



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Cochise County

Year Ended June 30, 2012

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**Debra K. Davenport**  
Auditor General

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Cochise County  
Single Audit Reporting Package  
Year Ended June 30, 2012

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Single Audit Reporting Package  
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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2012, 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 discretely presented component units of Cochise County. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Housing Authority of Cochise County and Cochise Private Industry Council, Inc., are based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2012, 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.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through xi, the Budgetary Comparison Schedules on pages 42 through 45, and the Schedule of Agent Retirement Plan's Funding Progress on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the

methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Debbie Davenport  
Auditor General

March 28, 2013

# 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, 2012. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements.

## Financial Highlights

- Cochise County's assets exceed its liabilities at the close of the fiscal year by \$189,444,148 (net assets). Of this amount, \$53,462,566 (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 \$184,264,390, an increase of \$8,135,563 over the prior year's net assets.
- At the end of the fiscal year, unassigned fund balance in the General Fund was \$33,305,886 or 64.03 percent, of total General Fund expenditures for the year.
- Cochise County's total governmental activities debt (certificates of participation and capital leases) decreased by a net \$873,035 during the current fiscal year. The net decrease is attributable to the normal debt service on capital leases and certificates of participation.

## Overview of the Financial Statements

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

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

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

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

Both of these government-wide financial statements distinguish the County's functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities*). The County's governmental activities include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, and education. The business-type activities include 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 include not only Cochise County itself (the primary government), but also the legally separate Flood Control District, Library District, and various other special assessment districts. These districts function for all practical purposes as departments of the County and therefore have been included as an integral part of the County.

The government-wide financial statements can be found on pages 1 and 2 of this report.

**Fund financial statements** are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the County's funds can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

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

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

The County maintains approximately 250 individual governmental funds. Information is presented separately in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and those funds designated as major funds, including the Highway and Streets Fund, the Anti-Racketeering Fund, and the Capital Projects Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

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

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

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

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

## Management's Discussion and Analysis

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

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

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

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

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

**Notes to the financial statements** provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements.

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

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

Required supplementary information can be found on pages 42 through 46 of this report.

### **Government-wide Financial Analysis**

Below is a comparative analysis between fiscal years for the government-wide statements. Capital assets, net of accumulated depreciation, had a net increase of \$2,880,013. The County's main capital purchases included \$499,855 for appraisal system software, \$187,755 for community development software, \$2,168,196 for roads and culverts infrastructure, \$442,787 for new vehicles, \$1,579,667 for heavy equipment vehicles, \$471,436 for two sheriff command center vehicles, \$323,360 for airport improvements, \$4,606,045 for a new service center in Douglas, and a net decrease of \$1,372,038 in construction in progress. The current year's depreciation of capital assets totaled \$6,461,125.

## 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 \$189,444,148.

### Governmental and Business-type Activities Summary Comparison Statement of Net Assets June 30, 2011 and 2012

	Governmental Activities		Business-type Activities		Total	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Assets:						
Current and other assets	\$ 77,323,222	\$ 81,999,441	\$ 6,389,874	\$ 444,242	\$ 83,713,096	\$ 82,443,683
Capital assets	<u>114,859,952</u>	<u>118,185,102</u>	<u>8,333,977</u>	<u>7,888,840</u>	<u>123,193,929</u>	<u>126,073,942</u>
Total assets	<u>192,183,174</u>	<u>200,184,543</u>	<u>14,723,851</u>	<u>8,333,082</u>	<u>206,907,025</u>	<u>208,517,625</u>
Liabilities:						
Other liabilities	5,981,143	6,602,675	3,153,277	77,528	9,134,420	6,680,203
Long-term liabilities	<u>10,073,204</u>	<u>9,317,478</u>	<u>2,979,241</u>	<u>3,075,796</u>	<u>13,052,445</u>	<u>12,393,274</u>
Total liabilities	<u>16,054,347</u>	<u>15,920,153</u>	<u>6,132,518</u>	<u>3,153,324</u>	<u>22,186,865</u>	<u>19,073,477</u>
Net assets:						
Invested in capital assets, net of related debt	108,893,715	113,091,900	8,245,642	7,828,775	117,139,357	120,920,675
Restricted	13,809,704	15,060,907	1,738,000		15,547,704	15,060,907
Unrestricted	<u>53,425,408</u>	<u>56,111,583</u>	<u>(1,392,309)</u>	<u>(2,649,017)</u>	<u>52,033,099</u>	<u>53,462,566</u>
Total net assets	<u>\$176,128,827</u>	<u>\$184,264,390</u>	<u>\$ 8,591,333</u>	<u>\$ 5,179,758</u>	<u>\$184,720,160</u>	<u>\$189,444,148</u>

A large portion of Cochise County's net assets (63.8 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). This amount is presented less accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

The County's total net assets increased by \$4,723,988 during the fiscal year, which was about 93 percent higher than the prior fiscal year's increase. This net asset increase is attributable to increases in property; state-shared, excise, and unrestricted vehicle license taxes in the amount of \$555,598; an increase in other revenues of \$1,917,718; a decrease in charges for services and corresponding expenses for the County's Long Term Care program of \$24,061,629. There were also decreases in expenses for general government of \$968,451 in Highways and Streets of \$760,055 and Solid Waste Operations of \$225,604. The County has continued its ten percent reduction in salaries and benefits along with a hard hiring freeze and controls on expenses.

## Management's Discussion and Analysis

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

### Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2011 and 2012

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
Revenues						
Program revenues:						
Charges for services	\$ 7,365,336	\$ 7,531,550	\$38,554,412	\$13,528,297	\$ 45,919,748	\$ 21,059,847
Operating grants and contributions	22,262,634	21,781,842			22,262,634	21,781,842
Capital grants		1,412,793				1,412,793
General revenues:						
Property taxes	33,103,125	33,362,144			33,103,125	33,362,144
State shared sales tax	10,897,664	11,025,392			10,897,664	11,025,392
Unrestricted vehicle license tax	3,521,915	3,669,684			3,521,915	3,669,684
County excise tax	6,582,461	6,494,453	135,025	244,115	6,717,486	6,738,568
Other	2,414,350	4,272,716	47,250	106,582	2,461,580	4,379,298
Total revenues	<u>86,147,485</u>	<u>89,550,574</u>	<u>38,736,667</u>	<u>13,878,994</u>	<u>124,884,152</u>	<u>103,429,568</u>
Expenses						
General government	35,413,971	34,445,520			35,413,971	34,445,520
Public safety	22,864,116	23,472,336			22,864,116	23,472,336
Highways and streets	12,954,260	12,194,205			12,954,260	12,194,205
Sanitation	601,445	642,442			601,445	642,442
Health and welfare	10,261,189	11,712,771			10,261,189	11,712,771
Culture and recreation	1,430,970	1,483,204			1,430,970	1,483,204
Education	925,934	1,052,506			925,934	1,052,506
Long-term care			32,436,436	8,374,807	32,436,436	8,374,807
Airport			542,888	550,595	542,888	550,595
Solid waste operations			5,002,798	4,777,194	5,002,798	4,777,194
Total expenses	<u>84,451,885</u>	<u>85,002,984</u>	<u>37,982,122</u>	<u>13,702,596</u>	<u>122,434,007</u>	<u>98,705,580</u>
Increase in net assets before transfers	1,695,600	4,547,590	754,545	176,398	2,450,145	4,723,988
Transfers	<u>8,024,302</u>	<u>3,587,973</u>	<u>(8,024,302)</u>	<u>(3,587,973)</u>	<u>                    </u>	<u>                    </u>
Increase (decrease) in net assets	<u>\$ 9,719,902</u>	<u>\$ 8,135,563</u>	<u>\$ (7,269,757)</u>	<u>\$ (3,411,575)</u>	<u>\$ 2,450,145</u>	<u>\$ 4,723,988</u>

## Management's Discussion and Analysis

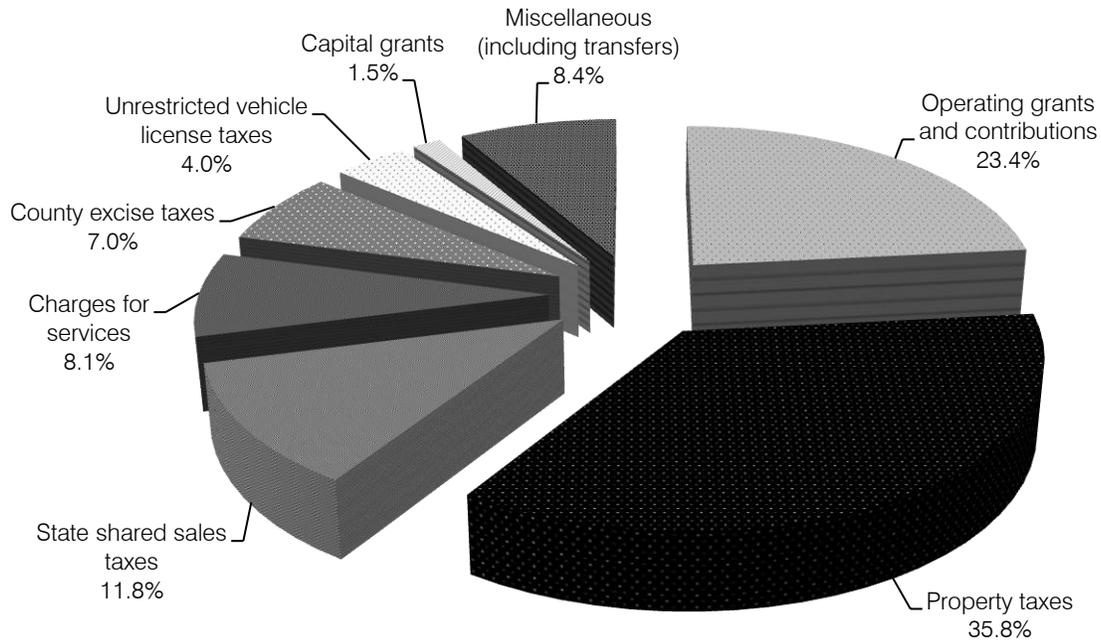
**Governmental activities**—Key elements of the increase in net assets of \$8,135,563 are as follows:

Major Revenues:

- **Charges for services:** These revenues increased by \$166,214, or 2.3 percent, because of an increase in Highways and Streets intergovernmental agreements with cities to provide road services of \$446,597, offset with a decrease in general government of \$261,952. Judicial charges for services decreased by \$220,988 mainly due to a decrease of \$85,500 in bond forfeitures, a \$97,865 decrease in property forfeitures and \$48,311 in fines and fees. General government, Assessor, decreased by \$57,871 due to the sunsetting of the GIS fee that could formally be assessed on each recorded document.
- **Operating grants and contributions:** These revenues decreased by \$480,792, or 2.2 percent, due to decreases in state and federal grant revenues. The state decrease is mainly attributable to a decrease in the improvements for a traffic signal grant in the amount of \$135,000. Federal grant revenues also decreased, mainly for decreases in grant programs associated with airport rehabilitation, community development, improvements to facilities, victim assistance, and anti-gangs and drugs. There were increases in federal grant revenues for the Stonegarden public safety program, the job-training program, and the emergency watershed program.
- **Capital grants:** Capital grant revenues increased by \$1,412,793 over the previous year because of a large private donation received for a county capital project.
- **Property taxes:** The net assessed value of all taxable property in the County increased by \$7,786,169, or 0.75 percent, over the previous year. The property tax rate remained unchanged from the previous year at \$2.6276, which resulted in a very small increase in property tax revenues of \$259,019, or 0.78 percent.
- **State-shared sales tax revenues:** Sales tax revenues increased by \$127,728, or 1.2 percent, from the previous year due to modest improvements in the Arizona economy.
- **Unrestricted vehicle license taxes:** The county unrestricted vehicle license tax revenue increased by \$147,769, or 4.2 percent. This favorable variance is because of modest improvements in the Arizona economy.
- **Other revenues:** Grants and contributions not restricted increased by \$38,969, or 1.99 percent, due to a decrease in Local Transportation Assistance Funds of \$45,543 and an increase in Payment in Lieu of Taxes of \$84,512. The increase in investment income of \$55,156 reflects slightly higher cash balances. This also includes an increase of \$261,207 on gain on sale of capital assets. Miscellaneous revenue also increased by \$1,613,346 mainly due to the increase in unrecorded deposits for county funds of \$1,379,033. The balance is due to various increases in other sources.

