Cash and investments held by trustee	902,626		902,626	
Receivables (net of allowances for uncollectibles):				
Property taxes	932,990		932,990	
Accounts	876,780	960,875	1,837,655	11,670
Accrued interest	19,083	25,270	44,353	
Internal balances	473,886	(473,886)		
Due from other governments	8,405,063	395,633	8,800,696	284,598
Prepaid items	190,333	52,789	243,122	5,136
Other assets	47,354		47,354	
Capital assets, not being depreciated	26,385,383	1,646,470	28,031,853	
Capital assets, being depreciated, net	<u>108,140,051</u>	<u>8,461,100</u>	<u>116,601,151</u>	<u>145,997</u>
Total assets	<u>203,779,673</u>	<u>24,047,963</u>	<u>227,827,636</u>	<u>1,005,079</u>
Liabilities				
Accounts payable	6,305,073	3,532,770	9,837,843	35,162
Accrued payroll and employee benefits	2,742,966	158,431	2,901,397	5,629
Due to other governments	752,955		752,955	
Deposits held for others	15,732	1,000	16,732	
Deferred revenue	4,147	3,728	7,875	8,757
Noncurrent liabilities				
Due within 1 year	3,388,279	256,767	3,645,046	
Due in more than 1 year	<u>10,282,794</u>	<u>1,994,302</u>	<u>12,277,096</u>	<u>29,166</u>
Total liabilities	<u>23,491,946</u>	<u>5,946,998</u>	<u>29,438,944</u>	<u>178,714</u>
Net Assets				
Invested in capital assets, net of related debt	125,317,423	9,854,752	135,172,175	145,997
Restricted for:				
Capital projects	9,179,719		9,179,719	
Education	8,196,583		8,196,583	
Public safety	1,876,895		1,876,895	
Highways and streets	3,979,141		3,979,141	
Debt service	902,626		902,626	
Long-term care		1,830,000	1,830,000	
Unrestricted	<u>30,835,340</u>	<u>6,416,213</u>	<u>37,251,553</u>	<u>680,368</u>
Total net assets	<u>\$ 180,287,727</u>	<u>\$ 18,100,965</u>	<u>\$ 198,388,692</u>	<u>\$ 826,365</u>

See accompanying notes to financial statements.

Cochise County
Statement of Activities
Year Ended June 30, 2007

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	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 33,751,237	\$ 5,284,951	\$ 7,375,929	\$ 134,548	\$ (20,955,809)		\$ (20,955,809)	
Public safety	17,405,368	946,442	1,931,801		(14,527,125)		(14,527,125)	
Highways and streets	12,749,385	632,603	11,675,664		(441,118)		(441,118)	
Sanitation	956,863	482,760	249,568		(224,535)		(224,535)	
Health and welfare	12,603,740	441,665	2,749,645		(9,412,430)		(9,412,430)	
Culture and recreation	967,559		23,000		(944,559)		(944,559)	
Education	13,834,679	341,277	15,758,261	49,660	2,314,519		2,314,519	
Total governmental activities	92,268,831	8,129,698	39,763,868	184,208	(44,191,057)		(44,191,057)	
Business-type activities:								
Bisbee-Douglas International Airport	551,254	385,459				\$ (165,795)	(165,795)	
Cochise Health Systems	29,608,004	33,355,529				3,747,525	3,747,525	
Solid Waste Operations	3,924,443	3,754,002				(170,441)	(170,441)	
Total business-type activities	34,083,701	37,494,990				3,411,289	3,411,289	
Total primary government	\$ 126,352,532	\$ 45,624,688	\$ 39,763,868	\$ 184,208	(44,191,057)	3,411,289	40,779,768	
Component units:								
Housing Authority of Cochise County	\$ 2,763,841		\$ 2,985,653					\$ 221,812
Cochise Private Industry Council, Inc.	1,662,915		1,498,600					(164,315)
Total component units	\$ 4,426,756		\$ 4,484,253					57,497
General revenues:								
Taxes:								
Property taxes, levied for general purposes					23,248,713		23,248,713	
Property taxes, levied for flood control					1,583,603		1,583,603	
Property taxes, levied for library					1,183,057		1,183,057	
County excise taxes					7,571,115	101,966	7,673,081	
Share of state sales taxes					12,733,438		12,733,438	
Share of unrestricted vehicle license tax					3,687,501		3,687,501	
Grants and contributions not restricted to specific programs					1,879,069		1,879,069	
Investment income					2,673,570	653,878	3,327,448	7,817
Miscellaneous					782,357	23,542	805,899	43,304
Transfers					2,028,930	(2,028,930)		
Total general revenues and transfers					57,371,353	(1,249,544)	56,121,809	51,121
Change in net assets					13,180,296	2,161,745	15,342,041	108,618
Net assets, July 1, 2006, as restated					167,107,431	15,939,220	183,046,651	717,747
Net assets, June 30, 2007					\$ 180,287,727	\$ 18,100,965	\$ 198,388,692	\$ 826,365

See accompanying notes to financial statements.

Cochise County
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Capital Projects Fund	Highway and Streets Fund	Ft. Huachuca Accommodation School District Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash in bank and on hand	\$ 223,432			\$ 11,541	\$ 165,054	\$ 400,027
Cash and investments held by Treasurer	15,437,225	\$5,852,225	\$ 3,235,580	19,256,960	9,341,620	53,123,610
Cash and investments held by Receivables (net of allowances for uncollectibles):		902,626				902,626
Property taxes	786,996				145,994	932,990
Accounts	623,452	89,564	65,637		53,957	832,610
Accrued interest	4,827	1,724			11,498	18,049
Due from:						
Other funds	803,743	11,253	240,614		527,461	1,583,071
Other governments	3,635,813	776,831	1,962,191	435,799	1,592,863	8,403,497
Other assets				47,354		47,354
Prepaid items	185,641				4,692	190,333
Total assets	<u>\$21,701,129</u>	<u>\$7,634,223</u>	<u>\$ 5,504,022</u>	<u>\$ 19,751,654</u>	<u>\$ 11,843,139</u>	<u>\$ 66,434,167</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,137,470	\$1,007,108	\$ 606,203	\$ 2,055,383	\$ 469,689	\$ 5,275,853
Accrued payroll and employee benefits	1,585,078		215,037	320,680	577,593	2,698,388
Due to:						
Other funds	384,569	6,454	703,641		679,512	1,774,176
Other governments					752,955	752,955
Deposits held for others	7,757				7,975	15,732
Certificates of participation payable		575,000				575,000
Deferred revenue	636,601				109,076	745,677
Total liabilities	<u>3,751,475</u>	<u>1,588,562</u>	<u>1,524,881</u>	<u>2,376,063</u>	<u>2,596,800</u>	<u>11,837,781</u>
Fund balances:						
Unreserved, reported in:						
General fund	17,949,654					17,949,654
Special revenue funds			3,979,141	17,375,591	9,246,339	30,601,071
Capital projects funds		6,045,661				6,045,661
Total fund balances	<u>17,949,654</u>	<u>6,045,661</u>	<u>3,979,141</u>	<u>17,375,591</u>	<u>9,246,339</u>	<u>54,596,386</u>
Total liabilities and fund balances	<u>\$21,701,129</u>	<u>\$7,634,223</u>	<u>\$ 5,504,022</u>	<u>\$ 19,751,654</u>	<u>\$ 11,843,139</u>	<u>\$ 66,434,167</u>

See accompanying notes to financial statements.

Cochise County
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 June 30, 2007

Fund balances—total governmental funds		\$ 54,596,386
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.		127,176,847
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.		741,530
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.		10,062,065
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds:		
Certificates of participation payable	(7,159,733)	
Capital leases payable	(908,820)	
Compensated absences payable	(4,220,548)	(12,289,101)
Net assets of governmental activities		\$ 180,287,727

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General Fund	Capital Projects Fund	Highway and Streets Fund	Ft. Huachuca Accommodation School District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$30,215,345	\$3,418,112			\$ 3,571,019	\$ 37,204,476
Licenses and permits	55,047					55,047
Fees, fines, and forfeits	2,236,002				21,803	2,257,805
Intergovernmental	15,783,047	134,548	\$11,675,664	\$ 14,878,306	12,002,184	54,473,749
Charges for services	3,123,480		632,603		1,727,870	5,483,953
Investment income	730,498	360,821	201,521	835,912	544,818	2,673,570
Miscellaneous	306,223		6,670		469,464	782,357
Total revenues	<u>52,449,642</u>	<u>3,913,481</u>	<u>12,516,458</u>	<u>15,714,218</u>	<u>18,337,158</u>	<u>102,930,957</u>
Expenditures:						
Current:						
General government	24,237,448	224,459			7,888,076	32,349,983
Public safety	13,936,106				3,399,754	17,335,860
Highways and streets			10,906,291			10,906,291
Sanitation	687,028				269,835	956,863
Health and welfare	9,884,879				2,299,135	12,184,014
Culture and recreation					967,559	967,559
Education	369,830			10,798,441	1,166,838	12,335,109
Debt service:						
Principal	57,011	575,000	77,378			709,389
Interest and other charges	38,817	305,004	5,646			349,467
Capital outlay	253,004	8,237,173	69,529	6,947,670	1,038,594	16,545,970
Total expenditures	<u>49,464,123</u>	<u>9,341,636</u>	<u>11,058,844</u>	<u>17,746,111</u>	<u>17,029,791</u>	<u>104,640,505</u>
Excess (deficiency) of revenues over expenditures	<u>2,985,519</u>	<u>(5,428,155)</u>	<u>1,457,614</u>	<u>(2,031,893)</u>	<u>1,307,367</u>	<u>(1,709,548)</u>
Other financing sources (uses):						
Capital lease agreements	885,684					885,684
Sale of capital assets	28,536		76,789			105,325
Transfers in	151,716	4,404,370			1,287,983	5,844,069
Transfers out	(566,032)	(39,599)	(1,312,869)		(3,201,995)	(5,120,495)
Total other financing sources and uses	<u>499,904</u>	<u>4,364,771</u>	<u>(1,236,080)</u>		<u>(1,914,012)</u>	<u>1,714,583</u>
Net change in fund balances	3,485,423	(1,063,384)	221,534	(2,031,893)	(606,645)	5,035
Fund balances, July 1, 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>
Decrease in reserve for inventory				20,766		20,766
Fund balances, June 30, 2007	<u>\$17,949,654</u>	<u>\$6,045,661</u>	<u>\$ 3,979,141</u>	<u>\$ 17,375,591</u>	<u>\$ 9,246,339</u>	<u>\$ 54,596,386</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, 2007

Net change in fund balances—total governmental funds		\$ 5,035
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	16,608,077	
Depreciation expense	<u>(4,583,158)</u>	12,024,919
<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>		
		(752,527)
<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>		
		(327,000)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		69,514
<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>		
Debt issued or incurred	(885,684)	
Principal repaid	709,389	
Amortization of premium	<u>16,216</u>	(160,079)
<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>		
Increase in compensated absences	(144,217)	
Decrease in inventories	<u>(20,766)</u>	(164,983)
<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 in the Statement of Activities.</p>		
		<u>2,485,417</u>
Change in net assets of governmental activities		<u>\$ 13,180,296</u>

