Gila County

Annual Financial and Single Audit Reports

Year Ended June 30, 2020

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

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ANNUAL FINANCIAL REPORT

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Members of the Arizona State Legislature

The Board of Supervisors of
Gila County, Arizona

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2020, 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the County as of June 30, 2020, 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 a-1 through a-9, budgetary comparison schedules on pages 47 through 52, schedule of the County's proportionate share of the net pension liability—cost-sharing pension plans on page 54, schedule of changes in the County's net pension liability and related ratios—agent pension plans on pages 55 through 57, and the schedule of County pension contributions on pages 58 through 59 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 management's responsibility 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, 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 comply with the authorized transportation purposes, insofar as they relate to accounting matters, for Highway User Revenue Fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated State transportation revenues it received. 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 authorized transportation purposes referred to above, 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 August 30, 2021, 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 solely 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 the effectiveness of the County's 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.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

August 30, 2021

Gila County
Management's discussion and analysis
June 30, 2020

As management of Gila County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the current fiscal year by $19.1 million (net position). Of this amount, $29.9 million is the net investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, infrastructure and construction in progress); $27.7 million is restricted for specific purposes (restricted net position); and $(38.5) million is the County's deficit that is primarily a result of recognizing long-term liabilities related to pensions and other postemployment benefits (OPEB).

- At June 30, 2020, total assets were $94.1 million, an increase of $11.6 million or 14.1 percent in comparison with the prior fiscal year's restated balance of $82.5 million.

- At June 30, 2020, total liabilities were $81.9 million, an increase of $17.6 million or 27.3 percent in comparison with the prior fiscal year's restated balance of $64.3 million.

- At June 30, 2020, the County reported total deferred outflows of resources related to pensions/OPEB of $11 million and deferred inflows of resources related to pensions/OPEB of $4.1 million.

- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of $39 million, an increase of $9.2 million in comparison with the prior year's balance of $29.8 million.

- At the end of the current fiscal year, general fund had an unrestricted fund balance of $11.9 million or 26.4 percent of total general fund expenditures. Of this amount, assigned fund balance for construction projects, rainy day and cash flow reserves was $15.9 million and unassigned deficit was $4 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 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

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

The *statement of net position* presents information on all of the 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). The statement of activities distinguishes functions of the County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or part of their costs through user fees and charges.

The governmental activities of the County include general government; public safety; highways and streets; health; welfare; sanitation; culture and recreation; and education.

The government-wide financial statements not only include the County itself (known as the primary government), but also the legally separate Gila County Library District and Street Lighting Districts which function for all practical purposes as departments of the County, and therefore have been included as an integral part of the County. The business-type activities account for landfill operations.

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

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds 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 fund statements is narrower than the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for two funds that are considered to be major funds, General and Public Works. Data from the other governmental funds is combined into a single, aggregated presentation.

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

Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for landfill operations. The proprietary fund financial statements can be found on pages 7 through 9 of this report.

Fiduciary Funds are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those 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 basic fiduciary funds financial statements can be found on pages 10 and 11 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 46 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 net pension liability and pension contributions. Required supplementary information can be found on pages 47 through 51 of this report.

Government-wide Financial 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, the County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $19.1 million as presented in the following table.

Condensed statement of net position
(in thousands)
June 30, 2020 and 2019

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	$ 45,540	$ 34.313	$12,198	$11,587	$ 57,738	$ 45,900
Capital assets	32,129	32,700	4,198	3,867	36,327	36,567
Total assets	77,669	67,013	16,396	15,454	94,065	82,467
Deferred outflows of resources						
Total deferred outflows of resources	10,925	8,638	87	95	11,012	8,733
Current and other liabilities	4,512	2,976	34	22	4,546	2,998
Long-term liabilities	72,450	56,970	4,864	4,327	77,314	61,297
Total liabilities	76,962	59,946	4,898	4,349	81,860	64,295
Deferred inflows of resources						
Total deferred inflows of resources	4,066	9,290	33	80	4,099	9,370

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Net position						
Net investment in capital assets	$ 25,975	$ 26,309	$ 3,893	$ 3,867	$ 29,868	$ 30,176
Restricted	22,408	19,146	5,326	5,250	27,734	24,396
Unrestricted	(40,817)	(39,040)	2,333	2,003	(38,484)	(37,037)
Total net position	$ 7,566	$ 6,415	$11,552	$11,120	$ 19,118	$ 17,535

The largest portion of the County's net position is approximately $29.9 million, or 156.2 percent, that reflects its investment in capital assets (e.g. land, buildings, equipment, vehicles and infrastructure); less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. 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 because the capital assets themselves cannot be used to liquidate these liabilities. The County's restricted net position of $27.7 million, or 145.1 percent, is subject to external restrictions on how they may be used. The County's unrestricted deficit of $38.5 million, or negative 201.3 percent, was an increase of $1.5 million from the prior year's restated unrestricted deficit of $37 million.

The following provides an explanation of governmental activities, current and other assets, deferred outflows and inflows related to pensions/OPEB, and long-term liabilities that changed significantly over the prior year:

- Current and other assets—the net increase of $11.2 million was primarily due to $9.5 million of 2019 pledged revenue obligations issued in the current fiscal year but not spent at year-end. In addition, property taxes receivable and due from other governments had an increase of $839,000 and $857,000, respectively.

- Deferred outflows and inflows related to pensions and OPEB—the net increase of $2.3 million for the deferred outflows and the net decrease of $5.2 million for deferred inflows related to pensions and OPEB, were a result of the actuarial valuation performed of the County's participated pension plans as of June 30, 2019 and a measurement date of June 30, 2019.

- Long-term liabilities—the net increase of $15.5 million was largely due to the following: 1) a net increase of $7.7 million of 2019 pledged revenue and revenue refunding obligations issued in the current fiscal year and the related addition of $1.6 million pledged revenue obligations premium; and 2) a net increase of $6.1 million of the net pension/OPEB liabilities as a result of the actuarial valuation performed of the County's participated pension plans as of June 30, 2019 and a measurement date of June 30, 2019.

The following provides an explanation of business-type activities, long-term liabilities that changed significantly over the prior year:

- Long-term liabilities—the net increase of $537,000 was primarily due to the following: 1) a net increase of $305,000 of a new installment purchase contract for the purchase of a Caterpillar scraper; 2) an increase of $173,000 of landfill closure and postclosure care costs liability calculated by the County's contracted engineering specialist; and 3) a net increase of $50,000 of the net pension/OPEB liabilities as a result of the actuarial valuation performed of the County's participated pension plans as of June 30, 2019 and a measurement date of June 30, 2019.

Statement of activities—Already noted was the statement of activities purpose in presenting how the government's net position changed during the current fiscal year. At the end of the current fiscal year, the County’s net position increased by $1.6 million. The following table presents the changes in net position.

Changes in Net Position
(in thousands)
Years Ended June 30, 2020 and 2019

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	$ 3,451	$ 2,804	$ 2,080	$ 2,027	$ 5,531	$ 4,831
Grants and contributions	18,197	15,051			18,197	15,051
General revenues:						
Property taxes	23,274	22,350			23,274	22,350
County excise tax	5,147	4,688			5,147	4,688
Share of state sales taxes	6,364	5,960			6,364	5,960
Shared revenue, state vehicle license tax	1,944	1,914			1,944	1,914
State appropriations	550	550			550	550
Shared revenue, state liquor license tax	9	12			9	12
Payments in lieu of taxes	4,092	3,879			4,092	3,879
Investment income (loss)	681	744	174	151	855	895
Miscellaneous	1,173	1,345			1,173	1,345
Gain on sale/trade-in of capital assets	38	70			38	70
Total revenues	64,920	59,367	2,254	2,178	67,174	61,545
Expenses:						
General government	24,174	19,994			24,174	19,994
Public safety	18,698	15,513			18,698	15,513
Highways and streets	6,863	6,712			6,863	6,712
Health	2,987	2,985			2,987	2,985
Welfare	7,224	6,756			7,224	6,756
Sanitation	27	44	$ 1,822	$ 1,053	1,849	1,097
Culture and recreation	1,188	1,369			1,188	1,369
Education	2,070	2,045			2,070	2,045
Interest on long-term debt	538	259			538	259
Total expenses	63,769	55,678	1,822	1,053	65,591	56,731
Change in net position before transfers	1,151	3,689	432	1,125	1,583	4,814
Transfers						
Changes in net position	1,151	3,689	432	1,125	1,583	4,814
Net position—beginning	6,415	2,726	11,120	9,995	17,535	12,721
Net position—ending	$ 7,566	$ 6,415	$11,552	$11,120	$19,118	$17,535

Overall, the governmental activities revenues increased by $5.6 million, or 9.4 percent, and program expenses increased by $8.1 million, or 14.6 percent, in the current fiscal year. The following provides an explanation of governmental activities revenues and expenses that changed significantly compared to the prior year:

Grants and contributions—The net increase of $3.1 million was primarily due to the following: 1) a new CARES Act federal funding of $1.7 million; 2) Justice Courts and Sheriff's Office signed additional intergovernmental agreements of $505,000; and 3) Community Services, Courts and Health Services received additional federal and state grants of $1 million.

General government expenses—The net increase of $4.2 million was primarily due to the increase in pension/OPEB expenses of $3.6 million and the remaining increase in salary and related benefits and depreciation expenses.

Public safety expenses—The net increase of $3.2 million was primarily due to the increase in pension/OPEB expenses of $1.8 million, salary and related benefits of $716,000, safety supplies of $258,000, professional medical services of $147,000 and non-capitalized communication equipment of $145,000.

Overall, the business-type activities revenues increased by $76,000, or 3.5 percent, and program expenses increased by $768,000, or 72.9 percent, in the current fiscal year. The following provides an explanation of business-type activities expenses that changed significantly compared to the prior year:

Sanitation expenses—The net increase of $769,000 was largely due to the following: 1) an increase of $396,000 landfill closure and postclosure care costs estimated by the County's contracted engineering specialist; 2) an increase of salary and related benefits expenses of $174,000; and 3) an increase of repairs and maintenance expenses of $151,000.

Financial Analysis of the Governmental Funds

The County reported two major funds for this fiscal year: the General Fund and Public Works Fund. At the end of the current fiscal year, the County's governmental funds reported combined fund balances of $38.4 million, which was an increase of $8.6 million from the prior year. Of the total, $7.5 million constitutes unrestricted fund balances.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, fund balance of the general fund was $23,372,066, an increase of $9.0 million, or 62.7 percent over the prior year's restated balance of $14,356,290. The unrestricted fund balance of the general fund was $11.9 million, which represents 26.3 percent of total general fund expenditures. This ratio indicates a strong fund balance position in comparison to expenditures.

The following provides an explanation of major fund's activities that changed significantly over the prior year:

General Fund
Cash and investments held by trustee-restricted—The increase of $9.5 million was solely due to 2019 pledged revenue obligations issued in the current fiscal year but not spent at year-end

Intergovernmental revenues—The net increase of $2.4 million was largely due to a new CARES Act federal funding of $1.7 million, Justice Courts and Sheriff's Office signed additional intergovernmental agreements of $524,000, and additional state shared sales tax of $404,000.

Public Works Fund

- Cash and investments—The net increase of $1.1 million was largely due to a decrease of expenditures of $1.6 million while total revenues increased by only $113,000.

- Highways and streets expenditures—The net decrease of $1.6 million was solely due to higher capital outlay expenditures of $1.2 million and road repair and maintenance costs of $627,000 on chip and crack seal in the prior year and an increase in salary and related benefits of $240,000 in the current fiscal year. Higher capital outlay expenditures in the prior year were spent on construction costs of $1 million on Claypool Broadway Road, Gisela easement reconstruction, Claypool roads pavement, and Baker Ranch Road right of way pavement and a new purchased Caterpillar motor grader equipment of $215,000.

General Fund Budgetary Highlights

General Fund actual expenditures were $31,409,588 under the adopted budget and actual revenues were more than estimated revenues by $4,653,139. The County had budgeted $1,426,560 for contingency reserve and $15,000,000 for taxpayer stabilization and did not incur any expenditures during the current fiscal year. The Education department (School Superintendent) had budgeted expenditures of $421,674 while actual expenditures of $1,350,015 were over budget due to not budgeting for the national forest fees of $891,108 passed through to subrecipients (school districts). Grants passed through to subrecipients were recognized as revenues and corresponding expenditures. This also accounted for much of the favorable variance in intergovernmental revenues.

The significant County departments and other budgeted line items over 5 percent of the budget are Finance/Purchasing $157,372, General Administration $375,613, Indigent Legal Defense $91,755, Health $177,840, Community Agencies $43,549, School Superintendent $928,341, and Debt Service $290,822. The over budget expenditures for School Superintendent was due to unbudgeted pass-through grants as mentioned above. The over budget expenditures for the remaining budgeted line items were primarily due to unexpected costs. The County will strive to improve its budgeting procedures and control in the future.

Capital Asset and Debt Administration

Capital assets include land, construction in progress, buildings, machinery and equipment and infrastructure assets (roads, highways, bridges, etc.). The County's total capital assets net of accumulated depreciation slightly decreased by $240,000, or 0.7 percent, during the current fiscal year in comparison with the prior year's balance of $36,567,291.

The County's investment in capital assets for its governmental activities as of June 30, 2020, amounts to $32.1 million (net of accumulated depreciation), a net decrease of $572,000, or 1.8 percent, from the prior year.

The County's investment in capital assets for its business-type activities as of June 30, 2020, amounts to $4.2 million (net of accumulated depreciation), a net increase of $331,000, or 8.5 percent from the prior year.

Major capital asset activity during the fiscal year included:

Business-Type Activities:

- Machinery and Equipment—The net increase of $361,000 was primarily due to the purchases of scraper, snow plow and crusher heavy equipment of $435,000 and annual depreciation expense of $74,000 for all machinery and equipment.

The following table provides a breakdown of the County's capital assets as of June 30, 2020 and 2019.

Capital Assets at Year-End
(Net of Accumulated Depreciation)
(in thousands)
June 30, 2020 and 2019

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	$ 2,340	$ 2,340	$3,000	$3,000	$ 5,340	$ 5,340
Construction in progress	4,569	3,616			4,569	3,616
Buildings	10,450	11,232	5		10,455	11,232
Improvements other than buildings	713	781	616	650	1,329	1,431
Machinery and equipment	4,212	4,277	577	217	4,789	4,494
Infrastructure	9,845	10,454			9,845	10,454
Total capital assets, net	$32,129	$32,700	$4,198	$3,867	$36,327	$36,567

Additional information on the County's capital assets can be found in Note 6 on pages 24 through 25 of this report.

Long-term debt—The County's total long-term liabilities as of June 30, 2020, amounts to $77.3 million, a net decrease of $16 million during the current fiscal year in comparison with the prior year's balance of $61.3 million.

Major long-term debt activity during the fiscal year included:

Governmental Activities:

- Pledged revenue obligations and premium payables—the net increase of $9.3 million solely due to the newly issued 2019 pledged revenue and revenue refunding obligations of $13.2 million and the related premium of $1.8 million net of payment to refunding escrow agent of $4.8 million, required annual debt service payments of $677,000, eliminated refunded premium of $116,000 and annual premium amortization of $60,000.

- Net pension liability—the net increase of $6.1 million of the net pension/OPEB liabilities as a result of the actuarial valuation performed of the County's participated pension plans as of June 30, 2019 and a measurement date of June 30, 2019.

Business-Type Activities:

- Installment purchase contracts payable—the net increase of $305,000 was solely due to a new installment purchase contract for the purchase of a Caterpillar scraper of $395,000 net of annual required debt service payment of $90,000.

- Landfill closure and postclosure care costs payable—an increase of $173,000 of landfill closure and postclosure care costs liability calculated by the County's contracted engineering specialist.

- Net pension liability—the net increase of $50,000 of the net pension/OPEB liabilities as a result of the actuarial valuation performed of the County's participated pension plans as of June 30, 2019 and a measurement date of June 30, 2019.

State statutes limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation for the County is $31,194,324. Since the County has no general obligation debt, this amount equals the debt capacity. Additional information on long-term debt can be found in Note 8 on pages 25 through 28 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Gila County is 9.2 percent at June 2020 which is significantly higher than the previous year's rate of 5.6 percent. The state unemployment rate was 10.0 percent at June 2020. There is an increase in property assessed valuations with no change in tax rate for the fiscal year 2020. These economic factors were considered in preparing the County's budget for this fiscal year 2020.