# Management's Discussion and Analysis

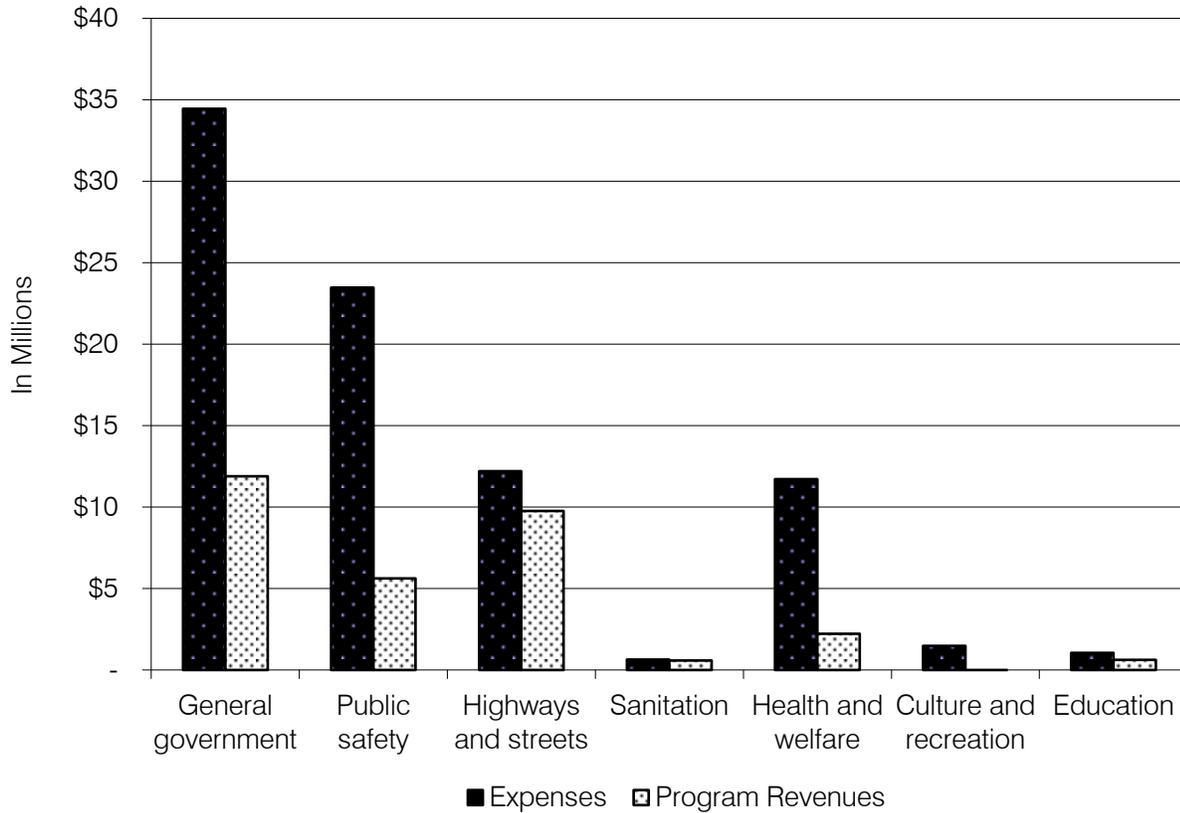
## Revenues and Transfers by Source – Governmental Activities Fiscal Year Ended June 30, 2012



**Expenses**—Overall expenses for governmental activities increased by \$551,099 or 0.7 percent. Retirement expenses increased by \$242,577, due to an increase in the required contribution rate, and health insurance expenses increased by \$293,404, both of which were offset primarily by the County's conservative budgeting philosophy, ongoing 10 percent personnel cut, and reduced spending capacity because of the overall decrease in revenues. Expenses were further decreased by reduced salary expenses because of vacant positions beyond the 10 percent personnel cut. Public safety expenses increased by \$608,220 overall, including additional expenses to begin the firing range project. Highways and Streets expenses decreased by \$760,055 overall due to reduced capacity because HURF revenues were decreased by \$628,241, forest fees decreased by \$29,417, and vehicle license tax decreased by \$49,032. Health and Welfare expenses increased overall by \$1,451,582—\$1,168,800 for the County's portion of a long-term care contribution and a \$129,185 increase in hospital expenses.

## Management's Discussion and Analysis

### Expenses vs. Revenues by Function – Governmental Activities Fiscal Year Ended June 30, 2012



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

Cochise Health Systems is a Medicaid long-term care HMO under contract with the Arizona Health Care Cost Containment System (AHCCCS). Cochise Health Systems provides case management as well as a full range of acute and long-term medical services for elderly and disabled members located in Cochise, Graham, and Greenlee Counties. The AHCCCS determines eligibility for members assigned to Cochise Health Systems. The County’s AHCCCS contract terminated on September 30, 2011, and the Cochise Health Systems Fund ceased operations. All residual balances of the fund were transferred to the Capital Projects Fund at June 30, 2012.

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

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

## Management's Discussion and Analysis

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

Net assets of the business-type activities decreased by \$3,411,575. This net assets decrease resulted from operating loss in the Solid Waste Operations Fund and the large transfer of Cochise Health Systems' residual equity to the County's Capital Projects Fund. Additional information on these operating losses can be found in the proprietary funds section of the following Financial Analysis of the County's Funds.

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

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

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

The General Fund is the County's primary operating fund. At June 30, 2012, the total fund balance was \$34,220,873. 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, 2012, the fund balance represents 65.79 percent of total General Fund expenditures.

The fund balance of the General Fund increased by \$3,580,088 during the fiscal year. This increase is mainly attributable to increases in tax revenues of \$1,030,293, increases in intergovernmental revenues of \$378,851 (including increases in state-shared sales taxes and increases in federal grants received), and increases of miscellaneous revenues of \$1,200,301. These increases in revenues were offset by an increased long-term care contribution of \$1,168,800 and hospital expenses of \$129,185.

The fund balance of the Capital Projects Fund increased by \$897,521 during the fiscal year. This increase is mainly attributable to the residual equity transfer from the Cochise Health Systems Fund.

The fund balance of the Highway and Streets Fund decreased by \$2,119,871. This was because the excise tax revenue decreased by \$1.5 million and HURF revenues were decreased by \$628,241. Expenditures increased by \$1,410,439, due to increases in heavy fleet charges and increases in road material costs.

At June 30, 2012, the fund balance of the Anti-Racketeering Fund decreased by \$3,787. This was because revenues decreased by \$98,074 and gain on sale of assets decreased by \$136,388. This was offset by decreased in expenditures of \$298,545 and an increase in transfers out of \$27,156. During the fiscal year fewer cars were seized by law enforcement and fewer auctions were held. Therefore, revenues were reduced. This also reduced the costs associated with holding the auctions and revenue sharing with other entities.

## Management's Discussion and Analysis

**Proprietary funds**—The County's proprietary fund statements provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. The net assets of Bisbee-Douglas International Airport Fund increased by \$109,157. The net assets of the Solid Waste Operations Fund decreased by \$448,560, primarily because of a smaller operating loss by \$57,126, an increase of \$109,090 in county excise tax revenue, a smaller investment loss by \$44,085, and a \$67,342 gain on sale of assets. There was also an increase in transfers out of \$50,000.

### **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, 2012, was \$120,920,675 (net of accumulated depreciation and related debt). Major capital asset events during the current fiscal year include the following:

- Capital outlay expenditures in the Capital Projects Fund primarily consist of \$499,855 for an appraisal system, \$187,755 for additional New World software, \$4,606,045 for a new Douglas service center and \$323,360 for airport improvement grants.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$2,113,688 for new roads infrastructure, \$115,597 for construction in progress for roads and \$42,733 for a GPS system.
- Capital asset acquisitions in the Solid Waste Operations Fund totaled \$44,922 for two solar powered refuse compactors.
- Programmed vehicle replacement and additions of new vehicles totaled \$442,787 in Fleet Management (an Internal Service Fund).
- Programmed vehicle replacement and additions of new vehicles totaled \$1,579,667 in Heavy Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in the General Fund consist of \$45,580 for a scanner.
- Major capital outlay expenditures in the special revenue funds consist of \$572,469 for the Sheriff's department for two command center vehicles, a range system, and a repeater. The Flood Control Fund spent \$60,463 on land and right of way.

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

#### **Long-term Debt**

At June 30, 2012, the County had certificates of participation and capital lease long-term liabilities outstanding of \$5,153,267, as compared to \$6,054,572 in the prior year. This amount's comprised of \$4,598,649 of certificates of participation issued in 2002 (including unamortized premium of \$48,649) and \$554,618 in capital leases. The change in these long-term liabilities includes the normal annual debt service payments.

# Management's Discussion and Analysis

Cochise County has no general obligation or revenue bonds outstanding.

## **Budgetary Comparison—General Fund**

The favorable variance in revenues of \$2,109,059 was primarily due to an increase in the County's General Fund intergovernmental revenue and miscellaneous revenues. These revenues were higher than expected because of a receipt from the city of Douglas for \$700,000 (for new service center in Douglas), and the increase of miscellaneous revenue was due to the larger unrecorded deposit and the treasurer's cash drawer at year-end of \$724,488. Property tax revenue was also higher than expected by \$473,487 and state-shared sales tax revenue was higher than expected by \$127,728.

Most of the favorable variances in expenses were due to conservative budgeting and vacancy savings from a hiring freeze. The favorable variance of \$28,685,520 in the General Fund's expenditures resulted primarily from unspent general government contingency funds and lower than expected general government costs.

## **Economic Factors**

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2012, was 8.2 percent compared to 8.2 percent state-wide and 8.2 percent nation-wide. The rate decreased from 8.6 percent in the prior year and has been consistently below or near the overall state rate. Within the County, the rate varies widely between the incorporated areas, ranging from a low of 5.5 percent in Tombstone to the high of 14.3 percent in Benson.
- For fiscal year 2012, the county government was the second largest employer in the County. Ft. Huachuca is the County's largest employer, with 9,369 employees compared to 875 for the county government and 870 for Wal-Mart Stores.
- The County's primary property tax rate has either remained the same or decreased each year for the past 19 years.
- The County's expense for employee health insurance increased by 0.40 percent from the previous year, and actual retirement costs went up by \$242,577, which was less than expected due to various vacancies throughout the County.