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2007

	<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>
Assets					
Current assets:					
Cash in bank and on hand	\$ 20,253	\$ 23,260		\$ 43,513	\$ 200
Cash and investments held by County Treasurer	11,666,390	1,168,442	\$ 101,367	12,936,199	3,882,287
Receivables (net of allowances for uncollectibles):					
Accounts	714,284	198,832	47,759	960,875	44,170
Accrued interest	25,007		263	25,270	1,034
Due from:					
Other funds	4,774	8,457	213	13,444	947,031
Other governments		395,633		395,633	1,566
Prepaid items	50,000	2,789		52,789	
Total current assets	<u>12,480,708</u>	<u>1,797,413</u>	<u>149,602</u>	<u>14,427,723</u>	<u>4,876,288</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation, where applicable:					
Land		21,700	1,575,000	1,596,700	
Construction in progress		49,770		49,770	
Buildings, net		3,738,209	12,149	3,750,358	137,738
Improvements other than buildings, net		1,804,823	1,479,083	3,283,906	
Equipment, net	46,745	1,257,955	122,136	1,426,836	7,210,849
Total noncurrent assets	<u>46,745</u>	<u>6,872,457</u>	<u>3,188,368</u>	<u>10,107,570</u>	<u>7,348,587</u>
Total assets	<u>12,527,453</u>	<u>8,669,870</u>	<u>3,337,970</u>	<u>24,535,293</u>	<u>12,224,875</u>
Liabilities					
Current liabilities:					
Accounts payable	3,473,445	35,997	23,328	3,532,770	1,029,220
Accrued payroll and employee benefits	95,852	57,387	5,192	158,431	44,578
Due to other funds	206,710	277,740	2,880	487,330	282,040
Compensated absences payable, current portion	111,503	57,159	2,676	171,338	80,482
Landfill closure and postclosure care costs payable, current portion		20,936		20,936	
Deposits held for others			1,000	1,000	
Leases payable, current portion		64,493		64,493	71,304
Deferred revenue			3,728	3,728	
Total current liabilities	<u>3,887,510</u>	<u>513,712</u>	<u>38,804</u>	<u>4,440,026</u>	<u>1,507,624</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Net Assets
Proprietary Funds
June 30, 2007
(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	\$ 11,727	\$ 7,075	\$ 8,620	\$ 27,422	\$ 50,334
Landfill closure and postclosure care costs payable		1,778,555		1,778,555	
Leases payable		188,325		188,325	604,852
Total noncurrent liabilities	<u>11,727</u>	<u>1,973,955</u>	<u>8,620</u>	<u>1,994,302</u>	<u>655,186</u>
Total liabilities	<u>3,899,237</u>	<u>2,487,667</u>	<u>47,424</u>	<u>6,434,328</u>	<u>2,162,810</u>
Net Assets					
Invested in capital assets, net of related debt	46,745	6,619,639	3,188,368	9,854,752	6,672,431
Restricted for long-term care	1,830,000			1,830,000	
Unrestricted (deficit)	<u>6,751,471</u>	<u>(437,436)</u>	<u>102,178</u>	<u>6,416,213</u>	<u>3,389,634</u>
Total net assets	<u>\$ 8,628,216</u>	<u>\$ 6,182,203</u>	<u>\$ 3,290,546</u>	<u>\$ 18,100,965</u>	<u>\$ 10,062,065</u>

See accompanying notes to financial statements.

Cochise County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2007

	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	\$ 33,311,984	\$ 3,753,652	\$ 385,459	\$ 37,451,095	\$ 5,702,121
Health plan contributions					6,619,998
Other	43,545	350		43,895	218,224
Total operating revenues	<u>33,355,529</u>	<u>3,754,002</u>	<u>385,459</u>	<u>37,494,990</u>	<u>12,540,343</u>
Operating expenses:					
Personal services	2,575,162	1,413,569	134,673	4,123,404	1,111,176
Professional services	261,312	1,573,432	118,094	1,952,838	6,913,074
Supplies	86,931	66,571	196,445	349,947	2,926,595
Long-term care costs	25,117,691			25,117,691	
Landfill closure and postclosure care costs		264,395		264,395	
Depreciation	10,539	428,576	102,042	541,157	943,582
Other	1,556,369	152,789		1,709,158	3,263
Total operating expenses	<u>29,608,004</u>	<u>3,899,332</u>	<u>551,254</u>	<u>34,058,590</u>	<u>11,897,690</u>
Operating income (loss)	<u>3,747,525</u>	<u>(145,330)</u>	<u>(165,795)</u>	<u>3,436,400</u>	<u>642,653</u>
Nonoperating revenues (expenses):					
County excise taxes		101,966		101,966	13,000
Investment income	532,804	119,469	1,605	653,878	161,870
Miscellaneous revenue		23,150	392	23,542	
Interest expense		(9,150)		(9,150)	(1,035)
Gain (Loss) on disposal of capital assets		(15,961)		(15,961)	36,573
Total nonoperating revenues (expenses)	<u>532,804</u>	<u>219,474</u>	<u>1,997</u>	<u>754,275</u>	<u>210,408</u>
Income (loss) before transfers	4,280,329	74,144	(163,798)	4,190,675	853,061
Transfers in		5,350	129,164	134,514	1,695,706
Transfers out	<u>(2,000,000)</u>	<u>(163,444)</u>		<u>(2,163,444)</u>	<u>(63,350)</u>
Increase (decrease) in net assets	2,280,329	(83,950)	(34,634)	2,161,745	2,485,417
Total net assets, July 1, 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>
Total net assets, June 30, 2007	<u>\$ 8,628,216</u>	<u>\$ 6,182,203</u>	<u>\$ 3,290,546</u>	<u>\$ 18,100,965</u>	<u>\$ 10,062,065</u>

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	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	\$ 33,660,316	\$ 3,708,008	\$ 456,300	\$ 37,824,624	
Receipts from other funds for goods and services provided					\$ 12,205,465
Other receipts	43,545	350		43,895	218,224
Payments to suppliers and providers of goods and services	(26,502,912)	(1,745,422)	(314,856)	(28,563,190)	(9,126,459)
Payments to employees	(2,561,156)	(1,401,014)	(133,914)	(4,096,084)	(1,090,127)
Net cash provided by operating activities	<u>4,639,793</u>	<u>561,922</u>	<u>7,530</u>	<u>5,209,245</u>	<u>2,207,103</u>
Cash flows from noncapital financing activities:					
Miscellaneous receipts		125,116	392	125,508	13,000
Cash transfers from other funds		5,350	129,164	134,514	1,368,706
Cash transfers to other funds	(2,000,000)	(163,444)		(2,163,444)	(63,350)
Loan payments to other funds			(37,061)	(37,061)	
Net cash provided by (used for) noncapital financing activities	<u>(2,000,000)</u>	<u>(32,978)</u>	<u>92,495</u>	<u>(1,940,483)</u>	<u>1,318,356</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets		31,895		31,895	68,989
Purchases of capital assets	(16,183)	(60,177)		(76,360)	(2,047,188)
Principal paid on capital leases		(62,471)		(62,471)	(103,325)
Interest paid on capital leases		(9,150)		(9,150)	(1,035)
Net cash used for capital and related financing activities	<u>(16,183)</u>	<u>(99,903)</u>		<u>(116,086)</u>	<u>(2,082,559)</u>
Cash flows from investing activities:					
Investment income received on cash and investments held by County Treasurer	532,804	119,469	1,342	653,615	161,569
Net cash provided by investing activities	<u>532,804</u>	<u>119,469</u>	<u>1,342</u>	<u>653,615</u>	<u>161,569</u>
Net Increase in cash and cash equivalents	3,156,414	548,510	101,367	3,806,291	1,604,469
Cash and cash equivalents, July 1, 2006	<u>8,530,229</u>	<u>643,192</u>		<u>9,173,421</u>	<u>2,278,018</u>
Cash and cash equivalents, June 30, 2007	<u>\$ 11,686,643</u>	<u>\$ 1,191,702</u>	<u>\$ 101,367</u>	<u>\$ 12,979,712</u>	<u>\$ 3,882,487</u>

(Continued)

See accompanying notes to financial statements.

Cochise County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007
(Concluded)

	Business-Type Activities—Enterprise Funds			Total	Governmental Activities—
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise- BDI Airport Fund		Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 3,747,525	\$ (145,330)	\$ (165,795)	\$ 3,436,400	\$ 642,653
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	10,539	428,576	102,042	541,157	943,582
Changes in assets and liabilities:					
Increase in:					
Accounts receivable			(1,258)	(1,258)	(30,712)
Due from other funds	(2,860)			(2,860)	(84,376)
Due from other governments		(377,205)		(377,205)	(1,566)
Prepaid items		(2,789)		(2,789)	
Accounts payable	497,652	23,490	9,540	530,682	628,639
Accrued payroll and employee benefits	811	5,253	59	6,123	21,049
Due to other funds		42,028		42,028	87,834
Compensated absences payable	13,195	7,302	700	21,197	
Landfill closure and postclosure care costs payable		249,036		249,036	
Deferred revenue			3,328	3,328	
Decrease in:					
Accounts receivable	351,192	180,127		531,319	
Due from other funds		151,434	68,771	220,205	
Prepaid items	25,000			25,000	
Due to other funds	(3,261)		(9,857)	(13,118)	
Net cash provided by operating activities	<u>\$ 4,639,793</u>	<u>\$ 561,922</u>	<u>\$ 7,530</u>	<u>\$ 5,209,245</u>	<u>\$ 2,207,103</u>
Cash and cash equivalents, June 30, 2007, consisted of:					
Cash in bank and on hand	\$ 20,253	\$ 23,260		\$ 43,513	\$ 200
Cash and investments held by County Treasurer	<u>11,666,390</u>	<u>1,168,442</u>	<u>\$ 101,367</u>	<u>12,936,199</u>	<u>3,882,287</u>
	<u>\$ 11,686,642</u>	<u>\$ 1,191,702</u>	<u>\$ 101,367</u>	<u>\$ 12,979,712</u>	<u>\$ 3,882,487</u>

Noncash capital financing activities:

The Solid Waste Operations Fund disposed of and sold equipment with a net book value of \$47,856, and received cash of \$31,895.

The Internal Service Funds disposed of and sold equipment with a net book value of \$32,416, and received cash of \$68,989.

The Internal Service Funds obtained equipment financed by a capital lease in the amount of \$771,480.

The Internal Service Funds received a transfer of capital assets from the Highways and Streets Fund with a net book value of \$327,000.

See accompanying notes to financial statements.

Cochise County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Investment Trust Funds	Agency Funds
Assets		
Cash in bank and on hand		\$ 952,147
Cash and investments held by County Treasurer	\$ 43,207,065	
Interest receivable	19,310	
Total assets	43,226,375	\$ 952,147
Liabilities		
Due to other governments		\$ 952,147
Total liabilities		\$ 952,147
Net Assets		
Held in trust for investment trust participants	\$ 43,226,375	

See accompanying notes to financial statements.

Cochise County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2007

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 204,212,535
Investment income	<u>527,186</u>
Total additions	<u>204,739,721</u>
Deductions:	
Distributions to participants	<u>203,995,255</u>
Total deductions	<u>203,995,255</u>
Change in net assets	744,466
Net assets, July 1, 2006	<u>42,481,909</u>
Net assets, June 30, 2007	<u>\$ 43,226,375</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Net Assets
Component Units
June 30, 2007

	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
Assets			
Cash in bank and on hand	\$ 496,281	\$ 61,397	\$ 557,678
Receivables (net of allowances for uncollectibles):			
Accounts	11,670		11,670
Due from other governments	105,803	178,795	284,598
Prepaid items	1,301	3,835	5,136
Capital assets, being depreciated, net	<u>39,570</u>	<u>106,427</u>	<u>145,997</u>
Total assets	<u>654,625</u>	<u>350,454</u>	<u>1,005,079</u>
Liabilities			
Accounts payable	30,573	104,589	135,162
Accrued payroll and employee benefits	1,227	4,402	5,629
Deferred revenue	8,757		8,757
Noncurrent liabilities			
Due in more than 1 year	<u>16,393</u>	<u>12,773</u>	<u>29,166</u>
Total liabilities	<u>56,950</u>	<u>121,764</u>	<u>178,714</u>
Net Assets			
Invested in capital assets	39,570	106,427	145,997
Unrestricted	<u>558,105</u>	<u>122,263</u>	<u>680,368</u>
Total net assets	<u>\$ 597,675</u>	<u>\$ 228,690</u>	<u>\$ 826,365</u>

See accompanying notes to financial statements.