Requests for Information

This financial report is designed to provide a greater overview of Gila County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed as follows:

Finance Director
Gila County
1400 Street
Globe, Arizona 85501-1483

Gila County
Statement of net position
June 30, 2020

	Governmental activities	Business-type activities	Total
Assets			
Cash and investments	$ 28,547,303	$ 6,830,208	$ 35,377,511
Receivables (net of allowances for uncollectibles):			
Property taxes	1,409,370		1,409,370
Accounts	258,792	28,046	286,838
Interest	139,604	34,129	173,733
Internal balances	20,926	(20,926)	
Due from other governments	4,176,906		4,176,906
Prepaid items	558,823		558,823
Inventories	88,629		88,629
Restricted cash and investments	9,544,069	5,325,555	14,869,624
Net other postemployment benefits asset	795,456	1,261	796,717
Capital assets, not being depreciated	6,909,221	3,000,000	9,909,221
Capital assets, being depreciated, net	25,219,630	1,198,371	26,418,001
Total assets	77,668,729	16,396,644	94,065,373
Deferred outflows of resources			
Deferred outflows related to pensions and OPEB	10,925,063	86,575	11,011,638
Total deferred outflows of resources	10,925,063	86,575	11,011,638
Liabilities			
Accounts payable	1,819,489	13,446	1,832,935
Accrued payroll and employee benefits	1,008,864	20,125	1,028,989
Due to other governments	79,735		79,735
Deposits held for others	2,237		2,237
Unearned revenue	1,601,217		1,601,217
Noncurrent liabilities:			
Due within one year	2,203,478	108,268	2,311,746
Due in more than one year	70,246,689	4,756,150	75,002,839
Total liabilities	76,961,709	4,897,989	81,859,698
Deferred inflows of resources			
Deferred inflows related to pensions and OPEB	4,066,452	33,065	4,099,517
Total deferred inflows of resources	4,066,452	33,065	4,099,517
Net position			
Net investment in capital assets	25,974,791	3,893,143	29,867,934
Restricted for:			
Public safety	132,617		132,617
Highways and streets	10,752,529		10,752,529
Health services	2,777,208		2,777,208
Judicial activities	3,887,212		3,887,212
Law enforcement	1,256,860		1,256,860
Education	2,005,996		2,005,996
Sanitation	81,110		81,110
Social services	282,876		282,876
Library	302,411		302,411
Street lighting improvement	20,637		20,637
Other purposes	908,899		908,899
Landfill closure and postclosure care costs		5,325,555	5,325,555
Unrestricted	(40,817,515)	2,333,367	(38,484,048)
Total net position	$ 7,565,631	$ 11,552,065	$ 19,117,796

See accompanying notes to financial statements.

Gila County
Statement of activities
Year ended June 30, 2020

		Program revenues			Net (expense) revenue and changes in net position		
					Primary government		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/programs							
Governmental activities							
General government	$ 24,173,868	$ 2,332,704	$ 2,755,571		$ (19,085,593)		$ (19,085,593)
Public safety	18,698,458	592,774	3,183,410		(14,922,274)		(14,922,274)
Highways and streets	6,863,625	143,198	25,000	$ 5,588,035	(1,107,392)		(1,107,392)
Health	2,986,862	234,504	2,346,898		(405,460)		(405,460)
Welfare	7,224,335	103,654	2,324,118		(4,796,563)		(4,796,563)
Sanitation	27,338		135,145		107,807		107,807
Culture and recreation	1,187,580		131,805		(1,055,775)		(1,055,775)
Education	2,069,933	43,790	1,706,715		(319,428)		(319,428)
Interest on long-term debt	537,663				(537,663)		(537,663)
Total governmental activities	63,769,662	3,450,624	12,608,662	5,588,035	(42,122,341)		(42,122,341)
Business-type activities							
Landfill	1,821,581	2,079,964				$ 258,383	258,383
Total business-type activities	1,821,581	2,079,964				258,383	258,383
Total primary government	$ 65,591,243	$ 5,530,588	$ 12,608,662	$ 5,588,035	(42,122,341)	258,383	(41,863,958)
General revenues							
Taxes:							
Property taxes, levied for general purposes					21,997,387		21,997,387
Property taxes, levied for street lighting districts					49,791		49,791
Property taxes, levied for library district					1,226,533		1,226,533
County excise tax for general purpose					3,497,675		3,497,675
County excise tax for transportation purpose					1,649,723		1,649,723
Shared revenue—state sales tax					6,363,631		6,363,631
Shared revenue—state vehicle license tax					1,944,048		1,944,048
State appropriations					550,050		550,050
Shared revenue—state liquor license tax					9,087		9,087
Payments in lieu of taxes					4,092,220		4,092,220
Investment earnings					680,919	174,252	855,171
Miscellaneous					1,173,426		1,173,426
Net gain on disposal of capital assets					38,071		38,071
Total general revenues					43,272,561	174,252	43,446,813
Change in net position					1,150,220	432,635	1,582,855
Net position, July 1, 2019					6,415,411	11,119,530	17,534,941
Net position, June 30, 2020					$ 7,565,631	$ 11,552,165	$ 19,117,796

See accompanying notes to financial statements.

Gila County
Balance sheet
Governmental funds
June 30, 2020

	General Fund	Public Works Fund	Other governmental funds	Total governmental funds
Assets				
Cash and investments	$ 13,746,166	$ 10,459,492	$ 4,341,645	$ 28,547,303
Receivables (net of allowances for uncollectibles):				
Property taxes	1,331,330		78,040	1,409,370
Accounts	92,035		166,757	258,792
Interest	63,472	55,255	20,877	139,604
Due from other funds	219,264		177,840	397,104
Due from other governments	2,261,821	766,616	1,148,469	4,176,906
Cash and investments held by trustee-restricted	9,544,069			9,544,069
Prepaid items	318,365	240,170	288	558,823
Inventories	88,629			88,629
Total assets	27,665,151	11,521,533	5,933,916	45,120,600
Liabilities				
Accounts payable	1,056,760	617,369	145,360	1,819,489
Accrued payroll and employee benefits	677,595	103,741	227,528	1,008,864
Due to:				
Other funds	177,840	47,894	150,444	376,178
Other governments			79,735	79,735
Deposits held for others	2,237			2,237
Unearned revenue	1,601,217			1,601,217
Total liabilities	3,515,649	769,004	603,067	4,887,720
Deferred inflows of resources				
Unavailable revenue—property taxes	485,166		30,837	516,003
Unavailable revenue—intergovernmental	2,108		406,833	408,941
Unavailable revenue—charges for services	41,224		277	41,501
Unavailable revenue—miscellaneous	248,998		16,283	265,281
Total deferred inflows of resources	777,496		454,230	1,231,726
Fund balances				
Nonspendable	406,994		288	407,282
Restricted	11,086,985	10,752,529	9,277,275	31,116,789
Assigned	15,912,086		2,015	15,914,101
Unassigned	(4,034,059)		(4,402,959)	(8,437,018)
Total fund balances	23,372,006	10,752,529	4,876,619	39,001,154
Total liabilities, deferred inflows of resources, and fund balances	$ 27,665,151	$ 11,521,533	$ 5,933,916	$ 45,120,600

See accompanying notes to financial statements.

Gila County

Reconciliation of the governmental funds balance sheet to the government-wide statement of net position

June 30, 2020

Fund balances—total governmental funds	$ 39,001,154
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.	32,128,851
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	1,231,726
Net OPEB assets held in trust for future benefits are not available for County operations and, therefore, are not reported in the funds.	795,456
Long-term liabilities, such as net pension/OPEB liabilities and pledged revenue obligations payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(72,450,167)
Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the funds.	6,858,611
Net position of governmental activities	$ 7,565,631

See accompanying notes to financial statements.

Gila County

Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2020

	General Fund	Public Works Fund	Other governmental funds	Total governmental funds
Revenues:				
Taxes	$ 25,460,417	$ 1,649,723	$ 1,276,331	$ 28,386,471
Licenses and permits	653,088	6,174	128,409	787,671
Intergovernmental	16,725,443	5,588,035	8,261,463	30,574,941
Charges for services	1,191,699	136,670	834,289	2,162,658
Fines and forfeits	471,666	354	14,969	486,989
Donations and contributions	150,925		297,423	448,348
Investment earnings	338,003	272,624	70,292	680,919
Miscellaneous	560,935	41,563	397,451	999,949
Total revenues	45,552,176	7,695,143	11,280,627	64,527,946
Expenditures:				
Current:				
General government	21,558,058		2,665,561	24,223,619
Public safety	15,946,193		2,872,333	18,818,526
Highways and streets		6,715,021	50,860	6,765,881
Health	177,840		3,372,711	3,550,551
Welfare	4,596,147		2,581,302	7,177,449
Sanitation			99,086	99,086
Culture and recreation	1,816		1,319,782	1,321,598
Education	1,350,015		705,852	2,055,867
Debt service:				
Principal retirement	677,274			677,274
Interest and other charges	713,548			713,548
Total expenditures	45,020,891	6,715,021	13,667,487	65,403,399
Excess (deficiency) of revenues over expenditures	531,285	980,122	(2,386,860)	(875,453)
Other financing sources (uses):				
Pledged revenue and revenue refunding	14,995,005			14,995,005
Payment to refunding escrow agent	(4,815,000)			(4,815,000)
Proceeds from sale of capital assets	25,171	12,900		38,071
Transfers in			1,667,663	1,667,663
Transfers out	(1,667,663)			(1,667,663)
Total other financing sources (uses)	8,537,513	12,900	1,667,663	10,218,076
Net change in fund balances	9,068,798	993,022	(719,197)	9,342,623
Fund balances, beginning of year	14,356,290	9,861,075	5,595,816	29,813,181
Changes in nonspendable resources:				
Decrease in reserve for inventories	(53,082)	(101,568)		(154,650)
Fund balances, end of year	$ 23,372,006	$ 10,752,529	$ 4,876,619	$ 39,001,154

See accompanying notes to financial statements.

Gila County

Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities
Year ended June 30, 2020

Net change in fund balances—total governmental funds		$ 9,342,623
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
Capital outlay	2,430,986	
Depreciation expense	(3,002,701)	(571,715)
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 governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position, Also governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the statement of activities.		
Debt issued or incurred	(14,995,005)	
Bond premium amortized	175,885	
Principal repaid	5,492,274	
Installment purchase contracts principal repaid	19,005	
Capital leases principal repaid	844	(9,306,997)
County pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension/OPEB liability is measured a year before the County's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the Statement of Activities.		
County pension/OPEB contributions	4,999,915	
Pension/OPEB expense	(3,474,515)	1,525,400
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 and liabilities are reported regardless of when the financial resources are available.		
Increase in compensated absences payable		(38,306)
Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities		
Property taxes	(553)	
Intergovernmental	(187,124)	
Charges for services	(5,507)	
EORP subsidy	(65,062)	(258,246)
Some revenues reported in the Statement of Activities that do not represent the collection of current financial resources and therefore are not reported as revenues in the governmental funds.		
Property taxes	35,190	
Intergovernmental	324,077	
Charges for services	18,813	
Miscellaneous revenue	234,031	612,111
Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.		
Decrease in inventories		(154,650)
Change in net position of governmental activities		$ 1,150,220

See accompanying notes to financial statements.

Gila County
Statement of net position
Proprietary fund
June 30, 2020

	Business-type activities—enterprise fund landfill
Assets	
Current assets:	
Cash and investments	$ 6,830,208
Accounts receivable	28,046
Interest receivable	34,129
Total current assets	6,892,383
Noncurrent assets:	
Restricted cash and investments	5,325,555
Net other postemployment benefits asset	1,261
Capital assets:	
Nondepreciable	3,000,000
Depreciable, net	1,198,371
Total noncurrent assets	9,525,187
Total assets	16,417,570
Deferred outflows of resources	
Deferred outflows related to pensions	86,575
Total deferred outflows of resources	86,575
Total assets and deferred outflows of resources	16,504,145
Liabilities	
Current liabilities:	
Accounts payable	13,446
Accrued payroll and employee benefits	20,125
Due to other funds	20,926
Installment purchase contracts payable	79,384
Total current liabilities	133,881
Noncurrent liabilities:	
Installment purchase contracts payable	225,844
Compensated absences payable	34,534
Landfill closure and postclosure care costs payable	3,911,978
Net pension liability	612,678
Total noncurrent liabilities	4,785,034
Total liabilities	4,918,915
Deferred inflows of resources	
Deferred inflows related to pensions	33,065
Total deferred inflows of resources	33,065
Total liabilities and deferred inflows of resources	4,951,980
Net position	
Invested in capital assets, net of related debt	3,893,143
Restricted for landfill closure and postclosure care costs	5,325,555
Unrestricted	2,333,467
Total net position	$ 11,552,165

See accompanying notes to financial statements.

Gila County
Statement of revenues, expenses, and changes in fund net position
Proprietary fund
Year ended June 30, 2020

	Business-type activities—enterprise fund landfill
Operating revenues:	
Landfill fees	$ 2,064,958
Other	15,006
Total operating revenues	2,079,964
Operating expenses:	
Personal services	748,124
Professional services	176,855
Supplies	118,092
Utilities	8,215
Repairs and maintenance	334,604
Landfill closure and postclosure care costs	172,891
Depreciation	108,145
Other	154,655
Total operating expenses	1,821,581
Operating income	258,383
Nonoperating revenues	
Investment earnings	174,252
Total nonoperating revenues	174,252
Increase in net position	432,635
Net position, July 1, 2019	11,119,530
Net position, June 30, 2020	$ 11,552,165

See accompanying notes to financial statements.

Gila County
Statement of cash flows
Proprietary fund
Year ended June 30, 2020

	Business-type activities— enterprise fund landfill
Cash flows from operating activities	
Receipts from customers	$ 2,105,101
Payments to suppliers and providers of goods and services	(763,322)
Payments to employees	(723,762)
Net cash provided by operating activities	618,017
Cash flows from capital and related financing activities	
Purchases of capital assets	(44,218)
Principal and other charges on installment purchase contracts	(90,345)
Net cash used for capital and related financing activities	(134,563)
Cash flows from investing activities	
Investment earnings	168,056
Net cash provided by investing activities	168,056
Net increase in cash and cash equivalents	651,510
Cash and cash equivalents, July 1, 2019	11,504,253
Cash and cash equivalents, June 30, 2020	$12,155,763
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 258,383
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	108,145
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable	25,137
Net other postemployment-benefits asset	336
Deferred outflows of resources related to pensions and other postemployment benefits	8,409
Accounts payable	8,174
Accrued payroll and employee benefits	3,532
Due to other funds	20,926
Compensated absences payable	8,551
Landfill closure and postclosure care costs payable	172,890
Net pension liability	50,150
Deferred inflows of resources related to pensions and other postemployment benefits	(46,616)
Net cash provided by operating activities	$ 618,017

See accompanying notes to financial statements.

Gila County
Statement of cash flows
Proprietary fund
Year ended June 30, 2020

Schedule of Noncash Investing, Capital and Noncapital Financing Activities:	
Depreciable capital assets - machinery and equipment	$ 395,573
Installment purchase contracts payable	(395,573)
Landfill closure and postclosure care costs expense	395,573
Landfill closure and postclosure care costs payable	(395,573)
Personal services expense	12,279
Deferred inflows of resources related to pension and OPEB	46,616
Deferred outflows of resources related to pension and OPEB	(8,409)
Net OPEB asset	(336)
Net pension and OPEB liabilities	$ (50,150)

See accompanying notes to financial statements.

Gila County
Statement of fiduciary net position
Fiduciary funds
June 30, 2020

	Investment trust funds	Agency funds
Assets		
Cash and investments	$47,740,780	$ 1,891,979
Interest receivable	230,767	3,502
Total assets	$47,971,547	$ 1,895,481
Liabilities		
Due to other governments		700,641
Deposits held for others		1,194,840
Total liabilities		$ 1,895,481
Net position		
Held in trust for investment trust participants	$47,971,547	

See accompanying notes to financial statements.

Gila County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2020

	Investment trust funds
Additions:	
Contributions from participants	$110,923,250
Investment earnings	1,505,795
Total additions	112,429,045
Deductions:	
Distributions to participants	107,898,516
Change in net position	4,530,529
Net position, July 1, 2019	43,441,018
Net position, June 30, 2020	$ 47,971,547

See accompanying notes to financial statements.