## **Request for Information**

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

## Financial Statements

Cochise County  
Statement of Net Assets  
June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash in bank and on hand	\$ 207,777	\$ 2,150	\$ 209,927	\$ 408,535
Cash and investments held by County Treasurer	69,816,859	329,084	70,145,943	
Cash and investments held by trustee	878,500		878,500	355,553
Receivables (net of allowances for uncollectibles):				
Property taxes	2,208,700		2,208,700	
Accounts	1,152,605	761,583	1,914,188	178
Accrued interest	31,934	437	32,371	
Internal balances	687,298	(687,298)		
Due from other governments	7,015,768	38,286	7,054,054	231,945
Prepaid items				2,860
Other assets				6,729
Capital assets, not being depreciated	2,402,982	1,643,230	4,046,212	
Capital assets, being depreciated, net	115,782,120	6,245,610	122,027,730	95,963
Total assets	<u>200,184,543</u>	<u>8,333,082</u>	<u>208,517,625</u>	<u>1,101,763</u>
<b>Liabilities</b>				
Accounts payable	2,616,589	44,904	2,661,493	87,482
Accrued payroll and employee benefits	1,359,814	30,098	1,389,912	46,740
Due to other governments	2,551,061		2,551,061	66,113
Deposits held for others	19,366	1,600	20,966	
Deferred revenue	55,845	926	56,771	38,376
Noncurrent liabilities				
Due within 1 year	3,684,965	138,091	3,823,056	
Due in more than 1 year	5,632,513	2,937,705	8,570,218	120,905
Total liabilities	<u>15,920,153</u>	<u>3,153,324</u>	<u>19,073,477</u>	<u>359,616</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	113,091,900	7,828,775	120,920,675	95,963
Restricted for:				
Anti-racketeering	118,530		118,530	
Education	89,261		89,261	
Flood	5,831,471		5,831,471	
Health	552,921		552,921	
Judicial	3,219,252		3,219,252	
Public safety	2,142,985		2,142,985	
Library	1,085,161		1,085,161	
Debt service	878,500		878,500	
Other	928,817		928,817	
Long-term care	214,009		214,009	
Housing programs				271,761
Workforce development				95,447
Unrestricted (deficit)	56,111,583	(2,649,017)	53,462,566	278,976
Total net assets	<u>\$ 184,264,390</u>	<u>\$ 5,179,758</u>	<u>\$ 189,444,148</u>	<u>\$ 742,147</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Activities  
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 34,445,520	\$ 5,119,369	\$ 6,766,525		\$ (22,559,626)		\$ (22,559,626)	
Public safety	23,472,336	766,592	3,434,472	\$ 1,412,793	(17,858,479)		(17,858,479)	
Highways and streets	12,194,205	1,045,773	8,722,269		(2,426,163)		(2,426,163)	
Sanitation	642,442	343,963	229,666		(68,813)		(68,813)	
Health and welfare	11,712,771	203,178	2,013,387		(9,496,206)		(9,496,206)	
Culture and recreation	1,483,204		38,692		(1,444,512)		(1,444,512)	
Education	1,052,506	52,675	576,831		(423,000)		(423,000)	
Total governmental activities	85,002,984	7,531,550	21,781,842	1,412,793	(54,276,799)		(54,276,799)	
Business-type activities:								
Bisbee-Douglas International Airport	550,595	658,787				\$ 108,192	108,192	
Cochise Health Systems	8,374,807	8,684,012				309,205	309,205	
Solid Waste Operations	4,777,194	4,185,498				(591,696)	(591,696)	
Total business-type activities	13,702,596	13,528,297				(174,299)	(174,299)	
Total primary government	\$ 98,705,580	\$ 21,059,847	\$ 21,781,842	\$ 1,412,793	(54,276,799)	(174,299)	(54,451,098)	
<b>Component units:</b>								
Housing Authority of Cochise County	\$ 3,115,397		\$ 2,641,254					\$ (474,143)
Cochise Private Industry Council, Inc.	1,296,607		1,340,334					43,727
Total component units	\$ 4,412,004		\$ 3,981,588					(430,416)
General revenues:								
Taxes								
Property taxes, levied for general purposes					29,404,846		29,404,846	
Property taxes, levied for flood control					2,391,941		2,391,941	
Property taxes, levied for library					1,565,357		1,565,357	
County excise taxes					6,494,453	244,115	6,738,568	
Share of state sales taxes					11,025,392		11,025,392	
Share of unrestricted vehicle license tax					3,669,684		3,669,684	
Grants and contributions not restricted to specific programs					2,000,332		2,000,332	
Investment income					280,313	18,211	298,524	1,853
Miscellaneous					1,730,864	21,029	1,751,893	22,921
Gain on sale of capital assets					261,207	67,342	328,549	
Transfers					3,587,973	(3,587,973)	-	
Total general revenues and transfers					62,412,362	(3,237,276)	59,175,086	24,774
Change in net assets					8,135,563	(3,411,575)	4,723,988	(405,642)
Net assets, July 1, 2011, as restated					176,128,827	8,591,333	184,720,160	1,147,789
Net assets, June 30, 2012					\$ 184,264,390	\$ 5,179,758	\$ 189,444,148	\$ 742,147

See accompanying notes to financial statements.

Cochise County  
Balance Sheet  
Governmental Funds  
June 30, 2012

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Anti- Racketeering Fund	Capital Projects Fund	Highway and Streets Fund		
<b>Assets</b>						
Cash in bank and on hand	\$ 74,423				\$ 133,154	\$ 207,577
Cash and investments held by County Treasurer	31,779,409	\$ 1,111,230	\$ 15,275,686	\$ 3,276,290	12,487,180	63,929,795
Cash and investments held by trustee			878,500			878,500
Receivables (net of allowances for uncollectibles):						
Property taxes	1,832,708				375,992	2,208,700
Accounts	895,116	121,990		4,952	112,443	1,134,501
Accrued interest	14,124		7,232		7,721	29,077
Due from:						
Other funds	1,062,407	1,706		130,828	448,626	1,643,567
Other governments	3,352,530		608,760	1,535,488	1,487,242	6,984,020
Total assets	<u>\$ 39,010,717</u>	<u>\$ 1,234,926</u>	<u>\$ 16,770,178</u>	<u>\$ 4,947,558</u>	<u>\$ 15,052,358</u>	<u>\$ 77,015,737</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 569,603	\$ 14,339	\$ 509,870	\$ 505,410	\$ 784,911	\$ 2,384,133
Accrued payroll and employee benefits	979,151	493		111,301	250,520	1,341,465
Due to:						
Other funds	178,128	129,209	1,900	416,188	464,603	1,190,028
Other governments	1,590,384	960,677				2,551,061
Deposits held for others	7,757	11,609				19,366
Certificates of participation payable			675,000			675,000
Deferred revenue	1,464,821			3,335	359,713	1,827,869
Total liabilities	<u>4,789,844</u>	<u>1,116,327</u>	<u>1,186,770</u>	<u>1,036,234</u>	<u>1,859,747</u>	<u>9,988,922</u>
Fund balances:						
Restricted		118,599	1,092,509		14,230,112	15,441,220
Committed	156,238		445,090	535,088		1,136,416
Assigned	758,749		14,045,809	3,376,236	428,883	18,609,677
Unassigned	33,305,886				(1,466,384)	31,839,502
Total fund balances	<u>34,220,873</u>	<u>118,599</u>	<u>15,583,408</u>	<u>3,911,324</u>	<u>13,192,611</u>	<u>67,026,815</u>
Total liabilities and fund balances	<u>\$ 39,010,717</u>	<u>\$ 1,234,926</u>	<u>\$ 16,770,178</u>	<u>\$ 4,947,558</u>	<u>\$ 15,052,358</u>	<u>\$ 77,015,737</u>

See accompanying notes to financial statements.

Cochise County  
 Reconciliation of the Balance Sheet to the Statement of Net Assets  
 Governmental Funds  
 June 30, 2012

Fund balances—total governmental funds		\$ 67,026,815
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.		109,948,338
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,772,024
Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		13,945,591
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Certificates of participation payable	(3,923,649)	
Capital leases payable	(405,365)	
Compensated absences payable	(4,099,364)	(8,428,378)
Net assets of governmental activities		\$ 184,264,390

See accompanying notes to financial statements.

Cochise County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2012

	Major Funds					Total Governmental Funds
	General Fund	Anti- Racketeering Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	
Revenues:						
Taxes	\$ 35,662,090		\$ 2,597,381	\$ 300,000	\$ 4,866,968	\$ 43,426,439
Licenses and permits	20,586					20,586
Fees, fines, and forfeits	1,845,255	\$ 80,301				1,925,556
Intergovernmental	13,998,886		866,762	8,722,269	11,244,208	34,832,125
Charges for services	2,191,523			1,045,773	2,321,905	5,559,201
Investment income	149,293	8,409	56,344	19,541	46,726	280,313
Miscellaneous	1,200,301		219,005	76,576	1,954,885	3,450,767
Total revenues	<u>55,067,934</u>	<u>88,710</u>	<u>3,739,492</u>	<u>10,164,159</u>	<u>20,434,692</u>	<u>89,494,987</u>
Expenditures:						
Current:						
General government	24,301,996	240,764	411,473		7,657,386	32,611,619
Public safety	17,105,377				5,744,224	22,849,601
Highways and streets				12,351,043		12,351,043
Sanitation	428,966				213,476	642,442
Health and welfare	9,667,881		214,009		1,830,881	11,712,771
Culture and recreation	-				1,483,204	1,483,204
Education	343,762				708,744	1,052,506
Debt service:						
Principal	91,582		675,000			766,582
Interest and other charges	19,208		206,106			225,314
Capital outlay	57,254		4,568,101	42,733	655,084	5,323,172
Total expenditures	<u>52,016,026</u>	<u>240,764</u>	<u>6,074,689</u>	<u>12,393,776</u>	<u>18,292,999</u>	<u>89,018,254</u>
Excess (deficiency) of revenues over expenditures	<u>3,051,908</u>	<u>(152,054)</u>	<u>(2,335,197)</u>	<u>(2,229,617)</u>	<u>2,141,693</u>	<u>476,733</u>
Other financing sources (uses):						
Sale of capital assets	14,898	231,712		125,819		372,429
Transfers in	684,377		3,232,718		1,327,907	5,245,002
Transfers out	(170,995)	(83,445)		(16,073)	(1,559,911)	(1,830,424)
Total other financing sources and uses	<u>528,280</u>	<u>148,267</u>	<u>3,232,718</u>	<u>109,746</u>	<u>(232,004)</u>	<u>3,787,007</u>
Net change in fund balances	3,580,188	(3,787)	897,521	(2,119,871)	1,909,689	4,263,740
Fund balances, July 1, 2011	<u>30,640,685</u>	<u>122,386</u>	<u>14,685,887</u>	<u>6,031,195</u>	<u>11,282,922</u>	<u>62,763,075</u>
Fund balances, June 30, 2012	<u>\$ 34,220,873</u>	<u>\$ 118,599</u>	<u>\$ 15,583,408</u>	<u>\$ 3,911,324</u>	<u>\$ 13,192,611</u>	<u>\$ 67,026,815</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, 2012

