



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Cochise County

Year Ended June 30, 2013

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**Debra K. Davenport**  
Auditor General

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



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Cochise County  
Single Audit Reporting Package  
Year Ended June 30, 2013

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Cochise County  
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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units of Cochise County. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Housing Authority of Cochise County and Cochise Private Industry Council, Inc., are based solely on the reports of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through xi, the Budgetary Comparison Schedules on pages 40 through 42, and the Schedule of Agent Retirement Plan's Funding Progress on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information—Schedule of Expenditures of Federal Awards*

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

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

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

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2014, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport  
Auditor General

March 27, 2014

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## Management's Discussion and Analysis

As management of Cochise County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cochise County for the fiscal year 2013. 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 \$187,866,237 (net position). Of this amount, \$50,380,004 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the close of the fiscal year, Cochise County's governmental activities reported combined ending net position of \$183,761,508, a decrease of \$502,882 over the prior year's net position.
- At the end of the fiscal year, unassigned fund balance in the General Fund was \$29,440,433, or 54.04 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 \$852,717 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 comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Required supplementary information is included in addition to the basic financial statements.

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

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

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

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

## Management's Discussion and Analysis

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

## Management's Discussion and Analysis

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

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

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

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

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

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

The notes to financial statements can be found on pages 16 through 38 of this report.

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

Required supplementary information can be found on pages 39 through 43 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 \$1,157,413. The County's main capital purchases were \$2,526,755 for roads and culverts infrastructure, \$747,697 for new vehicles, \$2,752,298 for heavy equipment vehicles, \$112,949 for various law enforcement security equipment, and a net increase of construction in progress of \$1,554,223. The current year's depreciation of capital assets totaled \$6,473,323.

## Management's Discussion and Analysis

**Statement of Net Position**—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Cochise County's assets exceeded liabilities by \$187,866,237.

### Governmental and Business-type Activities Summary Comparison Statement of Net Position June 30, 2012 and 2013

	Governmental Activities		Business-type Activities		Total	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013
Assets:						
Current and other assets	\$ 81,999,441	\$ 78,208,852	\$ 444,242	\$ (464,175)	\$ 82,443,683	\$ 77,744,677
Capital assets	<u>118,185,102</u>	<u>119,336,596</u>	<u>7,888,840</u>	<u>7,894,759</u>	<u>126,073,942</u>	<u>127,231,355</u>
Total assets	<u>200,184,543</u>	<u>197,545,448</u>	<u>8,333,082</u>	<u>7,430,584</u>	<u>208,517,625</u>	<u>204,976,032</u>
Liabilities:						
Other liabilities	6,602,675	5,461,166	77,528	54,808	6,680,203	5,515,974
Long-term liabilities	<u>9,317,478</u>	<u>8,322,774</u>	<u>3,075,796</u>	<u>3,271,047</u>	<u>12,393,274</u>	<u>11,593,821</u>
Total liabilities	<u>15,920,153</u>	<u>13,783,940</u>	<u>3,153,324</u>	<u>3,325,855</u>	<u>19,073,477</u>	<u>17,109,795</u>
Net position:						
Net investment in capital assets	113,091,900	115,096,111	7,828,775	7,864,123	120,920,675	122,960,234
Restricted	15,060,907	14,525,999			15,060,907	14,525,999
Unrestricted	<u>56,111,583</u>	<u>54,139,398</u>	<u>(2,649,017)</u>	<u>(3,759,394)</u>	<u>52,462,566</u>	<u>50,380,004</u>
Total net position	<u>\$184,264,390</u>	<u>\$183,761,508</u>	<u>\$ 5,179,758</u>	<u>\$ 4,104,729</u>	<u>\$189,444,148</u>	<u>\$187,866,237</u>

A large portion of Cochise County's net position (65.5 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 position in business-type activities, the County reported positive balances in all three categories of net position, both for the County as a whole, as well as for its separate governmental activities.

The County's total net position decreased by \$1,577,911 during the fiscal year, compared to an increase of \$4,723,988 for the prior fiscal year. This net position decrease is attributable to a decrease in charges for services and corresponding expenses for the County's Long Term Care program of \$8,684,012, decreases in charges for services for Solid Waste Operations of \$237,113 and Bisbee-Douglas International Airport of \$340,421, decreases in property taxes of \$393,571, unrestricted vehicle license tax of \$243,804, operating grants of \$1,175,560, capital grants of \$592,003, and in other revenues of \$1,719,354. These decreases were offset by increases in state shared sales tax of \$487,402. There were also increases in expenses for general government of \$2,371,642, in Health and Welfare of \$281,600, in Solid Waste Operations of \$35,824, and in Bisbee-Douglas International Airport of \$143,756 and decreases in expenses for public safety of \$816,863, in sanitation of \$111,343, in culture and recreation of \$84,986, and in education of \$135,721. The County has continued its 10 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 position for governmental and business-type activities:

### Governmental and Business-type Activities Summary Comparison Statement of Activities Years Ended June 30, 2012 and 2013

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
Revenues						
Program revenues:						
Charges for services	\$ 7,531,550	\$ 7,400,754	\$13,528,297	\$ 4,266,751	\$ 21,059,847	\$11,667,505
Operating grants and contributions	21,781,842	20,606,282			21,781,842	20,606,282
Capital grants	1,412,793	820,790			1,412,793	820,790
General revenues:						
Property taxes	33,362,144	32,968,573			33,362,144	32,968,573
State shared sales tax	11,025,392	11,512,794			11,025,392	11,512,794
Unrestricted vehicle license tax	3,669,684	3,425,880			3,669,684	3,425,880
County excise tax	6,494,453	6,463,264	244,115	281,769	6,738,568	6,745,033
Other	<u>4,272,716</u>	<u>2,638,097</u>	<u>106,582</u>	<u>21,847</u>	<u>4,379,298</u>	<u>2,659,944</u>
Total revenues	<u>89,550,574</u>	<u>85,836,434</u>	<u>13,878,994</u>	<u>4,570,367</u>	<u>103,429,568</u>	<u>90,406,801</u>
Expenses						
General government	34,445,520	36,817,162			34,445,520	36,817,162
Public safety	23,472,336	22,655,473			23,472,336	22,655,473
Highways and streets	12,194,205	12,164,235			12,194,205	12,164,235
Sanitation	642,442	531,099			642,442	531,099
Health and welfare	11,712,771	11,994,371			11,712,771	11,994,371
Culture and recreation	1,483,204	1,398,218			1,483,204	1,398,218
Education	1,052,506	916,785			1,052,506	916,785
Long-term care			8,374,807		8,374,807	
Airport			550,595	694,351	550,595	694,351
Solid waste operations			<u>4,777,194</u>	<u>4,813,018</u>	<u>4,777,194</u>	<u>4,813,018</u>
Total expenses	<u>85,002,984</u>	<u>86,477,343</u>	<u>13,702,596</u>	<u>5,507,369</u>	<u>98,705,580</u>	<u>91,984,712</u>
Increase/decrease in net position before transfers	4,547,590	(640,909)	176,398	(937,002)	4,723,988	(1,577,911)
Transfers	<u>3,587,973</u>	<u>138,027</u>	<u>(3,587,973)</u>	<u>(138,027)</u>	<u>                    </u>	<u>                    </u>
Increase (decrease) in net position	<u>\$ 8,135,563</u>	<u>\$ (502,882)</u>	<u>\$ (3,411,575)</u>	<u>\$ (1,075,029)</u>	<u>\$ 4,723,988</u>	<u>\$ (1,577,911)</u>

## Management's Discussion and Analysis

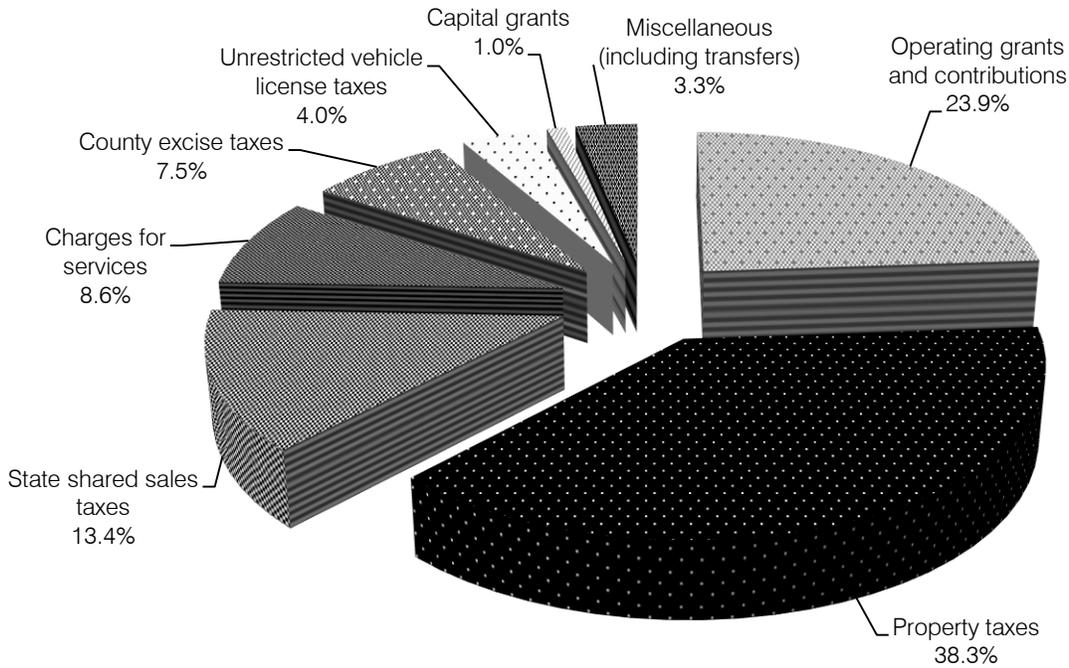
**Governmental activities**—Key elements of the decrease in net position of \$502,882 are as follows:

Major Revenues:

- **Charges for services:** These revenues decreased by \$130,796, or 1.7 percent, because of a decrease in Highways and Streets intergovernmental agreements with cities to provide road services of \$328,523 offset by an increase in public road improvements of \$71,480; an increase in general government of \$289,567 mainly consisting of judicial charges for services increase of \$239,475 for bond forfeitures and fees and fines; an increase of \$25,324 for recording fees due to an additional 1,931 documents in FY12/13; a decrease in assessor fees of \$50,056 for GIS fees that can no longer be assessed; an increase of \$33,021 for franchise and cable fees; an increase of \$15,982 for a full-year lease of space in our County Building A; a decrease in Public Safety for inmate and sheriff fees of \$107,740; a decrease of \$27,832 for building inspection fees; a decrease in Sanitation of \$48,415 for food handler fees; an overall increase in Health and Welfare for increase in Public Fiduciary fees of \$88,873; and a decrease in miscellaneous fees of \$18,598.
- **Operating grants and contributions:** These revenues decreased by \$1,175,560, or 5.4 percent, due to decreases in city, state, and federal grant revenues. The city decrease is attributable to a decrease of a \$700,000 contribution to the Douglas Service Center and a decrease in court consolidation revenue of \$55,346. The state decrease is mainly attributable to a decrease in the long-term care refund and auto theft grant. There were increases in state grant revenues for court video conferencing, public health accreditation, teen pregnancy, health policy initiative, FTF Easter Seal Blake Foundation, and health start. Federal grant revenues also decreased mainly for decreases in grant programs associated with anti-drugs, border security, bio-terrorism, emergency watershed, instructional technology, and rural domestic violence along with decreases in federal prisoner reimbursements. There were increases in federal grant revenues for airport rehabilitation, the job training program, and forest fees.
- **Capital grants:** Capital grant revenues decreased by \$592,003 over the previous year because of a drop in private donations received for a county capital project.
- **Property taxes:** The net assessed value of all taxable property in the County decreased by \$11,500,275, or 1.10 percent, over the previous year. The property tax rate remained unchanged from the previous year at \$2.6276, which resulted in a decrease in property tax revenues of \$393,571, or 1.18 percent.
- **State shared sales tax revenues:** Sales tax revenues increased by \$487,402, or 4.4 percent, from the previous year, due to modest improvements in the Arizona economy.
- **Unrestricted vehicle license taxes:** The County unrestricted vehicle license tax revenue decreased by \$243,804, or 6.6 percent. This unfavorable variance shows that Cochise County lags behind the modest improvements in the Arizona economy.
- **Other revenues:** Grants and contributions not restricted decreased by \$14,252, or 0.71 percent due to a decrease in Payment in Lieu of Taxes. The decrease in investment income of \$146,676 reflects lower cash balances. This also includes a decrease of \$182,421 on gain on sale of capital assets. Miscellaneous revenue also decreased by \$1,291,270 mainly due to a decrease in unrecorded deposits for county funds of \$1,744,996. The balance is due to various decreases in other sources.

# Management's Discussion and Analysis

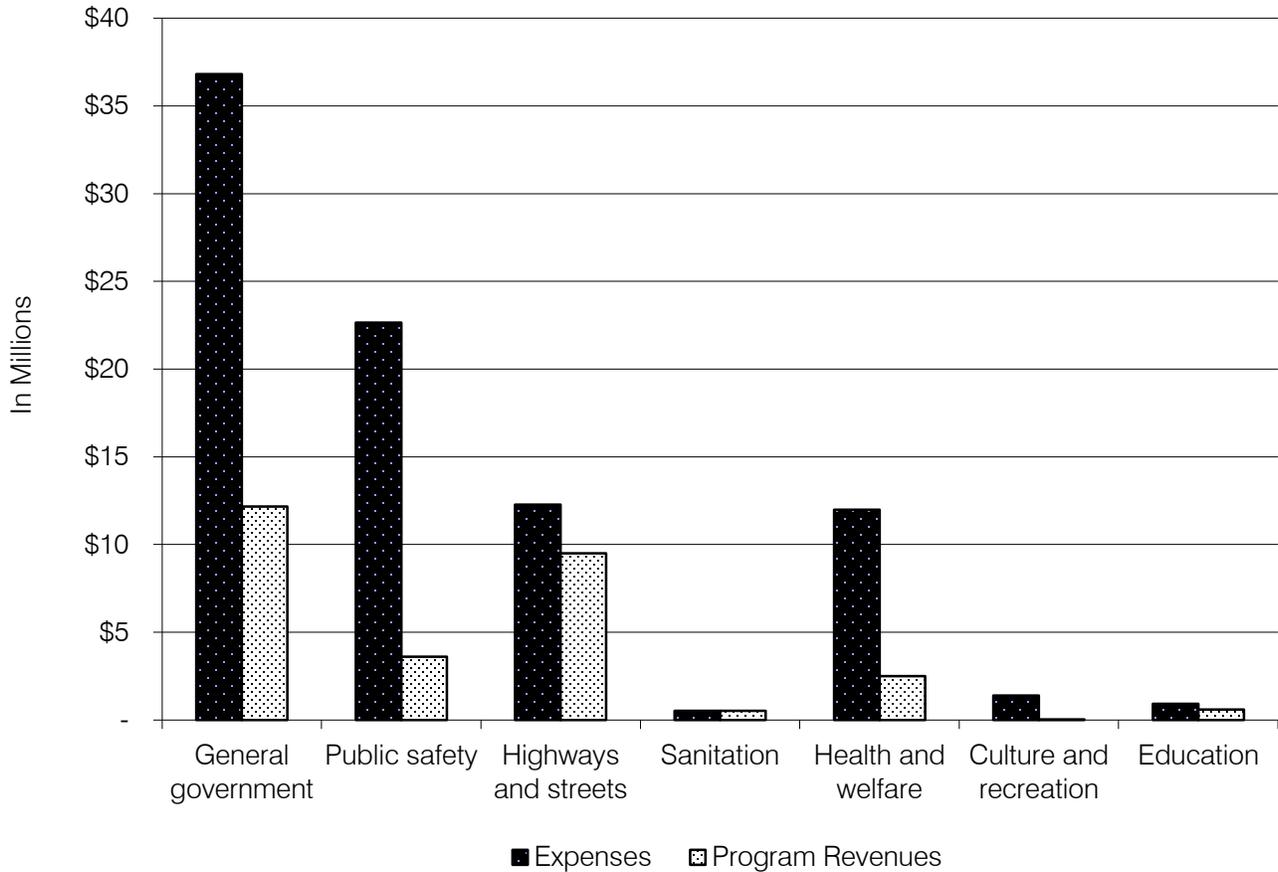
## Revenues and Transfers by Source—Governmental Activities Fiscal Year 2013



**Expenses**—Overall expenses in the governmental activities increased by \$1,474,359, or 1.73 percent. Retirement expenses increased by \$407,808 and health insurance expenses increased by \$183,548, both of which were offset primarily by the County's conservative budgeting philosophy and ongoing 10 percent personnel cut. Expenses were further decreased by reduced salary expenses because of vacant positions beyond the 10 percent personnel cut. Public safety expenses decreased by \$816,863 overall, due to reductions in border security and anti-drug and emergency watershed grants, along with a decrease in jail medical due to better management, and an increase in our medical examiner contract. General government expenses increased by \$2,371,642 due to an increase in the job training program pass-through, ADOT repairs at the county airport, additional grants for projects at the BDI Airport, and a second performance incentive for employees. Health and Welfare expenses increased overall by \$281,600—mainly for a new program to provide evidenced-based home visiting curriculum for an additional 200 families. Education expenses decreased by \$135,721 due to a reduction in state and federal grants and forest fees.

## Management's Discussion and Analysis

### Expenses vs. Revenues by Function—Governmental Activities Fiscal Year 2013



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

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

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

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

## Management's Discussion and Analysis

Net position of the business-type activities decreased by \$1,075,029. This net position decrease resulted from operating losses in the Solid Waste Operations Fund and the Bisbee-Douglas International Airport Fund and from a decrease in charges for services revenues with the closure of the Cochise Health Systems in the prior year. 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, 2013, the total fund balance was \$30,510,247. 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, 2013, the fund balance represents 56.01 percent of total General Fund expenditures.

The fund balance of the General Fund decreased by \$3,710,626 during the fiscal year, compared to an increase of \$3,580,188 for the prior year. Contributing factors were a more than \$3 million general fund contribution to the Highway and Streets Fund to help make up for dwindling HURF revenues; decreases in tax revenues (property, auto lieu, and excise taxes) and miscellaneous revenues; increases in expenditures for return to competency, county airport repairs, medical examiner contract, retirement and health costs; and decreases in reimbursement of overhead costs (from labor reductions in the Highways and Streets Fund).

The fund balance of the Capital Projects Fund increased by \$1,474,577 during the fiscal year, compared to an increase of \$897,521 for the prior year. Contributing factors were the reduction in capital outlay offset by absence of the residual equity transfer from Cochise Health Systems Fund.

The fund balance of the Highway and Streets Fund decreased by \$166,396, compared to a decrease of \$2,119,871 for the prior year. Contributing factors were the \$3 million transfer from the General Fund offset by less IGA revenues and additional expenses.

**Proprietary funds**— The County's proprietary fund statements provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. The net position of Bisbee-Douglas International Airport Fund decreased by \$336,609 primarily due to hosting fewer military exercises in FY12/13. The net position of the Solid Waste Operations Fund decreased by \$738,420 primarily due to decreased revenues of \$237,113, \$67,383 in recycling, and \$169,730 in tipping fees and increases of \$36,983 in operating expenses.

# Management's Discussion and Analysis

## **Capital Asset and Debt Administration**

### **Capital Assets**

The County's total amount invested in capital assets for governmental and business-type activities as of June 30, 2013, was \$122,960,234 (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 \$104,050 in additional costs for the Douglas Service Center and \$17,444 for IT equipment along with \$646,489 for construction in progress for airport improvement grants.
- Capital outlay expenditures in the Highway and Streets Fund primarily consist of \$2,526,755 for new roads and culverts infrastructure, and \$462,599 for construction in progress for roads.
- Capital asset acquisitions in the Solid Waste Operations Fund consist of \$450,976 for construction in progress for new cell construction at the Western Regional Landfill.
- Programmed vehicle replacement and additions of new vehicles totaled \$747,697 in Fleet Management (an Internal Service Fund).
- Programmed vehicle replacement and additions of new vehicles totaled \$2,752,298 in Heavy Fleet Management (an Internal Service Fund).
- Capital outlay expenditures in the General Fund consist of \$27,431 for security equipment.
- Major capital outlay expenditures in the special revenue funds consist of \$112,949 for the Sheriff's department for two repeaters and investigation equipment and \$43,202 for construction in progress on a firing range. The Flood Control Fund spent \$72,046 on land and right of way.

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

### **Long-term Debt**

At June 30, 2013, the County had certificates of participation and capital lease long-term liabilities outstanding of \$4,271,121, as compared to \$5,153,267 in the prior year. This amount comprised \$3,907,433 of certificates of participation issued in 2002 (including unamortized premium of \$32,433) and \$363,688 in capital leases. The change in these long-term liabilities includes the normal annual debt service payments.