Note 1 - Summary of significant accounting policies

Gila County's accounting policies 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. The County has no discretely presented component units. Each blended 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
Gila County Library District	A tax-levying district that provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors, and county management has operational responsibility for the component unit.	Blended	Not available
Gila County Street Lighting Districts	A tax-levying district that operates and maintains street lighting in areas outside local city jurisdictions; the County's Board of Supervisors serves as the board of directors, and county management has operational responsibility for the component unit.	Blended	Not available

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 information's usefulness.

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 overall government's financial activities, except for fiduciary activities. They also distinguish between the County's governmental and business-type activities. 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. Program revenues include:

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

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

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 funds, each displayed in a separate column. All remaining governmental 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 user charges, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as grants and contributions, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered 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 *public works fund* accounts for road construction and maintenance of major and nonmajor regional roads. It is funded by a half-cent county sales tax, impact fees, highway user revenues and vehicle license taxes.

The County reports the following proprietary fund:

The *landfill fund* accounts for the sanitation fee revenues and expenses related to the operation of the County's Buckhead Mesa and Russell Gulch landfills.

The County also reports the following fund types:

The *investment trust funds* account for pooled assets the County Treasurer holds and invests on behalf of other governmental entities.

The *agency funds* account for assets the County holds as an agent for the State, various local governments, and other parties.

C. Basis of accounting

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

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The County's major revenue sources that are susceptible to accrual are property taxes, intergovernmental, charges for services, and investment earnings. 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.

D. Cash and investments

For the statement of cash flows, the County's cash and cash equivalents are considered to be cash on hand, demand deposits, and only those highly liquid investments with a maturity of 3 months or less when purchased.

All other investments are stated at fair value.

E. Inventories

Inventories in the government-wide financial statements are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

The County accounts for its inventories in the governmental funds using the purchase method. Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and as nonspendable fund balance to indicate that they do not constitute “available spendable resources.” These inventories are stated at cost using the first-in, first-out method.

F. Property tax calendar

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

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

G. Capital assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization threshold	Depreciation method	Estimated useful life
Land	$10,000	N/A	N/A
Buildings	10,000	Straight-line	7-30 years
Improvements other than buildings	10,000	Straight-line	20 years
Machinery and equipment	5,000	Straight-line	3-25 years
Infrastructure	10,000	Straight-line	7-50 years

H. Deferred outflows and inflows of resources

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

I. Postemployment benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans’ fiduciary net position and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Fund balance classifications

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

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

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

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's manager to assign resources for a specific purpose.

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 either restricted or unrestricted fund balances, the County will use restricted fund balance first. For the disbursement of unrestricted fund balances, the County will use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

K. Investment earnings

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

L. Compensated absences

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

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

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 1,000 hours of sick leave receive a $3,000 bonus. The liability for the bonus related to the sick leave is recorded in the government-wide and proprietary fund 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.

M. Miscellaneous Disclosures

Pursuant to A.R.S. 35-391(B) the County shall disclose in its annual financial report the amount of any reward, discount, incentive, or other financial consideration received by the governmental entity resulting from credit card payments. The County received $42,804 in card rebates during calendar year 2020.

Note 2 - Stewardship, compliance and accountability

The following nonmajor special revenue funds had fund deficits in excess of $1,000 as of June 30, 2020:

Fund	Deficit
Diversion Program CA	461,069
Health Service Fund	438,236
Rabies Control	321,002
Library District	316,833
Attorney's Justice Enhancement	304,433
Housing	297,855
Emergency Response	297,333
Drug Prosecution Grant 16.738	235,413
State Aid Enhancement	218,876
Aid to Indigent Defense	216,897
Superior & JP Crts Security	198,594
IV D Incentive/SSRE 93.563	177,287
GEST	116,907
RXP – Presc Drug OD Prev 93.136	113,143
Conciliation Court Fund	107,576
Brownsfield Grant 66.817	103,998
Law Library Fund	89,071
Field Trainer	79,357
Crime Victim Assistance Prog	60,740
Weatherization Asst 81.042/93.568	57,537
Drug Gang Violent Crime 16.738	56,602
Adult Intensive Prob Supervision	53,841
A G Victim Rights	49,827
DES Community Action Program	40,895

Prop 201 Smoke Free AZ Act	34,780
Local Probate Assessment Fee	30,887
Supp Nutrtn Asst Prg ED 10.561	30,330
Teen Pregnancy Prevention Svcs	26,894
Public Hlth Accreditation 93.991	24,241
Hazard Materials Emerg. Prepared	22,279
CASA – Globe	21,411
Tobacco Free Environment	18,173
HIV Consortium 93.917	16,628
Population Health Initiative	16,531
Juvenile Standards Probation	13,599
EECO	12,000
Victim Compensation	10,496
Arizona Lengthy Trial Fund	9,719
Public Health Emerg Prep 93.069	6,958
Claypool/Lower Miami SLID	4,703
Supp Nutrition Assist Prg 10.561	4,562
Juvenile Evening/Weekend Res Ctr	1,219

These fund deficits resulted either from operations or a carryover deficit from prior years, but are expected to be corrected through normal operations or through General fund transfers in future years.

Note 3 - Deposits and investments

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

Credit risk
Statutes have the following requirements for credit risk:
1. Commercial paper must be of prime quality and be rated within the top 2 ratings by a nationally recognized rating agency.
2. Specified bonds, debentures, notes and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least 2 nationally recognized rating agencies.
3. Fixed income securities must carry 1 of the 2 highest ratings by Moody's investors service and Standard and Poor's rating service. If only 1 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 at 102 percent of all deposits federal depository insurance does not cover.

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. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk
Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Deposits—At June 30, 2020, the carrying amount of the County's deposits was $20,271,744, and the bank balance was $20,538,524. The County does not have a formal policy related to custodial credit risk for deposits.

Investments—The County had total investments of $79,602,150 at June 30, 2020. The County categorizes certain investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles, were as follows:

		Fair value measurement using	
	Amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Investments by fair value level			
U.S. Treasury securities	$11,842,442	$11,842,442	
Federal Farm Credit Banks	1,508,517	1,508,517	
Federal Home Loan Bank	12,462,794	12,462,794	
Federal Home Loan Mortgage Corporation	6,067,393	6,067,393	
Corporate bonds	35,421,423	35,421,423	
Corporate notes	2,000,000	2,000,000	
Negotiable certificates of deposit	755,511	755,511	
U.S. Government money market mutual funds	9,543,911	9,543,911	
U.S. Treasury money market funds	159		$159
Total investments by fair value level	$79,602,150	$79,601,991	$159

Investments categorized as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments.

Investments categorized as Level 2 of the fair value hierarchy are valued using prices for identical or similar assets in markets that are not active.

***Credit risk*—**The County does not have a formal investment policy with respect to credit risk.

At June 30, 2020, credit risk for the County's investments was as follows:

Investment type	Rating	Rating agency	Amount
U.S. agency securities	Aaa	Moody's	$20,038,704
Corporate bonds	Aaa	Moody's	251,671
Corporate bonds	Aa1	Moody's	255,475
Corporate bonds	Aa2	Moody's	9,297,636
Corporate bonds	Aa3	Moody's	2,571,720
Corporate bonds	A1	Moody's	11,150,889
Corporate bonds	A2	Moody's	7,103,341
Corporate bonds	A3	Moody's	2,785,761
Corporate bonds	Unrated	Moody's	2,004,930
Corporate notes	Aa2	Moody's	2,000,000
Negotiable certificates of deposit	Unrated	N/A	755,511
U.S. Government money market mutual funds	Aaa-mf	Moody's	9,543,911
U.S. Treasury money market funds	Unrated	N/A	159
			$67,759,708

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 outside party's possession. The County does not have a formal investment policy with respect to custodial credit risk.

Concentration of credit risk—The County does not have a formal investment policy with respect to concentration of credit risk. The County had investments at June 30, 2020, representing 5 percent or more of the County's total investments as follows:

Investment	Percent
Federal Home Loan Bank	17.79%
Federal National Mortgage Association	8.66%
3M CO	7.23%
Royal Bank	7.01%
Wells Fargo Bank	5.99%
Chevron Corp	5.89%
Toyota Motor Cred	5.80%

Interest rate risk—The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2020, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity (years)
U.S. agency securities	$20,038,704	0.83
U.S. Treasury securities	11,842,442	0.19
Corporate bonds	35,421,423	1.49
Corporate notes	2,000,000	1.96
Negotiable certificates of deposit	755,511	0.61
U.S. Treasury money market funds	159	0.00
U.S. Government money market mutual funds	9,543,911	0.09
Total	$79,602,150	

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

Cash, deposits, and investments:	
Cash on hand	$ 6,000
Amount of deposits	20,271,744
Amount of investments	79,602,150
Total	$99,879,894

Statement of net position

	Governmental activities	Business-type activities	Investment trust funds	Agency funds	Total
Cash and investments	$28,547,303	$ 6,830,208	$47,740,780	$1,891,979	$85,010,270
Cash and investments held by trustee—restricted	9,544,069	5,325,555			14,869,624
Total	$38,091,372	$12,155,763	$47,740,780	$1,891,979	$99,879,894

Note 4 – 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.

The County's deposits and investments are included in the County Treasurer's investment pool, except for $1,936,249 in deposits and $14,869,624 of cash and investments held by trustee. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 3 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment type	Principal	Interest rates	Maturities	Fair value
U.S. agency securities	$19,750,000	1.250% - 2.900%	09/20 – 09/21	$20,038,704
U.S. Treasury securities	11,795,000	1.750% - 2.625%	07/20 –12/21	11,842,442
Corporate bonds	34,896,000	1.050% - 3.750%	10/20 – 08/21	35,421,423
Corporate notes	2,000,000	0.65%	6/22	2,000,000
Negotiable certificates of deposit	750,000	1.250%- 1.550%	08/20 – 08/21	755,511
	$69,191,000			$70,058,080

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

Statement of net position	
Assets	$ 83,482,024
Liabilities	700,641
Net position	$ 82,781,383
Net position held in trust for:	
Internal participants	$ 34,809,836
External participants	47,971,547
Total net position held in trust	$ 82,781,383
Statement of changes in net position	
Total additions	$185,554,873
Total deductions	181,351,010
Net increase	4,203,863
Net position held in trust:	
July 1, 2019	78,577,520
June 30, 2020	$ 82,781,383

Note 5 – Due from other governments

Amounts due from other governments at June 30, 2020, are shown as follows:

	Governmental activities			
	General fund	**Public works fund**	**Other governmental funds**	**Total**
State-shared sales tax	$ 855,123			$ 855,123
County excise tax	688,673	$322,677		1,011,350
State-shared vehicle license tax	81,840	55,548		137,388
Highway user revenue		386,245		386,245
Grants and contributions from local, state, and federal governments	322,955		$1,085,525	1,408,480
Reimbursements for goods or services provided for governmental units	243,536		62,944	306,480
Miscellaneous	69,694	2,146		71,840
Total	$2,261,821	$766,616	$1,148,469	$4,176,906

Note 6 - Capital assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,339,625			$ 2,339,625
Construction in progress	3,615,769	$ 1,107,643	$153,816	4,569,596
Total capital assets not being depreciated	5,955,394	1,107,643	153,816	6,909,221
Capital assets being depreciated:				
Buildings	24,644,086	243,599		24,887,685
Improvements other than buildings	1,440,614			1,440,614
Machinery and equipment	27,665,328	1,090,182	210,247	28,545,263
Infrastructure	22,176,475	143,378		22,319,853
Total capital assets being depreciated	75,926,503	1,477,159	210,247	77,193,415
Less accumulated depreciation for:				
Buildings	13,412,396	1,025,585		14,437,981
Improvements other than buildings	659,183	68,789		727,972
Machinery and equipment	23,387,820	1,155,263	210,247	24,332,836
Infrastructure	11,721,932	753,064		12,474,996
Total accumulated depreciation	49,181,331	3,002,701	210,247	51,973,785
Total capital assets being depreciated, net	26,745,172	(1,525,542)		25,219,630
Governmental activities, capital assets, net	$32,700,566	$ (417,899)	$153,816	$32,128,851
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 3,000,000			$ 3,000,000
Total capital assets not being depreciated	3,000,000			$ 3,000,000
Capital assets being depreciated:				
Buildings		$ 5,172		5,172
Improvements other than buildings	680,834			680,834
Machinery and equipment	3,048,709	434,619		3,483,328
Infrastructure	169,340			169,340
Total capital assets being depreciated	3,898,883	439,791		4,338,674
Less accumulated depreciation for:				
Buildings		388		388
Improvements other than buildings	30,591	34,042		64,633
Machinery and equipment	2,832,227	73,715		2,905,942
Infrastructure	169,340			169,340
Total	3,032,158	108,145		3,140,303
Total capital assets being depreciated, net	866,725	331,646		1,198,371
Business-type activities, capital assets, net	$ 3,866,725	$ 331,646		$ 4,198,371

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$1,193,262
Public safety	500,890
Highways and streets	1,210,675
Health	8,125
Welfare	20,771
Sanitation	15,758
Education	52,099
Culture and recreation	1,121
Total governmental activities depreciation expense	$3,002,701
Business-type activities:	
Sanitation	$ 108,145

Note 7 – Construction and other commitments

At June 30, 2020, the County had major construction commitments related to various governmental capital projects for the constructions of Tonto Creek Bridge, Gordon Canyon Bridge, a new animal shelter, County complex in Payson, and the improvements of other bridges and roads. As of June 30, 2020, the County had spent $4,723,412 on these construction projects and reported the total amount in construction in progress. An estimated cost to complete these capital projects is approximately $39.6 million, which is predominantly financed by transportation excise tax, General Fund and state and federal grants.

Note 8 - Long-term liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due within 1 year
Governmental activities					
Pledged revenue obligations payable	$ 6,059,080	$13,220,000	$ 5,492,274	$13,786,806	$ 530,549
Revenue obligations premium payable	115,715	1,775,005	175,885	1,714,835	90,255
Capital leases payable	844		844	0	
Installment purchase contracts payable	215,335		19,005	196,330	19,965
Net pension and other postemployment benefits liability	48,947,678	6,147,057	12,656	55,082,079	
Compensated absences payable	1,631,811	1,565,172	1,526,866	1,670,117	1,562,709
Total governmental activities long-term liabilities	$56,970,463	$22,707,234	$7,227,530	$72,450,167	$2,203,478
Business-type activities					
Installment purchase contracts payable		$ 395,573	$ 90,345	$ 305,228	$ 79,384
Net pension and other postemployment benefits liability	$ 562,528	50,150		612,678	
Compensated absences payable	25,983	30,283	21,732	34,534	28,884
Landfill closure and postclosure care costs payable	3,739,088	172,890		3,911,978	
Total business-type activities long-term liabilities	$ 4,327,599	$ 648,896	$ 112,077	$ 4,864,418	$ 108,268

Series 2019 pledged revenue and pledged revenue refunding obligations—In October 2019, the County issued Series 2019 pledged revenue and pledged refunding obligations with interest rates between 2 percent and 5 percent to finance various capital projects and advance-refund the Series 2009 pledged revenue and pledged revenue refunding obligations outstanding balance of $4,815,000. Capital projects include building a new animal care and control facility and a multipurpose building; purchasing a building to house the Probation Department and teen center; remodeling the Sheriff's Office, administration offices, and Health Department; and improving the Jail building. The obligations are callable on July 1, 2029, with interest payable semiannually. The County realized net proceeds of $14,690,275 after payments of $304,730 in underwriter and issuance costs. Details of the Series 2019 transactions are as follows:

Amount of pledged revenue and pledged revenue refunding obligations

Series 2019 issued	$13,220,000
Series 2019 net premium	1,775,005
Refunded pledged revenue obligations Series 2009	4,815,000
Reduction of debt service payments	766,923
Economic gain	705,134

Series 2015 pledged revenue obligations—During the year ended June 30, 2015, the County issued $2 million in series 2015 pledged revenue obligations with an interest rate of 0.53-2.70 percent to purchase and remodel the Copper Administrative building, a used modular office building. The obligations are generally noncallable, with interest payable semiannually.