Net change in fund balances—total governmental funds		\$ 4,263,740
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	7,502,577	
Depreciation expense	<u>(4,549,211)</u>	2,953,366
<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>		
		(189,706)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		96,508
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
Principal repaid	766,582	
Amortization of premium	16,218	782,800
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.</p>		
Increase in compensated absences		(140,572)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The net revenue of certain internal service funds is reported with governmental activities in the Statement of Activities.</p>		
		<u>369,427</u>
Change in net assets of governmental activities		<u>\$ 8,135,563</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2012

	<u>Business-Type Activities—Enterprise Funds</u>			Governmental
	<u>Major Fund</u>			Activities—
	<u>Solid Waste Operations Fund</u>	Other Enterprise— BDI Airport Fund	<u>Total</u>	<u>Internal Service Funds</u>
<b>Assets</b>				
Current assets:				
Cash in bank and on hand	\$ 2,150		\$ 2,150	\$ 200
Cash and investments held by County Treasurer		\$ 329,084	329,084	5,887,064
Receivables (net of allowances for uncollectibles):				
Accounts	702,900	58,683	761,583	18,104
Accrued interest	263	174	437	2,857
Due from:				
Other funds	206,226		206,226	539,665
Other governments	38,286		38,286	31,748
Total current assets	<u>949,825</u>	<u>387,941</u>	<u>1,337,766</u>	<u>6,479,638</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation, where applicable:				
Land	24,900	1,575,000	1,599,900	
Construction in progress	43,330		43,330	
Buildings, net	3,303,495	9,940	3,313,435	121,722
Improvements other than buildings, net	1,184,536	1,055,900	2,240,436	
Equipment, net	633,720	58,019	691,739	8,115,042
Total noncurrent assets	<u>5,189,981</u>	<u>2,698,859</u>	<u>7,888,840</u>	<u>8,236,764</u>
Total assets	<u>6,139,806</u>	<u>3,086,800</u>	<u>9,226,606</u>	<u>14,716,402</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	30,171	14,733	44,904	232,456
Accrued payroll and employee benefits	27,865	2,233	30,098	18,349
Due to other funds	890,844	2,680	893,524	305,906
Compensated absences payable, current portion	73,803	11,945	85,748	82,494
Landfill closure and postclosure care costs payable, current portion	22,914		22,914	
Deposits held for others		1,600	1,600	
Capital leases payable, current portion	29,429		29,429	66,171
Deferred revenue		926	926	
Total current liabilities	<u>1,075,026</u>	<u>34,117</u>	<u>1,109,143</u>	<u>705,376</u>

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2012  
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>			Governmental
	<u>Major Fund</u>			Activities—
	Solid Waste Operations Fund	Other Enterprise— BDI Airport Fund	Total	Internal Service Funds
Noncurrent liabilities:				
Compensated absences payable	\$ 7,571	\$ 9,659	\$ 17,230	\$ 42,418
Landfill closure and postclosure care costs payable	2,889,839		2,889,839	
Capital leases payable	30,636		30,636	23,017
Total noncurrent liabilities	<u>2,928,046</u>	<u>9,659</u>	<u>2,937,705</u>	<u>65,435</u>
Total liabilities	<u>4,003,072</u>	<u>43,776</u>	<u>4,046,848</u>	<u>770,811</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	5,129,916	2,698,859	7,828,775	8,147,576
Unrestricted (deficit)	<u>(2,993,182)</u>	<u>344,165</u>	<u>(2,649,017)</u>	<u>5,798,015</u>
Total net assets	<u>\$ 2,136,734</u>	<u>\$ 3,043,024</u>	<u>\$ 5,179,758</u>	<u>\$ 13,945,591</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, 2012

	Business-Type Activities—Enterprise Funds				Governmental Activities—
	Major Funds			Total	
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise— BDI Airport Fund		
Operating revenues:					
Charges for services	\$ 8,684,012	\$ 4,185,498	\$ 658,787	\$ 13,528,297	\$ 6,639,941
Charges for health insurance					7,692,647
Other					37,849
Total operating revenues	<u>8,684,012</u>	<u>4,185,498</u>	<u>658,787</u>	<u>13,528,297</u>	<u>14,370,437</u>
Operating expenses:					
Personal services	920,151	1,767,393	145,452	2,832,996	1,175,039
Professional services	212,566	1,706,098	145,356	2,064,020	8,059,364
Supplies	2,395	277,138	166,035	445,568	3,871,812
Long-term care costs	7,036,829			7,036,829	
Landfill closure and postclosure care costs		275,415		275,415	
Depreciation		372,636	93,752	466,388	1,445,526
Other	179,195	375,212		554,407	6,914
Total operating expenses	<u>8,351,136</u>	<u>4,773,892</u>	<u>550,595</u>	<u>13,675,623</u>	<u>14,558,655</u>
Operating income (loss)	332,876	(588,394)	108,192	(147,326)	(188,218)
Nonoperating revenues (expenses):					
County excise taxes		244,115		244,115	200,000
Investment income	26,920	(9,606)	897	18,211	25,104
Miscellaneous revenue	6,281	14,680	68	21,029	118,369
Interest expense		(3,302)		(3,302)	(8,161)
Gain (loss) on disposal of capital assets	(23,671)	67,342		43,671	48,938
Total nonoperating revenues (expenses)	<u>9,530</u>	<u>313,229</u>	<u>965</u>	<u>323,724</u>	<u>384,250</u>
Income (loss) before transfers	342,406	(275,165)	109,157	176,398	196,032
Transfers in					173,395
Transfers out	<u>(3,414,578)</u>	<u>(173,395)</u>		<u>(3,587,973)</u>	
Increase (decrease) in net assets	(3,072,172)	(448,560)	109,157	(3,411,575)	369,427
Total net assets, July 1, 2011	<u>3,072,172</u>	<u>2,585,294</u>	<u>2,933,867</u>	<u>8,591,333</u>	<u>13,576,164</u>
Total net assets, June 30, 2012	<u>\$ -</u>	<u>\$ 2,136,734</u>	<u>\$ 3,043,024</u>	<u>\$ 5,179,758</u>	<u>\$ 13,945,591</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2012

	Business-Type Activities—Enterprise Funds				Governmental Activities—	
	Major Funds			Total		Internal Service Funds
	Cochise Health Systems Fund	Solid Waste Operations Fund	Other Enterprise— BDI Airport Fund			
Cash flows from operating activities:						
Receipts from customers	\$ 9,561,411	\$ 4,154,278	\$ 745,307	\$ 14,460,996		
Receipts from other funds for goods and services provided					\$ 14,692,340	
Other receipts					37,849	
Payments to suppliers and providers of goods and services	(10,689,084)	(3,237,483)	(302,643)	(14,229,210)	(11,720,979)	
Payments to employees	(1,104,306)	(1,752,432)	(145,580)	(3,002,318)	(1,196,793)	
Net cash provided by (used for) operating activities	<u>(2,231,979)</u>	<u>(835,637)</u>	<u>297,084</u>	<u>(2,770,532)</u>	<u>1,812,417</u>	
Cash flows from noncapital financing activities:						
Miscellaneous receipts	6,281	258,795	68	265,144	318,369	
Cash transfers from other funds					173,395	
Cash transfers to other funds	(3,414,578)	(173,395)		(3,587,973)		
Loans received from other funds		769,013		769,013		
Net cash provided by (used for) noncapital financing activities	<u>(3,408,297)</u>	<u>854,413</u>	<u>68</u>	<u>(2,553,816)</u>	<u>491,764</u>	
Cash flows from capital and related financing activities:						
Proceeds from sale of capital assets		67,342		67,342	77,015	
Purchases of capital assets		(44,922)		(44,922)	(2,035,093)	
Principal paid on capital leases		(28,270)		(28,270)	(115,235)	
Interest paid on capital leases		(3,302)		(3,302)	(8,161)	
Net cash used for capital and related financing activities		<u>(9,152)</u>		<u>(9,152)</u>	<u>(2,081,474)</u>	
Cash flows from investing activities:						
Investment income received on cash and investments held by County Treasurer	26,920		798	27,718	25,987	
Decrease in fair value of investments		(9,699)		(9,699)		
Net cash provided by (used for) investing activities	<u>26,920</u>	<u>(9,699)</u>	<u>798</u>	<u>18,019</u>	<u>25,987</u>	
Net increase (decrease) in cash and cash equivalents	(5,613,356)	(75)	297,950	(5,315,481)	248,694	
Cash and cash equivalents, July 1, 2011	<u>5,613,356</u>	<u>2,225</u>	<u>31,134</u>	<u>5,646,715</u>	<u>5,638,570</u>	
Cash and cash equivalents, June 30, 2012	<u>\$ -</u>	<u>\$ 2,150</u>	<u>\$ 329,084</u>	<u>\$ 331,234</u>	<u>\$ 5,887,264</u>	

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2012  
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>				Governmental
	<u>Major Funds</u>			<u>Total</u>	Activities—
	<u>Cochise Health Systems Fund</u>	<u>Solid Waste Operations Fund</u>	<u>Other Enterprise— BDI Airport Fund</u>		<u>Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 332,876	\$ (588,394)	\$ 108,192	\$ (147,326)	\$ (188,218)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation		372,636	93,752	466,388	1,445,526
Changes in assets and liabilities:					
Accounts receivable	854,202	100,519	85,256	1,039,977	311,127
Due from other funds	23,197	(111,101)	538	(87,366)	28,793
Due from other governments		(20,638)		(20,638)	22,089
Accounts payable	(3,041,518)	(11,859)	8,754	(3,044,623)	23,619
Accrued payroll and employee benefits	(39,080)	6,976	252	(31,852)	1,509
Due to other funds	(216,581)	(854,056)	(6)	(1,070,643)	191,235
Compensated absences payable	(145,075)	7,985	(380)	(137,470)	(23,263)
Landfill closure and postclosure care costs payable		262,295		262,295	
Deferred revenue			726	726	
Net cash provided by (used for) operating activities	<u>\$ (2,231,979)</u>	<u>\$ (835,637)</u>	<u>\$ 297,084</u>	<u>\$ (2,770,532)</u>	<u>\$ 1,812,417</u>
Cash and cash equivalents, June 30, 2012, consisted of:					
Cash in bank and on hand		2,150		2,150	200
Cash and investments held by County Treasurer			329,084	329,084	5,887,064
Total cash and cash equivalents	<u>\$ -</u>	<u>\$ 2,150</u>	<u>\$ 329,084</u>	<u>\$ 331,234</u>	<u>\$ 5,887,264</u>

Noncash capital financing activities:

The Internal Service Funds sold equipment with a net book value of \$36,894 and received cash of \$77,015.

Cochise Health Systems transferred all capital assets to other funds. Three vehicles were transferred to the Internal Service Funds with a net book value of \$8,817. All other Cochise Health Systems' capital assets were transferred to the General Fund with a net book value of \$4,753.

See accompanying notes to financial statements.