Cochise County
Combining Statement of Activities
Component Units
Year Ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Operating Grants and Contributions</u>	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
Component units:					
Housing Authority of Cochise County	\$ 2,763,841	\$ 2,985,653	\$ 221,812		\$ 221,812
Cochise Private Industry Council, Inc.	<u>1,662,915</u>	<u>1,498,600</u>		\$ (164,315)	<u>(164,315)</u>
Total component units	<u>\$ 4,426,756</u>	<u>\$ 4,484,253</u>	<u>221,812</u>	<u>(164,315)</u>	<u>57,497</u>
General revenues:					
Investment earnings			5,848	1,969	7,817
Miscellaneous			<u>15,153</u>	<u>28,151</u>	<u>43,304</u>
Total general revenues			<u>21,001</u>	<u>30,120</u>	<u>51,121</u>
Change in net assets			242,813	(134,195)	108,618
Net assets, July 1, 2006			<u>354,862</u>	<u>362,885</u>	<u>717,747</u>
Net assets, June 30, 2007			<u>\$ 597,675</u>	<u>\$ 228,690</u>	<u>\$ 826,365</u>

See accompanying notes to financial statements.

Cochise County
Notes to Financial Statements
June 30, 2007

Note 1 - Summary of Significant Accounting Policies

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

For the year ended June 30, 2007, the County implemented the provisions of GASB Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments* that requires at the applicable transition date the retroactive capitalization and reporting of all major general infrastructure assets.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. Each blended and discretely presented component unit discussed below has a June 30 year end.

The following table describes the County's component units:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Cochise County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Cochise County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Cochise County
Notes to Financial Statements
June 30, 2007

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Housing Authority of Cochise County	Administers and coordinates the Section 8 Rental Voucher Program. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Authority, but the Authority does not provide services entirely to the County.	Discrete	Housing Authority of Cochise County Old Bisbee High School First Floor P.O. Box 167 Bisbee, Arizona 85603
Cochise Private Industry Council, Inc.	Administers and coordinates Workforce Investment Act programs. The County's Board of Supervisors appoints all members of the governing board and is able to impose its will on the Private Industry Council. However, the Private Industry Council does not provide services entirely to the County.	Discrete	Cochise Private Industry Council 1843 Paseo San Luis Sierra Vista, Arizona 85635

B. Basis of Presentation

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

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

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

- charges to customers or applicants for goods, services, or privileges provided,

Cochise County
Notes to Financial Statements
June 30, 2007

- operating grants and contributions, and
- capital grants and contributions, including special assessments.

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double-counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as charges for services, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as county excise taxes, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment income and revenues generated by ancillary activities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered to be nonoperating expenses.

The County reports the following major governmental funds:

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

The Capital Projects Fund accounts for resources to be used for the acquisition or construction of major facilities, and automation and communications projects other than those financed by proprietary funds.

The Highway and Streets Fund accounts for the construction and maintenance of the County's surface transportation system in a cost-effective manner.

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

Cochise County
Notes to Financial Statements
June 30, 2007

The County reports the following major enterprise funds:

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

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

The County reports the following fund types:

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

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

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

C. Basis of Accounting

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

Cochise County
Notes to Financial Statements
June 30, 2007

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.

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

Cochise County
Notes to Financial Statements
June 30, 2007

F. Property Tax Calendar

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

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

G. Capital Assets

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

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

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

H. Investment Income

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

I. Compensated Absences

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

Cochise County
Notes to Financial Statements
June 30, 2007

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

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

Note 2 - Beginning Balances Restated

As required by GASB Statement No. 34, net assets on the government-wide Statement of Activities as of July 1, 2006, has been restated for the County's major general infrastructure assets acquired prior to the year ended June 30, 2003, the fiscal year in which the County implemented GASB Statement No. 34, consisting of road networks and flood control networks that were constructed, purchased, or donated to the County, or that received substantial improvements subsequent to July 1, 1980. Beginning balances for governmental activities on the government-wide statements were restated as follows:

Net assets as of June 30, 2006, as previously reported	\$112,524,829
General infrastructure assets, net of accumulated depreciation	<u>54,582,602</u>
Net assets as of July 1, 2006, as restated	<u>\$167,107,431</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, 2007

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, 2007, the carrying amount of the County's deposits was \$9,684,793, and the bank balance was \$10,656,753. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2007, \$326,599 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, 2007, were as follows:

Investment Type	Amount
State Treasurer's investment pools	\$ 27,405,323
U.S. Treasury securities	7,510,990
U.S. agency securities	69,911,005
U.S. Treasury money market fund	902,626
	<u>\$105,729,944</u>

Cochise County
Notes to Financial Statements
June 30, 2007

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, 2007, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pools	Unrated	Not applicable	\$27,405,323
U.S. agency securities	AAA	Standard & Poor's	69,911,005
U.S. Treasury money market fund	AAAm	Standard & Poor's	<u>902,626</u>
			<u>\$98,218,954</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, 2007, the County had a \$902,626 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. The County also had U.S. agency securities totaling \$54,220,874 that are uninsured, not registered in the County's name, and held by a 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.

The County had investments at June 30, 2007, of 5 percent or more in the following:

Investment	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$12,333,764	11.7
Federal Home Loan Bank	43,762,960	41.4
Federal National Mortgage Association	<u>7,011,741</u>	6.6
	<u>\$63,108,465</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, 2007

At June 30, 2007, 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	\$ 27,405,323	\$27,405,323	
U.S. Treasury securities	7,510,990	3,907,330	\$ 3,603,660
U.S. agency securities	69,911,005	19,915,000	49,996,005
U.S. Treasury money market fund	<u>902,626</u>	<u>902,626</u>	
	<u>\$105,729,944</u>	<u>\$52,130,279</u>	<u>\$53,599,665</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	\$ 32,937
Amount of deposits	9,684,793
Amount of investments	<u>105,729,944</u>
Total	<u>\$115,447,674</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	\$ 400,227	\$ 43,513		\$952,147	\$ 1,395,887
Cash and Investments held by County Treasurer	57,005,897	12,936,199	\$43,207,065		113,149,161
Investments held by trustee	<u>902,626</u>				<u>902,626</u>
Total	<u>\$58,308,750</u>	<u>\$12,979,712</u>	<u>\$43,207,065</u>	<u>\$952,147</u>	<u>\$115,447,674</u>

Note 4 - Due from Other Governments

Due from other governments totaling \$8,800,696 at June 30, 2007, included \$1,562,043 in state-shared revenue from highway user fees, \$2,159,858 in state-shared sales taxes, \$1,067,677 in state-shared vehicle license taxes, and \$1,333,795 in county excise taxes. The remaining balance of \$2,677,323 represents amounts receivable from various state and federal government grantor agencies.

Cochise County
Notes to Financial Statements
June 30, 2007

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,042,951	\$ 89,335	\$ 27,500	\$ 2,104,786
Construction in progress	<u>10,237,016</u>	<u>14,043,581</u>		<u>24,280,597</u>
Total capital assets not being depreciated	<u>12,279,967</u>	<u>14,132,916</u>	<u>27,500</u>	<u>26,385,383</u>
Capital assets being depreciated:				
Buildings	36,156,745	15,932	335,087	35,837,590
Improvements other than buildings	2,840,110		24,026	2,816,084
Equipment	31,510,707	5,171,512	2,452,507	34,229,712
Infrastructure	<u>89,095,394</u>	<u>433,385</u>	<u>31,125</u>	<u>89,497,654</u>
Total	<u>159,602,956</u>	<u>5,620,829</u>	<u>2,842,745</u>	<u>162,381,040</u>
Less accumulated depreciation for:				
Buildings	8,168,463	738,343	66,560	8,840,246
Improvements other than buildings	1,022,049	111,740	3,203	1,130,586
Equipment	14,342,433	2,978,035	1,689,244	15,631,224
Infrastructure	<u>26,947,607</u>	<u>1,698,622</u>	<u>7,296</u>	<u>28,638,933</u>
Total	<u>50,480,552</u>	<u>5,526,740</u>	<u>1,766,303</u>	<u>54,240,989</u>
Total capital assets being depreciated, net	<u>109,122,404</u>	<u>94,089</u>	<u>1,076,442</u>	<u>108,140,051</u>
Governmental activities capital assets, net	<u>\$121,402,371</u>	<u>\$14,227,005</u>	<u>\$1,103,942</u>	<u>\$134,525,434</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,596,700			\$ 1,596,700
Construction in progress		<u>\$ 49,770</u>		<u>49,770</u>
Total capital assets not being depreciated	<u>1,596,700</u>	<u>49,770</u>		<u>1,646,470</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	4,154,840	10,407		4,165,247
Equipment	<u>3,451,190</u>	<u>16,183</u>	\$ 151,101	<u>3,316,272</u>
Total	<u>12,165,055</u>	<u>26,590</u>	<u>151,101</u>	<u>12,040,544</u>
Less accumulated depreciation for:				
Buildings	720,946	87,721		808,667
Improvements other than buildings	678,505	202,836		881,341
Equipment	<u>1,742,081</u>	<u>250,600</u>	103,245	<u>1,889,436</u>
Total	<u>3,141,532</u>	<u>541,157</u>	<u>103,245</u>	<u>3,579,444</u>
Total capital assets being depreciated, net	<u>9,023,523</u>	<u>(514,567)</u>	<u>47,856</u>	<u>8,461,100</u>
Business-type activities capital assets, net	<u>\$ 10,620,223</u>	<u>\$ (464,797)</u>	<u>\$ 47,856</u>	<u>\$ 10,107,570</u>

The July 1, 2006, governmental activities capital asset balances were restated to include major general infrastructure assets of the County, as described in Note 2.

Cochise County
Notes to Financial Statements
June 30, 2007

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$1,920,139
Public safety	179,068
Highways and streets	2,251,102
Health and welfare	8,260
Culture and recreation	1,574
Education	223,015
Internal service funds	<u>943,582</u>
Total governmental activities depreciation expense	<u>\$5,526,740</u>
Business-type activities:	
Health plans	\$ 10,539
Landfill	428,576
Airport operations	<u>102,042</u>
Total business-type activities depreciation expense	<u>\$ 541,157</u>

Construction commitments—As of June 30, 2007, the County was involved in 14 construction projects. The estimated cost to complete the construction projects is \$7,155,526.