Cochise County has no general obligation or revenue bonds outstanding.

### **Budgetary Comparison—General Fund**

The favorable variance in revenues of \$455,844 was primarily due to slightly higher than expected property tax revenues, state shared sales tax, and charges for services, offset by lower than expected investment income due to lower cash balances, and no miscellaneous revenue due to reversal of the large FY11/12 unrecorded deposits.

## Management's Discussion and Analysis

Most of the favorable variances in expenses were due to conservative budgeting and vacancy savings from a hiring freeze. The favorable variance of \$26,339,338 in the General Fund's expenditures resulted primarily from unspent general government contingency funds and lower than expected general government and Public Safety costs.

### **Economic Factors**

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2013, was 8.4 percent compared to 8.0 percent state-wide and 7.6 percent nation-wide. The rate has increased from 8.2 percent in the prior year and has been consistently below or near the overall state rate in prior years. Within the County, the rate varies widely between the incorporated areas, ranging from a low of 5.8 percent in Tombstone to the high of 14.6 percent in Benson.
- For fiscal year 2013, the county government was the second largest employer in the County. Ft. Huachuca is the County's largest employer, with 8,296 employees compared to 823 for the county government and 700 for Sierra Vista Unified School District.
- The County's primary property tax rate has either remained the same or decreased each year for the past 20 years.
- The County's expense for employee health insurance increased by 2.78 percent from the previous year, and actual retirement costs went up by \$407,808, which was less than expected due to various vacancies throughout the County.

### **Request for Information**

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

## Financial Statements

Cochise County  
Statement of Net Position  
June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash in bank and on hand	\$ 229,234	\$ 2,150	\$ 231,384	\$ 441,466
Cash and investments held by County Treasurer	65,733,330	74,109	65,807,439	
Cash and investments held by trustee	878,500		878,500	213,924
Receivables (net of allowances for uncollectibles):				
Property taxes	2,240,275		2,240,275	
Accounts	1,054,209	766,460	1,820,669	211
Accrued interest	29,053	478	29,531	
Internal balances	1,343,735	(1,343,735)		
Due from other governments	6,700,516	36,363	6,736,879	154,140
Prepaid items				2,972
Other assets				6,729
Capital assets, not being depreciated	3,578,275	2,094,206	5,672,481	
Capital assets, being depreciated, net	<u>115,758,321</u>	<u>5,800,553</u>	<u>121,558,874</u>	<u>77,591</u>
Total assets	<u>197,545,448</u>	<u>7,430,584</u>	<u>204,976,032</u>	<u>897,033</u>
<b>Liabilities</b>				
Accounts payable	1,560,120	22,662	1,582,782	65,083
Accrued payroll and employee benefits	1,434,459	27,282	1,461,741	
Due to other governments	2,446,247		2,446,247	66,231
Deposits held for others	19,366	1,600	20,966	44,911
Deferred revenue	974	3,264	4,238	56,535
Noncurrent liabilities:				
Due within 1 year	3,601,425	132,534	3,733,959	1,506
Due in more than 1 year	<u>4,721,349</u>	<u>3,138,513</u>	<u>7,859,862</u>	<u>108,835</u>
Total liabilities	<u>13,783,940</u>	<u>3,325,855</u>	<u>17,109,795</u>	<u>343,101</u>
<b>Net Position</b>				
Net investment in capital assets	115,096,111	7,864,123	122,960,234	77,591
Restricted for:				
Education	82,907		82,907	
Flood	5,936,242		5,936,242	
Health	469,171		469,171	
Judicial	3,062,805		3,062,805	
Public safety	1,018,749		1,018,749	
Library	2,329,248		2,329,248	
Debt service	878,500		878,500	
Other	748,377		748,377	
Housing programs				142,502
Workforce development				87,431
Unrestricted (deficit)	<u>54,139,398</u>	<u>(3,759,394)</u>	<u>50,380,004</u>	<u>246,408</u>
Total net position	<u>\$ 183,761,508</u>	<u>\$ 4,104,729</u>	<u>\$ 187,866,237</u>	<u>\$ 553,932</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Activities  
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			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	\$ 36,817,162	\$ 5,408,936	\$ 6,659,860		\$ (24,748,366)		\$ (24,748,366)	
Public safety	22,655,473	623,401	2,160,466	\$ 820,790	(19,050,816)		(19,050,816)	
Highways and streets	12,164,235	777,190	8,719,903		(2,667,142)		(2,667,142)	
Sanitation	531,099	290,787	229,813		(10,499)		(10,499)	
Health and welfare	11,994,371	272,016	2,225,398		(9,496,957)		(9,496,957)	
Culture and recreation	1,398,218		33,944		(1,364,274)		(1,364,274)	
Education	916,785	28,424	576,898		(311,463)		(311,463)	
Total governmental activities	86,477,343	7,400,754	20,606,282	820,790	(57,649,517)		(57,649,517)	
Business-type activities:								
Bisbee-Douglas International Airport	694,351	318,366				\$ (375,985)	(375,985)	
Solid Waste Operations	4,813,018	3,948,385				(864,633)	(864,633)	
Total business-type activities	5,507,369	4,266,751				(1,240,618)	(1,240,618)	
Total primary government	\$ 91,984,712	\$ 11,667,505	\$ 20,606,282	\$ 820,790	(57,649,517)	(1,240,618)	(58,890,135)	
<b>Component units:</b>								
Housing Authority of Cochise County	\$ 3,166,331		\$ 2,987,415					\$ (178,916)
Cochise Private Industry Council, Inc.	1,718,121		1,685,258					(32,863)
Total component units	\$ 4,884,452		\$ 4,672,673					(211,779)
General revenues:								
Taxes								
Property taxes, levied for general purposes					29,145,912		29,145,912	
Property taxes, levied for flood control					2,305,382		2,305,382	
Property taxes, levied for library					1,517,279		1,517,279	
County excise taxes					6,463,264	281,769	6,745,033	
Share of state sales taxes					11,512,794		11,512,794	
Share of unrestricted vehicle license tax					3,425,880		3,425,880	
Grants and contributions not restricted to specific programs					1,986,080		1,986,080	
Investment income					133,637	20,922	154,559	602
Miscellaneous					439,594	275	439,869	22,962
Gain on sale of capital assets					78,786	650	79,436	
Transfers					138,027	(138,027)	-	
Total general revenues and transfers					57,146,635	165,589	57,312,224	23,564
Change in net position					(502,882)	(1,075,029)	(1,577,911)	(188,215)
Net position, July 1, 2012					184,264,390	5,179,758	189,444,148	742,147
Net position, June 30, 2013					\$ 183,761,508	\$ 4,104,729	\$ 187,866,237	\$ 553,932

See accompanying notes to financial statements.

Cochise County  
Balance Sheet  
Governmental Funds  
June 30, 2013

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Highway and Streets Fund</u>		
<b>Assets</b>					
Cash in bank and on hand	\$ 87,864			\$ 141,170	\$ 229,034
Cash and investments held by County Treasurer	29,529,099	\$ 16,384,316	\$ 680,153	14,441,771	61,035,339
Cash and investments held by trustee		878,500			878,500
Receivables (net of allowances for uncollectibles):					
Property taxes	1,861,644			378,631	2,240,275
Accounts	855,179		73,529	97,215	1,025,923
Accrued interest	11,741	8,538		6,689	26,968
Due from:					
Other funds	1,862,075	109	2,305,180	577,368	4,744,732
Other governments	3,310,878	639,797	1,602,619	1,117,359	6,670,653
Total assets	<u>\$37,518,480</u>	<u>\$17,911,260</u>	<u>\$4,661,481</u>	<u>\$16,760,203</u>	<u>\$76,851,424</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 519,972	\$ 121,217	\$ 276,155	\$ 522,980	\$ 1,440,324
Accrued payroll and employee benefits	982,744		111,365	321,138	1,415,247
Due to:					
Other funds	2,393,998	22,058	529,033	932,704	3,877,793
Other governments	1,590,384			855,863	2,446,247
Deposits held for others	7,757			11,609	19,366
Certificates of participation payable		710,000			710,000
Deferred revenue	1,513,378			307,768	1,821,146
Total liabilities	<u>7,008,233</u>	<u>853,275</u>	<u>916,553</u>	<u>2,952,062</u>	<u>11,730,123</u>
Fund balances:					
Restricted		878,500		13,951,214	14,829,714
Committed	266,417	609,676			876,093
Assigned	803,397	15,569,809	3,744,928	427,402	20,545,536
Unassigned	29,440,433			(570,475)	28,869,958
Total fund balances	<u>30,510,247</u>	<u>17,057,985</u>	<u>3,744,928</u>	<u>13,808,141</u>	<u>65,121,301</u>
Total liabilities and fund balances	<u>\$37,518,480</u>	<u>\$17,911,260</u>	<u>\$4,661,481</u>	<u>\$16,760,203</u>	<u>\$76,851,424</u>

See accompanying notes to financial statements.

Cochise County  
 Reconciliation of the Balance Sheet to the Statement of Net Position  
 Governmental Funds  
 June 30, 2013

Fund balances—total governmental funds		\$ 65,121,301
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		109,307,048
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,820,172
Internal service funds are used by management to charge the costs of certain activities, such as insurance, automotive maintenance and operation, telecommunications, and information technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		14,970,264
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Certificates of participation payable	(3,197,433)	
Capital leases payable	(310,035)	
Compensated absences payable	<u>(3,949,809)</u>	<u>(7,457,277)</u>
Net position of governmental activities		<u>\$ 183,761,508</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2013