Cochise County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2012

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash in bank and on hand		\$ 2,795,662
Cash and investments held by County Treasurer	\$ 54,316,422	
Interest receivable	<u>236</u>	
Total assets	<u>54,316,658</u>	<u>\$ 2,795,662</u>
<b>Liabilities</b>		
Due to other governments		\$ 2,795,662
Total liabilities		<u>\$ 2,795,662</u>
<b>Net Assets</b>		
Held in trust for investment trust participants	<u>\$ 54,316,658</u>	

See accompanying notes to financial statements.

Cochise County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2012

	<b>Investment Trust Funds</b>
Additions:	
Contributions from participants	\$ 205,951,750
Investment income	<u>126,983</u>
Total additions	<u>206,078,733</u>
 Deductions:	
Distributions to participants	<u>214,674,685</u>
Total deductions	<u>214,674,685</u>
 Change in net assets	 (8,595,952)
 Net assets, July 1, 2011	 <u>62,912,610</u>
 Net assets, June 30, 2012	 <u>\$ 54,316,658</u>

See accompanying notes to financial statements.

Cochise County  
Combining Statement of Net Assets  
Component Units  
June 30, 2012

	<b>Housing Authority of <u>Cochise County</u></b>	<b>Cochise Private Industry <u>Council, Inc.</u></b>	<b><u>Total</u></b>
<b>Assets</b>			
Cash in bank and on hand	\$ 366,707	\$ 41,828	\$ 408,535
Cash and investments held by trustee	355,553		355,553
Receivables (net of allowances for uncollectibles):			
Accounts	178		178
Due from other governments	7,868	224,077	231,945
Prepaid items	2,860		2,860
Other assets		6,729	6,729
Capital assets, being depreciated, net	16,115	79,848	95,963
Total assets	<u>749,281</u>	<u>352,482</u>	<u>1,101,763</u>
<b>Liabilities</b>			
Accounts payable	4,776	63,023	67,799
Accrued payroll and employee benefits	46,740		46,740
Due to other governments	66,113		66,113
Due to related party		19,683	19,683
Deferred revenue	15,751	22,625	38,376
Noncurrent liabilities			
Due in more than 1 year	103,458	17,447	120,905
Total liabilities	<u>236,838</u>	<u>122,778</u>	<u>359,616</u>
<b>Net Assets</b>			
Invested in capital assets	16,115	79,848	95,963
Restricted for housing programs	271,761		271,761
Restricted for workforce development		95,447	95,447
Unrestricted	224,567	54,409	278,976
Total net assets	<u>\$ 512,443</u>	<u>\$ 229,704</u>	<u>\$ 742,147</u>

See accompanying notes to financial statements.

Cochise County  
Combining Statement of Activities  
Component Units  
Year Ended June 30, 2012

	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
<b>Component units:</b>				
Housing Authority of Cochise County	\$ 3,115,397	\$ 2,641,254	\$ (474,143)	\$ (474,143)
Cochise Private Industry Council, Inc.	<u>1,296,607</u>	<u>1,340,334</u>	<u>                    </u>	<u>\$ 43,727</u>
Total component units	<u>4,412,004</u>	<u>3,981,588</u>	<u>(474,143)</u>	<u>43,727</u>
General revenues:				
Investment income		1,853		1,853
Miscellaneous		<u>3,208</u>	<u>19,713</u>	<u>22,921</u>
Total general revenues		<u>5,061</u>	<u>19,713</u>	<u>24,774</u>
Change in net assets		(469,082)	63,440	(405,642)
Net assets, July 1, 2011, as restated		<u>981,525</u>	<u>166,264</u>	<u>1,147,789</u>
Net assets, June 30, 2012		<u>\$ 512,443</u>	<u>\$ 229,704</u>	<u>\$ 742,147</u>

See accompanying notes to financial statements.

Cochise County  
Notes to Financial Statements  
June 30, 2012

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

The following table describes the County's component units:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Cochise County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Cochise County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Housing Authority of Cochise County	Administers and coordinates the Section 8 Rental Voucher Program. The County's Board of Supervisors appoints all governing board members and is able to impose its will on the Authority, but the Authority does not provide services entirely to the County.	Discrete	Housing Authority of Cochise County Old Bisbee High School First Floor P.O. Box 167 Bisbee, AZ 85603

Cochise County  
Notes to Financial Statements  
June 30, 2012

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

## B. Basis of Presentation

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

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

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

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2012

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

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

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

The County reports the following major governmental funds:

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

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

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

The *Highway and Streets Fund* accounts for the construction and maintenance of the County's surface transportation system in a cost-effective manner. The Fund's most significant revenue source is highway user revenue fees.

The County reports the following major enterprise funds:

Cochise County  
Notes to Financial Statements  
June 30, 2012

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 County's AHCCCS contract terminated on September 30, 2011, and the Cochise Health Systems Fund ceased operations. All residual balances of the Fund were transferred to the Capital Projects Fund at June 30, 2012.

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

The County reports the following fund types:

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

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

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

### C. Basis of Accounting

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2012

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

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

#### D. Cash and Investments

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

#### E. Inventories and Prepaid Items

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

In both the government-wide and fund financial statements, payments to suppliers for certain goods or services that pertain to future accounting periods are recorded as assets. These prepaid items are then expensed or expended when consumed.

#### F. Property Tax Calendar

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2012

### G. Capital Assets

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

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

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

### H. Fund Balance Classifications

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

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

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

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2012

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

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

### I. Investment Income

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

### J. Compensated Absences

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

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 terminating 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 terminating employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 15 years of service and who have accumulated at least 241 hours of sick leave receive some benefit payments. Benefit payments vary based on the number of hours accumulated up to 1,040 hours. Consequently, these sick leave benefits do vest and, therefore, are accrued as a liability in the government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Cochise County  
Notes to Financial Statements  
June 30, 2012

Note 2 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2012, were as follows:

	<u>General Fund</u>	<u>Anti- Racketeering Fund</u>	<u>Capital Projects Fund</u>	<u>Highway and Streets Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Fund balances:</b>						
<b>Restricted for:</b>						
Debt service			\$ 878,500			\$ 878,500
Anti-racketeering		\$118,599				118,599
Flood control					\$ 5,961,087	5,961,087
Health services			214,009		580,845	794,854
Judicial services					3,381,833	3,381,833
Library services					1,044,622	1,044,622
Law enforcement					2,198,754	2,198,754
Education services					93,769	93,769
Other services					969,202	969,202
Total restricted	<u>                    </u>	<u>118,599</u>	<u>1,092,509</u>	<u>                    </u>	<u>14,230,112</u>	<u>15,441,220</u>
<b>Committed to:</b>						
Board of Supervisors	\$ 43,238					43,238
Facilities	113,000					113,000
Capital projects			445,090			445,090
Highways and streets				535,088		535,088
Total committed	<u>156,238</u>	<u>                    </u>	<u>445,090</u>	<u>535,088</u>	<u>                    </u>	<u>1,136,416</u>
<b>Assigned to:</b>						
Capital projects			14,045,809			14,045,809
Highways and streets				3,376,236		3,376,236
Health services					354,959	354,959
Education					73,924	73,924
Other	758,749					758,749
Total assigned	<u>758,749</u>	<u>                    </u>	<u>14,045,809</u>	<u>3,376,236</u>	<u>428,883</u>	<u>18,609,677</u>
<b>Unassigned:</b>	<u>33,305,886</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>(1,466,384)</u>	<u>31,839,502</u>
Total fund balances	<u>\$34,220,873</u>	<u>\$118,599</u>	<u>\$15,583,408</u>	<u>\$3,911,324</u>	<u>\$13,192,611</u>	<u>\$67,026,815</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 and notes; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

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Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

**Deposits**—At June 30, 2012, the carrying amount of the County's deposits was \$16,485,654, and the bank balance was \$16,012,276. The County does not have a formal policy with respect to custodial credit risk.

**Investments**—The County's investments at June 30, 2012, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$ 38,000,000
U.S. agency securities	72,975,353
U.S. Treasury money market fund	<u>878,500</u>
	<u>\$111,853,853</u>

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

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

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At June 30, 2012, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pool 7	Unrated	Not applicable	\$ 38,000,000
U.S. agency securities	AA+	Standard & Poor's	72,975,353
U.S. Treasury money market fund	AAAm	Standard & Poor's	<u>878,500</u>
			<u>\$111,853,853</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, 2012, the County had U.S. Treasury money market fund investments totaling \$878,500 that were uninsured and held by the counterparty.

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

Five percent or more of the County's investments at June 30, 2012, were in debt securities of various U.S. agencies as follows:

U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$ 17,542,570	15.7
Federal Home Loan Bank	14,021,075	12.5
Federal National Mortgage Association	27,058,615	24.2
Federal Farm Credit Bank	<u>14,352,993</u>	12.8
	<u>\$72,975,353</u>	

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

At June 30, 2012, maturities of the County's investments were as follows:

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Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-5 Years
State Treasurer's investment pool 7	\$ 38,000,000	\$38,000,000	
U.S. agency securities	72,975,353	4,004,740	\$68,970,613
U.S. Treasury money market fund	<u>878,500</u>	<u>878,500</u>	
	<u>\$111,853,853</u>	<u>\$42,883,240</u>	<u>\$68,970,613</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	\$ 6,947
Amount of deposits	16,485,654
Amount of investments	<u>111,853,853</u>
Total	<u>\$128,346,454</u>

	Statement of Net Assets		Statement of Fiduciary Net Assets		Total
	Governmental Activities	Business- Type Activities	Investment Trust Funds	Agency Funds	
Cash in bank and on hand	\$ 207,777	\$ 2,150		\$2,795,662	\$ 3,005,589
Cash and investments held by County Treasurer	69,816,859	329,084	\$54,316,422		124,462,365
Cash and investments held by trustee	<u>878,500</u>				<u>878,500</u>
Total	<u>\$70,903,136</u>	<u>\$331,234</u>	<u>\$54,316,422</u>	<u>\$2,795,662</u>	<u>\$128,346,454</u>

Note 4 - Due from Other Governments

Due from other governments totaling \$7,054,054 at June 30, 2012, included \$1,208,885 in state-shared revenue from highway user fees, \$1,903,020 in state-shared sales taxes, \$888,222 in state-shared vehicle license taxes, and \$1,215,322 in county excise taxes received through the State. The remaining balance of \$1,838,605 represents amounts receivable from various state and federal government grantor agencies.