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within 1 year
Governmental activities					
Capital leases payable	\$ 157,525	\$1,664,165	\$ 236,714	\$ 1,584,976	\$ 229,464
Certificates of participation payable	8,165,000		560,000	7,605,000	575,000
Unamortized premium	<u>145,949</u>		<u>16,216</u>	<u>129,733</u>	<u>16,216</u>
Total certificates of participation payable	<u>8,310,949</u>		<u>576,216</u>	<u>7,734,733</u>	<u>591,216</u>
Compensated absences payable	<u>4,076,331</u>	<u>2,589,521</u>	<u>2,314,488</u>	<u>4,351,364</u>	<u>2,567,599</u>
Governmental activities long-term liabilities	<u>\$12,544,804</u>	<u>\$4,253,686</u>	<u>\$3,127,418</u>	<u>\$13,671,073</u>	<u>\$3,388,279</u>
Business-type activities					
Capital leases payable	\$ 315,289		\$ 62,471	\$ 252,818	\$ 64,493
Landfill closure and postclosure care costs payable	1,550,455	\$ 264,394	15,358	1,799,491	20,936
Compensated absences payable	<u>177,563</u>	<u>158,752</u>	<u>137,555</u>	<u>198,760</u>	<u>171,338</u>
Business-type activities long-term liabilities	<u>\$ 2,043,307</u>	<u>\$ 423,146</u>	<u>\$ 215,384</u>	<u>\$ 2,251,069</u>	<u>\$ 256,767</u>

Cochise County
Notes to Financial Statements
June 30, 2007

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

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Equipment	\$2,465,984	\$452,185
Less: accumulated depreciation	<u>99,497</u>	<u>177,183</u>
Carrying value	<u>\$2,366,487</u>	<u>\$275,002</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2007:

Year ending June 30	Governmental Activities	Business-Type Activities
2008	\$ 297,174	\$ 71,620
2009	214,151	71,620
2010	214,151	71,620
2011	214,151	53,715
2012	214,151	
2013-2017	<u>748,868</u>	
Total minimum lease payments	<u>1,902,646</u>	<u>268,575</u>
Less amount representing interest	<u>317,670</u>	<u>15,757</u>
Present value of net minimum lease payments	<u>\$1,584,976</u>	<u>\$252,818</u>

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

Certificates outstanding at June 30, 2007, 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%	<u>\$7,605,000</u>

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2007:

Cochise County
Notes to Financial Statements
June 30, 2007

Year ending June 30	Governmental Activities	
	Principal	Interest
2008	\$ 575,000	\$ 295,931
2009	590,000	279,175
2010	610,000	260,412
2011	630,000	239,475
2012	650,000	216,262
2013-2017	<u>4,550,000</u>	<u>624,038</u>
Total	<u>\$7,605,000</u>	<u>\$1,915,293</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 in the Enterprise Fund. At June 30, 2007, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2007, the County has reported landfill closure and postclosure care costs liabilities totaling \$1,799,491. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills and is based on landfill capacity used at June 30, 2007. The liability reported for the Eastern Regional landfill of \$661,457 is based on 100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$1,138,034 is based on the use of 9.43 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,930,193 as the remaining estimated capacity is filled. The County expects to close this landfill in 2042. The landfills' closure and postclosure care costs are based on what it would cost to perform all closure and postclosure care in fiscal year 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2007, the County paid for compensated absences as follows: 57.44 percent from the General Fund, 9.62 percent from the Highway and Streets Fund, 11.33 percent from the Ft. Huachuca Accommodation School District Fund, 3.68 percent from the Enterprise Funds, and 17.93 percent from other funds.

Cochise County
Notes to Financial Statements
June 30, 2007

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
June 30, 2007

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

Note 8 - 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 North Central Avenue
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
Notes to Financial Statements
June 30, 2007

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

Cost-sharing plan—For the year ended June 30, 2007, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 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, 2007, 2006, and 2005, were \$3,426,304, \$2,616,347, and \$1,799,658, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2007, 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 18.89 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 5.00 percent.

Annual Pension Cost—The County's pension cost for the two agent plan for the year ended June 30, 2007, and related information follows:

	PSPRS	CORP
Contribution rates:		
County	18.89%	5.0%
Plan members	7.65%	8.5%
Annual pension cost	\$664,871	\$92,664
Contributions made	\$664,871	\$92,664

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2005, actuarial valuations using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.5 to 8.5 percent per year. (B) included an inflation component of 5.0 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, 2005, was 30 years.

Cochise County
Notes to Financial Statements
June 30, 2007

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	2007	\$664,871	100%	\$0
	2006	637,308	100	0
	2005	502,942	100	0
CORP	2007	\$ 92,664	100%	\$0
	2006	65,821	100	0
	2005	59,539	100	0

Note 9 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2007, were as follows:

	Payable to								
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Cochise Health Systems Fund	Solid Waste Operations Fund	BDI Airport Fund	Internal Service Funds	Total
Payable from General Fund		\$11,253	\$ 88	\$220,196	\$ 40	\$1,127		\$151,865	\$ 384,569
Capital Projects Fund	\$ 2,538			558				3,358	6,454
Highway and Streets Fund	151,364			14,473		94		537,710	703,641
Other Governmental Funds	337,472		28,135	292,234	1,772	4,430	\$213	15,256	679,512
Cochise Health Systems Fund	204,797							1,913	206,710
Solid Waste Operations Fund	53,173							224,567	277,740
BDI Airport Fund	778							2,102	2,880
Internal Service Funds	<u>53,621</u>		<u>212,391</u>		<u>2,962</u>	<u>2,806</u>		<u>10,260</u>	<u>282,040</u>
Total	<u>\$803,743</u>	<u>\$11,253</u>	<u>\$240,614</u>	<u>\$527,461</u>	<u>\$4,774</u>	<u>\$8,457</u>	<u>\$213</u>	<u>\$947,031</u>	<u>\$2,543,546</u>

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

Cochise County
Notes to Financial Statements
June 30, 2007

Interfund transfers—Interfund transfers for the year ended June 30, 2007, were as follows:

Transfer from	Transfer to						Total
	General Fund	Capital Projects Fund	Other Governmental Funds	Solid Waste Operations Fund	BDI Airport Fund	Internal Service Funds	
General Fund		\$ 120,892	\$ 309,993		\$116,798	\$ 18,349	\$ 566,032
Capital Projects Fund			39,599				39,599
Highway and Streets Fund			180,000			1,132,869	1,312,869
Other Governmental Funds	\$151,716	2,283,478	758,391			8,410	3,201,995
Cochise Health Systems Fund		2,000,000					2,000,000
Solid Waste Operations Fund					12,366	151,078	163,444
Internal Service Funds				<u>\$5,350</u>		<u>58,000</u>	<u>63,350</u>
Subtotal	<u>\$151,716</u>	<u>\$4,404,370</u>	<u>\$1,287,983</u>	<u>\$5,350</u>	<u>\$129,164</u>	<u>\$1,368,706</u>	<u>\$7,347,289</u>
Transfers of capital assets						<u>327,000</u>	<u>327,000</u>
Total	<u>\$151,716</u>	<u>\$4,404,370</u>	<u>\$1,287,983</u>	<u>\$5,350</u>	<u>\$129,164</u>	<u>\$1,695,706</u>	<u>\$7,674,289</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 \$7,347,289 are less than total transfers in of \$7,647,289 because \$327,000 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.

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. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

Cochise County
Notes to Financial Statements
June 30, 2007

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$1,378,371 of deposits, \$1,981,004 of investments in the Arizona State Treasurer's investment pools, and a \$902,626 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	\$25,424,319	None stated	None stated	\$25,424,319
U.S. Treasury securities	8,000,000	Zero coupon	Up to 3 years	7,510,990
U.S. agency securities	70,360,000	3.30 – 6.88%	Up to 3 years	69,911,605

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

Statement of Net Assets

Assets	<u>\$111,210,395</u>
Net assets	<u>\$111,210,395</u>

Net assets held in trust for:

Internal participants	\$ 67,984,020
External participants	<u>43,226,375</u>
Total net assets held in trust	<u>\$111,210,395</u>

Statement of Changes in Net Assets

Total additions	\$399,526,917
Total deductions	<u>392,429,462</u>
Net increase	<u>7,097,455</u>
Net assets held in trust:	
July 1, 2006	<u>104,112,940</u>
June 30, 2007	<u>\$111,210,395</u>

Cochise County
Notes to Financial Statements
June 30, 2007

Note 11 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

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

Basis of Accounting

The Housing Authority of Cochise County financial statements are reported, based upon compelling reasons offered by HUD, as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund). Both discretely presented component units use the flow of economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Cochise Private Industry Council, Inc.

Due from other governments

Due from other governments represents uncollateralized amounts due from the United States federal government and under contractual agreements with the State of Arizona and county governments. Due to the nature of the receivables and the subsequent 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, 2007, the carrying amount of the Housing Authority's deposits was \$496,281 and the bank balance was \$535,727. At June 30, 2007, the Housing Authority's deposits were entirely covered by Federal depository insurance or by collateral held by the pledging financial institution.

Cochise County
Notes to Financial Statements
June 30, 2007

C. Due from Other Governments

Cochise Private Industry Council, Inc.

Due from other governments consists of the following grants receivable at June 30, 2007:

Program	Amount
WIA Administration	\$ 16,498
WIA Adult Program	17,221
WIA Youth Program	41,669
WIA Dislocated Workers	11,809
Rapid Response	649
WIA-Veterans	84,701
Other	<u>6,428</u>
	<u>\$178,975</u>

D. Capital Assets

Cochise Private Industry Council, Inc.

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets being depreciated:				
Furniture and equipment	\$ 282,646	\$ 3,130		\$ 285,776
Vehicles	<u>60,068</u>	<u> </u>	<u>\$(21,502)</u>	<u>38,566</u>
Total capital assets being depreciated	<u>342,714</u>	<u>3,130</u>	<u>(21,502)</u>	<u>324,342</u>
Less accumulated depreciation	<u>(189,550)</u>	<u>(38,041)</u>	<u>9,676</u>	<u>(217,915)</u>
Total capital assets being depreciated, net	<u>\$ 153,164</u>	<u>\$(34,911)</u>	<u>\$(11,826)</u>	<u>\$ 106,427</u>