	<b>Major Funds</b>				<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Highway and Streets Fund</b>	<b>Other Governmental Funds</b>	
Revenues:					
Taxes	\$34,740,476	\$ 2,942,595	\$ 300,000	\$ 4,823,163	\$42,806,234
Licenses and permits	22,618				22,618
Fees, fines, and forfeits	1,959,677			114,883	2,074,560
Intergovernmental	14,586,641	617,916	8,704,903	10,614,211	34,523,671
Charges for services	2,376,497		777,190	2,149,890	5,303,577
Investment income	58,726	27,441	26,361	21,109	133,637
Miscellaneous			15,978	825,890	841,868
Total revenues	<u>53,744,635</u>	<u>3,587,952</u>	<u>9,824,432</u>	<u>18,549,146</u>	<u>85,706,165</u>
Expenditures:					
Current:					
General government	26,343,041	557,370		8,299,303	35,199,714
Public safety	17,508,786			4,918,491	22,427,277
Highways and streets			12,963,293	337,745	13,301,038
Sanitation	332,665			198,434	531,099
Health and welfare	9,814,379			2,179,992	11,994,371
Culture and recreation				1,398,218	1,398,218
Education	336,977			579,808	916,785
Debt service:					
Principal	95,330	710,000			805,330
Interest and other charges	15,462	173,138			188,600
Capital outlay	27,431	714,100		233,037	974,568
Total expenditures	<u>54,474,071</u>	<u>2,154,608</u>	<u>12,963,293</u>	<u>18,145,028</u>	<u>87,737,000</u>
Excess (deficiency) of revenues over expenditures	<u>(729,436)</u>	<u>1,433,344</u>	<u>(3,138,861)</u>	<u>404,118</u>	<u>(2,030,835)</u>
Other financing sources (uses):					
Sale of capital assets	12,985		32,936	79,400	125,321
Transfers in	378,376	41,233	3,157,097	1,473,135	5,049,841
Transfers out	<u>(3,372,551)</u>		<u>(217,568)</u>	<u>(1,459,722)</u>	<u>(5,049,841)</u>
Total other financing sources and uses	<u>(2,981,190)</u>	<u>41,233</u>	<u>2,972,465</u>	<u>92,813</u>	<u>125,321</u>
Net change in fund balances	(3,710,626)	1,474,577	(166,396)	496,931	(1,905,514)
Fund balances, July 1, 2012	<u>34,220,873</u>	<u>15,583,408</u>	<u>3,911,324</u>	<u>13,311,210</u>	<u>67,026,815</u>
Fund balances, June 30, 2013	<u>\$30,510,247</u>	<u>\$17,057,985</u>	<u>\$3,744,928</u>	<u>\$13,808,141</u>	<u>\$65,121,301</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, 2013

Net change in fund balances—total governmental funds		\$ (1,905,514)
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	4,017,805	
Depreciation expense	<u>(4,558,677)</u>	(540,872)
<p>In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.</p>		
		(100,418)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		48,148
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Principal repaid	805,330	
Amortization of premium	<u>16,216</u>	821,546
<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>		
Decrease in compensated absences		149,555
<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 internal service funds is reported with governmental activities in the Statement of Activities.</p>		
		<u>1,024,673</u>
Change in net position of governmental activities		<u>\$ (502,882)</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Net Position  
Proprietary Funds  
June 30, 2013

	<u>Business-Type Activities—Enterprise Funds</u>			Governmental Activities—
	<u>Major Fund</u>	Other Enterprise— BDI <u>Airport Fund</u>	<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		\$ 74,109	74,109	4,697,991
Receivables (net of allowances for uncollectibles):				
Accounts	718,819	47,641	766,460	28,286
Accrued interest	439	39	478	2,085
Due from:				
Other funds	121,993		121,993	562,995
Other governments	36,363		36,363	29,863
Total current assets	<u>879,764</u>	<u>121,789</u>	<u>1,001,553</u>	<u>5,321,420</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation, where applicable:				
Land	24,900	1,575,000	1,599,900	
Construction in progress	494,306		494,306	
Buildings, net	3,216,552	9,498	3,226,050	118,519
Improvements other than buildings, net	1,066,958	971,081	2,038,039	
Equipment, net	486,936	49,528	536,464	9,911,029
Total noncurrent assets	<u>5,289,652</u>	<u>2,605,107</u>	<u>7,894,759</u>	<u>10,029,548</u>
Total assets	<u>6,169,416</u>	<u>2,726,896</u>	<u>8,896,312</u>	<u>15,350,968</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	17,702	4,960	22,662	119,796
Accrued payroll and employee benefits	25,452	1,830	27,282	19,212
Due to other funds	1,464,083	1,645	1,465,728	86,199
Compensated absences payable, current portion	71,392	7,182	78,574	89,463
Landfill closure and postclosure care costs payable, current portion	23,324		23,324	
Deposits held for others		1,600	1,600	
Capital leases payable, current portion	30,636		30,636	23,017
Deferred revenue		3,264	3,264	
Total current liabilities	<u>1,632,589</u>	<u>20,481</u>	<u>1,653,070</u>	<u>337,687</u>

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Net Position  
Proprietary Funds  
June 30, 2013  
(Concluded)

	<u>Business-Type Activities—Enterprise Funds</u>			Governmental
	<u>Major Fund</u>	Other Enterprise— BDI Airport Fund	<u>Total</u>	Activities—  Internal Service Funds
Noncurrent liabilities:				
Compensated absences payable	\$ 3,939		\$ 3,939	\$ 43,017
Landfill closure and postclosure care costs payable	<u>3,134,574</u>		<u>3,134,574</u>	
Total noncurrent liabilities	<u>3,138,513</u>		<u>3,138,513</u>	<u>43,017</u>
 Total liabilities	<u>4,771,102</u>	\$ 20,481	<u>4,791,583</u>	<u>380,704</u>
 <b>Net Position</b>				
Net investment in capital assets	5,259,016	2,605,107	7,864,123	10,006,531
Unrestricted (deficit)	<u>(3,860,702)</u>	<u>101,308</u>	<u>(3,759,394)</u>	<u>4,963,733</u>
 Total net position	<u>\$ 1,398,314</u>	<u>\$ 2,706,415</u>	<u>\$ 4,104,729</u>	<u>\$ 14,970,264</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
Year Ended June 30, 2013

	<u>Business-Type Activities—Enterprise Funds</u>			<u>Governmental</u>
	<u>Major Fund</u>			<u>Activities—</u>
	<u>Solid Waste Operations Fund</u>	<u>Other Enterprise— BDI Airport Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
Operating revenues:				
Charges for services	\$ 3,948,385	\$ 318,366	\$ 4,266,751	\$ 7,064,250
Charges for health insurance				7,720,793
Other				13,247
Total operating revenues	<u>3,948,385</u>	<u>318,366</u>	<u>4,266,751</u>	<u>14,798,290</u>
Operating expenses:				
Personal services	1,824,625	128,526	1,953,151	1,146,528
Professional services	1,804,607	328,788	2,133,395	7,868,296
Supplies	183,825	143,285	327,110	3,567,102
Landfill closure and postclosure care costs	251,105		251,105	
Depreciation	338,306	93,752	432,058	1,482,588
Other	408,407		408,407	178,279
Total operating expenses	<u>4,810,875</u>	<u>694,351</u>	<u>5,505,226</u>	<u>14,242,793</u>
Operating income (loss)	(862,490)	(375,985)	(1,238,475)	555,497
Nonoperating revenues (expenses):				
County excise taxes	244,115	37,654	281,769	227,532
Investment income	19,475	1,447	20,922	(37)
Miscellaneous revenue		275	275	
Interest expense	(2,143)		(2,143)	(3,586)
Gain (loss) on disposal of capital assets	650		650	107,240
Total nonoperating revenues (expenses)	<u>262,097</u>	<u>39,376</u>	<u>301,473</u>	<u>331,149</u>
Income (loss) before transfers	(600,393)	(336,609)	(937,002)	886,646
Transfers in				138,027
Transfers out	(138,027)		(138,027)	
Increase (decrease) in net position	(738,420)	(336,609)	(1,075,029)	1,024,673
Total net position, July 1, 2012	<u>2,136,734</u>	<u>3,043,024</u>	<u>5,179,758</u>	<u>13,945,591</u>
Total net position, June 30, 2013	<u>\$ 1,398,314</u>	<u>\$ 2,706,415</u>	<u>\$ 4,104,729</u>	<u>\$ 14,970,264</u>

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2013

	<u>Business-Type Activities—Enterprise Funds</u>			<u>Governmental</u>
	<u>Major Fund</u>	<u>Other</u>	<u>Total</u>	<u>Activities—</u>
	<u>Solid Waste</u>	<u>Enterprise—</u>		
	<u>Operations</u>	<u>BDI</u>		<u>Service</u>
	<u>Fund</u>	<u>Airport Fund</u>		<u>Funds</u>
Cash flows from operating activities:				
Receipts from customers	\$ 4,018,622	\$ 331,746	\$ 4,350,368	
Receipts from other funds for goods and services provided				\$ 14,753,416
Other receipts				13,247
Payments to suppliers and providers of goods and services	(3,090,525)	(482,881)	(3,573,406)	(11,946,044)
Payments to employees	(1,833,081)	(143,351)	(1,976,432)	(1,138,097)
Net cash provided by (used for) operating activities	<u>(904,984)</u>	<u>(294,486)</u>	<u>(1,199,470)</u>	<u>1,682,522</u>
Cash flows from noncapital financing activities:				
Miscellaneous receipts	244,115	37,929	282,044	227,532
Cash transfers from other funds				138,027
Cash transfers to other funds	(138,027)		(138,027)	
Loan received from other funds	<u>1,248,496</u>		<u>1,248,496</u>	
Net cash provided by noncapital financing activities	<u>1,354,584</u>	<u>37,929</u>	<u>1,392,513</u>	<u>365,559</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	13,649		13,649	331,864
Purchases of capital assets	(450,976)		(450,976)	(3,499,996)
Principal paid on capital leases	(29,429)		(29,429)	(66,171)
Interest paid on capital leases	(2,143)		(2,143)	(3,586)
Net cash used for capital and related financing activities	<u>(468,899)</u>		<u>(468,899)</u>	<u>(3,237,889)</u>
Cash flows from investing activities:				
Investment income received on cash and investments held by County Treasurer	<u>19,299</u>	<u>1,582</u>	<u>20,881</u>	<u>735</u>
Net cash provided by investing activities	<u>19,299</u>	<u>1,582</u>	<u>20,881</u>	<u>735</u>
Net decrease in cash and cash equivalents		(254,975)	(254,975)	(1,189,073)
Cash and cash equivalents, July 1, 2012	<u>2,150</u>	<u>329,084</u>	<u>331,234</u>	<u>5,887,264</u>
Cash and cash equivalents, June 30, 2013	<u>\$ 2,150</u>	<u>\$ 74,109</u>	<u>\$ 76,259</u>	<u>\$ 4,698,191</u>

(Continued)

See accompanying notes to financial statements.