The following pledged revenue and pledged revenue refunding obligations were outstanding at June 30, 2020:

Description	Original amount issued	Interest rates	Maturities	Outstanding June 30, 2020
Gila County Pledged Revenue Obligations, Series 2015	$2,000,000	1.90-2.70%	2021-2025	$ 1,046,806
Gila County Pledged Revenue and Pledged Revenue Refunding Obligations, Series 2019	13,220,000	2.00-5.00%	2021-2039	12,740,000
Total				$13,786,806

The following schedule details debt service requirements to maturity for the County's pledged revenue and pledged revenue refunding obligations payable at June 30, 2020:

	Governmental activities	
	Principal	Interest
Year ending June 30		
2021	$ 530,549	$ 509,734
2022	539,359	499,324
2023	548,794	488,189
2024	563,805	472,978
2025	579,300	460,484
2026-2030	3,265,000	1,931,313
2031-2035	3,990,000	1,201,738
2036-2040	3,770,000	384,600
	$13,786,807	$5,948,360

The County has pledged a portion of its excise taxes and state sales tax revenues toward the payment of debt related to revenue obligations outstanding at June 30, 2020. At June 30, 2020, future pledged revenues through final maturity at July 1, 2039, totaled $19,735,167, consisting of $13,786,807 for principal and $5,948,360 for interest. Future principal and interest payments are expected to require less than 12% of pledged revenues. In the current year, total principal and interest paid, and total pledged resources were $1,036,370 and $8,978,144, respectively.

Landfill closure and postclosure care costs—State and federal laws and regulations require the County to place a final cover on its six 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 landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs in each operating period. These costs will be paid from the landfill fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The $3,911,978 reported as landfill closure and postclosure care liability at June 30, 2020, represents the cumulative amount reported to date based on the approximate use of 73 percent of the estimated capacity of the Buckhead Mesa Landfill and 73 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $1,464,861 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2020.

The County has closed four of its landfills as of June 30, 1996 and expects to close the two remaining landfills in 2023 and 2034. The County has planned expansions of these landfills to extend their useful lives. The actual costs may also 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 assure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. In order to comply with the local government financial test requirements, the County established a restricted bank account with a cash balance that will cover the estimated landfill closure and postclosure care costs when Russell Gulch and Buckhead Mesa landfills are expected to close. The current balance is reported in the business-type activities statement of net position and the proprietary fund statement of net position as restricted cash. Although the restricted bank account is not one of the allowable mechanisms listed in 40 CFR 258.74, the Arizona Department Environmental Quality (ADEQ) approved the calendar year 2020 financial assurance demonstration for the Russell Gulch and Buckhead Mesa landfills and required the County to submit future financial assurance in compliance with 40 CFR §258.74.

Special use permit—The Buckhead Mesa Landfill was issued a special use permit from the United States Department of Agriculture (USDA) Forest Service for the purpose of using and maintaining a sanitary landfill, which expired on December 31, 2019 and had annual fees of $18,998. Gila County applied for a new special use permit with the USDA in September 2019 in accordance with agency regulation and is awaiting determination of its acceptance. During this time the Administrative Procedure Act (APA) at 5 U.S.C. § 558(c) provides that when the holder of a license for an ongoing activity has submitted a timely application for a new license in accordance with agency regulations, the license does not expire until the application has been accepted or denied. The USDA Forest Service consented to the continuation of use under the expired authorization which is analogous to a “Tenancy at Will”.

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During the year ended June 30, 2020, the County paid for compensated absences as follows: 68 percent from the general fund, 10 percent from the public works fund, 2 percent from the landfill fund, and 20 percent from other funds.

Note 9 - Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2020, were as follows:

	General fund	Public works fund	Other governmental funds	Total
Fund balances:				
Nonspendable:				
Prepaid items	$ 318,365		$ 288	$ 318,653
Inventories	88,629			88,629
Total nonspendable	406,994		288	407,282
Restricted for:				
Public safety			34,565	34,565
Highways and streets		$10,752,529		10,752,529
Health services	1,543,074		885,590	2,428,664
Judicial activities			3,866,050	3,866,050
Law enforcement			1,256,860	1,256,860
Education			2,005,996	2,005,996
Sanitation			81,110	81,110
Social services			270,792	270,792
Library			274,297	274,297
Street lighting improvement			17,914	17,914
Capital projects	9,543,911		415,331	9,959,242
Other purposes			168,770	168,770
Total restricted	11,086,985	10,752,529	9,277,275	31,116,789
Assigned to:				
Contingency reserve	15,000,000			15,000,000
Education	3,599			3,599
Other purposes	908,487		2,015	910,502
Total assigned	15,912,086		2,015	15,914,101
Unassigned	(4,034,059)		(4,402,959)	(8,437,018)
Total fund balances	$23,372,006	$10,752,529	$ 4,876,619	$39,001,154

Note 10 - Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, 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 Arizona Local Government Employee Benefit Trust.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 13 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; cyber security 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 $25,000 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.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 12 member counties. The pool provides member counties with workers' compensation coverage, as law requires, and risk management services. The County is responsible for paying a premium based on an experience-rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Local Government Employee Benefit Trust is a public entity risk pool currently composed of nine member entities. The pool provides member entities with health, prescription, dental, vision, life, short-term disability, and accidental death benefits for the counties' employees and their dependents. The County is responsible for paying a premium based on enrolled employees and their dependents and requires its employees to contribute a portion of that premium.

The Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. All pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation. If a pool were to become insolvent, the County would be assessed an additional contribution.

Note 11 – Operating leases

The County leases computer software, hardware and copier equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of these operating leases were $100,131 for the year ended June 30, 2020. These operating leases have the remaining noncancelable terms of 2 years. The following future minimum payments were required under the operating lease at June 30, 2020:

Year ending June 30	**Governmental Activities**
2021	$100,131
2022	4,437
Total minimum lease payments	$104,568

Note 12 - Pension and other postemployment benefits

The County contributes to the pension plans which are component units of the State of Arizona. The County also contributes to various other postemployment benefits (OPEB) plans. At June 30, 2020, the County reported the following aggregate amounts related to pension and OPEB for all plans to which it contributes:

Statement of net position and statement of activities	Governmental activities	Business-type activities	Total
Net OPEB asset	$ 795,456	$ 1,261	$ 796,717
Net pension and OPEB liabilities	55,082,079	612,678	55,694,757
Deferred outflows of resources related to pensions and OPEB	10,925,063	86,575	11,011,638
Deferred inflows of resources related to pensions and OPEB	4,066,452	33,065	4,099,517
Pension and OPEB expenses	3,474,515	72,718	3,547,233

The County's accrued payroll and employee benefits includes $7,145 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2020. Also, the County reported $4,999,915 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

The pension plans are described below and the OPEB plans are not further disclosed because of their relative insignificance to the County's financial statements.

A. Arizona State Retirement System

Plan description—County employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided—The ASRS provides retirement and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement Initial membership date: Before July 1, 2011	 On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions—In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 11.94 percent for retirement of the members' annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 11.45 percent for retirement of the active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 10.29 percent for retirement of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The County's contributions to the pension plan for the year ended June 30, 2020, were $2,159,441.

During fiscal year 2020, the County paid for ASRS pension contributions as follows: 60 percent from the General Fund, 14 percent from the Public Works Fund, 23 percent from other governmental funds, and 3 percent from the Landfill Fund.

Pension liability—At June 30, 2020, the County reported a net pension liability of $25,685,713 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019.

The County's proportion of the net liability was based on the County's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2019. The County's proportion measured as of June 30, 2019, was 0.176520 percent, which was an increase of 0.005740 from its proportion measured as of June 30, 2018.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2020, the County recognized a negative pension expense for ASRS of $2,646,356. At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 464,019	$ 4,829
Changes of assumptions or other inputs	108,575	1,022,856
Net difference between projected and actual earnings on pension plan investments		577,326
Changes in proportion and differences between county contributions and proportionate share of contributions	812,590	92,208
County contributions subsequent to the measurement date	2,159,441	
Total	$3,544,625	$1,697,219

The 2,159,441 reported as deferred outflows of resources related to ASRS pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2021	$ 65,129
2022	(420,916)
2023	(110,871)
2024	154,623

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7–7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

ASRS Asset class	Target allocation	Long-term expected geometric real rate of return
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	20%	5.85%
Total	100%	

Discount rate—The discount rate used to measure the ASRS total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

ASRS	1% Decrease (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
County's proportionate share of the net pension liability	$36,556,721	$25,685,713	$16,600,350

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System and Corrections Officer Retirement Plan

Plan descriptions—County sheriff employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans. A 9-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plan, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plan (PSPRS Tier 3 Risk Pool) which is not further disclosed because of its relative insignificance to the County's financial statements.

County detention officers, County dispatchers, and Administrative Office of the Courts (AOC) probation, surveillance, and juvenile detention officers participate in the Corrections Officer Retirement Plan (CORP) or the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The CORP administers an agent multiple-employer defined benefit pension plan for county detention officers and dispatchers (agent plan), which was closed to new members as of July 1, 2018, and a cost-sharing multiple-employer defined benefit pension plan for AOC officers (cost-sharing plan). Employees who were CORP members before July 1, 2018, participate in CORP, and AOC probation and surveillance officers who became members on or after July 1, 2018, participate in CORP or PSPDCRP. Detention officers, County dispatchers, and juvenile detention officers who became members on or after July 1, 2018, participate in PSPDCRP. The PSPRS Board of Trustees and the participating local boards govern CORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS and CORP plans. The report is available on the PSPRS website at www.psprs.com.

Benefits provided—The PSPRS and CORP provide retirement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS	**Initial membership date:**	
	Before January 1, 2012	**On or after January 1, 2012 and before July 1, 2017**
Retirement and disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit		
Retired members	80% to 100% of retired member's pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

CORP	Initial membership date:		
	Before January 1, 2012	**On or after January 1, 2012 and before July 1, 2018**	**AOC probation and surveillance officers: On or after July 1, 2018**
Retirement and disability			
Years of service and age required to receive benefit	Sum of years and age equals 80 25 years, any age (dispatchers) 20 years, any age (all others) 10 years, age 62	25 years, age 52.5 10 years, age 62	10 years, age 52.5* 10 or more years, age 55
Final average salary is based on	Highest 60 consecutive months of last 10 years		
Benefit percent			
Normal retirement	2.0% to 2.5% per year of credited service, not to exceed 80%	2.5% per year of credited service, not to exceed 80%	1.25% to 2.25% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement if more than 20 years of credited service	50% or normal retirement if more than 25 years of credited service	
Total and permanent disability retirement	50% or normal retirement if more than 25 years of credited service		
Ordinary disability retirement	2.5% per year of credited service		
Survivor benefit			
Retired members	80% of retired member's pension benefit		
Active members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions.		

*With actuarially reduced benefits.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees covered by benefit terms—At June 30, 2020, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers
Inactive employees or beneficiaries currently receiving benefits	32	14	3
Inactive employees entitled to but not yet receiving benefits	7	34	4
Active employees	33	42	3
Total	72	90	10

Contributions—State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2020, are indicated below. Rates are a percentage of active members' annual covered payroll.

	Active member—pension	County—pension
PSPRS Sheriff	7.65 – 11.65%	57.04%
CORP Detention	8.41	13.40
CORP Dispatchers	7.96	36.60
CORP AOC	8.41	30.71

In addition, statute required the County to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the PSPRS or CORP would typically fill and employees participating in the PSPRS Tier 3 Risk Pool and PSPDCRP members in addition to the County's required contributions to the PSPRS Tier 3 Risk Pool and PSPDCRP.

	Pension
PSPRS Sheriff	44.51%
CORP Detention	6.00
CORP Dispatchers	5.59

The County's contributions to the pension plans for the year ended June 30, 2020, were:

PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
$1,437,461	$276,004	$51,724	$339,539

During fiscal year 2020, the County paid for PSPRS and CORP pension contributions as follows: 84 percent from the General Fund and 16 percent from other governmental funds.

Pension liability—At June 30, 2020, the County reported the following net pension liabilities:

	Net pension liability
PSPRS Sheriff	$12,847,936
CORP Detention	2,287,659
CORP Dispatchers	919,105
CORP AOC (County's proportionate share)	3,849,317

The net pension liabilities were measured as of June 30, 2019, and the total liability used to calculate the net liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

Pension actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

PSPRS and CORP—pension

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.5
Price inflation	2.5%
Cost-of-living adjustment	1.75%
Mortality rates	PubS-2010 tables

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.3 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS and CORP Asset class	Target allocation	Long-term expected geometric real rate of return
Short term investments	2%	0.25%
Risk parity	4%	4.01%
Fixed income	5%	3.00%
Real assets	9%	6.75%
GTS	12%	4.01%
Private credit	16%	5.36%
Real estate	10%	4.50%
Private equity	12%	8.40%
Non-U.S. equity	14%	5.00%
U.S. equity	16%	4.75%
Total	100%	

Pension discount rate—At June 30, 2019, the discount rate used to measure the PSPRS and CORP total pension liabilities was 7.3 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. The projection of cash flows used to determine the PSPRS and CORP discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability

PSPRS Sheriff	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2019	$19,707,313	$ 7,026,862	$12,680,451
Adjustment to beginning of year		(149)	149
Changes for the year:			
Service cost	435,514		435,514
Interest on the total pension liability	1,448,251		1,448,251
Changes of benefit terms			
Differences between expected and actual experience in the measurement of the pension liability	(230,529)		(230,529)
Changes of assumptions or other inputs	426,495		426,495
Contributions—employer		1,351,693	(1,351,693)
Contributions—employee		194,229	(194,229)
Net investment income		373,963	(373,963)
Benefit payments, including refunds of employee contributions	(1,143,743)	(1,143,743)	
Administrative expense		(7,490)	7,490
Net changes	935,988	768,652	167,336
Balances at June 30, 2020	$20,643,301	$ 7,795,365	$12,847,936

CORP Detention	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2019	$6,771,272	$5,010,415	$1,760,857
Changes for the year:			
Service cost	344,457		344,457
Interest on the total pension liability	504,102		504,102
Differences between expected and actual experience in the measurement of the pension liability	145,954		145,954
Changes of assumptions or other inputs	245,157		245,157
Contributions—employer		288,365	(288,365)
Contributions—employee		167,603	(167,603)
Net investment income		262,281	(262,281)
Benefit payments, including refunds of employee contributions	(607,071)	(607,071)	
Administrative expense		(5,381)	5,381
Net changes	632,599	105,797	526,802
Balances at June 30, 2020	$7,403,871	$5,116,212	$2,287,659

CORP Dispatchers	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2019	$2,128,888	$1,378,296	$750,592
Changes for the year:			
Service cost	26,582		26,582
Interest on the total pension liability	150,655		150,655
Differences between expected and actual experience in the measurement of the pension liability	96,354		96,354
Changes of assumptions or other inputs	42,529		42,529
Contributions—employer		66,564	(66,564)
Contributions—employee		12,759	(12,759)
Net investment income		70,238	(70,238)
Benefit payments, including refunds of employee contributions	(239,183)	(239,183)	
Administrative expense		(1,954)	1,954
Net changes	76,937	(91,576)	168,513
Balances at June 30, 2020	$2,205,825	$1,286,720	$919,105

The County's proportion of the CORP AOC net pension liability was based on the County's actual contributions to the plan relative to the total of all participating counties' actual contributions for the year ended June 30, 2019. The County's proportion measured as of June 30, 2019, was 0.912289 percent, which was an increase of 0.034075 from its proportion measured as of June 30, 2018.

Sensitivity of the County's net pension liability to changes in the discount rate—The following table presents the County's net pension liabilities calculated using the discount rate of 7.3 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	1% Decrease (6.3%)	Current discount rate (7.3%)	1% Increase (8.3%)
PSPRS Sheriff			
Net pension liability	$15,488,936	$12,847,936	$10,674,145
CORP Detention			
Net pension liability	$3,359,953	$2,287,659	$1,419,981
CORP Dispatchers			
Net pension liability	$1,169,253	$919,105	$709,825
CORP AOC			
County's proportionate share of the net pension liability	$4,945,349	$3,849,317	$2,955,987

Pension plan fiduciary net position—Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS and CORP financial reports.