Other Required Supplementary Information

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 29,456,015	\$ 29,456,015	\$ 30,215,345	\$ 759,330
Licenses and permits	49,000	49,000	55,047	6,047
Fees, fines, and forfeits	2,418,500	2,418,500	2,236,002	(182,498)
Intergovernmental	15,509,147	15,509,147	15,783,047	273,900
Charges for services	3,097,550	3,097,550	3,123,480	25,930
Investment income	210,000	210,000	730,498	520,498
Miscellaneous	177,230	177,230	306,223	128,993
Total revenues	<u>50,917,442</u>	<u>50,917,442</u>	<u>52,449,642</u>	<u>1,532,200</u>
Expenditures:				
Current:				
General Government				
Assessor	2,048,259	2,048,259	1,778,362	269,897
Attorney	2,011,246	2,052,672	1,861,905	190,767
Board of Supervisors	1,174,058	1,218,058	957,950	260,108
Elections	396,358	476,358	413,833	62,525
Finance	984,213	992,981	872,979	120,002
General Government	926,269	1,339,045	1,261,370	77,675
General Government Overhead	(1,923,969)	(1,923,969)	(2,124,730)	200,761
General Government Contingency	7,856,188	6,793,111	-	6,793,111
Human Resources	1,260,854	1,572,495	1,598,016	(25,521)
Planning & Zoning	1,026,672	1,039,819	917,113	122,706
Recorder	402,940	402,940	391,080	11,860
Treasurer	1,222,255	1,222,255	1,076,091	146,164
Public Defender	1,323,021	1,323,003	1,269,931	53,072
Legal Defender	894,244	897,776	784,849	112,927
Willcox Airport	133,885	17,087	16,636	451
Facilities	2,162,580	2,297,271	1,832,500	464,771
Economic Development	21,611	21,611	43,049	(21,438)
Utilities	912,700	1,070,535	1,057,876	12,659
Court Administration	1,097,176	985,657	838,244	147,413
Superior Court Division	1,163,354	1,141,215	1,059,531	81,684
Court Security	440,666	485,506	411,611	73,895
Mandatory Judicial Services	130,000	131,000	113,075	17,925
Mandatory Indigent Defense	950,664	950,664	917,492	33,172
Justice of the Peace	2,196,987	2,244,244	2,174,467	69,777
Clerk of Superior Court	1,554,507	1,522,969	1,413,903	109,066
Adult Probation	509,690	524,635	515,698	8,937
Juvenile Probation	1,375,747	1,408,855	1,273,362	135,493
Sierra Vista Constable	153,549	153,549	145,623	7,926
Constables	65	65	13	52
Information Technology	2,066,582	2,066,582	1,714,451	352,131
Total General government	<u>34,472,371</u>	<u>34,476,248</u>	<u>24,586,280</u>	<u>9,889,968</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007
(Concluded)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Sheriff	\$ 12,315,790	\$ 12,315,808	\$ 11,429,535	\$ 886,273
Building Inspection	545,005	541,302	469,503	71,799
Emergency Services	108,527	108,527	103,599	4,928
Juvenile Detention	1,158,934	1,207,561	1,086,345	121,216
Juvenile Detention Medical	123,175	76,978	70,423	6,555
Jail Medical	452,271	628,314	596,701	31,613
Jail Counselor				
Medical Examiner	180,000	180,000	180,000	
Total Public safety	<u>14,883,702</u>	<u>15,058,490</u>	<u>13,936,106</u>	<u>1,122,384</u>
Sanitation	<u>695,281</u>	<u>698,227</u>	<u>687,028</u>	<u>11,199</u>
Health and welfare				
Health	1,640,175	1,499,990	1,345,633	154,357
Health & Social Services	9,301,870	9,260,444	8,539,246	721,198
Total health and welfare	<u>10,942,045</u>	<u>10,760,434</u>	<u>9,884,879</u>	<u>875,555</u>
Education, School Superintendent	<u>384,234</u>	<u>384,234</u>	<u>369,830</u>	<u>14,404</u>
Total expenditures	<u>61,377,633</u>	<u>61,377,633</u>	<u>49,464,123</u>	<u>11,913,510</u>
Excess (deficiency) of revenues over expenditures	(10,460,191)	(10,460,191)	2,985,519	13,445,710
Other financing sources (uses):				
Proceeds from capital lease			885,684	885,684
Sale of capital assets	1,000	1,000	28,536	27,536
Transfers in	670,863	670,863	151,716	(519,147)
Transfers out			(566,032)	(566,032)
Total other financing sources and uses	<u>671,863</u>	<u>671,863</u>	<u>499,904</u>	<u>(171,959)</u>
Net change in fund balances	<u>(9,788,328)</u>	<u>(9,788,328)</u>	<u>3,485,423</u>	<u>13,273,751</u>
Fund balances, July 1, 2006	<u>9,788,328</u>	<u>9,788,328</u>	<u>14,464,231</u>	<u>4,675,903</u>
Fund balances, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,949,654</u>	<u>\$ 17,949,654</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Budgetary Comparison Schedule
Highway and Streets Fund
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 11,708,227	\$ 11,708,227	\$ 11,675,664	\$ (32,563)
Charges for services	1,105,000	1,105,000	632,603	(472,397)
Investment income	80,000	80,000	201,521	121,521
Miscellaneous	2,933,046	3,834,039	6,670	(3,827,369)
Total revenues	<u>15,826,273</u>	<u>16,727,266</u>	<u>12,516,458</u>	<u>(4,210,808)</u>
Expenditures:				
Current:				
Highways and streets	<u>15,826,273</u>	<u>16,793,183</u>	<u>11,058,844</u>	<u>5,734,338</u>
Total expenditures	<u>15,826,273</u>	<u>16,793,183</u>	<u>11,058,844</u>	<u>5,734,338</u>
Excess (deficiency) of revenues over expenditures		(65,917)	1,457,614	1,523,530
Other financing sources (uses):				
Sale of capital assets		65,917	76,789	10,872
Transfers out			(1,312,869)	(1,312,869)
Total other financing sources and uses		<u>65,917</u>	<u>(1,236,080)</u>	<u>(1,301,997)</u>
Net change in fund balances			<u>221,534</u>	<u>221,533</u>
Fund balances, July 1, 2006			<u>3,757,607</u>	<u>3,757,607</u>
Fund balances, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,979,141</u>	<u>\$ 3,979,141</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental			\$ 14,878,306	\$ 14,878,306
Investment income			835,912	835,912
Total revenues			<u>15,714,218</u>	<u>15,714,218</u>
Expenditures				
Education	5,508,020	20,221,231	10,798,441	9,422,790
Capital outlay	<u>1,573,657</u>	<u>5,980,242</u>	<u>6,947,670</u>	<u>(967,428)</u>
Total expenditures	<u>7,081,677</u>	<u>26,201,473</u>	<u>17,746,111</u>	<u>8,455,362</u>
Net change in fund balances	(7,081,677)	(26,201,473)	(2,031,893)	(24,169,580)
Fund balances, July 1, 2006	<u> </u>	<u> </u>	<u>19,428,250</u>	<u>19,428,250</u>
Decrease in reserve for inventory	<u> </u>	<u> </u>	<u>20,766</u>	<u>20,766</u>
Fund balances, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,375,591</u>	<u>\$ 17,375,591</u>

See accompanying notes to budgetary comparison schedule.

Cochise County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2007

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 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.

Some general government and highways and streets actual expenditure amounts reported on the Budgetary Comparison Schedules 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 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 requirements, a schedule indicating amounts at the legal level of budgetary control has not been presented. However, the Ft. Huachuca Accommodation School District Fund's legally adopted budgetary schedules are presented on the budgetary basis as part of the separately issued financial statement report dated March 14, 2008, available from the County. That report indicated that expenditures did not exceed the legal level of budgetary authority.

Note 2 - Excess of Expenditures over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations for the Human Resources department by \$25,521. These excess expenditures were funded by greater than anticipated revenues.

Cochise County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2007

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)
6/30/07	\$12,991,873	\$24,549,955	\$(11,558,082)	52.9%	\$3,877,378	298.1%
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

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
6/30/07	\$4,520,160	\$4,846,201	(\$326,041)	93.3%	\$2,029,657	16.1%
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	-

Supplementary Information

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
Passed through Pima County Sheriff's Department			
High Intensity Drug Trafficking Areas	07.15PSAP549	0111C1362161004	\$ 80,343
Passed through Arizona Criminal Justice Commission			
High Intensity Drug Trafficking Areas	07.16PSAP5017	HT16-06-0513	340,260
High Intensity Drug Trafficking Areas	07.17PSAP5017	HT16-06-0512	39,194
Total U.S. Office of National Drug Control Policy			<u>459,797</u>
U.S. Department of Agriculture			
National Forest System—Law Enforcement	10.07LE-11030518-001		4,896
Passed through the Arizona Department of Education			
Food Donation	10.550	None	17,236
Child Nutrition Cluster			
National School Lunch Program	10.555	7A2300AZ3	123,679
State Administrative Expenses for Child Nutrition	10.560	HS461319	10,000
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	KR06-0923-EHS KR06-0811-EHS	578,393
Commodity Supplemental Food Program	10.565	KR05-0666-EHS KR06-0905-EHS	5,229
Passed through the Arizona State Treasurer			
Schools and Roads Cluster			
Schools and Roads—Grants to States	10.665	122357936	98,640
Total U.S. Department of Agriculture			<u>838,073</u>
U.S. Department of Defense			
Department of Defense Appropriations Act-P.L. 102-484	12.unknown		<u>269,281</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing			
Community Development Block Grants/Entitlement Grants	14.218	None	13,314
HOME Investment Partnerships Program	14.239	None	29
Passed through the Arizona Department of Commerce			
Community Development Block Grants	14.228	105-06, 106-06, 107-06, 108-06	258,797
Housing Opportunities for Persons with AIDS	14.241		142,941
Section 8 Housing Choice Vouchers	14.871		2,016,757
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		617,227
Total U.S. Department of Housing and Urban Development			<u>3,049,065</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of the Interior			
Bureau of Land Management Assistance Agreement	15.AAA040008		\$ 10,000
Cultural Resource Management	15.224		21,505
Payments in Lieu of Taxes	15.226		1,236,526
Passed through the Arizona State Treasurer			
Payments in Lieu of Taxes	15.226	210012067	4,465
Total Payments in Lieu of Taxes			<u>1,240,991</u>
Distribution of Receipts to State and Local Governments	15.227	37-723	5,806
Total U.S. Department of the Interior			<u>1,278,302</u>
U.S. Department of Justice			
Passed through the Arizona Governor's Office for Children, Youth, and Families			
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	J2-CSG-06-6273-09 Y2	20,335
Passed through the Arizona Department of Public Safety			
Crime Victim Assistance	16.575	2005-383	69,764
Passed through the Arizona Criminal Justice Commission			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	PC-07-050, AC-07-080	91,487
Edward Byrne Memorial Formula Grant Program	16.579		73,628
Crime Victim Assistance/Discretionary Grants	16.582		4,898
Rural Domestic Violence, Dating Violence, Sexual Assault and Stalking Grant Program	16.589		236,215
Passed through State of Arizona Governor's Community Policy Office			
Juvenile Accountability Incentive Block Grants	16.523	JB-IGA-05-7273-04	17,061
State Criminal Alien Assistance Program	16.606		87,335
Public Safety Partnership and Community Policing Grants	16.710		104,742
Southwest Border Local Assistance Initiative	16.unknown		15,787
Total U.S. Department of Justice			<u>721,252</u>
U.S. Department of Labor			
WIA Cluster			
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	E5706002	375,413
WIA Youth Activities	17.259	E5706002	288,225
WIA Dislocated Workers	17.260	E5706002	164,747
Total WIA Cluster			<u>828,385</u>
Incentive Grants—WIA Section 503	17.267		6,419

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Community Based Job Training Grants	17.269		\$ 34,492
WIA Pilots, Demonstrations, and Research Projects	17.261		468,486
Passed through Pima County			
Veterans' Employment Program	17.802	11-69-C-138580-0706	<u>214,781</u>
Total U.S. Department of Labor			<u>1,552,563</u>
U.S. Department of Transportation			
Highway Safety Cluster			
Passed through the Governor's Office of Highway Safety			
State and Community Highway Safety	20.600	2005-AL-005	8,733
Safety Incentive Grants for Use of Seat Belts	20.604	2005-163-031	2,716
Alcohol Traffic Safety and Drunk Driving Prevention			
Incentive Grants	20.601	2007-K8HV-012	<u>9,957</u>
Total Highway Safety Cluster			<u>21,406</u>
Total U.S. Department of Transportation			<u>21,406</u>
U.S. Department of Education			
Impact Aid	84.041		7,869,286
Passed through the Arizona Supreme Court			
Title I Grants to Local Educational Agencies	84.010	28072	65,190
Passed through the Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A060003	<u>118,438</u>
Total Title I Grants to Local Educational Agencies			<u>183,628</u>
Passed through the Arizona Department of Education			
Special Education Cluster			
Special Education—Grants to States	84.027	H027A060007	203,609
Special Education Preschool Grants	84.173	H173A060003	<u>16,993</u>
Total Special Education Cluster			<u>220,602</u>
Safe and Drug-Free Schools and Communities—State Grants	84.186	Q186A020003	3,625
State Grants for Innovative Programs	84.298	S298A060003	2,059
Education Technology State Grants	84.318	07FBPSTP	922,255
English Language Acquisition Grants	84.365	T365A30003A	3,358
Improving Teacher Quality State Grants	84.367	S367A060049	<u>57,445</u>
Total U.S. Department of Education			<u>9,262,258</u>
U.S. Election Assistance Commission			
Passed through Arizona Secretary of State			
Help America Vote Act Requirements Payments	90.401	VRAZII, Ck#211573836 CK#212023300 CK#211148721	<u>655,098</u>

(Continued)

See accompanying notes to schedule.