Cochise County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2013  
(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
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (862,490)	\$ (375,985)	\$ (1,238,475)	\$ 555,497
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	338,306	93,752	432,058	1,482,588
Changes in assets and liabilities:				
Accounts receivable	(15,919)	11,042	(4,877)	(10,182)
Due from other funds	84,233		84,233	(23,330)
Due from other governments	1,923		1,923	1,885
Accounts payable	(12,469)	(9,773)	(22,242)	(112,660)
Accrued payroll and employee benefits	(2,413)	(403)	(2,816)	863
Due to other funds	(675,257)	(1,035)	(676,292)	(219,707)
Compensated absences payable	(6,043)	(14,422)	(20,465)	7,568
Landfill closure and postclosure care costs payable	245,145		245,145	
Deferred revenue		2,338	2,338	
Net cash provided by (used for) operating activities	<u>\$ (904,984)</u>	<u>\$ (294,486)</u>	<u>\$ (1,199,470)</u>	<u>\$ 1,682,522</u>
Cash and cash equivalents, June 30, 2013, consisted of:				
Cash in bank and on hand	2,150		2,150	200
Cash and investments held by County Treasurer		74,109	74,109	4,697,991
Total cash and cash equivalents	<u>\$ 2,150</u>	<u>\$ 74,109</u>	<u>\$ 76,259</u>	<u>\$ 4,698,191</u>

Noncash capital financing activities:

The Internal Service Funds sold equipment with a net book value of \$224,624 and received cash of \$331,864.

The Solid Waste Fund sold equipment with a net book value of \$12,999 and received cash of \$13,649.

See accompanying notes to financial statements.

Cochise County  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2013

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash in bank and on hand		\$ 1,559,009
Cash and investments held by County Treasurer	\$ 35,390,210	
Interest receivable	<u>126</u>	
Total assets	<u>\$ 35,390,336</u>	<u>\$ 1,559,009</u>
<b>Liabilities</b>		
Due to other governments		<u>\$ 1,559,009</u>
Total liabilities		<u>\$ 1,559,009</u>
<b>Net Position</b>		
Held in trust for investment trust participants	<u>\$ 35,390,336</u>	

See accompanying notes to financial statements.

Cochise County  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended June 30, 2013

	<b>Investment Trust Funds</b>
Additions:	
Contributions from participants	\$ 193,520,403
Investment income	<u>415,918</u>
Total additions	<u>193,936,321</u>
 Deductions:	
Distributions to participants	<u>212,862,643</u>
Total deductions	<u>212,862,643</u>
 Change in net position	 (18,926,322)
 Net position, July 1, 2012	 <u>54,316,658</u>
 Net position, June 30, 2013	 <u>\$ 35,390,336</u>

See accompanying notes to financial statements.

Cochise County  
Combining Statement of Net Position  
Component Units  
June 30, 2013

	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
<b>Assets</b>			
Cash in bank and on hand	\$ 319,139	\$ 122,327	\$ 441,466
Cash and investments held by trustee	213,924		213,924
Receivables (net of allowances for uncollectibles):			
Accounts	211		211
Due from other governments	2,082	152,058	154,140
Prepaid items	2,972		2,972
Other assets		6,729	6,729
Capital assets, being depreciated, net	<u>12,152</u>	<u>65,439</u>	<u>77,591</u>
Total assets	<u>550,480</u>	<u>346,553</u>	<u>897,033</u>
<b>Liabilities</b>			
Accounts payable	7,931	57,152	65,083
Due to other governments	66,231		66,231
Due to related party		44,911	44,911
Deferred revenue	53,654	2,881	56,535
Noncurrent liabilities			
Due within 1 year	1,506		1,506
Due in more than 1 year	<u>83,383</u>	<u>25,452</u>	<u>108,835</u>
Total liabilities	<u>212,705</u>	<u>130,396</u>	<u>343,101</u>
<b>Net Position</b>			
Net investment in capital assets	12,152	65,439	77,591
Restricted for housing programs	142,502		142,502
Restricted for workforce development		87,431	87,431
Unrestricted	<u>183,121</u>	<u>63,287</u>	<u>246,408</u>
Total net position	<u>\$ 337,775</u>	<u>\$ 216,157</u>	<u>\$ 553,932</u>

See accompanying notes to financial statements.

Cochise County  
Combining Statement of Activities  
Component Units  
Year Ended June 30, 2013

		<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Housing Authority of Cochise County</u>	<u>Cochise Private Industry Council, Inc.</u>	<u>Total</u>
<b>Component units:</b>					
Housing Authority of Cochise County	\$ 3,166,331	\$ 2,987,415	\$ (178,916)		\$ (178,916)
Cochise Private Industry Council, Inc.	<u>1,718,121</u>	<u>1,685,258</u>		\$ (32,863)	<u>(32,863)</u>
Total component units	<u>\$ 4,884,452</u>	<u>\$ 4,672,673</u>	<u>(178,916)</u>	<u>(32,863)</u>	<u>(211,779)</u>
General revenues:					
Investment income			602		602
Miscellaneous			<u>3,646</u>	<u>19,316</u>	<u>22,962</u>
Total general revenues			<u>4,248</u>	<u>19,316</u>	<u>23,564</u>
Change in net position			(174,668)	(13,547)	(188,215)
Net position, July 1, 2012			<u>512,443</u>	<u>229,704</u>	<u>742,147</u>
Net position, June 30, 2013			<u>\$ 337,775</u>	<u>\$ 216,157</u>	<u>\$ 553,932</u>

See accompanying notes to financial statements.

Cochise County  
Notes to Financial Statements  
June 30, 2013

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, 2013

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 position 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, 2013

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

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

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

The County reports the following major governmental funds:

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

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

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

The County reports the following major enterprise fund:

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

Cochise County  
Notes to Financial Statements  
June 30, 2013

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 and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus, but utilize the accrual basis of accounting for reporting its assets and liabilities. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

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

Cochise County  
Notes to Financial Statements  
June 30, 2013

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. Property Tax Calendar

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

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

F. Capital Assets

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets 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	\$10,000	Straight-line	15-50 years
Improvements other than buildings	10,000	Straight-line	10-45 years
Equipment	10,000	Straight-line	5-25 years
Infrastructure	50,000	Straight-line	10-50 years

G. 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.

Cochise County  
Notes to Financial Statements  
June 30, 2013

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

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

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

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

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

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

## H. Investment Income

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

## I. Compensated Absences

Compensated absences 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 calendar 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.

Cochise County  
Notes to Financial Statements  
June 30, 2013

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.

Note 2 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2013, were as follows:

	<u>General 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
Flood control				\$ 6,045,456	6,045,456
Health services				490,677	490,677
Judicial services				3,203,202	3,203,202
Library services				970,710	970,710
Law enforcement				2,379,313	2,379,313
Education services				86,707	86,707
Other services				775,149	775,149
Total restricted		878,500		13,951,214	14,829,714
<b>Committed to:</b>					
Board of Supervisors	\$ 39,826				39,826
Facilities	226,591				226,591
Capital projects		609,676			609,676
Total committed	266,417	609,676			876,093
<b>Assigned to:</b>					
Capital projects		15,569,809			15,569,809
Highways and streets			3,744,928		3,744,928
Health services				360,305	360,305
Education				67,097	67,097
Other	803,397				803,397
Total assigned	803,397	15,569,809	3,744,928	427,402	20,545,536
<b>Unassigned:</b>	29,440,433			(570,475)	28,869,958
Total fund balances	<u>\$30,510,247</u>	<u>\$17,057,985</u>	<u>\$3,744,928</u>	<u>\$13,808,141</u>	<u>\$65,121,301</u>

Cochise County  
Notes to Financial Statements  
June 30, 2013

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; 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.

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 as of the date of purchase.
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, 2013, the carrying amount of the County's deposits was \$8,282,779, and the bank balance was \$10,226,404. The County does not have a formal policy with respect to custodial credit risk.

Cochise County  
Notes to Financial Statements  
June 30, 2013

**Investments**—The County's investments at June 30, 2013, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$24,000,000
U.S. agency securities	61,988,290
U.S. Treasury money market fund	878,500
Repurchase agreement	<u>8,709,927</u>
	<u>\$95,576,717</u>

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

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

At June 30, 2013, 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	\$24,000,000
U.S. agency securities	AA+	Standard & Poor's	61,988,290
U.S. Treasury money market fund	AAAm	Standard & Poor's	878,500
Repurchase agreement	AA+	Standard & Poor's	<u>8,709,927</u>
			<u>\$95,576,717</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, 2013, the County had collateral for an overnight repurchase agreement that consisted of a security issued by the Federal Home Loan Mortgage Corporation that was 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, 2013, were in debt securities of various U.S. agencies as follows:

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U.S. Agency	Amount	Percent of County Investments
Federal Home Loan Mortgage Corporation	\$ 7,938,870	8.3
Federal Home Loan Bank	14,797,800	15.5
Federal National Mortgage Association	22,302,500	23.3
Federal Farm Credit Bank	<u>14,955,380</u>	15.6
	<u>\$59,994,550</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, 2013, maturities of the County’s investments were as follows:

Investment Type	Amount	Investment Maturities	
		Less than 1 Year	1-5 Years
State Treasurer’s investment pool 7	\$24,000,000	\$24,000,000	
U.S. agency securities	61,988,290	8,022,940	\$53,965,350
U.S. Treasury money market fund	878,500	878,500	
Repurchase agreement	<u>8,709,927</u>	<u>8,709,927</u>	
	<u>\$95,576,717</u>	<u>\$41,611,367</u>	<u>\$53,965,350</u>

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

Cash, deposits, and investments:	
Cash on hand	\$ 7,046
Amount of deposits	8,282,779
Amount of investments	<u>95,576,717</u>
Total	<u>\$103,866,542</u>

	Statement of Net Position		Statement of Fiduciary Net Position		Total
	Governmental Activities	Business- Type Activities	Investment Trust Funds	Agency Funds	
Cash in bank and on hand	\$ 229,234	\$ 2,150		\$1,559,009	\$ 1,790,393
Cash and investments held by County Treasurer	65,733,330	74,109	\$35,390,210		101,197,649
Cash and investments held by trustee	<u>878,500</u>				<u>878,500</u>
Total	<u>\$66,841,064</u>	<u>\$76,259</u>	<u>\$35,390,210</u>	<u>\$1,559,009</u>	<u>\$103,866,542</u>

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Note 4 - Due from Other Governments

Due from other governments totaling \$6,736,879 at June 30, 2013, included \$1,218,426 in state-shared revenue from highway user fees, \$1,967,886 in state-shared sales taxes, \$904,765 in state-shared vehicle license taxes, and \$1,185,596 in county excise taxes received through the State. The remaining balance of \$1,460,206 represents amounts receivable from various state and federal government grantor agencies.