Pension expense—For the year ended June 30, 2020, the County recognized the following pension expense:

	Pension expense
PSPRS Sheriff	$1,394,437
CORP Detention	469,412
CORP Dispatchers	60,577
CORP AOC (County's proportionate share)	268,050

Pension deferred outflows/inflows of resources—At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS Sheriff	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience		$489,330
Changes of assumptions or other inputs	$ 644,113	
Net difference between projected and actual earnings on pension plan investments	136,596	
County contributions subsequent to the measurement date	1,437,461	
Total	$2,218,170	$489,330

CORP Detention	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$156,993	$183,825
Changes of assumptions or other inputs	272,541	
Net difference between projected and actual earnings on pension plan investments	77,309	
County contributions subsequent to the measurement date	276,004	
Total	$782,847	$183,825

CORP Dispatchers	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 64,854	$77,984
Changes of assumptions or other inputs	30,815	
Net difference between projected and actual earnings on pension plan investments	19,022	
County contributions subsequent to the measurement date	51,724	
Total	$166,415	$77,984

CORP AOC	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 275,042	$109,475
Changes of assumptions or other inputs	246,767	
Net difference between projected and actual earnings on pension plan investments	72,371	
Changes in proportion and differences between county contributions and proportionate share of contributions	94,525	573,245
County contributions subsequent to the measurement date	339,539	
Total	$1,028,244	$682,720

The amounts reported as deferred outflows of resources related to pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
2021	$193,003	$172,606	$ (8,535)	$ (95,734)
2022	5,057	24,833	34,378	(105,934)
2023	61,193	105,039	5,710	65,186
2024	32,126	20,540	5,154	142,467

PSPDCRP plan—County sheriff employees, County detention officers, County dispatchers and AOC probation, surveillance, and juvenile detention officers who are not members of PSPRS or CORP participate in the PSPDCRP. The PSPDCRP is a defined contribution pension plan. The PSPRS Board of Trustees governs the PSPDCRP according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.1. Benefit terms, including contribution requirements, are established by State statute.

For the year ended June 30, 2020, active PSPDCRP members were required by statute to contribute at least 9 percent (County sheriff employees) or 5 percent (County detention officers, County dispatchers, and AOC probation, surveillance, and juvenile detention officers) of the members' annual covered payroll, and the County was required by statute to contribute 9 percent or 5 percent, respectively, of active members' annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the earnings on those contributions. Employees vest in a portion of the County's contributions each year as set forth in statute. The plan retains nonvested County contributions when forfeited because of employment terminations. For the year ended June 30, 2020, the County recognized pension expense of $34,073.

C. Elected Officials Retirement Plan

Plan description—Elected officials and judges participate in the Elected Officials Retirement Plan (EORP), ASRS, or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan for elected officials and judges who were members of the plan on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on PSPRS's website at www.psprs.com.

Benefits provided—The EORP provides retirement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

EORP	**Initial membership date:**	
	Before January 1, 2012	**On or after January 1, 2012**
Retirement and disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor benefit		
Retired members	75% of retired member's benefit	50% of retired member's benefit
Active members and other Inactive members	75% of disability retirement benefit	50% of disability retirement benefit

* With reduced benefits of 0.25% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

Contributions—State statutes establish active member and employer contribution requirements. Statute also appropriates $5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2020, statute required active EORP members to contribute 7 or 13 percent of the members' annual covered payroll and the County to contribute at the actuarially determined rate of 61.43 percent of all active EORP members' annual covered payroll. Also, statute required the County to contribute 49.49 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 55.43 percent to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the County's required contributions to ASRS and EODCRS for these elected officials and judges. In addition, statute required the County to contribute 39.72 percent of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the EORP would typically fill. The County's contributions to the pension plan for the year ended June 30, 2020, were $621,324.

During fiscal year 2020, the County paid for EORP pension contributions as follows: 100 percent from the General Fund.

Pension liability—At June 30, 2020, the County reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the County's proportionate share of the State's appropriation for EORP. The amount the County recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the County were as follows:

County's proportionate share of the EORP net pension liability	$ 9,957,102
State's proportionate share of the EORP net pension liability associated with the County	935,865
Total	$10,892,967

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2019, reflect changes of actuarial assumptions to decreased the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates

The County's proportion of the net pension liability was based on the County's required contributions to the plan relative to the total of all participating employers' required contributions for the year ended June 30, 2019. The County's proportion measured as of June 30, 2019, was 1.5014240 percent, which was an increase of 0.358320 from its proportion measured as of June 30, 2018.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2020, the County recognized negative pension expense for EORP of $1,359,589 and negative revenue of $65,062 for the County's proportionate share of the State's appropriation to EORP and the designated court fees. At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 221,996	$ 9,443
Changes of assumptions or other inputs	31,303	282,955
Net difference between projected and actual earnings on pension plan investments	67,742	
Changes in proportion and differences between county contributions and proportionate share of contributions	1,610,561	
County contributions subsequent to the measurement date	621,324	
Total	$2,552,926	$292,398

The $621,324 reported as deferred outflows of resources related to EORP pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ending June 30	
2021	$1,620,099
2022	(17,275)
2023	18,917
2024	17,553

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

EORP	
Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.75%
Price inflation	2.5%
Cost-of-living adjustment	1.75%
Mortality rates	PubG-2010 tables

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.3 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP Asset class	Target allocation	Long-term expected geometric real rate of return
Short term investments	2%	0.25%
Risk parity	4%	4.01%
Fixed income	5%	3.00%
Real assets	9%	6.75%
GTS	12%	4.01%
Private credit	16%	5.36%
Real estate	10%	4.50%
Private equity	12%	8.40%
Non-U.S. equity	14%	5.00%
U.S. equity	16%	4.75%
Total	100%	

Discount rate—At June 30, 2019, the discount rate used to measure the EORP total pension liability was 7.3 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the actuarially determined rates, and State contributions will be made as currently required by statute. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's proportionate share of the EORP net pension liability to changes in the discount rate—The following table presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.3 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

EORP	**1% Decrease (6.3%)**	**Current Discount Rate (7.3%)**	**1% Increase (8.3%)**
County's proportionate share of the net pension liability	$11,402,379	$9,957,102	$8,726,114

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued EORP financial report.

EODCRS plan—Elected officials and judges who are not members of EORP or ASRS participate in the EODCRS. The EODCRS is a defined contribution pension plan. The PSPRS Board of Trustees governs the EODCRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.1. Benefit terms, including contribution requirements, are established by State statute. The EODCDP is not further disclosed because of its relative insignificance to the County's financial statements.

For the year ended June 30, 2020, active EODCRS members were required by statute to contribute 8 percent of the members' annual covered payroll, and the County was required by statute to contribute 6 percent of active members' annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the County's contributions to the individual employee account and the earnings on those contributions. For the year ended June 30, 2020, the County recognized pension expense of $11,676.

Note 13 - Interfund balances and activity

Interfund receivables and payables—Interfund balances at June 30, 2020, were as follows:

	Payable to		
	General Fund	**Other Governmental Funds**	**Total**
Payable from			
General Fund		$177,840	$177,840
Public Works Fund	$ 47,894		47,894
Landfill Fund	20,926		20,926
Other Governmental Funds	150,444		150,444
Total	$219,264	$177,840	$397,104

The interfund balances resulted from time lags between the dates that interfund goods and services are provided or reimbursable expenditures occur and the dates payments are made.

Interfund transfers—Interfund transfers for the year ended June 30, 2020, were as follows:

	Transfers to
	Other Governmental Funds
Transfers from	
General Fund	$1,667,663

The principal purpose of interfund transfers was to provide grant matches or to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 14 – Subsequent events

In October 2020, Gila County issued $16,855,000 of taxable series 2020 pledged revenue obligations with interest rates between 0.505 percent and 3.222 percent and a final maturity date of July 1, 2039. The County has pledged a portion of its general county excise tax revenues toward the future payment of debt related to these obligations. The net proceeds will be used to pay a significant portion of the County's unfunded pension liability.

As of June 30, 2020, the corona virus (COVID-19) pandemic had impacted the economies of the United States and other countries. The World Health Organization declared a Public Health Emergency on January 30, 2020. The evolution of the virus, the extent of its economic impact and the results of steps taken and yet to be taken by governments and financial institutions are unknown. Governments and businesses have faced supply chain disruptions, labor shortages, and temporary reductions in revenues. While such disruptions may be temporary, the long-term financial impacts have yet to be determined. These financial statements do not consider the potential financial implications of the pandemic.

Other Required Supplementary Information

Gila County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2020

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 25,397,548	$ 25,460,417	$ 62,869
Licenses and permits	570,000	653,088	83,088
Intergovernmental	13,210,273	16,725,443	3,515,170
Charges for services	1,084,558	1,191,699	107,141
Fines and forfeitures	422,247	471,666	49,419
Donations and contributions	72	150,925	150,853
Investment earnings	150,000	338,003	188,003
Miscellaneous	64,339	560,935	496,596
Total revenues	40,899,037	45,552,176	4,653,139
Expenditures:			
Current:			
General government			
Administrative services	243,639	247,757	(4,118)
Assessor	1,199,178	991,636	207,542
Board of supervisors (including fund 1870)	2,262,478	1,899,436	363,042
Community development	1,311,933	1,154,908	157,025
Computer services	1,097,319	992,784	104,535
Elections	477,938	394,002	83,936
Facilities management	2,071,137	2,168,106	(96,969)
Finance/purchasing	1,032,934	1,190,306	(157,372)
General administration	455,155	830,768	(375,613)
Personnel	834,021	821,574	12,447
Professional services	837,384	797,036	40,348
Recorder	775,703	579,575	196,128
Treasurer	579,569	541,506	38,063
Contingency reserve	1,426,560		1,426,560
Taxpayer stabilization (funds 1003, 1004 & 1006)	15,000,000		15,000,000

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2020
(Continued)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Judicial services			
County attorney	$ 2,801,895	$ 2,291,699	$ 510,196
Constable—Globe	186,073	190,967	(4,894)
Constable—Payson	223,496	226,937	(3,441)
Justice Court—Globe	759,854	738,017	21,837
Justice Court—Payson	681,847	627,367	54,480
Indigent legal defense	1,312,340	1,404,095	(91,755)
Clerk of the superior court	1,506,576	1,307,514	199,062
Superior Court—Division I	169,975	166,083	3,892
Superior Court—Division II	164,144	162,109	2,035
Superior Court—General	973,149	844,841	128,308
Total general government	38,384,297	20,569,023	17,815,274
Public safety			
County sheriff (facilities management)	14,466,776	13,466,501	1,000,275
Emergency services (including GIS Rural Addressing)	357,298	343,822	13,476
Flood plain management	235,888	220,685	15,203
Juvenile detention	799,966	671,069	128,897
Probation	1,133,752	1,119,173	14,579
Total public safety	16,993,680	15,821,250	1,172,430
Health		177,840	(177,840)
Welfare			
AHCCCS contributions	3,621,701	3,713,637	(91,936)
Community agencies	338,000	381,549	(43,549)
Public fiduciary	515,729	500,961	14,768
Total welfare	4,475,430	4,596,147	(120,717)

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2020
(Concluded)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Education			
School superintendent	$ 421,674	$ 1,350,015	$ (928,341)
Total education	421,674	1,350,015	(928,341)
Capital Outlay (funds 1007, 1114 & 1115)	15,964,500	2,024,896	13,939,604
Debt service	1,100,000	1,390,822	(290,822)
Total expenditures	77,339,581	45,929,993	31,409,588
Excess (deficiency) of revenues over expenditures	(36,440,544)	(377,817)	36,062,727
Other financing sources (uses)			
Pledged revenue obligations proceeds	14,921,530	14,995,005	73,475
Proceeds from sale of capital assets	35,000	25,171	(9,829)
Payment to refunding escrow agent	(5,110,530)	(4,815,000)	295,530
Indirect costs		909,102	909,102
Transfers out	(580,669)	(1,667,663)	(1,086,994)
Total other financing sources (uses)	9,265,331	9,446,615	181,284
Net change in fund balances	(27,175,213)	9,068,798	36,244,011
Fund balances, July 1, 2019	27,175,213	14,356,290	(12,818,923)
Decrease in reserve for inventories		(53,082)	(53,082)
Fund balances, June 30, 2020	$ -	$ 23,372,006	$ 23,372,006

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
Public Works Fund
Year ended June 30, 2020

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 1,596,000	$ 1,649,723	$ 53,723
Licenses and permits	4,000	6,174	2,174
Fines and forfeits		354	354
Intergovernmental	5,692,816	5,588,035	(104,781)
Charges for services		136,670	136,670
Investment earnings	76,000	272,624	196,624
Miscellaneous	38,600	41,563	2,963
Total revenues	7,407,416	7,695,143	287,727
Expenditures:			
Highways and streets	9,302,319	6,715,021	2,587,298
Total expenditures	9,302,319	6,715,021	2,587,298
Excess (deficiency) of revenues over expenditures	(1,894,903)	980,122	2,875,025
Other financing sources (uses):			
Proceeds from sale of capital assets		12,900	12,900
Total other financing sources and uses		12,900	12,900
Net change in fund balances	(1,894,903)	993,022	2,887,925
Fund balances, July 1, 2019	1,894,903	9,861,075	7,966,172
Decrease in reserve for inventory		(101,568)	(101,568)
Fund balances, June 30, 2020	$ -	$10,752,529	$10,752,529

See accompanying notes to budgetary comparison schedule.

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.

The County has adopted budgets in accordance with A.R.S. requirements for the general fund, special revenue funds, capital project funds, and debt service funds, with the exception of the superintendent of schools special revenue fund. In accordance with A.R.S. § 15-301(C), the Office of County School Superintendent is designated as a local education agency (LEA). Revenues and expenditures for the LEA for Gila County Regional School District #49 and Gila County special education services are not included in the adopted budget of the County's Board of Supervisors.

Note 2 – Budgetary basis of accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles, except for the following unbudgeted items.

	General fund
Excess of revenues over expenditures from the statement of revenues, expenditures, and changes in fund balances	$ 531,285
Indirect cost expenditures allocated to other county funds	(909,102)
Deficiency of revenues over expenditures from the budgetary comparison schedule	$(377,817)

Note 3 - Expenditures in excess of appropriations

For the year ended June 30, 2020, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/department	Excess
General fund:	
Administrative Services	$ 4,118
Facilities Management	96,969
Finance/Purchasing	157,372
General Administration	375,613
Constable - Globe	4,894
Constable - Payson	3,441

Indigent Legal Defense	91,755
Health	177,840
AHCCCS Contributions	91,936
Community Agencies	43,549
School Superintendent	928,341
Debt Service	290,822

The excesses were primarily the result of unexpected expenditures or expenditures made as a result of unanticipated revenues, or both. When departments exceed their annual budget, the County Finance Department closely monitors departmental spending and discusses the overage with the departments to improve the accuracy of the budget and improve budget control. Material unbudgeted expenditures will be referred to the Board of Supervisors for approval of a budget transfer from contingency or other appropriate funds.

During fiscal year 2020, the County School Superintendent's Office received national forest monies of $891,108 and passed them through to the school districts, which was not budgeted, and accounted for the entire excess amount.

Gila County

Required supplementary information
Schedule of the County's proportionate share of the net pension liability
Cost-sharing pension plans
June 30, 2020

Arizona State Retirement System

	Reporting fiscal year (Measurement date)						
	2020 (2019)	**2019 (2018)**	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2011**
County's proportion of the net pension liability	0.18%	0.17%	0.17%	0.17%	0.18%	0.19%	
County's proportionate share of the net pension liability	$25,685,713	$23,817,800	$25,870,469	$28,096,646	$28,452,591	$28,415,012	
County's covered payroll	$18,326,508	$17,311,838	$16,996,911	$16,464,044	$16,959,971	$17,866,484	Information not available
County's proportionate share of the net pension liability as a percentage of its covered payroll	140.16%	137.58%	152.21%	170.65%	167.76%	159.04%	
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year (Measurement date)						
	2020 (2019)	**2019 (2018)**	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2011**
County's proportion of the net pension liability	0.91%	0.88%	0.97%	1.31%	1.38%	1.55%	
County's proportionate share of the net pension liability	$ 3,849,317	$ 3,161,337	$ 3,907,213	$ 3,704,368	$ 3,344,124	$ 3,475,563	
County's covered payroll	$ 1,106,855	$ 1,000,857	$ 1,143,874	$ 1,452,609	$ 1,539,683	$ 1,667,965	Information not available
County's proportionate share of the net pension liability as a percentage of its covered payroll	347.77%	315.86%	341.58%	255.01%	217.20%	208.37%	
Plan fiduciary net position as a percentage of the total pension liability	51.99%	53.72%	49.21%	54.81%	57.89%	58.59%	

Elected Officials Retirement Plan

	Reporting fiscal year (Measurement date)						
	2020 (2019)	**2019 (2018)**	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2011**
County's proportion of the net pension liability	1.50%	1.14%	1.12%	1.21%	1.26%	1.29%	
County's proportionate share of the net pension liability	$ 9,957,102	$ 7,203,131	$13,627,485	$11,445,909	$ 9,861,197	$ 8,628,523	
State's proportionate share of the net pension liability associated with the County	935,865	1,234,210	2,828,330	2,363,282	3,074,311	2,645,585	
Total	$10,892,967	$ 8,437,341	$16,455,815	$13,809,191	$12,935,508	$11,274,108	Information not available
County's covered payroll	$ 1,072,272	$ 990,519	$ 959,940	$ 977,941	$ 1,134,316	$ 1,182,686	
County's proportionate share of the net pension liability as a percentage of its covered payroll	928.60%	727.21%	1419.62%	1170.41%	869.35%	729.57%	
Plan fiduciary net position as a percentage of the total pension liability	30.14%	30.36%	19.66%	23.42%	28.32%	31.91%	

See accompanying notes to pension plan schedules.