Cochise County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
Passed through the Southeastern Arizona Governments Organization			
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	12	\$ 253,787
Passed through the Arizona Department of Health Services			
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	KR04-1552-EHS, KR05-1006-EHS	961,524
HIV Prevention Activities—Health Department Based	93.940	KR04-171OEHS, KR06-0142-EHS	20,351
Preventive Health and Health Services Block Grant	93.991	KR04-1614EHS	12,611
Immunization Grants	93.268	KR05-0977, KR05-1289EHS	425,118
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	KR05-0084EHS	3,878
Maternal and Child Health Services Block Grant to the States	93.994	KR06-1191-EHS, KR06-06450EHS	44,419
Passed through the Arizona Department of Economic Security			
Grants to States for Access and Visitation Programs	93.597	ARS 35-148, E7203303	5,539
Passed through the Governor's Office for Children, Youth and Families			
Children's Justice Grants to States	93.643	CJ-WSG07727300	<u>7,069</u>
Total U.S. Department of Health and Human Services			<u>1,734,296</u>
U.S. Department of Homeland Security			
Passed through the Arizona Department of Emergency and Military Affairs			
Emergency Management Performance Grants	97.042	974042	66,647
Citizens Corps	97.053	None	3,325
Law Enforcement Terrorism Prevention Program	97.074	2005-GE-T5-0030	84,236
Homeland Security Cluster			
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0051	129,371
Homeland Security Grant Program	97.067	06-S-022, 2006-GE-T6-0007	<u>1,853</u>
Total Homeland Security Cluster			<u>131,224</u>
Total U.S. Department of Homeland Security			<u>285,432</u>
Total Expenditures of Federal Awards			<u>\$ 20,126,823</u>

See accompanying notes to schedule.

Cochise County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

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 2007 *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
Schools and Roads—Grants to States	10.665	\$ 55,829
Community Development Block Grants	14.228	20,000
Edward Byrne Memorial Justice Assistance Grant Program	16.738	16,563
WIA Youth Activities	17.259	191,816
State and Community Highway Safety	20.600	5,323
Education Technology State Grants	84.318	725,383
Citizen Corps	97.053	2,202



**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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 12, 2008. Our report was modified to include a reference to our reliance on other auditors and for an emphasis of a matter for the retroactive reporting of general infrastructure assets as part of the implementation of Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Ft. Huachuca Accommodation School District Fund, Cochise Health Systems Fund, Housing Authority of Cochise County, and Cochise Private Industry Council, Inc., as described in our report on the County's financial statements. The financial statements of the Cochise Health Systems Fund were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 07-01 through 07-08 described in the Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-03, 07-07, and 07-08, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the Schedule of Findings and Questioned Costs as items 07-04, 07-09, and 07-10.

Managements' responses to the findings identified in our audit have been included herein. We did not audit managements' responses and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

September 12, 2008



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

DEBRA K. DAVENPORT, CPA
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, 2007, except for that portion of the federal programs administered by Cochise Private Industry Council, Inc., the Housing Authority of Cochise County, and the Ft. Huachuca Accommodation School District Fund. Those entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the compliance of those entities with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, is based solely on the reports of the other auditors. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the reports of the other auditors.

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

As described in item 07-101 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, 2007. The results of our auditing procedures and the reports of the other auditors also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 07-102, 07-103, 07-107, and 07-108.

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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we and the reports of the other auditors identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 07-101 through 07-106, 07-109, and 07-110 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 07-101, 07-105, and 07-106 to be material weaknesses.

Managements' responses to the findings identified in our audit have been included herein. We did not audit managements' responses and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

September 12, 2008

Cochise County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2007

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
		Yes	No
Material weakness identified in internal control over financial reporting?	<u>X</u>	___	
Significant deficiency 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>	___	
Significant deficiency 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>
14.871	Section 8 Housing Choice Vouchers
15.226	Payments in Lieu of Taxes
	WIA Cluster:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
84.041	Impact Aid
84.318	Education Technology State Grants
90.401	Help America Vote Act Requirements Payments
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention—Investigations and Technical Assistance

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Dollar threshold used to distinguish between Type A and Type B programs: \$603,805

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

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	___
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Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Financial Statement Findings

07-01

Cochise County

The County should improve its system of internal controls relating to capital assets

The County has made a substantial investment in capital assets totaling over \$140 million, net of depreciation. These capital assets consist of over 2,000 individual items that include land, construction in progress, buildings, improvements other than buildings, equipment, and infrastructure. Therefore, it is essential that the County develops and implements appropriate policies and procedures that help individually identify, value, and accurately account for and report capital assets in its financial statements. The County manages this responsibility through its use of individual identification numbers and its capital assets system. However, in approximately 10 percent of the 90 capital assets that auditors tested, the County made various errors in identifying, valuing, and reporting these assets. Although these errors did not result in any significant misstatements of financial statement amounts, the prevalence of deficiencies indicates that the County should improve its internal controls over capital assets.

The following procedures can help ensure the County accurately records and reports its capital assets in its accounting records and reports those assets in its financial statements.

- Develop new policies and procedures to record, report, and monitor construction projects. These procedures should help ensure that all costs during the construction phase are accurately accumulated and documented and the completion date be identified for each project.
- Implement existing procedures to perform a physical inventory of all equipment at least every 2 years. All discrepancies should be investigated and resolved and then, if necessary, posted to the accounting records on a timely basis.
- Develop new policies and procedures to ensure that capital asset disposals are properly approved by an appropriate county official and the supporting documentation is maintained.
- Implement existing policies and procedures to reconcile the capital assets listings to the accounting records. All differences should be investigated and resolved and appropriate adjustments made to the accounting records or the detailed capital assets listing. In addition, the reconciliations should be reviewed and approved by an appropriate county official.

07-02

Cochise County

The County should improve its procedures for implementing accounting standards

The County is responsible for having appropriate policies and procedures in place to help implement accounting standards to prepare accurate financial statements. In fiscal year 2007, the County retroactively reported all major infrastructure assets as part of the phased implementation of Governmental Accounting Standards Board Statement No. 34. However, while implementing this standard, the County's procedures did not detect all errors. The retroactively reported infrastructure assets totaled \$55 million, net of depreciation. Auditors recommended corrections of nearly \$4 million, and the County adjusted its financial statements for these errors.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

To help ensure that the County accurately implements accounting standards and prepares accurate financial statements, the County should allocate resources to:

- Continue the program of professional training and technical meetings made available to appropriate accounting staff.
- Formalize the communication between County departments to objectively quantify the timing of information, what information is necessary, and the shared responsibility for accuracy.
- Require a trained accountant to independently review at a detailed level and approve the determination of financial statement amounts and note disclosures for accuracy.

The other auditors that audited the Ft. Huachuca Accommodation School District Fund and the Cochise Private Industry Council, Inc., reported the following significant deficiencies. Findings 07-03, 07-07, and 07-08 were considered to be material weaknesses, and finding 07-04 was considered to be noncompliance affecting the determination of financial statement amounts.

07-03

Ft. Huachuca Accommodation School District Fund

Financial Statement Preparation

CONDITION/CONTEXT

The District's management did not have adequate internal control procedures in place over the financial statements issued by the District using the basis of accounting required by generally accepted accounting principles (GAAP). While the District's management and staff have an understanding of Arizona statutes, budgetary controls, general ledger controls, and compliance requirements, sufficient internal controls are not in place for the fund-based and government-wide financial statements and related notes to the financial statements.

CRITERIA

District management is responsible for establishing and maintaining internal controls that include controls for the GAAP basis financial statements issued by the District. The District's system of internal controls must extend beyond the cash basis general ledger and the supporting schedules prepared by the District; rather it must also include controls over the GAAP basis financial statements. As such, management requested the auditors to prepare a draft of the financial statements, including related note disclosures. The outsourcing of these services is not unusual in school districts and is a result of management's cost benefit decision to rely on the accounting expertise of the auditors.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

EFFECT

The District's internal controls over financial reporting at the financial statement level are not adequate to ensure that a misstatement would be prevented and/or detected.

CAUSE

Historically, the District's auditors have provided report preparation services related to the School's financial statements, proposed any necessary adjustments and drafted related notes. In addition, the District does not currently have a Business Manager and interim staff are not trained at the level required.

RECOMMENDATION

The District must design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements. Specifically, the District should use checklists to aid in the review of the financial statements and related notes to the financial statements. The District's personnel should obtain additional training to increase their understanding of the GAAP basis financial statements drafted by the audit firm as well as the related adjusting entries posted during the conversion of the cash basis general ledger to the accrual basis financial statements.

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is implementing procedures to strengthen internal controls. Interim staff have been and continue to be provided training in areas related to financial reporting. In addition, the District is interviewing for a new Business Manager.

07-04

Ft. Huachuca Accommodation School District Fund

Statutory Budget Requirements

CONDITION/CONTEXT

Total expenditures of the Maintenance and Operation (M&O) and Unrestricted Capital Funds exceeded total budgeted expenditures by \$3,757,708 and \$2,833,932, respectively, without proper approval.

CRITERIA

According to Arizona Revised Statutes (A.R.S.), the District must obtain approval from the County Board of Supervisors to exceed total budgeted expenditures in the M&O and Unrestricted Capital Funds.

EFFECT

Expenditures exceeding the budget limit in the General Fund could result in the withholding of state equalization monies by the overexpended amount in the following fiscal year.

CAUSE

Federal Impact Aid is provided through a grant application process; therefore, the District placed the funds in a Special Projects Fund. In fiscal year 2005-06, the District was made aware of the requirement to deposit Federal Impact Aid revenues in the Maintenance and Operation (M&O) Fund. The fiscal year 2006-07 budget did not include expenditures related to Section 8003 Federal Impact Aid monies; as a result, reclassification of the expenditures resulted in an overexpenditure.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

RECOMMENDATION

The District should implement procedures to ensure that budgeting guidelines are followed as set forth by the State.

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District is implementing procedures to ensure that Federal Impact Aid revenues are deposited and expended in accordance with state budgeting guidelines as provided by the Arizona Department of Education.

07-05

Ft. Huachuca Accommodation School District Fund

Cash Reconciliation

CONDITION/CONTEXT

Although a reconciliation of the District's cash on deposit with the County Treasurer was performed by the County School Superintendent's (CSS) Office, the reconciliation was not performed on a timely basis.

CRITERIA

Effective internal controls over cash and investments, and the Uniform System of Financial Records (USFR) guidelines require the District's records of cash to be reconciled to the records of the County Treasurer on a timely basis to ensure funds on deposit with the County Treasurer are complete and accurate. This activity may be performed by either the District or the CSS's Office.

EFFECT

The lack of internal controls for cash and investments could potentially result in a material misstatement to the cash and investment balances for financial reporting and/or compliance requirement purposes.