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2013</b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,206,345	\$ 72,046		\$ 2,278,391
Construction in progress	<u>196,637</u>	<u>1,272,727</u>	<u>\$ 169,480</u>	<u>1,299,884</u>
Total capital assets not being depreciated	<u>2,402,982</u>	<u>1,344,773</u>	<u>169,480</u>	<u>3,578,275</u>
Capital assets being depreciated:				
Buildings	49,845,791	104,050		49,949,841
Improvements other than buildings	4,739,627			4,739,627
Equipment	38,407,330	3,657,820	1,451,400	40,613,750
Infrastructure	<u>97,569,300</u>	<u>2,526,755</u>	<u>556</u>	<u>100,095,499</u>
Total	<u>190,562,048</u>	<u>6,288,625</u>	<u>1,451,956</u>	<u>195,398,717</u>
Less accumulated depreciation for:				
Buildings	13,834,881	1,242,699		15,077,580
Improvements other than buildings	1,474,537	184,240		1,658,777
Equipment	24,189,210	2,940,994	1,180,241	25,949,963
Infrastructure	<u>35,281,300</u>	<u>1,673,332</u>	<u>556</u>	<u>36,954,076</u>
Total accumulated depreciation	<u>74,779,928</u>	<u>6,041,265</u>	<u>1,180,797</u>	<u>79,640,396</u>
Total capital assets being depreciated, net	<u>115,782,120</u>	<u>247,360</u>	<u>271,159</u>	<u>115,758,321</u>
Governmental activities capital assets, net	<u>\$118,185,102</u>	<u>\$1,592,133</u>	<u>\$ 440,639</u>	<u>\$119,336,596</u>

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	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,599,900			\$ 1,599,900
Construction in progress	<u>43,330</u>	\$ 450,976		<u>494,306</u>
Total capital assets not being depreciated	<u>1,643,230</u>	<u>450,976</u>		<u>2,094,206</u>
Capital assets being depreciated:				
Buildings	4,559,025			4,559,025
Improvements other than buildings	5,770,513			5,770,513
Equipment	<u>3,214,211</u>		\$ 31,781	<u>3,182,430</u>
Total	<u>13,543,749</u>		<u>31,781</u>	<u>13,511,968</u>
Less accumulated depreciation for:				
Buildings	1,245,590	87,385		1,332,975
Improvements other than buildings	3,530,077	202,397		3,732,474
Equipment	<u>2,522,472</u>	<u>142,276</u>	18,782	<u>2,645,966</u>
Total	<u>7,298,139</u>	<u>432,058</u>	<u>18,782</u>	<u>7,711,415</u>
Total capital assets being depreciated, net	<u>6,245,610</u>	<u>(432,058)</u>	<u>12,999</u>	<u>5,800,553</u>
Business-type activities capital assets, net	<u>\$ 7,888,840</u>	<u>\$ 18,918</u>	<u>\$ 12,999</u>	<u>\$ 7,894,759</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$2,279,370
Public safety	394,802
Highways and streets	1,874,631
Health and welfare	5,164
Culture and recreation	3,868
Education	842
Internal service funds	<u>1,482,588</u>
Total governmental activities depreciation expense	<u>\$6,041,265</u>
Business-type activities:	
Solid Waste Operations	\$ 338,306
Bisbee-Douglas International Airport	<u>93,752</u>
Total business-type activities depreciation expense	<u>\$ 432,058</u>

**Construction commitments**—At June 30, 2013, the County was involved in six construction projects. The estimated cost to complete the construction projects was \$2,492,122.

## Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2013:

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	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within 1 year
<b>Governmental activities</b>					
Capital leases payable	\$ 494,553		\$ 161,501	\$ 333,052	\$ 122,248
Certificates of participation payable	4,550,000		675,000	3,875,000	710,000
Add: Unamortized premium	<u>48,649</u>		<u>16,216</u>	<u>32,433</u>	<u>16,216</u>
Total certificates of participation payable	<u>4,598,649</u>		<u>691,216</u>	<u>3,907,433</u>	<u>726,216</u>
Compensated absences payable	<u>4,224,276</u>	<u>\$2,438,050</u>	<u>2,580,037</u>	<u>4,082,289</u>	<u>2,752,961</u>
Total governmental activities long-term liabilities	<u>\$9,317,478</u>	<u>\$2,438,050</u>	<u>\$3,432,754</u>	<u>\$8,322,774</u>	<u>\$3,601,425</u>
<b>Business-type activities</b>					
Capital leases payable	\$ 60,065		\$ 29,429	\$ 30,636	\$ 30,636
Landfill closure and postclosure care costs payable	2,912,753	\$ 251,106	5,961	3,157,898	23,324
Compensated absences payable	<u>102,978</u>	<u>68,167</u>	<u>88,632</u>	<u>82,513</u>	<u>78,574</u>
Total business-type activities long-term liabilities	<u>\$3,075,796</u>	<u>\$ 319,273</u>	<u>\$ 124,022</u>	<u>\$3,271,047</u>	<u>\$ 132,534</u>

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

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Equipment	\$1,274,630	\$141,576
Less: accumulated depreciation	<u>495,051</u>	<u>61,350</u>
Carrying value	<u>\$ 779,579</u>	<u>\$ 80,226</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2013:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Year ending June 30		
2014	\$134,512	\$31,572
2015	110,792	
2016	<u>110,792</u>	
Total minimum lease payments	<u>356,096</u>	<u>31,572</u>
Less amount representing interest	<u>23,044</u>	<u>936</u>
Present value of net minimum lease payments	<u>\$333,052</u>	<u>\$30,636</u>

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

Certificates outstanding at June 30, 2013, were as follows:

Description	Original Amount Issued	Maturity Ranges	Interest Rates	Outstanding Principal
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2014 to 2017	4.0 – 4.5%	\$3,875,000

The following schedule details debt service requirements to maturity for the County’s certificates of participation payable at June 30, 2013:

Year ending June 30	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2014	\$710,000	\$152,575
2015	745,000	119,925
2016	775,000	89,525
2017	805,000	55,912
2018	<u>840,000</u>	<u>18,900</u>
Total	<u>\$3,875,000</u>	<u>\$436,837</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, 2013, the County reported closure and postclosure care costs for two landfills discussed below.

At June 30, 2013, the County reported landfill closure and postclosure care liabilities totaling \$3,157,898. 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, 2013. The liability reported for the Eastern Regional landfill of \$591,229 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 \$2,566,669 was based on the use of 19.09 percent of the landfill’s estimated capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,878,427 as the remaining estimated capacity is

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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 2013. 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 2013, the County paid for compensated absences as follows: 71.82 percent from the General Fund, 8.21 percent from the Highway and Streets Fund, 1.77 percent from the Enterprise Funds, and 18.20 percent from other funds.

#### Note 7 - Risk Management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 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.

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

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

#### Note 8 - Pensions and Other Postemployment Benefits

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

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

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

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

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

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

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

*Cost-sharing plan*—For the year ended June 30, 2013, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

<b>Year ended June 30</b>	<b>Retirement Fund</b>	<b>Health Benefit Supplement Fund</b>	<b>Long-Term Disability Fund</b>
2013	\$2,688,287	\$170,477	\$62,946
2012	2,654,802	169,565	66,939
2011	2,541,038	166,394	70,506

*Agent plan*—For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members' annual covered payroll, and the County was required to contribute 31.59 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.49 percent of covered payroll.

**Actuarial methods and assumptions**—The contribution requirements for the year ended June 30, 2013, were established by the June 30, 2011, 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

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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 2013 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	25 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5%–8%
includes inflation at	5%

**Annual Pension/OPEB Cost**—The County's pension/OPEB cost for the PSPRS agent plan for the year ended June 30, 2013, and related information follows:

	<b>PSPRS</b>	
	<b>Pension</b>	<b>Health Insurance Premium Benefit</b>
Annual pension/OPEB cost	\$1,615,793	\$77,734
Contributions made	1,653,519	40,008

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

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Plan	Year Ended June 30	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ (OPEB Obligation)
<b>PSPRS</b>				
Pension	2013	\$1,615,793	102%	\$37,726
Health insurance premium benefit	2013	77,734	51	(37,726)
Pension	2012	1,293,176	103	41,472
Health insurance premium benefit	2012	80,595	49	(41,472)
Pension	2011	1,178,270	103	35,916
Health insurance premium benefit	2011	75,341	52	(35,916)

**Funded Status**—The funded status of the plan as of the most recent valuation date, June 30, 2013, 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 Premium Benefit</b>
Actuarial accrued liability (a)	\$34,414,106	\$ 807,377
Actuarial value of assets (b)	14,410,210	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	20,003,896	807,377
Funded ratio (b)/(a)	41.9%	0%
Annual covered payroll (c)	\$ 4,425,898	\$4,425,898
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) – (b)] / (c))	452.0%	18.24%

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

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4.5% – 8.5% 4.5%

Note 9 - Interfund Transactions

**Interfund receivables and payables**—Interfund balances at June 30, 2013, were as follows:

Payable from	Payable to						Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Solid Waste Operations Fund	Internal Service Funds	
General Fund			\$2,143,817	\$ 94,562		\$155,619	\$2,393,998
Capital Projects Fund	\$ 18,472					3,586	22,058
Highway and Streets Fund	223,306	\$ 8		52,222		253,497	529,033
Other Governmental Funds	258,191	101	159,412	428,659	\$ 80,638	5,703	932,704
Solid Waste Operations Fund	1,320,926					143,157	1,464,083
BDI Airport Fund	212					1,433	1,645
Internal Service Funds	40,968		1,951	1,925	41,355		86,199
<b>Total</b>	<u>\$1,862,075</u>	<u>\$109</u>	<u>\$2,305,180</u>	<u>\$577,368</u>	<u>\$121,993</u>	<u>\$562,995</u>	<u>\$5,429,720</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, 2013, were as follows:

Transfers from	Transfers to					Total
	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Internal Service Funds	
General Fund		\$41,133	\$3,157,097	\$ 174,321		\$3,372,551
Highway and Streets Fund	\$ 16,073			201,495		217,568
Other Governmental Funds	362,303	100		1,097,319		1,459,722
Solid Waste Operations Fund					\$138,027	138,027
<b>Total</b>	<u>\$378,376</u>	<u>\$41,233</u>	<u>\$3,157,097</u>	<u>\$1,473,135</u>	<u>\$138,027</u>	<u>\$5,187,868</u>

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

Note 10 - County Treasurer's Investment Pool

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

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

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$7,046 of cash, \$1,783,347 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	\$24,000,000	None stated	None stated	\$24,000,000
U.S. agency securities	62,500,000	.27-2.35%	Up to 5 years	61,988,290
Repurchase agreement	8,709,927	.05%	Daily	8,709,927

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

<b>Statement of Net Position</b>	
Assets	<u>\$101,197,649</u>
Net position	<u>\$101,197,649</u>
Net position held in trust for:	
Internal participants	\$ 65,807,439
External participants	<u>35,390,210</u>
Total net position held in trust	<u>\$101,197,649</u>

Cochise County  
Notes to Financial Statements  
June 30, 2013

<b>Statement of Changes in Net Position</b>	
Total additions	\$279,208,417
Total deductions	<u>302,473,132</u>
Net decrease	<u>(23,264,715)</u>
Net position held in trust:	
July 1, 2012	<u>124,462,364</u>
June 30, 2013	<u>\$101,197,649</u>

Note 11 - Discretely Presented Component Units

A. Summary of Significant Accounting Policies

**Housing Authority of Cochise County**

Basis of Accounting

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

**Cochise Private Industry Council, Inc.**

Basis of Accounting

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

Capital Assets

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

Program Revenues

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

B. Cash and Investments

**Housing Authority of Cochise County**

At June 30, 2013, the carrying amount of the Housing Authority's deposits was \$533,063 and the bank balance was \$576,502.