Gila County

Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2020

PSPRS Sheriff

	Reporting fiscal year (Measurement date)						
	2020 (2019)	**2019 (2018)**	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2011**
Total pension liability							
Service cost	$ 435,514	$ 385,131	$ 502,240	$ 403,538	$ 299,129	$ 367,275	
Interest on the total pension liability	1,448,251	1,411,326	1,326,313	1,325,851	1,290,430	1,044,461	
Changes of benefit terms			309,993	134,564		451,808	
Differences between expected and actual experience in the measurement of the pension liability	(230,529)	(369,481)	(278,317)	(416,800)	(29,030)	94,471	
Changes of assumptions or other inputs	426,495		878,607	632,607		2,180,190	
Benefit payments, including refunds of employee contributions	(1,143,743)	(1,198,129)	(1,386,848)	(1,282,671)	(1,040,337)	(901,225)	
Net change in total pension liability	935,988	228,847	1,351,988	797,089	520,192	3,236,980	
Total pension liability—beginning	19,707,313	19,478,466	18,126,478	17,329,389	16,809,197	13,572,217	
Total pension liability—ending (a)	$20,643,301	$19,707,313	$19,478,466	$18,126,478	$17,329,389	$16,809,197	
Plan fiduciary net position							
Contributions—employer	$ 1,351,693	$ 1,119,625	$ 951,182	$ 867,460	$ 641,694	$ 520,920	
Contributions—employee	194,229	190,551	245,455	243,186	211,706	175,906	
Net investment income	373,963	454,476	723,993	37,079	230,228	792,461	Information not available
Benefit payments, including refunds of employee contributions	(1,143,743)	(1,198,129)	(1,386,848)	(1,282,671)	(1,040,337)	(901,225)	
Hall/Parker Settlement		(271,741)					
Administrative expense	(7,490)	(7,617)	(6,806)	(5,735)	(5,984)	(6,383)	
Other changes	(149)	80	(18,616)	10,578	(47,732)	87,607	
Net change in plan fiduciary net position	768,503	287,245	508,360	(130,103)	(10,425)	669,286	
Plan fiduciary net position—beginning	7,026,862	6,739,617	6,231,257	6,361,360	6,371,785	5,702,499	
Plan fiduciary net position—ending (b)	$ 7,795,365	$ 7,026,862	$ 6,739,617	$ 6,231,257	$ 6,361,360	$ 6,371,785	
County's net pension liability—ending (a) – (b)	$12,847,936	$12,680,451	$12,738,849	$11,895,221	$10,968,029	$10,437,412	
Plan fiduciary net position as a percentage of the total pension liability	37.76%	35.66%	34.60%	34.38%	36.71%	37.91%	
Covered payroll	$ 2,588,340	$ 2,264,762	$ 2,362,113	$ 2,167,935	$ 2,001,288	$ 1,895,363	
County's net pension liability as a percentage of covered payroll	496.38%	559.90%	539.30%	548.69%	548.05%	550.68%	

See accompanying notes to pension plan schedules.

Gila County

Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2020

CORP Detention

	Reporting fiscal year (Measurement date)						
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2011
Total pension liability							
Service cost	$ 344,457	$ 362,086	$ 365,615	$ 341,734	$ 322,777	$ 349,379	
Interest on the total pension liability	504,102	504,600	420,698	368,315	353,739	322,522	
Changes of benefit terms		(322,827)	997,825	10,391		24,688	
Differences between expected and actual experience in the measurement of the pension liability	145,954	(138,314)	(273,466)	238,078	(184,916)	(181,113)	
Changes of assumptions or other inputs	245,157		115,544	218,760		155,825	
Benefit payments, including refunds of employee contributions	(607,071)	(544,308)	(285,348)	(258,317)	(372,466)	(148,202)	
Net change in total pension liability	632,599	(138,763)	1,340,868	918,961	119,134	523,099	
Total pension liability—beginning	6,771,272	6,910,035	5,569,167	4,650,206	4,531,072	4,007,973	
Total pension liability—ending (a)	$ 7,403,871	$ 6,771,272	$ 6,910,035	$ 5,569,167	$ 4,650,206	$ 4,531,072	
Plan fiduciary net position							
Contributions—employer	$ 288,365	$ 238,843	$ 204,740	$ 191,008	$ 181,989	$ 191,319	
Contributions—employee	167,603	194,274	197,659	187,968	188,093	186,454	
Net investment income	262,281	335,380	501,516	25,007	144,624	461,443	Information not available
Benefit payments, including refunds of employee contributions	(607,071)	(544,308)	(285,348)	(258,317)	(372,466)	(148,202)	
Administrative expense	(5,381)	(5,774)	(4,787)	(3,936)	(3,947)	(3,628)	
Other changes		(8,510)	384	8,800	(3,075)	(544)	
Net change in plan fiduciary net position	105,797	209,905	614,164	150,530	135,218	686,842	
Plan fiduciary net position—beginning	5,010,415	4,800,510	4,186,346	4,035,816	3,900,598	3,213,756	
Plan fiduciary net position—ending (b)	$ 5,116,212	$ 5,010,415	$ 4,800,510	$ 4,186,346	$ 4,035,816	$ 3,900,598	
County's net pension liability—ending (a) – (b)	$ 2,287,659	$ 1,760,857	$ 2,109,525	$ 1,382,821	$ 614,390	$ 630,474	
Plan fiduciary net position as a percentage of the total pension liability	69.10%	74.00%	69.47%	75.17%	86.79%	86.09%	
Covered payroll	$ 2,465,134	$ 2,368,007	$ 2,552,674	$ 2,226,105	$ 2,058,827	$ 2,074,538	
County's net pension liability as a percentage of covered payroll	92.80%	74.36%	82.64%	62.12%	29.84%	30.39%	

See accompanying notes to pension plan schedules.

Gila County

Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2020

CORP Dispatchers

	Reporting fiscal year (Measurement date) 2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2011
Total pension liability							
Service cost	$ 26,582	$ 30,034	$ 32,295	$ 35,574	$ 30,280	$ 39,102	
Interest on the total pension liability	150,655	171,554	147,775	140,477	130,939	127,496	
Changes of benefit terms		(130,830)	384,994	6,381		12,908	
Differences between expected and actual experience in the measurement of the pension liability	96,354	(199,521)	(172,751)	47,078	59,963	(103,659)	
Changes of assumptions or other inputs	42,529		43,923	56,724		80,874	
Benefit payments, including refunds of employee contributions	(239,183)	(91,254)	(83,034)	(124,520)	(80,128)	(136,774)	
Net change in total pension liability	76,937	(220,017)	353,202	161,714	141,054	19,947	
Total pension liability—beginning	2,128,888	2,348,905	1,995,703	1,833,989	1,692,935	1,672,988	
Total pension liability—ending (a)	$ 2,205,825	$ 2,128,888	$ 2,348,905	$ 1,995,703	$ 1,833,989	$ 1,692,935	
Plan fiduciary net position							
Contributions—employer	$ 66,564	$ 47,658	$ 37,583	$ 35,930	$ 30,530	$ 26,396	
Contributions—employee	12,759	14,692	17,241	20,184	20,252	20,281	
Net investment income	70,238	93,455	141,868	7,545	45,656	158,620	Information not available
Benefit payments, including refunds of employee contributions	(239,183)	(91,254)	(83,034)	(124,520)	(80,128)	(136,774)	
Administrative expense	(1,954)	(2,114)	(1,641)	(1,467)	(1,505)	(1,247)	
Other changes		(26)	(8)	(9)	(1,172)	(19,995)	
Net change in plan fiduciary net position	(91,576)	62,411	112,009	(62,337)	13,633	47,281	
Plan fiduciary net position—beginning	1,378,296	1,315,885	1,203,876	1,266,213	1,252,580	1,205,299	
Plan fiduciary net position—ending (b)	$ 1,286,720	$ 1,378,296	$ 1,315,885	$ 1,203,876	$ 1,266,213	$ 1,252,580	
County’s net pension liability—ending (a) – (b)	$ 919,105	$ 750,592	$ 1,033,020	$ 791,827	$ 567,776	$ 440,355	
Plan fiduciary net position as a percentage of the total pension liability	58.33%	64.74%	56.02%	60.32%	69.04%	73.99%	
Covered payroll	$ 160,443	$ 184,578	$ 226,100	$ 254,265	$ 254,000	$ 254,265	
County’s net pension liability as a percentage of covered payroll	572.85%	406.65%	456.89%	311.42%	223.53%	173.19%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of county pension contributions
June 30, 2020

Arizona State Retirement System

	Reporting fiscal year							
	2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013-2011**
Statutorily required contribution	$ 2,159,441	$ 2,081,679	$ 1,850,254	$ 1,746,245	$ 1,768,338	$ 1,832,179	$ 1,852,259	Information not available
County's contributions in relation to the statutorily required contribution	2,159,441	2,081,679	1,850,254	1,746,245	1,768,338	1,832,179	1,852,259	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
County's covered payroll	$19,024,801	$18,326,508	$17,311,838	$16,996,911	$16,464,044	$16,959,971	$17,866,484	
County's contributions as a percentage of covered payroll	11.35%	11.36%	10.69%	10.27%	10.74%	10.80%	10.37%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year							
	2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013-2011**
Statutorily required contribution	$ 339,539	$ 358,953	$ 228,649	$ 218,961	$ 276,212	$ 227,801	$ 240,875	Information not available
County's contributions in relation to the statutorily required contribution	339,539	358,953	228,649	218,961	276,212	227,801	240,875	
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
County's covered payroll	$ 1,107,501	$ 1,106,855	$ 1,000,857	$ 1,143,874	$ 1,452,609	$ 1,539,683	$ 1,667,965	
County's contributions as a percentage of covered payroll	30.66%	32.43%	22.85%	19.14%	19.01%	14.80%	14.44%	

Elected Officials Retirement Plan

	Reporting fiscal year							
	2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013-2011**
Statutorily required contribution	$ 621,324	$ 607,608	$ 257,846	$ 208,566	$ 250,016	$ 265,481	$ 274,171	Information not available
County's contributions in relation to the statutorily required contribution	621,324	512,123	76,787	208,566	250,016	265,481	274,171	
County's contribution deficiency (excess)	$ -	$ 95,485	$ 181,059	$ -	$ -	$ -	$ -	
County's covered payroll	$ 1,096,965	$ 1,072,272	$ 990,519	$ 959,940	$ 977,941	$ 1,134,316	$ 1,182,686	
County's contributions as a percentage of covered payroll	56.64%	47.76%	7.75%	21.73%	25.57%	23.40%	23.18%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of county pension contributions
June 30, 2020

PSPRS Sheriff

	Reporting fiscal year							
	2020	2019	2018	2017	2016	2015	2014	2013-2011
Actuarially determined contribution	$ 1,437,461	$ 1,303,462	$ 1,119,625	$ 1,102,871	$ 1,210,141	$ 641,694	$ 520,920	
County's contributions in relation to the actuarially determined contribution	1,437,461	1,303,462	886,696	951,182	867,460	641,694	520,920	Information not available
County's contribution deficiency (excess)	$ -	$ -	$ 232,929	$ 151,689	$ 342,681	$ -	$ -	
County's covered payroll	$ 2,737,416	$ 2,588,340	$ 2,264,762	$ 2,362,113	$ 2,167,935	$ 2,001,288	$ 1,895,363	
County's contributions as a percentage of covered payroll	52.51%	50.36%	39.15%	40.27%	40.01%	32.06%	27.48%	

CORP Detention

	Reporting fiscal year							
	2020	2019	2018	2017	2016	2015	2014	2013-2011
Actuarially determined contribution	$ 276,004	$ 291,129	$ 238,843	$ 221,827	$ 208,141	$ 181,989	$ 191,319	
County's contributions in relation to the actuarially determined contribution	276,004	291,129	238,843	204,740	191,008	181,989	191,319	Information not available
County's contribution deficiency (excess)	$ -	$ -	$ -	$ 17,087	$ 17,133	$ -	$ -	
County's covered payroll	$ 2,447,650	$ 2,465,134	$ 2,368,007	$ 2,552,674	$ 2,226,105	$ 2,058,827	$ 2,074,538	
County's contributions as a percentage of covered payroll	11.28%	11.81%	10.09%	8.02%	8.58%	8.84%	9.22%	

CORP Dispatchers

	Reporting fiscal year							
	2020	2019	2018	2017	2016	2015	2014	2013-2011
Actuarially determined contribution	$ 51,724	$ 65,525	$ 47,658	$ 44,926	$ 47,090	$ 30,530	$ 26,396	
County's contributions in relation to the actuarially determined contribution	51,724	65,525	47,658	37,583	35,930	30,530	26,396	Information not available
County's contribution deficiency (excess)	$ -	$ -	$ -	$ 7,343	$ 11,160	$ -	$ -	
County's covered payroll	$ 141,322	$ 160,443	$ 184,578	$ 226,100	$ 254,265	$ 254,000	$ 254,265	
County's contributions as a percentage of covered payroll	36.60%	40.84%	25.82%	16.62%	14.13%	12.02%	10.38%	

See accompanying notes to pension plan schedules.

Note 1 – Actuarially determined contribution rates

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2018 actuarial valuation	19 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5% for PSPRS and from 4.0%–7.25% to 3.5%–6.5% for CORP. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS and CORP. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females).

Note 2 – Factors that affect trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS, CORP, CORP–AOC, and EORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-, CORP-, and CORP–AOC-required contributions beginning in fiscal year 2019 for members who were retired as of the law's effective date. EORP-required contributions are not based on actuarial valuations, and therefore, these changes did not affect them. PSPRS and CORP allowed the County to phase in the increased contributions for members who were retired as of the law's effective date over 3 years. As a result, the County's pension contributions were less than the actuarially determined contributions for 2016 and 2017. Also, the County refunded excess employee contributions to PSPRS and EORP members. PSPRS and EORP allowed the County to reduce its actual employer contributions for the refund amounts. As a result, the County's pension contributions were less than the actuarially or statutorily determined contributions for 2018 for both PSPRS and EORP and 2019 for only EORP.

The fiscal year 2019 (measurement date 2018) pension liabilities for EORP and CORP reflect the replacement of the permanent benefit increase (PBI) for retirees based on investment returns with a cost of living adjustment based on inflation. Also, the EORP liability and required pension contributions for fiscal year 2019 reflect a statutory change that requires the employer contribution rate to be actuarially determined. This change increased the discount rate used to calculate the liability thereby reducing the total pension liability.

SINGLE AUDIT REPORT

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
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
Gila 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, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 30, 2021.

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) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-01 through 2020-04 and 2020-06 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2020-05 to be a significant deficiency.

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 financial statements. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County response to findings

The County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

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.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

August 30, 2021

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by the Uniform Guidance

Members of the Arizona State Legislature

The Board of Supervisors of
Gila County, Arizona

Report on compliance for each major federal program

We have audited Gila County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on each major federal program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as item 2020-101. Our opinion on each major federal program is not modified with respect to this matter.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-101, that we consider to be a material weakness.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

County response to findings

The County's response to the finding identified in our audit is presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address the finding. The County's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

August 30, 2021

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles	**Unmodified**
Internal control over financial reporting	
Material weaknesses identified?	**Yes**
Significant deficiencies identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**Yes**
Significant deficiencies identified?	**None reported**
Type of auditors' report issued on compliance for major programs:	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	**Yes**

Identification of major programs

Assistance Listings number	Name of federal program or cluster
10.665	Forest Service Schools and Roads Cluster
21.019	Coronavirus Relief Fund
93.917	HIV Care Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs	**$750,000**
Auditee qualified as low-risk auditee?	**No**

Financial statement findings

2020-01

The County awarded $152,075 to various organizations without always requiring them to provide documentation that the monies were used only for economic development that benefited the public, resulting in an elevated risk of misuse of County monies

Condition—During fiscal year 2020, County management did not always follow its written policies and procedures when the Board of Supervisors awarded 61 economic development awards to community nonprofit and governmental organizations totaling $152,075 of Constituent Funds discretionary monies. Although the County had established written procedures to prepare written agreements to enumerate specific services or activities for which the monies should be used that it and the receiving parties could sign, the County did not always receive a signed written agreement from the awarded organizations prior to disbursing monies.