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Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,145,881	\$ 60,464		\$2,206,345
Construction in progress	<u>1,568,675</u>	<u>4,598,503</u>	<u>\$5,970,541</u>	<u>196,637</u>
Total capital assets not being depreciated	<u>3,714,556</u>	<u>4,658,967</u>	<u>5,970,541</u>	<u>2,402,982</u>
Capital assets being depreciated:				
Buildings	45,239,746	4,606,045		49,845,791
Improvements other than buildings	4,352,765	386,862		4,739,627
Equipment	36,116,428	3,624,464	1,333,562	38,407,330
Infrastructure	<u>95,401,104</u>	<u>2,168,196</u>		<u>97,569,300</u>
Total	<u>181,110,043</u>	<u>10,785,567</u>	<u>1,333,562</u>	<u>190,562,048</u>
Less accumulated depreciation for:				
Buildings	12,678,881	1,156,000		13,834,881
Improvements other than buildings	1,302,941	171,596		1,474,537
Equipment	22,393,166	2,975,500	1,179,456	24,189,210
Infrastructure	<u>33,589,659</u>	<u>1,691,641</u>		<u>35,281,300</u>
Total accumulated depreciation	<u>69,964,647</u>	<u>5,994,737</u>	<u>1,179,456</u>	<u>74,779,928</u>
Total capital assets being depreciated, net	<u>111,145,396</u>	<u>4,790,830</u>	<u>154,106</u>	<u>115,782,120</u>
Governmental activities capital assets, net	<u>\$114,859,952</u>	<u>\$ 9,449,797</u>	<u>\$6,124,647</u>	<u>\$118,185,102</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,599,900			\$ 1,599,900
Construction in progress	<u>43,330</u>			<u>43,330</u>
Total capital assets not being depreciated	<u>1,643,230</u>			<u>1,643,230</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	5,770,513			5,770,513
Equipment	<u>3,477,649</u>	\$ 44,922	\$ 308,360	<u>3,214,211</u>
Total	<u>13,807,187</u>	<u>44,922</u>	<u>308,360</u>	<u>13,543,749</u>
Less accumulated depreciation for:				
Buildings	1,158,205	87,385		1,245,590
Improvements other than buildings	3,327,680	202,397		3,530,077
Equipment	<u>2,630,555</u>	<u>176,606</u>	284,689	<u>2,522,472</u>
Total	<u>7,116,440</u>	<u>466,388</u>	<u>284,689</u>	<u>7,298,139</u>
Total capital assets being depreciated, net	<u>6,690,747</u>	<u>(421,466)</u>	<u>23,671</u>	<u>6,245,610</u>
Business-type activities capital assets, net	<u>\$ 8,333,977</u>	<u>\$ (421,466)</u>	<u>\$ 23,671</u>	<u>\$ 7,888,840</u>

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Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$2,252,891
Public safety	375,411
Highways and streets	1,910,565
Health and welfare	5,634
Culture and recreation	3,868
Education	842
Internal service funds	<u>1,445,526</u>
Total governmental activities depreciation expense	<u>\$5,994,737</u>
Business-type activities:	
Solid Waste Operations	\$ 372,636
Bisbee-Douglas International Airport	<u>93,752</u>
Total business-type activities depreciation expense	<u>\$ 466,388</u>

**Construction commitments**—At June 30, 2012, the County was involved in five construction projects. The estimated cost to complete the construction projects was \$1,428,450.

## Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
<b>Governmental activities</b>					
Capital leases payable	\$ 701,370		\$ 206,817	\$ 494,553	\$ 161,501
Certificates of participation payable	5,200,000		650,000	4,550,000	675,000
Add: Unamortized premium	<u>64,867</u>		<u>16,218</u>	<u>48,649</u>	<u>16,216</u>
Total certificates of participation payable	<u>5,264,867</u>		<u>666,218</u>	<u>4,598,649</u>	<u>691,216</u>
Compensated absences payable	<u>4,106,967</u>	<u>\$2,368,522</u>	<u>2,251,213</u>	<u>4,224,276</u>	<u>2,832,248</u>
Total governmental activities long-term liabilities	<u>\$10,073,204</u>	<u>\$2,368,522</u>	<u>\$3,124,248</u>	<u>\$9,317,478</u>	<u>\$3,684,965</u>
<b>Business-type activities</b>					
Capital leases payable	\$ 88,335		\$ 28,270	\$ 60,065	\$ 29,429
Landfill closure and postclosure care costs payable	2,650,458	\$ 275,415	13,120	2,912,753	22,914
Compensated absences payable	<u>246,448</u>	<u>54,040</u>	<u>191,510</u>	<u>102,978</u>	<u>85,748</u>
Total business-type activities long-term liabilities	<u>\$ 2,979,241</u>	<u>\$ 329,455</u>	<u>\$ 232,900</u>	<u>\$3,075,796</u>	<u>\$ 138,091</u>

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

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Equipment	\$1,601,861	\$141,576
Less: accumulated depreciation	<u>587,669</u>	<u>47,192</u>
Carrying value	<u>\$1,014,192</u>	<u>\$ 94,384</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2012:

Year ending June 30	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
2013	\$180,548	\$31,572
2014	134,512	31,572
2015	110,792	
2016	<u>110,792</u>	
Total minimum lease payments	<u>536,644</u>	<u>63,144</u>
Less amount representing interest	<u>42,091</u>	<u>3,079</u>
Present value of net minimum lease payments	<u>\$494,553</u>	<u>\$60,065</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, 2012, were as follows:

<b>Description</b>	<b>Original Amount Issued</b>	<b>Maturity Ranges</b>	<b>Interest Rates</b>	<b>Outstanding Principal</b>
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2013 to 2017	2.5 – 5.0%	\$4,550,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2012:

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Year ending June 30	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 675,000	\$187,200
2014	710,000	152,575
2015	745,000	119,925
2016	775,000	89,525
2017	805,000	55,912
2018	840,000	18,900
Total	<u>\$4,550,000</u>	<u>\$624,037</u>

**Landfill closure and postclosure care costs**—State and federal laws and regulations require the County to place a final cover on its solid waste landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the County operates the landfill. These costs will be paid from solid waste fees in the Solid Waste Operations Enterprise Fund. At June 30, 2012, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2012, the County reported landfill closure and postclosure care liabilities totaling \$2,912,753. This total consists of the cumulative amounts reported to date for the County's Eastern Regional and Western Regional landfills and was based on landfill capacity used at June 30, 2012. The liability reported for the Eastern Regional landfill of \$586,708 was based on 100 percent use of the landfill's capacity. This landfill was closed in 2002. The liability reported for the Western Regional landfill of \$2,326,045 was based on the use of 17.61 percent of the landfill's estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,882,616 as the remaining estimated capacity is filled. The County expects to close this landfill in 2042. The landfills' closure and postclosure care costs were based on what it would cost to perform all closure and postclosure care in fiscal year 2012. 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 2012, the County paid for compensated absences as follows: 70.32 percent from the General Fund, 8.51 percent from the Highway and Streets Fund, 2.12 percent from the Enterprise Funds, and 19.05 percent from other funds.

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Note 7 - Risk Management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 per occurrence for property claims and \$50,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$300 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

The County provides health, prescription, vision, dental, life, and short-term disability benefits to its employees and their dependents through the Cochise Combined Trust currently composed of two member entities. The Trust provides the benefits through a self-funding agreement with its participants and has contracted with a third party to administer the program. The County is responsible for paying the premium. During the fiscal year employees were not required to contribute a portion of the premium, but may be required to in the future. If it withdraws from the Trust, the County is responsible for a proportional share of any claims run-out costs, including administrative costs, that exceed trust fund reserves. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

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

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Note 8 - Pensions and Other Postemployment Benefits

**Plan Descriptions**—The County contributes to four plans, two of which are described below. The Elected Officials Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP) are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute, and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

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

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

ASRS  
3300 North Central Avenue  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or 1-800-621-3778

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

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

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*Cost-sharing plan*—For the year ended June 30, 2012, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members’ annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premiums, and 0.24 percent for long-term disability) of the members’ annual covered payroll.

The County’s contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

<b>Year ended June 30</b>	<b>Retirement Fund</b>	<b>Health Benefit Supplement Fund</b>	<b>Long-Term Disability Fund</b>
2012	\$2,654,802	\$169,565	\$ 66,939
2011	2,541,038	166,394	70,506
2010	2,402,383	190,117	115,222

*Agent plan*—For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members’ annual covered payroll, and the County was required to contribute 26.25 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.72 percent of covered payroll.

*Actuarial methods and assumptions*—The contribution requirements for the year ended June 30, 2012, were established by the June 30, 2010, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plan as understood by the County and plan’s members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the County and plan’s members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2012 contribution requirements are as follows:

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Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	26 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5%–8.5%
includes inflation at	5.5%

**Annual Pension/OPEB Cost**—The County's pension/OPEB cost for the PSPRS agent plan for the year ended June 30, 2012, and related information follows:

	<b>PSPRS</b>	
	<b>Pension</b>	<b>Health Insurance</b>
Annual pension/OPEB cost	\$1,293,176	\$80,595
Contributions made	1,334,648	39,123

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

Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ (OPEB Obligation)
<b>PSPRS</b>				
Pension	2012	\$1,293,176	103%	\$41,472
Health insurance	2012	80,595	49	(41,472)
Pension	2011	1,178,270	103	35,916
Health insurance	2011	75,341	52	(35,916)
Pension	2010	1,124,113	102	19,369
Health insurance	2010	60,555	68	(19,369)

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**Funded Status**—The funded status of the plan as of the most recent valuation date, June 30, 2012, along with the actuarial assumptions and methods used in those valuations follow. Additionally, the required Schedule of Agent Retirement Plan's Funding Progress presented in the Other Required Supplementary Information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

	<b>PSPRS</b>	
	<b>Pension</b>	<b>Health Insurance</b>
Actuarial accrued liability (a)	\$33,144,070	\$ 873,393
Actuarial value of assets (b)	14,427,189	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	18,716,881	873,393
Funded ratio (b)/(a)	43.5%	0%
Annual Covered payroll (c)	\$ 4,621,170	\$4,621,170
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a) – (b)] / (c)	405.0%	18.90%

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2012

Note 9 - Interfund Transactions

**Interfund receivables and payables**—Interfund balances at June 30, 2012, were as follows:

Payable from	Payable to						Total
	General Fund	Anti-Racketeering Fund	Highway and Streets Fund	Other Governmental Funds	Solid Waste Operations Fund	Internal Service Funds	
General Fund				\$ 19,830	\$ 90	\$158,208	\$ 178,128
Anti-Racketeering Fund	\$ 530			128,679			129,209
Capital Projects Fund	1,900						1,900
Highway and Streets Fund	13,237			149,273		253,678	416,188
Other Governmental Funds	209,817	\$1,706	\$ 11,845	147,876	83,799	9,560	464,603
Solid Waste Operations Fund	770,431		3,335			117,078	890,844
BDI Airport Fund	1,539					1,141	2,680
Internal Service Funds	64,953		115,648	2,968	122,337		305,906
<b>Total</b>	<u>\$1,062,407</u>	<u>\$1,706</u>	<u>\$130,828</u>	<u>\$448,626</u>	<u>\$206,226</u>	<u>\$539,665</u>	<u>\$2,389,458</u>

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

**Interfund transfers**—Interfund transfers for the year ended June 30, 2012, were as follows:

Transfers from	Transfers to				Total
	General Fund	Capital Projects Fund	Other Governmental Funds	Internal Service Funds	
General Fund			\$ 170,995		\$ 170,995
Anti-Racketeering Fund			83,445		83,445
Highway and Streets Fund	\$ 16,073				16,073
Other Governmental Funds	435,508	\$ 53,020	1,071,383		1,559,911
Cochise Health Systems Fund	232,796	3,179,698	2,084		3,414,578
Solid Waste Operations Fund				\$173,395	173,395
<b>Total</b>	<u>\$684,377</u>	<u>\$3,232,718</u>	<u>\$1,327,907</u>	<u>\$173,395</u>	<u>\$5,418,397</u>

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

Cochise County  
Notes to Financial Statements  
June 30, 2012

Note 10 - County Treasurer's Investment Pool

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

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

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$6,947 of cash, \$2,998,643 of deposits, and an \$878,500 investment in a U.S. Treasury money market fund. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks disclosed in Note 3.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
State Treasurer's investment pool 7	\$38,000,000	None stated	None stated	\$38,000,000
U.S. agency securities	72,750,000	0.28-2.35%	Up to 5 years	72,975,353

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

**Statement of Net Assets**

Assets	<u>\$124,462,364</u>
Net assets	<u>\$124,462,364</u>

Net assets held in trust for:

Internal participants	\$ 70,145,942
External participants	<u>54,316,422</u>
Total net assets held in trust	<u>\$124,462,364</u>

**Statement of Changes in Net Assets**

Total additions	\$307,523,182
Total deductions	<u>316,018,960</u>
Net decrease	<u>(8,495,778)</u>
Net assets held in trust:	
July 1, 2011	<u>132,958,142</u>
June 30, 2012	<u>\$124,462,364</u>

Cochise County  
Notes to Financial Statements  
June 30, 2012

Note 11 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

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

Basis of Accounting

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

**Cochise Private Industry Council, Inc.**

Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the useful lives ranging from 3 to 20 years as determined by management based on experience for each class of asset.