Cochise County  
Notes to Financial Statements  
June 30, 2013

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

**Cochise Private Industry Council, Inc.**

At June 30, 2013, the carrying amount of the Cochise Private Industry Council, Inc.'s deposits was \$122,327 and the bank balance was \$145,920.

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

**C. Due from Other Governments**

**Cochise Private Industry Council, Inc.**

Due from other governments consists of the following grants receivable at June 30, 2013:

<b>Program</b>	<b>Amount</b>
<i>Cochise County, Arizona</i>	
WIA Adult Program	\$ 43,836
WIA Dislocated Workers	21,065
WIA Youth Program	51,697
WIA Rapid Response	1,788
WIA Section 503 Incentives	24,057
 <i>Pima County, Arizona</i>	
State Energy Sector Grant	1,550
Veterans Employment Program	3,510
Other	<u>4,555</u>
Total	<u>\$152,058</u>

**D. Schedule of Changes in Noncurrent Liabilities**

**Housing Authority of Cochise County**

	<u>June 30, 2012</u>		<u>Additions</u>	<u>Payments and Adjustments</u>	<u>June 30, 2013</u>	
	<u>Long-term Portion</u>	<u>Current Portion</u>			<u>Current Portion</u>	<u>Long-term Portion</u>
Accrued compensated absences	\$ 19,666	\$2,634	\$ 8,508	\$(17,341)	\$1,506	\$11,961
Family self-sufficiency	<u>83,792</u>	<u>          </u>	<u>45,325</u>	<u>(57,695)</u>	<u>          </u>	<u>71,422</u>
	<u>\$103,458</u>	<u>\$2,634</u>	<u>\$53,833</u>	<u>\$(75,036)</u>	<u>\$1,506</u>	<u>\$83,383</u>

## Other Required Supplementary Information

Cochise County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 34,550,225	\$ 34,550,225	\$ 34,740,476	\$ 190,251
Licenses and permits	16,000	16,000	22,618	6,618
Intergovernmental	13,763,754	14,202,369	14,586,641	384,272
Charges for services	2,194,557	2,194,557	2,376,497	181,940
Fees, fines, and forfeits	1,938,180	1,938,180	1,959,677	21,497
Interest	200,000	200,000	58,726	(141,274)
Miscellaneous	187,460	187,460	-	(187,460)
Total revenues	<u>52,850,176</u>	<u>53,288,791</u>	<u>53,744,635</u>	<u>455,844</u>
Expenditures:				
Assessor	1,715,279	1,787,173	1,765,498	21,675
Attorney	2,044,413	2,046,813	1,997,389	49,424
Board of Supervisors	1,066,325	1,066,325	976,375	89,950
Cochise Aging and Social Services	8,724,986	8,724,986	8,749,342	(24,356)
General Government	10,810,841	14,034,111	12,232,715	1,801,396
General Government Contingency	26,682,394	22,812,360		22,812,360
Health	1,186,046	1,207,249	1,111,902	95,347
Judicial System	9,347,867	9,806,871	9,390,683	416,188
Public and Legal Defenders	2,310,881	2,238,134	2,261,103	(22,969)
Recorder	403,512	412,995	383,079	29,916
Public Safety	18,424,224	18,623,474	17,508,299	1,115,175
School Superintendent	364,147	349,950	346,977	2,973
Treasurer	1,105,045	1,075,519	1,123,260	(47,741)
Total expenditures	<u>84,185,960</u>	<u>84,185,960</u>	<u>57,846,622</u>	<u>26,339,338</u>
Excess (deficiency) of revenues over expenditures	(31,335,784)	(30,897,169)	(4,101,987)	26,795,182
Other financing sources:				
Capital assets sales proceeds	30,000	30,000	12,985	(17,015)
Transfers in	444,766	482,840	378,376	(104,464)
Total other financing sources	<u>474,766</u>	<u>512,840</u>	<u>391,361</u>	<u>(121,479)</u>
Net change in fund balances	(30,861,018)	(30,384,329)	(3,710,626)	26,673,703
Fund balances, July 1, 2012	<u>30,861,018</u>	<u>30,384,329</u>	<u>34,220,873</u>	<u>3,836,544</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,510,247</u>	<u>\$ 30,510,247</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Highway and Streets Fund  
 Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 300,000	\$ 300,000	\$ 300,000	
Intergovernmental	8,365,000	8,365,000	8,704,903	\$ 339,903
Charges for services	3,031,000	3,031,000	777,190	(2,253,810)
Investment income	35,000	35,000	26,361	(8,639)
Miscellaneous	4,496,558	4,066,552	15,978	(4,050,574)
Total revenues	<u>16,227,558</u>	<u>15,797,552</u>	<u>9,824,432</u>	<u>(5,973,120)</u>
Expenditures:				
Current:				
Highways and streets	16,221,485	18,738,026	12,963,293	5,774,733
Total expenditures	<u>16,221,485</u>	<u>18,738,026</u>	<u>12,963,293</u>	<u>5,774,733</u>
Excess (deficiency) of revenues over expenditures	6,073	(2,940,474)	(3,138,861)	(198,387)
Other financing sources (uses):				
Sale of capital assets	10,000	10,000	32,936	22,936
Transfer in		3,157,097	3,157,097	
Transfers out	(16,073)	(226,623)	(217,568)	9,055
Total other financing sources and uses	<u>(6,073)</u>	<u>2,940,474</u>	<u>2,972,465</u>	<u>31,991</u>
Net change in fund balances	<u>          </u>	<u>          </u>	<u>(166,396)</u>	<u>(166,396)</u>
Fund balances, July 1, 2012	<u>          </u>	<u>          </u>	<u>3,911,324</u>	<u>3,911,324</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,744,928</u>	<u>\$ 3,744,928</u>

See accompanying notes to budgetary comparison schedule.

Cochise County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2013

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.

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2013, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<b>Department</b>	<b>Excess</b>
Cochise Aging and Social Services	\$24,356
Public and Legal Defenders	22,969
Treasurer	<u>47,741</u>
Total	<u>\$95,066</u>

These expenditures were funded by greater than anticipated revenues.

Cochise County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plan's Funding Progress  
 June 30, 2013

**Public Safety Personnel Retirement System**

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b)-(a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as a percentage of covered payroll ([b-a]/c)
Pension 6/30/13	\$14,410,210	\$34,414,106	\$20,003,896	41.9%	\$4,425,898	452.0%
Health insurance premium benefit 6/30/13	0	807,377	807,377	0.0%	4,425,898	18.2%
Pension 6/30/12	14,427,189	33,144,070	18,716,881	43.5%	4,621,170	405.0%
Health insurance premium benefit 6/30/12	0	873,393	873,393	0.0%	4,621,170	18.9%
Pension 6/30/11	14,386,319	30,854,097	16,467,778	46.6%	4,862,547	338.7%
Health insurance premium benefit 6/30/11	0	869,714	869,714	0.0%	4,862,547	17.9%

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## Supplementary Information

**Cochise County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number	Program expenditures	Amount provided to subrecipients
<b>Department of Agriculture</b>						
10 12-LE-11030518-001	National Forest System - Law Enforcement				\$ 5,265	
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS11-005806	585,990	
10 565	Commodity Supplemental Food Program		Arizona Department of Health Services	ADHS11-005806	31,582	
10 572	WIC Farmers' Market Nutrition Program (FMNP)		Arizona Department of Health Services	ADHS11-005806	449	
10 665	Schools and Roads - Grants to States		Arizona State Treasurer	Elec Credit	416,286	
10 923 ARRA	Natural Resources Conservation Service Emergency Watershed Protection Program				<u>74,961</u>	
	<b>Total Department of Agriculture</b>				<u>1,114,533</u>	
<b>Department of Commerce</b>						
11 558 ARRA	National Telecommunications & Information Administration State Broadband Data and Development Grant Program		Arizona Strategic Enterprise Technology	Elec Credit	<u>21,080</u>	
<b>Department of Housing and Urban Development</b>						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	133-12, 134-12, 135-12	71,756	
14 239	Home Investment Partnerships Program		Arizona Department of Housing	None	109,715	
14 241	Housing Opportunities for Persons with AIDS		Arizona Department of Housing	AZH110018	207,979	
14 871	Section 8 Housing Choice Vouchers		Arizona Department of Housing	None	<u>2,630,522</u>	
	<b>Total Department of Housing and Urban Development</b>				<u>3,019,972</u>	
<b>Department of the Interior</b>						
15 224	Cultural Resource Management		Arizona Bureau of Land Management	AAA080013	1,923	
15 226	Payments in Lieu of Taxes				1,986,080	
15 227	Distribution of Receipts to State and Local Governments		Arizona State Treasurer	Elec Credit	<u>5,971</u>	
	<b>Total Department of the Interior</b>				<u>1,993,974</u>	
<b>Department of Justice</b>						
16 523	Juvenile Accountability Block Grants (JABG)		Arizona Governor's Office for Children, Youth & Families	JB-CSG-12-2366-01	17,198	
16 727	Enforcing Underage Drinking Laws Program		Arizona Governor's Office of Highway Safety	2012-DOJ-015	1,370	
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-13-005, DC-13-030	195,514	
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster			<u>87,230</u>	
	<i>Total JAG Program Cluster</i>				<u>282,744</u>	
	<b>Total Department of Justice</b>				<u>301,312</u>	
<b>Department of Labor</b>						
17 258	WIA Adult Program	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE111004001	432,681	
17 259	WIA Youth Activities	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE101054001/DE111004001	375,349	\$ 254,084

See accompanying notes to schedule.