CAUSE

Reconciliation to the County Treasurer is the responsibility of the CSS's Office. The CSS office assured the District that the reconciliation would be completed in a timely manner; however, the reconciliation was ultimately not provided to the District until February 25, 2008.

RECOMMENDATION

The District should ensure the CSS's Office performs the monthly cash reconciliations on a timely basis or the District should complete the reconciliations. Any reconciling items noted should be investigated and resolved promptly to ensure the accounting records are accurate.

Management response:

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The District will more closely monitor the progress of the CSS's Office to ensure reconciliations are done timely and properly.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-06

Cochise Private Industry Council, Inc.

Preparation of the schedule of expenditures of federal awards

Condition: *Cochise Private Industry Council, Inc.* failed to completely and accurately identify its federal programs in the schedule of expenditures of federal awards. Through assistance provided by the independent auditor, the final audited schedule of expenditures of federal awards is believed to be complete and accurate.

Criteria: According to OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Cochise Private Industry Council, Inc.*, the auditee, is required to identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received. Federal program and award identification includes, as applicable, the CFDA title and number, the award number and years, the name of the federal granting agency, and the name of the pass-through entity.

Effect: *Cochise Private Industry Council, Inc.* is not in compliance with OMB Circular A-133. As a result, funding sources could request the return of funds.

Recommendation: We recommend that *Cochise Private Industry Council, Inc.* identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received. This includes identifying the CFDA title and number, the award number and year, the name of the federal granting agency and the name of the pass-through entity, as applicable. Additionally, *Cochise Private Industry Council, Inc.* should thoroughly review grant agreements and, if necessary, contact individual granting agencies to obtain the necessary information to ensure that the schedule of expenditures of federal awards is complete and accurate.

Management response:

Name of Person to Contact: Ms. Vada Phelps, Executive Director

Phone Number: (520) 458-9309

Anticipated Completion Date: June 30, 2008

Corrective Action: To help ensure that the Organization is in compliance with OMB Circular A-133, during the preparation of the schedule of expenditures of federal awards, CFDA number and related information will be verified with individual granting agencies, when necessary.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-07

Cochise Private Industry Council, Inc.

Year-end adjustments

Condition: *Cochise Private Industry Council, Inc.* required significant year-end adjustments to the financial statements to present the statements in accordance with generally accepted accounting principles. The results of such entries was to increase assets by \$207,167, increase liabilities by \$110,302, increase revenue by \$160,475, increase expenses by \$68,294 and increase net assets by \$4,684. The net effect of these entries was to decrease the change in fund balance from (\$226,376) to (\$134,195), a change of \$96,865.

Criteria: Generally accepted accounting principles require that year-end closing entries be prepared to present the financial statements accurately.

Effect: The Organization's interim financial statements are not comparable to the audited financial statements. This could result in conflicting information for management and outside users.

Recommendation: We believe that *Cochise Private Industry Council, Inc.* should review the content of the audit adjustments made to the year-end financial statements and incorporate them into the monthly closing process.

Management response:

Name of Person to Contact: Ms. Vada Phelps, Executive Director

Phone Number: (520) 458-9309

Anticipated Completion Date: June 30, 2008

Corrective Action: Management will review the content of the audit adjustments made to the year-end financial statements and incorporate them into the monthly closing process.

07-08

Cochise Private Industry Council, Inc.

Financial statement preparation

Condition: We assisted in the preparation of *Cochise Private Industry Council, Inc.'s* financial statements. The accounting staff does not appear to have the necessary training or expertise to prepare the Organizations' annual financial statements including related footnote disclosures in accordance with generally accepted accounting principles.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Criteria: The Organization's accounting staff should have the necessary training or expertise to prepare the Organization's annual financial statements including related footnote disclosures in accordance with generally accepted accounting principles.

Effect: *Cochise Private Industry Council, Inc.*'s annual financial statements may not be presented in accordance with generally accepted accounting principles.

Recommendation: We recommend *Cochise Private Industry Council, Inc.* obtain this required expertise by (i) providing the necessary training of its current accounting staff, or (ii) continuing to outsource these functions. However, outsourcing of these functions requires oversight of these processes by a member of *Cochise Private Industry Council, Inc.*'s management who has the appropriate skill, knowledge and/or expertise and who will accept responsibility for the results.

Management response:

Name of Person to Contact: Ms. Vada Phelps, Executive Director

Phone Number: (520) 458-9309

Anticipated Completion Date: June 30, 2008

Corrective Action: The Organization will assign a member of management who has the appropriate skill, knowledge and/or expertise to review the financial statements.

07-09
Cochise Private Industry Council, Inc.
Required Report Submission

See Federal Award Finding 07-107.

07-10
Cochise Private Industry Council, Inc.
Grant Agreement Compliance

See Federal Award Finding 07-108.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Federal Award Findings and Questioned Costs

07-101

CFDA No.: 84.318 Education Technology State Grants

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

Award Year: 2007

Award Number: 07FBPSTP

Subrecipient monitoring

Questioned Cost: Unknown

The County School Superintendent's Office (Office) did not have adequate policies and procedures to ensure compliance with federal subrecipient monitoring requirements. The Office passed through \$725,383, or 79 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, at the program's inception, 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, during the first 9 months of the fiscal year, the Office did not have procedures in place to review the 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. A similar finding was reported in the prior fiscal year.

To comply with the subrecipient monitoring requirements described in OMB Circular A-133, §400(d)(4) and (5), the County School Superintendent's Office should establish the following procedures:

- Provide all subrecipients with necessary grant information.
- Request that each subrecipient obtain annual single or program specific audits and send copies of the reports to the County.
- Ensure that 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.
- Develop a policy to follow up or perform alternate procedures on subrecipients who are delinquent in submitting audit 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, 2007

07-102

CFDA No.: 84.318 Education Technology State Grants

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

Award Year: 2007

Award Number: 07FBPSTP

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. During the first 9 months of the year, 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 expenditures 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. During the first 9 months of the year, 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.

Auditors analyzed the program's daily cash balances and determined that there were positive cash balances during the first 129 days of the year that varied from over \$10,000 to almost \$44,000. 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 likely questioned costs would not have exceeded \$10,000.

A similar finding was reported in the prior year.

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 expenditures.
- Reconcile program expenditures and cash balances monthly to the County's general ledger system.
- Pay reported encumbrances within 30 days.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-103

CFDA No.: 93.268 Immunization Grants

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

Award Year: 2007

Award Number: KR05-0977, KR05-1289EHS

Special tests and provisions

Questioned Cost: Unknown

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 (Department) did not have adequate policies and procedures in place to record and safeguard the Immunization Grants program's immunization vaccines.

The County Health 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, auditors discovered that the responsibilities of ordering and receiving vaccines were not separated during the first 10 months of the year. Therefore, auditors could not determine whether all vaccines received by the Department were distributed to patients or reported as waste. It was not practicable to extend our auditing procedures to determine the actual questioned costs associated with missing vaccines. Therefore, total questioned costs are unknown. However, auditors determined the likely questioned costs would not have exceeded \$10,000.

A similar finding was reported in the prior year.

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.

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

The other auditors that audited the Cochise Private Industry Council, Inc. and the Housing Authority of Cochise County reported the following significant deficiencies and federal noncompliance. Findings 07-105 and 07-106 were considered to be material weaknesses.

07-104 Cochise Private Industry Council, Inc. WIA Cluster CFDA Number: 17.258 WIA Adult Program 17.259 WIA Youth Activities 17.260 WIA Dislocated Workers U.S. Department of Labor Award Years: April 1, 2005 – June 30, 2008 Award Number: E5706002 Other	Questioned Costs: N/A
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Condition: *Cochise Private Industry Council, Inc.* failed to completely and accurately identify its federal programs in the schedule of expenditures of federal awards.

Criteria: OMB Circular No. A-133 §__.310(b) requires that the auditee prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. Through assistance provided by the independent auditor, the final attached schedule of expenditures of federal awards is believed to be complete and accurate.

Effect: *Cochise Private Industry Council, Inc.* is not in compliance with OMB Circular No. A-133. As a result, funding sources could request the return of funds.

Recommendation: *Cochise Private Industry Council, Inc.* should review the schedule of expenditures of federal awards for federal grants and track those grants throughout the year to add in year-end preparation of the schedule of expenditures of federal awards. Additionally, all new grants should be thoroughly reviewed to determine if funding is federal, and if so, add those new grants to the year-end schedule of expenditures of federal awards.

Management response:

Name of Person to Contact: Ms. Vada Phelps, Executive Director

Phone Number: (520) 458-9309

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Anticipated

Completion Date: June 30, 2008

Corrective Action: To help ensure that the Organization is in compliance with OMB Circular A-133, during the preparation of the schedule of expenditures of federal awards, CFDA number and related information will be verified with individual granting agencies, when necessary.

07-105

Cochise Private Industry Council, Inc.

WIA Cluster

CFDA Number: 17.258 WIA Adult Program

17.259 WIA Youth Activities

17.260 WIA Dislocated Workers

U.S. Department of Labor

Award Years: April 1, 2005 – June 30, 2008

Award Number: E5706002

Other

Questioned Costs: N/A

Condition: *Cochise Private Industry Council, Inc.* required significant year-end adjustments to the financial statements to present the statements in accordance with generally accepted accounting principles. The results of such entries was to increase assets by \$207,167, increase liabilities by \$110,302, increase revenue by \$160,475, increase expenses by \$68,294 and increase net assets by \$4,684. The net effect of these entries was to decrease the change in fund balance from (\$226,376) to (\$134,195), a change of \$96,865.

Criteria: Generally accepted accounting principles require that year-end closing entries be prepared to present the financial statements accurately.

Effect: The Organization's interim financial statements are not comparable to the audited financial statements. This could result in conflicting information for management and outside users.

Recommendation: We believe that *Cochise Private Industry Council, Inc.* should review the content of the audit adjustments made to the year-end statements and incorporate them into the monthly closing process.

Management response:

Name of Person

to Contact: Ms. Vada Phelps, Executive Director

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Phone Number: (520) 458-9309

**Anticipated
Completion Date:** June 30, 2008

Corrective Action: Management will review the content of the audit adjustments made to the year-end financial statements and incorporate them into the monthly closing process.

07-106
Cochise Private Industry Council, Inc.
WIA Cluster
CFDA Number: 17.258 WIA Adult Program
 17.259 WIA Youth Activities
 17.260 WIA Dislocated Workers
U.S. Department of Labor
Award Years: April 1, 2005 – June 30, 2008
Award Number: E5706002
Other
Questioned Costs: N/A

Condition: We assisted in the preparation of *Cochise Private Industry Council, Inc.'s* financial statements. The accounting staff does not appear to have the necessary training or expertise to prepare the Organization's annual financial statements including related footnote disclosures in accordance with generally accepted accounting principles.

Criteria: The Organization's accounting staff should have the necessary training or expertise to prepare the Organization's annual financial statements including related footnote disclosures in accordance with generally accepted accounting principles.

Effect: *Cochise Private Industry Council, Inc.'s* annual financial statements may not be presented in accordance with generally accepted accounting principles.

Recommendation: We recommend *Cochise Private Industry Council, Inc.* obtain this required expertise by (i) providing the necessary training of its current accounting staff, or (ii) continuing to outsource these functions. However, outsourcing of these functions requires oversight of these processes by a member of *Cochise Private Industry Council, Inc.'s* management who has the appropriate skill, knowledge and/or expertise and who will accept responsibility for the results.