Furthermore, although the County had written policies and procedures for providing monies for economic development, those procedures did not include adequate pre-award and follow-up steps for the County to ensure its monies were spent to provide authorized services and activities that benefited the public.

Effect—The County put $152,075 of its Constituent Funds discretionary spending monies to be used to support economic development at an elevated risk of misuse because it did not always ensure the awarded monies were used for intended and authorized purposes.

Cause—The County did not always follow its policies and procedures for awarding economic development funding and did not always require awarded organizations to certify that monies would be and were used for intended and authorized purposes. In addition, the County's Board of Supervisors did not ensure that the County's policies and procedures were sufficient.

Criteria—County policy requires a signed, written agreement, memorandum of understanding, or contract between the County and the awarded organizations any time the Board of Supervisors awards Constituent Funds for economic development. (Gila County Community Agency and Economic Development Funding Policy, BOS-FIN-016). Additionally, the Arizona Constitution, Art. IX, Sec. 7, bans gifts of public monies by counties to individuals and organizations. Consequently, if the County determines that it is appropriate to provide economic development awards to individuals or organizations, it must assess and document how each award serves a public purpose and benefits the County, and the public monies paid does not exceed the value received.

Further, developing and documenting the policies and processes of internal control responsibilities, such as pre-award and follow-up steps for the County's economic development award objectives, to respond to related risks of misusing monies is an essential part of internal control standards, such as the *Standards for Internal Control in Federal Governments* issued by the Comptroller General of the United States, and integral to ensuring public monies are not fraudulently or mistakenly misused.[1]

Recommendations—To help ensure County monies awarded for economic development are used for the intended and authorized services and uses are constitutional (i.e., not gifts or loans of public monies), County management should follow its established policies and procedures and always require

[1] U.S. Government Accountability Office (GAO). (2014). Standards for internal control in the federal government. Washington, DC. Retrieved 6/10/2021 from https://gao.gov/assets/gao-14-704g.pdf

that award monies only be provided to community organizations after the County has obtained a signed written agreement enumerating the specific services or activities for which the monies should be used. Further the County should strengthen its policies and procedures to:

1. Include detailed guidelines and requirements that all award recipients must meet to qualify for economic development award monies. For example, the County's policies should describe acceptable award uses, and the County should consider creating an award application where entities would be required to describe their intended uses, such as service and activity goals, expected outcomes, and performance measures, and to provide sufficiently detailed budgets indicating how and when the requested monies will be used.
2. Ensure a committee evaluates all award requests before recommending an award decision and require that award decisions be approved by the County's Board of Supervisors in an open meeting so the public is aware of the entities to which awards are being made.
3. Require awarded entities to report and certify how monies were spent. This report and certification should be required periodically or at least once the specified and approved time frame for expending the monies has occurred.
4. Require awarded entities to return any unexpended or misspent monies.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2019-01.

2020-02

The County paid $15,312 for a supervisor's and 7 employees' purchasing card travel expenditures without following County policies, resulting in an elevated risk of misuse of County monies and risk of violating the Arizona Constitution

Condition—During fiscal year 2020, the County paid $15,312 for travel expenditures for the District 3 Supervisor, his assistant, and 7 other County employees despite not having the required receipts or other documentation to support that the travel was conducted for official County business and/or the required approval of exceptions to the County's travel policies, such as hotel room upgrades, provided to the travelers. The Supervisor and employees paid for the travel expenditures using their County-assigned purchasing cards. Specifically, our review of 50 purchasing card travel transactions made by the Supervisor, his assistant, and 7 other County employees found the following:

- $6,166 in travel expenditures for the County's District 3 Supervisor, $2,366 in travel expenditures for his assistant, and $6,780 in travel expenditures for 7 other County employees for which the Supervisor, his assistant, and the other 7 employees provided limited supporting documentation, such as hotel receipts, but did not provide evidence that the travel was conducted for official County business. In addition, a portion of these expenses also exceeded allowable County rates or included unallowable upgrades. Specifically, of these travel expenditures, the District 3 Supervisor's hotel room nightly charges exceeded County allowed rates by $1,868, his assistant's exceeded the allowed rates by $1,964, and 1 information technology employee's hotel room charges exceeded County allowed rates by $687. Further, contrary to County policies, the Supervisor and his assistant charged additional hotel room upgrades of $230 each, the Supervisor charged $106 for cabin upgrades on his flight, and 1 administrative employee charged $145 for a flight cabin upgrade. These amounts in excess of the County's allowed hotel rates and for hotel room and flight upgrades were neither approved as exceptions to County policy nor supported by documentation justifying the additional expenditures as County policies require.

Effect—The County put $15,312 of its monies at an elevated risk of misuse and violating the Arizona Constitution. Further, when members of the County Board of Supervisors do not follow established policies and procedures, they set an unfavorable tone that the policies and procedures do not need to be followed.

Cause—County management did not ensure that its Board of Supervisors and County department employees were trained on the County's travel policies including limits on hotel room rates and air fares and to reinforce and explain allowed and unallowed purchasing card uses. Also, the County had not provided training on the procedures for completing, reconciling, and reviewing and approving the documentation required for all purchasing card expenditures including those related to travel. Also, the County's policies were not clear about what supporting documentation is required if an official County business purpose is not evident from the invoice, receipt, or other support. Further, as County policies require, the County Finance department had not monitored whether the responsible officials at the various County departments had reviewed their employees' purchasing card expenditures, including those for travel, for compliance with County policies prior to approving them for payment as County policies require.

Criteria—State law bans gifts or loans of public monies to individuals by counties. (Arizona Constitution, Art. IX, Sec. 7) To comply with this law, County purchasing card policies require purchasing card use to be limited to only authorized purchases required for official County business. These policies require submission of proper documentation, and review and approval of all charges by the elected office/department approver. These policies also require the County's Finance department to monitor each cardholder's compliance with the policies. (Gila County Credit Card Usage Policy, BOS-FIN-114) Additionally, the County's travel policies require travel expenditures to be appropriate and necessary and incurred only while employees are conducting official County business. Furthermore, the travel policies require employees to complete and sign a travel form that is accompanied by documentation such as conference registrations, agendas, purchase orders, invoices, and receipts supporting the travel expenses, including documented authorization and exceptions to the travel policies, reviewed by an appropriate County official, and then submitted to the County Finance department. (Gila County Travel Policy BOS-FIN-112)

Recommendations—To help ensure purchasing card expenditures, including those for travel, are appropriate and constitutional (i.e., not gifts or loans of public monies), County management should:

1. Train all County purchasing card users and those responsible for reviewing their purchases on what is official County business purposes as required by County policy.
2. Revise the County policy to make it clear that if an official County business purpose is not evident from the invoice, receipt, or other support, the purchasing card user shall provide documentation that explains why a purchase was for an appropriate County purpose. Otherwise, the purchasing card user will be required to repay the County for any questionable purchases and risk losing purchasing card privileges.
3. Require all purchasing card users to follow the County's revised credit card usage policy requiring that for all purchases, they provide invoices and receipts or other support that indicates an appropriate County business purchase.
4. Ensure the County Finance department develops a process to monitor compliance with County policies so that the County does not pay for any purchasing card expenditures that do not have the required travel expense reports, receipts, or other supporting documentation.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2019-02 and 2019-03.

2020-03

The County's financial statement preparation process delayed their issuance and did not prevent or detect significant misstatements, which increased the risk that those relying on the reported financial information could be misled

Condition—The County did not accurately compile and thoroughly review its financial statements. As a result, the County's initially prepared financial statements contained errors that required correction, and the County issued its Annual Financial Report 14 months after fiscal year-end, 5 months later than State law requires. The significant misstatements and misclassifications we identified were corrected by the County and included:

- $1.9 million of cash and investment balances that were overstated on the County's accounting system and had not been reconciled to the County Treasurer's balances for the year.
- $705,480 of General Fund transfers-in that were overstated.
- $377,055 of General Fund welfare expenses that were misclassified as general government expenses.
- $318,365 of General Fund prepaid insurance items that were incorrectly reported as general government expenses.
- $240,170 of Public Works Fund prepaid insurance items that were incorrectly reported as highway and street expenses.

Effect—The County did not provide timely financial information to its Board of Supervisors, creditors, and others who rely on it to make important decisions about the County's financial operations. Additionally, because the County had not issued timely financial statements, its Annual Expenditure Limitation Report (AELR), which relies on information from the Annual Financial Report and was due 9 months after fiscal year-end, will also be issued late. The County corrected the misstatements we identified for its issued financial statements. However, there is an increased risk that the County's financial statements could contain significant misstatements and misinform those relying on the information.

Cause—The County's Finance department did not have written policies and procedures for reconciling its recorded cash and investment balances and preparing accurate financial statements in accordance with generally accepted accounting principles (GAAP). In addition, the department's management did not fully train accounting staff on how to obtain financial information from the accounting system to prepare the financial statement supporting schedules. Further, the department's management did not perform detailed supervisory reviews to detect and correct misstatements in its financial statements before providing them for audit.

Criteria—The Governmental Accounting Standards Board sets the accounting and financial reporting standards that require the County to prepare its financial statements in accordance with GAAP. Accurate financial statements provide valuable information to those charged with the County's governance and management and others who are relying on the reported financial information to make important decisions about the County's financial operations. Developing and documenting the policies and procedures of internal control responsibilities for preparing and reviewing the County's financial statements and related schedules and training accounting staff on them are an essential part of internal control standards, such as the Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States, and are integral to ensuring the County's financial statements are prepared in accordance with GAAP and free of misstatements.

Recommendations—To help ensure that the County's financial statements are accurate, prepared in accordance with GAAP, issued in a timely manner, and do not mislead those relying on the information, the County's Finance department should:

1. Develop and implement written policies and procedures for reconciling its cash and investment balances and preparing its financial statements to ensure they are prepared in accordance with GAAP, including instructions for closing and compiling data from the County's accounting system, preparing common year-end financial statement adjustments, obtaining information not readily available from the accounting system but necessary for financial statement preparation, and performing a detailed supervisory review of the draft financial statements, supporting schedules, and note disclosures.
2. Dedicate resources and train accounting staff on how to obtain financial information from the accounting system to prepare the financial statement supporting schedules, assign employees specific responsibilities to complete the schedules, and establish completion dates.
3. Require management or an independent knowledgeable employee to review the financial statements and related note disclosures. This review should ensure that the financial statements are accurate and complete, properly supported, and presented in accordance with GAAP and to detect and correct misstatements in the financial statements before providing them for audit.

The County's responsible officials' views and planned corrective action are included in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2019-04.

2020-04

The County lacked inventorying and other recordkeeping for nearly $9.4 million of capital assets, resulting in an increased risk that they could be misstated, and machinery and equipment could be stolen, lost, or misused

Condition—The County's Finance department lacked inventorying and other recordkeeping for capital assets the County classified as machinery and equipment and construction-in-progress. Specifically, since 2009, the County had not performed a physical inventory of its machinery and equipment, reported at nearly $4.8 million, to ensure that they were controlled and safeguarded and the related capital asset records were updated, accurate, and complete so that they were correctly reported in its financial statements. In addition, the County's recordkeeping process for capital assets it constructed, which it reported as construction-in-progress totaling $4.6 million, was not sufficiently detailed for the County to identify, classify, and value these capital assets in its financial statements once it completed construction when multiple projects were being constructed. The combined balances the County reported for these capital assets totaled $9.4 million and comprised nearly 9 percent of the County's total assets and deferred outflows of resources for the year.

Effect—There is an increased risk that capital assets the County classified as machinery and equipment and construction-in-progress, reported at nearly $4.8 million and $4.6 million for the year, respectively, could be misstated. Further, the County's lack of stewardship policies and procedures over its machinery and equipment items exposed them to potential theft, loss, and misuse.

Cause—The County's policies and procedures for capital assets did not address stewardship policies and procedures for machinery and equipment, such as performing a physical inventory on a periodic basis, to control, safeguard, and accurately record these capital assets. Additionally, the County did not have written procedures for separately recording capital assets it constructed and reported as construction-in-progress until completed.

Criteria—The Governmental Accounting Standards Board sets the accounting and financial reporting standards that require the County to report its capital assets in accordance with generally accepted accounting principles. In addition, federal regulation requires the County to perform a physical inventory of its machinery and equipment acquired with federal awards and reconcile the results to the County's records at least once every 2 years. (2 Code of Federal Regulations, §200.313[d][2]) Developing and documenting the policies and procedures of internal control responsibilities of inventorying and other recordkeeping for the County's capital assets, including machinery and equipment and construction-in-progress, are an essential part of internal control standards, such as the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, and are integral to achieving these financial reporting and federal compliance objectives and ensuring capital assets are properly controlled and safeguarded from theft, loss, and misuse.

Recommendations—To help ensure the County's capital assets are safeguarded against theft, loss, and misuse and accurately reported in the financial statements, the County should:

1. Perform a full physical inventory at least once every 2 years; maintaining the inventory documentation and reconciling the inventory results to the capital asset records to ensure they are accurate and complete.
2. Develop and maintain detailed capital asset policies and procedures to help appropriately trained employees to properly control, safeguard, and report capital assets, including construction in progress, and depreciation. The written procedures should include processes for reconciling current-year capital expenditures to current-year additions; reconciling current-year capital asset balances to prior-year capital asset balances; and tracking construction expenditures by project, including tracking when the construction projects are to be completed, reclassified, and depreciated.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2019-05.

2020-05

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm

Condition—The County's process for managing and documenting its risks did not include an overall risk assessment process that included identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include classifying and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the County were impacted by disasters or other system interruptions.

Effect—The County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk.

Cause—The County designed and approved risk assessment policies in June 2019 and identified sensitive information processed by its systems; however, the County did not have sufficient time to fully implement these policies and conduct an entity-wide risk assessment before fiscal year-end.

Criteria—The County should follow a credible industry source such as the National Institute of Standards and Technology to help effectively manage risk at the County. Effectively managing risk includes an entity-wide risk assessment process that involves members of the County's administration and IT management. The risk assessment should determine the risks the County faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the County might be subjected. To help ensure the County's objectives can be met, an annual risk assessment should consider IT risks. For each identified risk, the County should analyze the identified risk and develop a plan to respond within the context of the County's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Recommendations—The County should conduct the following as part of its process for managing risk:

1. Implement its risk assessment policies and ensure that responsible administrative officials and management over finance, IT, and other entity functions provide input in the County's process for managing risk.
2. Perform an annual entity-wide IT risk assessment process that includes evaluating and documenting risks and safeguards. Such risks may include inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
3. Evaluate and manage the risks of holding sensitive information by classifying and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.
4. Evaluate and determine the critical organization functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on the organization's operations, such as public safety and operations and payroll and accounting and determine how to prioritize and plan for recovery.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2019-06.

2020-06

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

Condition—The County's control procedures were not sufficiently developed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked sufficient procedures over the following:

- **Restricting access—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access to its IT systems and data.
- **Managing system configurations and changes—**Procedures did not ensure configuration settings were securely maintained and all IT system changes were adequately managed.

- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Ensuring operations continue**—Contingency plan lacked key elements related to restoring operations in the event of a disaster or other system interruption.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data. It also increases the County's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—The County had begun to develop and implement policies and procedures over its IT systems and data; however, the County did not have sufficient time to finalize the policies and implement procedures before fiscal year-end.

Criteria—The County should follow a credible industry source such as the National Institute of Standards and Technology to implement effective internal controls that protect its IT systems and help ensure the integrity and accuracy of the data it maintains, as follows:

- **Restricting access through logical and physical access controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to its system infrastructure is protected.
- **Managing system configurations and changes through well-defined, documented configuration management process**—Ensures the County's IT system configurations are documented and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system's security or operation. Separating responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **Securing system and data through IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Ensuring operations continue through a comprehensive, documented, and tested contingency plan**—Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Recommendations—The County should:

1. Make it a priority to develop and document comprehensive IT policies and procedures and develop a process to ensure the procedures are being consistently followed.

Restricting access—To restrict access to its IT systems and data, develop, document, and implement processes to:

2. Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.

3. Remove terminated employees' access to IT systems and data.
4. Review all other account access to ensure it remains appropriate and necessary.
5. Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
6. Enhance authentication requirements for IT systems.
7. Review data center physical access periodically to determine appropriateness.