Program Revenues

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

B. Cash and Investments

**Housing Authority of Cochise County**

At June 30, 2012, the carrying amount of the Housing Authority's deposits was \$722,260 and the bank balance was \$725,249.

**Cochise Private Industry Council, Inc.**

At June 30, 2012, the carrying amount of the Cochise Private Industry Council, Inc.'s deposits was \$41,828 and the bank balance was \$97,321.

The Cochise Private Industry Council does not have any formal policies as it relates to custodial credit risk applicable to its deposits.

Cochise County  
Notes to Financial Statements  
June 30, 2012

C. Due from Other Governments

**Cochise Private Industry Council, Inc.**

Due from other governments consists of the following grants receivable at June 30, 2012:

<b>Program</b>	<b>Amount</b>
<i>Cochise County, Arizona</i>	
WIA Youth Program	\$ 45,743
WIA Adult Program	34,272
WIA Dislocated Workers	21,179
WIA System Building	102,144
 <i>Pima County, Arizona</i>	
State Energy Sector Grant	9,200
Veterans Employment Program	6,415
Other	<u>5,124</u>
Total	<u>\$224,077</u>

D. Schedule of Changes in Noncurrent Liabilities

**Housing Authority of Cochise County**

	<u>June 30, 2011</u>		<u>Year Ended June 30, 2011</u>		<u>June 30, 2012</u>	
	<u>Long-term Portion</u>	<u>Current Portion</u>	<u>Additions</u>	<u>Payments and Adjustments</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Accrued compensated absences	\$ 12,383	\$12,354	\$ 8,329	\$(10,766)	\$2,634	\$ 19,666
Family self-sufficiency	<u>94,038</u>	<u>          </u>	<u>45,820</u>	<u>(56,066)</u>	<u>          </u>	<u>83,792</u>
	<u>\$106,421</u>	<u>\$12,354</u>	<u>\$54,149</u>	<u>\$(66,832)</u>	<u>\$2,634</u>	<u>\$103,458</u>

E. Housing Authority Restatement of Beginning Net Assets

	<u>Invested in Capital Assets—Net of Related Debt</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total</u>
<b>Balance—beginning of year</b>	\$20,417	\$627,011	\$236,859	\$884,287
<b>Adjustments to restate beginning balance</b>				
Depreciation correction	(4,076)			(4,076)
HUD revenue not previously recognized		<u>101,314</u>		<u>101,314</u>
<b>Balance—beginning of the year, restated</b>	<u>\$16,341</u>	<u>\$728,325</u>	<u>\$236,859</u>	<u>\$981,525</u>

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## Other Required Supplementary Information

Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 35,076,033	\$ 35,076,033	\$ 35,662,090	\$ 586,057
Licenses and permits	30,000	30,000	20,586	(9,414)
Intergovernmental	13,155,112	13,155,112	13,998,886	843,774
Charges for services	2,241,270	2,241,270	2,191,523	(49,747)
Fees, fines, and forfeits	2,082,500	2,082,500	1,845,255	(237,245)
Interest	200,000	200,000	149,293	(50,707)
Miscellaneous	173,960	173,960	1,200,301	1,026,341
Total revenues	<u>52,958,875</u>	<u>52,958,875</u>	<u>55,067,934</u>	<u>2,109,059</u>
Expenditures:				
Assessor	1,614,055	1,601,965	1,621,626	(19,662)
Attorney	1,987,535	1,987,535	1,880,942	106,593
Board of Supervisors	999,467	1,045,295	975,889	69,406
Cochise Aging and Social Services	8,660,690	8,789,032	8,712,158	76,874
General Government	10,944,236	11,015,016	7,423,722	3,591,294
General Government Contingency	25,021,141	24,186,558		24,186,558
Health	965,036	907,364	1,026,277	(118,913)
Judicial System	9,050,867	9,627,295	9,327,616	299,679
Public and Legal Defenders	2,275,132	2,261,537	2,258,194	3,343
Recorder	373,902	376,017	405,506	(29,489)
Public Safety	17,554,508	17,653,240	17,105,375	547,865
School Superintendent	339,816	339,816	353,762	(13,946)
Treasurer	1,086,157	1,081,872	1,095,954	(14,082)
Total expenditures	<u>80,872,542</u>	<u>80,872,542</u>	<u>52,187,021</u>	<u>28,685,520</u>
Excess (deficiency) of revenues over expenditures	(27,913,667)	(27,913,667)	2,880,913	30,794,579
Other financing sources:				
Capital assets sales proceeds	100,600	100,600	14,898	(85,702)
Transfers in	426,462	605,556	684,377	78,821
Total other financing sources	<u>527,062</u>	<u>706,156</u>	<u>699,275</u>	<u>(6,881)</u>
Net change in fund balances	(27,386,605)	(27,207,511)	3,580,188	30,787,698
Fund balances, July 1, 2011	<u>27,386,605</u>	<u>27,207,511</u>	<u>30,640,685</u>	<u>3,433,175</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,220,873</u>	<u>\$ 34,220,873</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
Highway and Streets Fund  
Year Ended June 30, 2012

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Taxes	\$ 300,000	\$ 300,000	\$ 300,000	
Intergovernmental	9,065,000	9,065,000	8,722,269	\$ (342,731)
Charges for services	3,031,000	3,031,000	1,045,773	(1,985,227)
Investment income	35,000	35,000	19,541	(15,459)
Miscellaneous	6,073,721	6,036,371	76,576	(5,959,795)
Total revenues	<u>18,504,721</u>	<u>18,467,371</u>	<u>10,164,159</u>	<u>(8,303,212)</u>
Expenditures:				
Current:				
Highways and streets	<u>18,488,648</u>	<u>18,451,298</u>	<u>12,393,776</u>	<u>6,057,522</u>
Total expenditures	<u>18,488,648</u>	<u>18,451,298</u>	<u>12,393,776</u>	<u>6,057,522</u>
Excess (deficiency) of revenues over expenditures	16,073	16,073	(2,229,617)	(2,245,690)
Other financing sources (uses):				
Sale of capital assets			125,819	125,819
Transfers out	<u>(16,073)</u>	<u>(16,073)</u>	<u>(16,073)</u>	
Total other financing sources and uses	<u>(16,073)</u>	<u>(16,073)</u>	<u>109,746</u>	<u>125,819</u>
Net change in fund balances			<u>(2,119,871)</u>	<u>(2,119,871)</u>
Fund balances, July 1, 2011			<u>6,031,195</u>	<u>6,031,195</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,911,324</u>	<u>\$ 3,911,324</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
Anti-Racketeering Fund  
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines and forfeits	\$ 93,000	\$ 93,000	\$ 80,301	\$ (12,699)
Investment income	21,000	21,000	8,409	(12,591)
Miscellaneous	<u>1,204,545</u>	<u>1,204,545</u>	<u>                    </u>	<u>(1,204,545)</u>
Total revenues	<u>1,318,545</u>	<u>1,318,545</u>	<u>88,710</u>	<u>(1,229,835)</u>
Expenditures:				
General government	<u>919,559</u>	<u>919,559</u>	<u>240,764</u>	<u>678,795</u>
Total expenditures	<u>919,559</u>	<u>919,559</u>	<u>240,764</u>	<u>678,795</u>
Excess (deficiency) of revenues over expenditures	<u>398,986</u>	<u>398,986</u>	<u>(152,054)</u>	<u>(551,040)</u>
Other financing sources (uses):				
Sale of capital assets	245,000	245,000	231,712	(13,288)
Transfers out	<u>(643,986)</u>	<u>(643,986)</u>	<u>(83,445)</u>	<u>560,541</u>
Total other financing sources and uses	<u>(398,986)</u>	<u>(398,986)</u>	<u>148,267</u>	<u>547,253</u>
Net change in fund balances	<u>                    </u>	<u>                    </u>	<u>(3,787)</u>	<u>(3,787)</u>
Fund balances, July 1, 2011	<u>                    </u>	<u>                    </u>	<u>122,386</u>	<u>122,386</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,599</u>	<u>\$ 118,599</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2012

Note 1 - Budgeting and Budgetary Control

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

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

The General Fund's actual expenditures differ from the expenditures reported on the Governmental Fund's Statement of Revenues, Expenditures, and Changes in Fund Balances because transfers out were budgeted as expenditures.

Cochise County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plan's Funding Progress  
 June 30, 2012

**Public Safety Personnel Retirement System**

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL funding excess) (b)-(a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as a percentage of covered payroll ([b-a]/c)
<b>Pension 6/30/12</b>	\$14,427,189	\$33,144,070	\$18,716,881	43.5%	\$4,621,170	405.0%
<b>Health Insurance 6/30/12</b>	0	873,393	873,393	0.0%	4,621,170	18.9%
<b>Pension 6/30/11</b>	14,386,319	30,854,097	16,467,778	46.6%	4,862,547	338.7%
<b>Health Insurance 6/30/11</b>	0	869,714	869,714	0.0%	4,862,547	17.9%
<b>Pension 6/30/10</b>	14,002,055	27,387,342	13,385,287	51.1%	4,701,972	284.7%
<b>Health Insurance 6/30/10</b>	0	772,318	772,318	0.0%	4,701,972	16.4%

## Supplementary Information

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Agriculture</b>			
National Forest System-Law Enforcement	10.12-LE-11030518-001		\$ 10,334
Passed through the Arizona Department of Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG050274	603,669
Commodity Supplemental Food Program	10.565	HG653013	1,280
WIC Farmers' Market Nutrition Program (FMNP)	10.572	ADHS11-005806	604
Passed through Arizona State Treasurer Schools and Roads—Grants to States	10.665	Elec Credit	302,938
Natural Resources Conservation Service Emergency Watershed Protection Program	10.923		<u>183,149</u>
Total U.S. Department of Agriculture			<u>1,101,974</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through the City of Sierra Vista Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	None	35
Passed through the Arizona Department of Housing Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	127-10, 133-12, 134-12	<u>36,416</u>
Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii			<u>36,451</u>
Passed through the Arizona Department of Housing Home Investment Partnerships Program	14.239	None	19,878
Housing Opportunities for Persons with AIDS	14.241		197,247
Section 8 Housing Choice Vouchers	14.871		<u>2,244,826</u>
Total U.S. Department of Housing and Urban Development			<u>2,498,402</u>
<b>U.S. Department of the Interior</b>			
Cultural Resource Management	15.224		4,216
Payments in Lieu of Taxes	15.226		2,000,426
Passed through the Arizona State Treasurer Distribution of Receipts to State and Local Governments	15.227	Elec Credit	<u>6,093</u>
Total U.S. Department of Interior			<u>2,010,735</u>
<b>U.S. Department of Justice</b>			
Passed through the Arizona Governor's Office for Children Youth and Families Juvenile Accountability Block Grants	16.523	JB-CSG-12-2366-01	18,118
Passed through the Arizona Department of Public Safety Crime Victim Assistance	16.575	2009-VA-GX-0060	8,558
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589		29,745
State Criminal Alien Assistance Program	16.606		70,214

(Continued)

See accompanying notes to schedule.