Management response:

**Name of Person
to Contact:** Ms. Vada Phelps, Executive Director

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Phone Number: (520) 458-9309

**Anticipated
Completion Date:** June 30, 2008

Corrective Action: The Organization will assign a member of management who has the appropriate skill, knowledge and/or expertise to review the financial statements.

07-107
Cochise Private Industry Council, Inc.
WIA Cluster
CFDA Number: 17.258 WIA Adult Program
 17.259 WIA Youth Activities
 17.260 WIA Dislocated Workers
U.S. Department of Labor
Award Years: April 1, 2005 – June 30, 2008
Award Number: E5706002
Other
Questioned Costs: N/A

Condition: It was noted during our audit that the OMB Circular A-133 reports required by Section 235(c)(2) and 235(c)(3) were not submitted within the required time frame.

Criteria: *Cochise Private Industry Council, Inc.* assumes responsibility for complying with federal requests when federal awards are accepted. OMB Circular A-133 Section 235(c)(2) and 235(c)(3) mandates a timely submission of the reporting package. This report will be submitted late.

Effect: Federal awards could be curtailed or revoked.

Recommendation: To help ensure that required reports are submitted in a timely fashion, procedures should be implemented to monitor reporting deadlines.

Management response:

**Name of Person
to Contact:** Ms. Vada Phelps, Executive Director

Phone Number: (520) 458-9309

**Anticipated
Completion Date:** June 30, 2008

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Corrective Action: Significant accounting staff turnover near the end of fiscal year 2007 resulted in a substantial delay in closing the books for the fiscal year and significantly reduced the Finance Department's readiness for the audit. **Cochise Private Industry Council, Inc.** will implement procedures to monitor reporting deadlines to ensure that the required reports are submitted in a timely fashion.

07-108

Cochise Private Industry Council, Inc.

WIA Cluster

CFDA Number: 17.258 WIA Adult Program

17.259 WIA Youth Activities

17.260 WIA Dislocated Workers

U.S. Department of Labor

Award Years: April 1, 2005 – June 30, 2008

Award Number: E5706002

Other

Questioned Costs: N/A

Condition: **Cochise Private Industry Council, Inc's.** grant agreement with the Cochise County Board of Supervisors requires that **Cochise Private Industry Council, Inc.** follow the provisions of the contract between Cochise County and the Arizona Department of Economic Security. This agreement stipulates that the contractor, in this case **Cochise Private Industry Council, Inc.**, must provide insurance coverage in specific areas with specific minimum coverage's. Upon review of the workers compensations policy requirements and comparison of those requirements with **Cochise Private Industry Council, Inc's.** policy in place, it was noted that **Cochise Private Industry Council, Inc.** did not have coverage levels at the minimum required amounts.

Criteria: According to the grant agreement, **Cochise Private Industry Council, Inc.** is required to maintain these coverage limits as specified.

Effect: **Cochise Private Industry Council, Inc.** is not in compliance with the grant agreement; as a result funding sources could request the return of funds.

Recommendation: **Cochise Private Industry Council, Inc.** should review the requirements stipulated within the grant agreement and make necessary adjustments to the insurance policy to meet those requirements.

Management response:

Name of Person

to Contact: Ms. Vada Phelps, Executive Director

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Phone Number: (520) 458-9309

**Anticipated
Completion Date:** June 30, 2008

Corrective Action: Within the next 30 days, we will contact our insurance provider and have our policy reviewed and update as needed.

07-109
Housing Authority of Cochise County
CFDA Number: 14.900 **Lead-Based Paint Hazard Control in Private-Owned Housing**
U.S. Department of Housing and Urban Development
Award Years: Unknown
Award Number: None
Special Tests and Provisions

Questioned Costs: None

Condition: **Lead-Based Paint Hazard Control in Privately Owned Housing Grant Requisition Are in Excess of Program Expenditures**

HUD grant contract requires that advances for grant programs be drawn down on reimbursement basis, and that lag time between receipt of advances and disbursement of funds to vendors should not exceed three days. We observed that the Authority has been requisitioning grant funds in advance of program expenditures during FY 2007.

Cause/Effect: This deficiency was caused by a lack of program requirement understanding on part of individuals responsible for requisitioning funds.

Criteria: Grant Agreement between the Authority and grantor on the Lead-Based Paint Hazard Control in Privately Owned Housing Contract.

Recommendation: We recommend that the Authority staff familiarize themselves with the program accounting requirements and implement procedures to ensure that funds are drawn on an as-needed basis.

Management response:

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

Cochise County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

07-110

Housing Authority of Cochise County

CFDA Number: 14.900 **Lead-Based Paint Hazard Control in Privately Owned Housing**

U.S. Department of Housing and Urban Development

Award Years: Unknown

Award Number: None

Davis-Bacon

Questioned Costs: None

Condition: Davis-Bacon Verification Requirements Not Performed

The Davis-Bacon confidential interview forms (HUD 11) could not be located regarding the requirements to verify payments made to employees under Davis-Bacon labor standard for the Authority's Lead-based Paint Hazard Control Program.

Cause/Effect: Authority personnel state that the interviews were not performed because they were informed in error that contracts had to exceed \$100,000.

Criteria: Davis-Bacon requirements.

Recommendation: We recommend that the Authority establish control procedures to ensure that confidential interviews are both performed and documented in the Authority's files.

Management response:

Reply: We concur with this finding and the auditor's recommendations. We will establish controls to ensure the safekeeping of required documentation for Davis-Bacon.

September 12, 2008

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

Dear Ms. Davenport:

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

Sincerely,

Lois Klein
Director of Finance
Cochise County

Cochise County
Corrective Action Plan
Year Ended June 30, 2007

Financial Statement Findings

07-01

Cochise County

The County should improve its system of internal controls relating to capital assets

Contact: Lois Klein

Completion: FY07/08

Cochise County Finance and Procurement departments have developed a specific Construction in Progress form to be used for tracking these projects. The form will be filled out at the start of a project with a description of the project, estimated costs, start date and the responsible project manager. The responsible project manager will fill in the completion or abandonment date and signature and forward to Property Management and Finance departments. To monitor these projects quarterly meetings will be held, with applicable departments.

The Property Management division of Cochise County Procurement is in the process of implementing and performing a physical inventory of capital assets for FY07/08. The County will investigate and resolve any discrepancies and post results to asset and accounting records in a timely basis.

With regard to disposal of capital assets, the current Capital Asset Policy, Section 9.3 addresses the disposal of capital assets. The County has a "Request for Authorization to Dispose or Transfer Equipment" form on the Cochise County Procurement intranet site. There is a signature block on this form for approval by the Department Head of the department disposing of the asset as well as a signature block for the Finance Director or Authorized Representative. The Property Manager is responsible for maintaining the support documentation as well as attaching this documentation to the completed form. There were two assets that had been disposed of for which there was no documentation. One of these was a bus from 1968, which was donated and a server from 2002 which was most likely auctioned. Both of these disposals occurred before our current policy was in place.

While the detailed listing of assets was reconciled to the financial records and this reconciliation was reviewed by the Finance Director, the department failed to make the appropriate journal entry to adjust the accounting records. The appropriate entries will be made to the accounting records and/or detailed listings of assets for FY07/08 and thereafter.

Cochise County
Corrective Action Plan
Year Ended June 30, 2007

07-02

Cochise County

The County should improve its procedures for implementing accounting standards

Contact: Lois Klein

Completion: FY07/08, with quarterly meetings beginning in FY08/09.

Cochise County Finance Department will continue the program of professional training and technical meetings for our accounting staff.

Cochise County Finance/Procurement and Property Management will hold initial meetings with applicable departments on the importance of timeliness and accuracy of asset information. We will hold quarterly meetings on capital assets, infrastructure and construction in progress.

Cochise County Finance Department will have a trained accountant independently review at a detailed level and approve financial statement amounts and disclosures for accuracy. The errors of approximately \$4 million were due to data input errors therefore, we will use other software programs to analyze the data for input errors.

Cochise County
Corrective Action Plan
Year Ended June 30, 2007

Federal Award Findings and Questioned Costs

07-101

CFDA No.: 84.318 Education Technology State Grants

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

Award Year: 2007

Award Number: 07FBPSTP

Contact: Trudy Berry

Anticipated completion date: FY07/08

The County School Superintendent's Office did not have policies and procedures to ensure compliance with the subrecipient monitoring requirements described in OMB Circular A-133, or to ensure the subrecipients were in compliance with certain program requirements or to provide documentation to the subrecipients identifying the specific federal award information.

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.

The Cochise County School Superintendent's Office established 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 also included the Office to 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 County School Superintendent's Office will follow up with any subrecipient that submits a delinquent audit report.

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

These policies and procedures were put into place in April 2007 after being notified of audit findings on these issues for FY05/06. For FY07/08 this grant was transferred to Pima County.

07-102

CFDA No.: 84.318 Education Technology State Grants

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

Award Year: 2007

Award Number: 07FBPSTP

Contact: Trudy Berry

Anticipated completion date: FY 07/08

The County School Superintendent's Office did not have policies and procedures to ensure compliance with the program's cash management and reporting requirements.

Cochise County
Corrective Action Plan
Year Ended June 30, 2007

County Response

The County School Superintendent's Office established 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.

These procedures were put into place in April 2007 after being notified of audit findings on these issues for FY05/06. For FY07/08 this grant was transferred to Pima County.

07-103

CFDA No.: 93.268 Immunization Grants

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

Award Year: 2007

Award Number: KR05-0977, KR05-1289EHS

Contact: Vaira Harik

Anticipated completion date: FY07/08

The County Health Department did not have adequate policies and procedures in place to adequately track and safeguard the program's immunization vaccines.

County Response

The County Health Department has written detailed procedures in place to adequately track and safeguard the program's immunization vaccines to comply with 45 CFR 92.20. These procedures have been disseminated and include the reconciliation of physical inventories and the separation of responsibilities for ordering and receiving vaccines between two employees.

The County Health Department has taken steps to implement policies and procedures to properly record and safeguard immunizations vaccines. The County Health Department has implemented policies and procedures to perform physical inventories, preferably after immunization clinics, and after all immunization records have been entered into the Arizona State Immunization Information System, and to reconcile the physical inventory to the Lot Number Summary report generated from the Arizona State Immunization Information System. A physical inventory occurred in FY07/08 and the physical inventory was reconciled to the Lot Number Summary report generated from the Arizona State Immunization Information System."

September 12, 2008

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

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. 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
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Status of Federal Award Findings and Questioned Costs

Finding No.: 06-101

CFDA No.: 84.318 Education Technology State Grants

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

Status: Fully corrected in April 2007. Due to timing of finding for FY05/06 corrections were not made until April of 2007. This grant was transferred to Pima County for FY07/08.

Finding No.: 06-102

CFDA No.: 84.318 Education Technology State Grants

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

Status: Fully Corrected. This grant was transferred to Pima County for FY07/08.

Finding No.: 06-103

CFDA No.: 84.318 Education Technology State Grants

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

Status: Fully corrected in April 2007. Due to timing of finding for FY05/06 corrections were not made until April of 2007. This grant was transferred to Pima County for FY07/08.

Finding No.: 06-104

CFDA No.: 93.268 Immunization Grants

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

Status: Fully corrected.

Finding No.: 06-105

CFDA No.: 93.268 Immunization Grants

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

Status: Fully corrected.

Finding No.: 06-106

CFDA No.: 93.268 Immunization Grants

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

Status: Fully corrected in FY07/08. Due to timing of findings for FY05/06, corrective action did not take place until FY07/08.

Finding No.: 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

Status: Fully corrected.