**Cochise County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number	Program expenditures	Amount provided to subrecipients
17 267	Workforce Investment Act-Section 503 Incentive Grants	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE111004001	381,539	
17 278	Workforce Investment Act-Dislocated Workers	Workforce Investment Act (WIA) Cluster	Arizona Department of Economic Security	DE111004001	319,669	
	<i>Total Workforce Investment Act (WIA) Cluster</i>				<u>1,509,238</u>	<u>254,084</u>
17 268	HIB Job Training Grant		Pima County, Arizona	11-69-C-140340-0707	2,074	
17 275 ARRA	Programs of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		Pima County, Arizona	CT-CS-12-108	84,593	
17 802	Veterans' Employment Program		Pima County, Arizona	CT-CS-12-1352	42,107	
	<b>Total Department of Labor</b>				<u>1,638,012</u>	<u>254,084</u>
<b>Department of Transportation</b>						
20 106	Airport Improvement Program				589,010	
20 205	Highway Planning and Construction		Arizona Department of Transportation	IGA/JPA 10-091-1	24,876	
20 600	State and Community Highway Safety	Highway Safety Cluster	Arizona Governor's Office of Highway Safety	2013-AL-021, 2013-AL-020, 2012-PT-010, 2013-PT-021	38,625	
	<b>Total Department of Transportation</b>				<u>652,511</u>	
<b>Institute of Museum and Library Services</b>						
45 310	Grants to States		Arizona State Library, Archives and Public Records	Elec Credit	5,942	
<b>Department of Education</b>						
84 010	Title 1 Grants to Local Educational Agencies		Arizona Supreme Court	KR11-0109	73,221	
84 027	Special Education - Grants to States		Arizona Department of Education	H027A050007	9,075	
84 365	English Language Acquisition Grants		Arizona Department of Education	T365A30003A	38,018	
84 367	Improving Teacher Quality State Grants		Arizona Department of Education	S367A110049	49,891	
84 413	2013-Race to the Top		Arizona Department of Education	B413A1200005	2,282	
	<b>Total Department of Education</b>				<u>172,487</u>	
<b>Election Assistance Commission</b>						
90 401	Help America Vote Act Requirements Payments		Arizona Secretary of State	Check #5843599	20,401	
<b>Department of Health and Human Services</b>						
93 044	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers		Southeastern Arizona Governments	12 Amendment 13-1	268,029	
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007884	254,277	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	HG854282	93,150	
93 597	Grants to States for Access and Visitation Programs		Arizona Department of Economic Security	DE111155001	12,267	

See accompanying notes to schedule.

**Cochise County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

Federal agency/CFDA number (Note 2)	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's number	Program expenditures	Amount provided to subrecipients
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	HG852278	2,194	
93 977	Preventive Health Services—Sexually Transmitted Diseases Control Grants		Arizona Department of Health Services	HG854323	1,298	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	MOU HU052172	43,340	
<b>Total Department of Health and Human Services</b>					<b>674,555</b>	
<b>Executive Office of the President of the United States</b>						
95 001	High Intensity Drug Trafficking Areas Program		City of Tucson	HT13-2329, HT-20-10-0512, HT21-11-0512, HT21-11-0513	235,182	
<b>Department of Homeland Security</b>						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2012-EP-00003	107,479	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	09-AZDOHS-OPSG-555415-05, 10-AZDOHS-OPSG-777404-05, 10-AZDOHS-OPSG-777404-06, 10-AZDOHS-OPSG-777404-07, 11-AZDOHS-OPSG-888421-01, 12-AZDOHS-OPSG-999419-01, 12-AZDOHS-OPSG-999419-02, 999400-01, 999400-02, 999400-03, 999400-04	1,149,055	
<b>Total Department of Homeland Security</b>					<b>1,256,534</b>	
<b>State Justice Institute</b>						
99 SJI-12-T-170	Rural Court Community Collaboration, Planning				31,473	
<b>Total expenditures of federal awards</b>					<b>\$ 11,137,968</b>	<b>\$ 254,084</b>

See accompanying notes to schedule.

Cochise County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

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 2013 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used.

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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 27, 2014. Our report includes a reference to other auditors who audited the financial statements of the Housing Authority of Cochise County and Cochise Private Industry Council, Inc., the aggregate discretely presented component units, as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Debbie Davenport  
Auditor General

March 27, 2014



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Cochise County, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited Cochise County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013, 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.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

***Basis for Qualified Opinion on the Emergency Management Performance Grants program***

As described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding allowable costs/cost principles as described as item 2013-101 for its Emergency Management Performance Grants (97.042) program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

***Qualified Opinion on the Emergency Management Performance Grants program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Cochise County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Emergency Management Performance Grants (97.042) program for the year ended June 30, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, Cochise County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-102. Our opinion on each major federal program is not modified with respect to this matter.

Cochise County's responses to the noncompliance findings identified in our audit are presented on pages 61 and 62. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

***Report on Internal Control over Compliance***

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-101 and 2013-102 to be material weaknesses.

Cochise County's responses to the internal control over compliance findings identified in our audit are presented on pages 61 and 62. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

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

Debbie Davenport  
Auditor General

March 27, 2014

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Cochise County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2013

**Summary of Auditors' Results**

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:			
Material weaknesses identified?	<u>X</u>	___	
Significant deficiencies identified?	___	<u>X</u>	(None reported)
Type of auditors' report issued on compliance for major programs: Unmodified for all major programs except for the Emergency Management Performance Grants (97.042) program, which was qualified.			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?			
	<u>X</u>	___	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.241	Housing Opportunities for Persons with AIDS
14.871	Section 8 Housing Choice Vouchers
15.226	Payments in Lieu of Taxes
17.258, 17.259, 17.267, 17.278	WIA Cluster
20.106	Airport Improvement Program
97.042	Emergency Management Performance Grants

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

Dollar threshold used to distinguish between Type A and Type B programs: \$334,139

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

***Other Matters***

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	___	<u>X</u>
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Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

Financial Statement Findings

None reported.

Federal Award Findings and Questioned Costs

**2013-101**

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<b>CFDA No. and Name:</b>	97.042 <b>Emergency Management Performance Grants</b>
<b>Award Number and Year:</b>	EMW-2012-EP-00003, July 1, 2012 through June 30, 2013
<b>Federal Agency:</b>	<b>Department of Homeland Security</b>
<b>Pass-Through Grantor:</b>	Arizona Department of Emergency and Military Affairs
<b>Compliance Requirement:</b>	Allowable Costs/Cost Principles
<b>Questioned Costs:</b>	None

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Criteria: The County should ensure that employee payroll costs charged to the Emergency Management Performance Grants program are certified and that those certifications are retained in accordance with OMB Circular A-87, Attachment B, Section 8, paragraph h(3).

Condition and context: The two county employees responsible for administering the program did not certify that they worked solely on the program during fiscal year 2013. Payroll expenditures for the year were approximately 30 percent of total program expenditures.

Effect: Because the County did not prepare and retain the required payroll certifications, \$65,062 of program expenditures did not appear to comply with the program's allowable costs/cost principles requirements. However, auditors obtained audit evidence that the two employees did work solely on the program during fiscal year 2013.

Cause: Although the County had county-wide policies that require employees to certify their time at least semiannually, the department responsible for managing the Emergency Management Performance Grants program did not follow these policies, and did not have any departmental procedures in place to ensure that semiannual certifications were prepared and retained.

Recommendation: To help ensure that the program's payroll costs are certified and that those certifications are retained, the County should communicate its county-wide policies to departments responsible for managing federal grants and ensure that they have procedures in place to comply with federal payroll certification requirements.

Cochise County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

**2013-102**

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**CFDA No. and Name:** 97.042 **Emergency Management Performance Grants**  
**Award Number and Year:** EMW-2012-EP-00003, July 1, 2012 through June 30, 2013  
**Federal Agency:** **Department of Homeland Security**  
**Pass-Through Grantor:** Arizona Department of Emergency and Military Affairs  
**Compliance Requirement:** Cash Management and Reporting  
**Questioned Costs:** \$426

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**Criteria:** In accordance with the federal program grant agreement, the County should ensure that financial expense reports are supported by the County's financial records, and that revenue reimbursements are based only on costs that the County has already paid.

**Condition and context:** The County submitted four quarterly financial expense reports that were not supported by the County's financial records. In addition, since the County also used these reports to request revenue reimbursements, the County requested incorrect reimbursement amounts. The County requested less than it was owed in three of the quarterly reports in the amounts of \$117, \$1,500, and \$1,850, and \$3,893 more than it was owed in one quarterly report.

**Effect:** The County did not comply with the program's reporting requirements for each of its quarterly reports. In addition, as a result of the reporting errors, the County requested reimbursement for \$426 more than it spent during fiscal year 2013.

**Cause:** The County did not have adequate policies and procedures to ensure that department employees reported accurate financial information and requested proper reimbursements.

**Recommendation:** To help ensure that the County reports accurate financial information and requests reimbursement only for expenditures that have already been paid, the County should:

- Develop policies and procedures for preparing quarterly expense reports which require a review by a supervisor or other county employee knowledgeable about the federal grant program.
- Communicate these policies and procedures to department personnel who are responsible for managing federal grant programs.

# 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

**Arlethe G. Rios**  
Clerk

March 13, 2014

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in *Government Auditing Standards*, and by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questions costs.

Sincerely,

Lois Klein  
Director of Finance  
Cochise County

Cochise County • 1415 Melody Lane, Building G • Bisbee, Arizona 85603  
(520) 432-9200 • FAX (520) 432-5016 • email: [board@cochise.az.gov](mailto:board@cochise.az.gov)  
[www.cochise.az.gov](http://www.cochise.az.gov)

Cochise County  
Corrective Action Plan  
Year Ended June 30, 2013

Federal Award Findings and Questioned Costs

**2013-101**

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CFDA No.: 97.042 **Emergency Management Performance Grants**

**Contact: Lois Klein, Finance Director, 520-432-8381**

Anticipated completion date: June 30, 2014

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To ensure this finding is fully corrected the County will communicate its County-wide policy on payroll certifications to departments responsible for managing federal grants, via email twice a year and at the grants management training to be held in May. The County will require these departments to have procedures in place to comply with federal payroll certification requirements

**2013-102**

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CFDA No.: 97.042 **Emergency Management Performance Grants**

**Contact: Lois Klein, Finance Director, 520-432-8381**

Anticipated completion date: June 30, 2014

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To ensure this finding is fully corrected the County will develop policies and sample procedures for preparing quarterly expense reports and present these in a grants management training class to all departments responsible for managing federal grant programs. The County will also disseminate the information via email twice a year. The County departments will be required to tailor the sample procedures to each federal grant they manage.