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through the Governor's Office of Highway Safety Enforcing Underage Drinking Laws Program	16.727	2011-DOJ-013 (2010), 2012-DOJ-015 (2011)	\$ 8,897
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		48,556
Passed through the Arizona Criminal Justice Commission Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC-12-005, DC-12-030	<u>321,875</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>370,431</u>
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804		<u>63,785</u>
Total JAG program Cluster			<u>434,216</u>
Total U.S. Department of Justice			<u>569,749</u>
<b>U.S. Department of Labor</b>			
WIA Cluster:			
Passed through the Arizona Department of Economic Security			
WIA Adult Program	17.258	DE111004001	334,660
WIA Youth Activities	17.259	DE101054001, DE111004001	406,669
Workforce Investment Act-Section 503 Incentive Grants	17.267	DE111004001	38,097
Workforce Investment Act-Dislocated Worker Formula Grants	17.278	DE111004001	<u>307,672</u>
Total WIA Cluster			<u>1,087,098</u>
Passed through Pima County, Arizona			
ARRA—Programs of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	CT-CS-12-108	136,803
Veterans' Employment Program	17.802	CT-CS-12-1352	<u>68,726</u>
Total U.S. Department of Labor			<u>1,292,627</u>
<b>U.S. Department of Transportation</b>			
Airport Improvement Program	20.106		162,486
Passed through the Governor's Office of Highway Safety State and Community Highway Safety	20.600	2011-PT-013, 2012- PT010, 2011-AL- 008, 2012-AL-012	<u>16,594</u>
Total U.S. Department of Transportation			<u>179,080</u>

(Continued)

See accompanying notes to schedule.

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Institute of Museum and Library Services</b>			
Passed through the Arizona State Library, Archives and Public Records			
Grants to States	45.310	2011-31122-02	\$ <u>15,448</u>
<b>U.S. Department of Education</b>			
Passed through the Arizona Supreme Court			
Title I Grants To Local Educational Agencies	84.010	28072	75,939
Passed through the Arizona Department of Education			
Special Education-Grants to States	84.027	H027A050007	2,575
Education Technology State Grants	84.318	12FETSTP-260950-01A	63,068
English Language Acquisition Grants	84.365	12FELENG-270666-03A	11,009
Improving Teacher Quality State Grants	84.367	12FAAPD3-270666-01A	96,126
Passed through the Governor's Office of Economic Recovery			
ARRA—State Fiscal Stabilization Fund (SFSF)— Government Services, Recovery Act	84.397	OER-11-IGA-GS-12, OER-11-IGA-GS-28	<u>816,857</u>
Total U.S. Department of Education			<u>1,065,574</u>
<b>U.S. Election Assistance Commission</b>			
Passed through the Arizona Secretary of State			
Help America Vote Act Requirements Payments	90.401	Ck # 213518473	<u>39,584</u>
<b>U.S. Department of Health and Human Services</b>			
Passed through the Southeastern Arizona Governments Organization			
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	12 Amendment 12-1	256,296
Passed through the Arizona Department of Health Services			
Public Health Emergency Preparedness	93.069	ADHS12-007884	
		HG754193	180,641
Immunization Cooperative Agreements	93.268	HG854282	71,294
HIV Prevention Activities-Health Department Based	93.940	HG852278	12,701
Preventive Health Services—Sexually Transmitted Diseases Control Grants	93.977	HG854323	1,837
Maternal and Child Health Services Block Grant to the States	93.994	HG854245, HU052172	43,160
Passed through the Arizona Department of Economic Security			
Grants to States for Access and Visitation Programs	93.597	DE111155001	7,592
Passed through the Secretary of State			
Voting Access for Individuals with Disabilities—Grants to States	93.617	Ck#215372700	<u>3,427</u>
Total U.S. Department of Health and Human Services			<u>576,948</u>

(Continued)

See accompanying notes to schedule.

Cochise County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012  
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Office of National Drug Control Policy</b>			
Passed through the City of Tucson High Intensity Drug Trafficking Areas Program	95.001	HT19-09-0512, HT20-10-0512, HT20-10-2711, HT21-11-0513, HT-12-2230, HT21-11-0513	<u>\$ 549,319</u>
<b>Department of Homeland Security</b>			
Passed through the Arizona Department of Emergency and Military Affairs Emergency Management Performance Grants	97.042	222403-04	117,092
Passed through the Arizona Department of Homeland Security Homeland Security Grant Program	97.067	888421-01, 888421-02, 444433-01, 777404-04, 777404-03, 777404-02, 777-01, 888400-01, 888400-04, 888400-03, 555400-07	<u>1,136,894</u>
Total Department of Homeland Security			<u>1,253,986</u>
Total Expenditures of Federal Awards			<u>\$ 11,153,425</u>

See accompanying notes to schedule.

Cochise County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

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 2012 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount
Edward Byrne Memorial Justice Assistance Grant Program	16.738	\$ 30,782
WIA Youth Activities	17.259	225,000
Education Technology State Grants	84.318	58,008



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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 28, 2013. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Housing Authority of Cochise County and Cochise Private Industry Council, Inc., as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 12-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

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

Cochise County's response to the finding identified in our audit is presented on page 62. We did not audit the County's response, and accordingly, we express no opinion on it.

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

Debbie Davenport  
Auditor General

March 28, 2013



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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

### **Compliance**

We have audited Cochise County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012, except for that portion of the federal programs administered by the Housing Authority of Cochise County and the Cochise Private Industry Council, Inc. Those entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the compliance of those entities with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, is based solely on the reports of the other auditors. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit and the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, Cochise County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## **Internal Control over Compliance**

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We and the reports of the other auditors did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Debbie Davenport  
Auditor General

March 28, 2013

Cochise County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2012

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:		Unqualified	
Internal control over financial reporting:			
Material weaknesses identified?	Yes	No	
	___	<u>X</u>	
Significant deficiencies identified?	<u>X</u>	___	
Noncompliance material to the financial statements noted?	___	<u>X</u>	(None reported)

**Federal Awards**

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads—Grants to States
10.923	Natural Resources Conservation Service Emergency Watershed Protection Program
14.871	Section 8 Housing Choice Vouchers
17.258, 17.259, 17.267, 17.278	WIA Cluster
84.397	ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act
97.067	Homeland Security Grant Program

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

Dollar threshold used to distinguish between Type A and Type B programs: \$334,603

Auditee qualified as low-risk auditee?

Yes	No
___	<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, 2012

Financial Statement Findings

12-01

**The County should improve procedures over cash and investment record-keeping**

Criteria: The County should have effective procedures in place to ensure cash and investment balances are accurately recorded in its accounting records.

Condition and context: While testing the County's cash and investment balances, auditors noted that the County recorded a \$6.5 million deposit twice in its accounting records.

Effect: Because the County's accounting records included a \$6.5 million cash error, the County's cash and revenue balances were significantly overstated in the financial statements of its Governmental Activities, Governmental Funds, and Fiduciary Funds. The County made all necessary adjustments to their financial statements to accurately report cash and investment and revenue balances as of June 30, 2012, and for the year then ended.

Cause: The County lacked procedures and proper communication between the Treasurer's Office and the Finance Department to ensure that cash and investment balances were accurately reported in its accounting records. The Treasurer's Office included the deposit within the cash balances provided to Finance; however, Finance also included this amount as a deposit in-transit.

Recommendation: The County should establish and implement adequate policies and procedures for recording cash and investment balances at year-end. Specifically, these procedures should require that Finance discuss and verify all in-transit deposit amounts with the Treasurer's Office to ensure that cash and investment amounts are recorded only once. In addition, procedures should require that a comparison is done at year-end between the current and prior year in-transit deposit amounts to detect any unusual activity.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

Federal Award Findings and Questioned Costs

None reported.

# Board of Supervisors

**Ann English**  
Chairman  
District 2

**Richard R. Searle**  
Vice-Chairman  
District 3

**Patrick G. Call**  
Supervisor  
District 1



**Michael J. Ortega**  
County Administrator

**James E. Vlahovich**  
Deputy County Administrator

**Katie A. Howard**  
Clerk

March 14, 2013

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards*, and by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Lois Klein  
Director of Finance  
Cochise County

## Financial Statement Findings

12-01

**The County should improve procedures over cash and investment record-keeping**

Corrective Action Plan:

The County Finance Department will establish and implement procedures for recording cash and investment balances at year-end. These procedures will require the verification of in-transit deposit amounts with the Treasurer's Office and performance of a year-end comparison of the current and prior year in-transit deposit amounts to detect any abnormal activity.

# Board of Supervisors

**Ann English**  
Chairman  
District 2

**Richard R. Searle**  
Vice-Chairman  
District 3

**Patrick G. Call**  
Supervisor  
District 1



**Michael J. Ortega**  
County Administrator

**James E. Vlahovich**  
Deputy County Administrator

**Katie A. Howard**  
Clerk

March 13, 2013

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

Dear Ms. Davenport:

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

Sincerely,

Lois Klein  
Director of Finance  
Cochise County, Arizona

Cochise County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012

Status of Federal Award Findings and Questioned Costs

Finding No.: 11-101

CFDA No.: 81.128 ARRA—Energy Efficiency and conservation block Grant Program (EECBG)

U. S. Department of Energy

Status: Fully corrected

The County has made it mandatory for all employees handling federal funds to take annual training for federal grants management. On this specific grant, most of the sub-contractors are now gone, and our County Administrator is negotiating with the grantor so the County does not have to send the questioned costs of \$36,886 back to the grantor. The County has instituted new procedures for review of the grant file for proper compliance with the Davis-Bacon Act and listing provisions for monitoring of contractor and subcontractor compliance with prevailing wage requirements and submittal of appropriate documentation for the record.

Finding No.:10-103

Housing Authority of Cochise County

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

U.S. Department of Housing and Urban Development

Status: Fully Corrected

Finding No.: 11-102

CFDA No.: 14.871 Section 8 Housing Choice Vouchers

U. S. Department of Housing and Urban Development

Status: Fully corrected

Finding No.: 10-102

CFDA No.: 20.106 Airport Improvement Program

U. S. Department of Transportation

Status: Fully corrected.