Managing system configurations and changes—To configure IT systems securely and manage system changes, develop, document, and implement processes to:

8. Establish and follow a documented change management process for all changes.
9. Review proposed changes for appropriateness, justification, and security impact.
10. Document changes, testing procedures and results, change approvals, and post-change review.
11. Document a plan to roll back changes in the event of a negative impact to IT systems.
12. Test changes prior to implementation.
13. Perform a post-implementation review to ensure the change was implemented as approved.
14. Manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.
15. Identify, evaluate, and apply patches in a timely manner.

Securing systems and data—To secure IT systems and data, develop, document, and implement processes to:

16. Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
17. Prepare and implement a security-incident-response plan clearly stating how to report and handle such incidents.
18. Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
19. Improve the information security plan to protect the integrity of the financial reporting systems and data.
20. Develop, document, and follow a process for awarding and subsequent monitoring of IT vendor contracts.
21. Enforce an official employee acceptable-use agreement that addresses protecting confidential and sensitive information and consequences for sharing access or inappropriately accessing data.

Ensuring operations continue—To ensure operations continue, develop, document, and implement processes to:

22. Update the contingency plan and ensure it includes all critical elements to restore critical operations, including being prepared to move critical operations to a separate alternative site if necessary.
23. Test the contingency plan.
24. Train staff responsible for implementing the contingency plan.
25. Securely maintain backups of systems and data.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2019-07.

Federal award findings and questioned costs

2020-101

Assistance Listings number and name: Not Applicable
Questioned costs: N/A

Condition—Contrary to federal regulations, the County did not accurately compile its schedule of expenditures of federal awards (SEFA). As a result, the County initially prepared and submitted a SEFA that contained errors that required correction. Specifically, the County misstated 15 of 30, or half, of its federal programs by over $2.8 million and overstated its total federal award expenditures by a net amount of over $1.4 million.

Effect—The County corrected the most significant errors we identified. However, the County risks potentially misinforming those who rely on its reported federal award expenditures and potentially wasting public monies because a misstated SEFA could result in auditors unnecessarily auditing the wrong federal programs or programs that were not from federal awards. This finding was not a result of internal control deficiencies of individual federal programs and, accordingly, did not have a direct and material effect on the reporting requirements over the County's major federal programs.

Cause—The County did not have effective policies and procedures in place to separately identify federal awards received and expended in its records and accounting system so that it could prepare an accurate and complete SEFA. Also, the County did not train County departments on the policies and procedures, including what documentation to retain in the accounting records for federal awards. Additionally, the County did not have effective policies and procedures to thoroughly review its SEFA for accuracy and completeness.

Criteria—Federal regulations require the County to maintain effective internal controls so it can separately identify in its records and accounting system all federal awards received and expended and to prepare an accurate and complete SEFA that reports all its federal award expenditures for the year. (Uniform Guidance, 2 Code of Federal Regulations §§200.302 and 200.510[b])

Recommendation—To help ensure that the County's SEFA is accurate and complete, the County should develop and implement written policies and procedures to:

1. Separately identify in its records and accounting system each federal award the County receives and expends.
2. Train County departments on these policies and procedures, including what documentation to retain in the accounting records for federal awards, such as grant agreements and contracts, the federal assistance listings numbers and titles, and other federal awarding agency or pass-through grantor guidance and information.
3. Require a thorough review of the SEFA by someone who is independent of its preparation and knowledgeable about the federal Uniform Guidance requirements to help ensure the SEFA is accurate and complete.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2019-101.

COUNTY SECTION

GILA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2019 - 6/30/2020

Federal Awarding Agency/Program Title	*Federal CFDA Number*	*Additional Award Identification (Optional)*	*Name of Funder Pass-Through Entity*	*Identifying Number Assigned By Funder Pass-Through Entity*	*Total Amount Provided to Sub-Recipients*	*Federal Expenditures*	*Federal Program Total*	*Cluster Name*	*Cluster Total*
DEPARTMENT OF AGRICULTURE									
WIC SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN	*10.557*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS19-207418 CTR043241*		*$219,969*	*$219,969*	*N/A*	*$0*
STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM	*10.561*		*ARIZONA COMMUNITY ACTION ASSOCIATION*	*NONE*		*$22,596*	*$203,120*	*SNAP CLUSTER*	*$203,120*
STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM	*10.561*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS16-106556*	*$148,728*	*$180,524*	*$203,120*	*SNAP CLUSTER*	*$203,120*
SCHOOLS AND ROADS - GRANTS TO STATES	10.665					$1,155,015	$1,155,015	FOREST SERVICE SCHOOLS AND ROADS CLUSTER	$1,155,015
LAW ENFORCEMENT AGREEMENTS	10.704					$83,245	$83,245	N/A	$0
TOTAL DEPARTMENT OF AGRICULTURE					$148,728	$1,661,349			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII	*14.228*		*ARIZONA DEPARTMENT OF HOUSING*	*125-19*		*$116,857*	*$171,546*	*N/A*	*$0*
COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII	*14.228*		*ARIZONA DEPARTMENT OF HOUSING*	*129-20*		*$54,689*	*$171,546*	*N/A*	*$0*
HOME INVESTMENT PARTNERSHIPS PROGRAM	*14.239*		*ARIZONA DEPARTMENT OF HOUSING*	*310-19*		*$135,458*	*$135,458*	*N/A*	*$0*
CONTINUUM OF CARE PROGRAM	*14.267*		*ARIZONA DEPARTMENT OF HOUSING*	*518-20 544-19*		*$5,000*	*$5,000*	*N/A*	*$0*
SECTION 8 HOUSING CHOICE VOUCHERS	14.871					$326,500	$326,500	HOUSING VOUCHER CLUSTER	$326,500
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						$638,504			
DEPARTMENT OF JUSTICE									
CRIME VICTIM ASSISTANCE	*16.575*		*ARIZONA DEPARTMENT OF PUBILC SAFETY*	*2016-VA-GX-0046*		*$66,042*	*$66,042*	*N/A*	*$0*
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	*16.738*		*ARIZONA CRIMINAL JUSTICE COMMISSION*	*DC-20-004*		*$116,006*	*$145,685*	*N/A*	*$0*
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	*16.738*		*ARIZONA CRIMINAL JUSTICE COMMISSION*	*DC-20-023*		*$29,679*	*$145,685*	*N/A*	*$0*
TOTAL DEPARTMENT OF JUSTICE						$211,727			
DEPARTMENT OF TRANSPORTATION									
STATE AND COMMUNITY HIGHWAY SAFETY	*20.600*		*GOVERNOR'S OFFICE OF HIGHWAY SAFETY*	*2019-PTS-017 2020-PTS-021*		*$7,014*	*$7,014*	*HIGHWAY SAFETY CLUSTER*	*$29,646*
NATIONAL PRIORITY SAFETY PROGRAMS	*20.616*		*GOVERNOR'S OFFICE OF HIGHWAY SAFETY*	*2019-405D-015 2020-405D-015*		*$22,632*	*$22,632*	*HIGHWAY SAFETY CLUSTER*	*$29,646*
TOTAL DEPARTMENT OF TRANSPORTATION						$29,646			
DEPARTMENT OF TREASURY									
CORONAVIRUS RELIEF FUND	*21.019*	*COVID-19*	*STATE OF ARIZONA OFFICE OF THE GOVERNOR*	*ERMT-20-041*		*$1,720,914*	*$1,720,914*	*N/A*	*$0*
TOTAL DEPARTMENT OF TREASURY						$1,720,914			
DEPARTMENT OF ENERGY									
WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS	*81.042*		*ARIZONA DEPARTMENT OF HOUSING*	*216-19*		*$51,731*	*$51,731*	*N/A*	*$0*
TOTAL DEPARTMENT OF ENERGY						$51,731			
DEPARTMENT OF EDUCATION									
ADULT EDUCATION - BASIC GRANTS TO STATES	*84.002*		*ARIZONA DEPARTMENT OF EDUCATION*	*20FAEBE-013181-01A 20FAEIEL-013181-01A 20FAEIET-013181-01A 20FAEAPL-013181-01A 20FAEIET-013181-01A 20FEAEWF-013181-01*		*$121,588*	*$121,588*	*N/A*	*$0*
TOTAL DEPARTMENT OF EDUCATION						$121,588			
ELECTION ASSISTANCE COMMISSION									
2020 HAVA ELECTION SECURITY GRANT	*90.404*		*ARIZONA SECRETARY OF STATE*	*AZ20101001*		*$1,160*	*$1,160*	*N/A*	*$0*
TOTAL ELECTION ASSISTANCE COMMISSION						$1,160			
DEPARTMENT OF HEALTH AND HUMAN SERVICES									
PUBLIC HEALTH EMERGENCY PREPAREDNESS	*93.069*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS17-133182*		*$228,691*	*$228,691*	*N/A*	*$0*
INJURY PREVENTION AND CONTROL RESEARCH AND STATE AND COMMUNITY BASED PROGRAMS	*93.136*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS16-110815*		*$134,392*	*$134,392*	*N/A*	*$0*
IMMUNIZATION COOPERATIVE AGREEMENTS	*93.268*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS18-177678*		*$164,519*	*$164,519*	*N/A*	*$0*
COVID-19: PUBLIC HEALTH EMERGENCY RESPONSE: COOPERATIVE AGREEMENT FOR EMERGENCY RESPONSE: PUBLIC HEALTH CRISIS RESPONSE	*93.354*	*COVID-19*	*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS17-133182*		*$180,814*	*$180,814*	*N/A*	*$0*
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)	*93.558*		*ARIZONA DEPARTMENT OF ECONOMIC SECURITY*	*ADES15-089113*		*$146,033*	*$146,033*	*N/A*	*$0*
CHILD SUPPORT ENFORCEMENT	*93.563*		*ARIZONA DEPARTMENT OF ECONOMIC SECURITY*	*G1604AZ4004 G1804AZ4004*		*$684,915*	*$684,915*	*N/A*	*$0*
LOW-INCOME HOME ENERGY ASSISTANCE	*93.568*		*ARIZONA DEPARTMENT OF ECONOMIC SECURITY*	*ADES15-089113*		*$193,470*	*$325,734*	*N/A*	*$0*
LOW-INCOME HOME ENERGY ASSISTANCE	*93.568*		*ARIZONA DEPARTMENT OF HOUSING*	*216-19*		*$132,264*	*$325,734*	*N/A*	*$0*
COMMUNITY SERVICES BLOCK GRANT	*93.569*		*ARIZONA DEPARTMENT OF ECONOMIC SECURITY*	*ADES15-089113*		*$123,863*	*$123,863*	*N/A*	*$0*
GRANTS TO STATES FOR ACCESS AND VISITATION PROGRAMS	*93.597*		*ARIZONA DEPARTMENT OF ECONOMIC SECURITY*	*DI16-002146*		*$7,769*	*$7,769*	*N/A*	*$0*
SOCIAL SERVICES BLOCK GRANT	*93.667*		*ARIZONA DEPARTMENT OF ECONOMIC SECURITY*	*ADES15-089113*		*$7,602*	*$7,602*	*N/A*	*$0*
HIV CARE FORMULA GRANTS	*93.917*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS18-193949*		*$248,269*	*$248,269*	*N/A*	*$0*
HIV PREVENTION ACTIVITIES-HEALTH DEPARTMENT BASED	*93.940*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS18-188825*		*$3,772*	*$3,772*	*N/A*	*$0*
PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT	*93.991*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS16-098369*		*$48,840*	*$48,840*	*N/A*	*$0*
MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT TO THE STATES	*93.994*		*ARIZONA DEPARTMENT OF HEALTH SERVICES*	*ADHS16-098369*		*$89,840*	*$89,840*	*N/A*	*$0*
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES						$2,395,053			
TOTAL EXPENDITURE OF FEDERAL AWARDS					$148,728	$6,831,672			

Please Note:

Italicized award lines indicate pass-through funding

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.

GILA COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2019 - 6/30/2020

Significant Accounting Policies Used in Preparing the SEFA

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

10% De Minimis Cost Rate

The County did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

Basis of presentation

The accompanying schedule of expenditures of federal awards (schedule) includes Gila County's federal grant activity for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Federal Assistance Listings number

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2020 Federal Assistance Listings.

COUNTY RESPONSE

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Gila County Finance Department

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August 30, 2021

Lindsey Perry,
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, Arizona 85018

Dear Ms. Perry,

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and Uniform Guidance. Specifically, for each financial reporting finding we are providing you with the corrective action planned and for each federal award finding we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date that is included in the Schedule of Findings and Questioned Costs.

Sincerely,

Mary Jane Springer
Finance Director

Gila County
Corrective Action Plan
Year Ended June 30, 2020

Financial Statement Findings

2020-01

The County awarded $152,075 to various organizations without always requiring them to provide documentation that the monies were used only for economic development that benefited the public, resulting in an elevated risk of misuse of County monies.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: December 31, 2021

Corrective Action Plan: To help ensure that the County provides funding for economic development activities that are used for the intended purposes and that are constitutional the County will revise its policy and procedures to include an application process detailing the request for funding. In addition, each request will be reviewed by the County Manager and Finance Director to ensure the policy and procedures are followed and the required documentation is included. Each agreement executed by the County and requesting party will require that the funds will be utilized as intended and any unexpended funds will be returned to the County. The awarded entities will be required to certify that the awarded funds were used as intended.

2020-02

The County paid $15,312 for a supervisor's and 7 employees' purchasing card travel expenditures without following County resulting in an elevated risk of misuse of County monies and risk of violating the Arizona Constitution.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: July 1, 2021

Corrective Action: The Finance Department has implemented additional training to the Executive Administrative Assistants for each Supervisor, all Elected Officials and Department Directors and staff on the travel policy and the required forms and documentation required for approved travel expenses. The trainings occurred on January 7, 2021, and February 17, 2021, with additional procedural guidance sent out to All Elected Officials and Department Directors and staff on March 2, 2021, on how to submit travel forms to the Finance Department for review. Staff will verify that correct per diem rates are used and when necessary, get advanced approval and document any additional per diem expenses necessary to provide accommodations for the traveler and/or approved companion. Room upgrades that include the cost of meals as a cost savings measure to minimize per diem will be reviewed and approved in advance on a case-by-case basis as an exception to the travel policy. Any exceptions to the policy will be reviewed and documented as to the appropriate business purpose and why the exception was necessary. The County Manager will review travel expenditures for the County Supervisors and approve future exceptions as necessary to aid them in fulfillment of their constitutional responsibilities representing Gila County. The Finance Department has implemented internal auditing processes for credit card purchases in FY2022 to ensure that credit card purchases are properly documented, and credit cards are used for business purposes to monitor compliance to the credit card policy.

2020-03

The County's financial statement preparation process delayed their issuance and did not prevent or detect significant misstatements, which increased the risk that those relying on the reported financial information could be misled.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2022

Corrective Action Plan: To help ensure that the County's financial statements and note disclosures are accurate, complete, follow GAAP, and are issued in time to meet the Single Audit reporting requirements, and Expenditure Limitation Report is issued within 9 months after fiscal year end, the County will develop and implement comprehensive written policies and procedures, dedicate appropriate staff who are assigned specific responsibilities independent of the person preparing the financial statements to review the statements and related note disclosures. County is working with Arizona AG office and outside consultant to expedite completion of past due financial statements. New financial policies were adopted by the Board of Supervisors on November 20, 2018. Gila County expects to be current with the financial audits March 31, 2022. For FY20 and FY21 Gila County Finance has engaged an outside accounting firm to work with staff to provide additional training to obtain financial information from the accounting system thus building internal expertise to assist with the financial statement compilation and review the financial statements and supporting documentation prior to submittal for the audit process.

2020-04

The County lacked inventorying and other recordkeeping for nearly $9.4 million of capital assets, resulting in an increased risk that they could be misstated, and machinery and equipment could be stolen, lost, or misused.

Contact: Mary Jane Springer, Finance Director
Completion Date: June 30, 2021

Corrective Action Plan: To help ensure the County's capital assets are safeguarded against theft and misuse and accurately reported, the County will develop and implement capital asset procedures for properly classifying and disposing of capital assets and for performing a physical inventory at least every 2 years. Physical inventory was completed in 2017 by an outside consulting firm, however staff discovered inconsistencies in the inventory. Staff conducted a physical inventory in FY19, however the Covid-19 pandemic delayed completion until January 12, 2021. The physical inventory and reconciliation was completed in February 2021. New capital asset policy was adopted by the Board of Supervisors on November 20, 2018. Training on new capital asset policy and proper procedures for disposal for all departments completed December 2018. On-going training will be conducted as necessary.

2020-05

The County's Deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk of potential harm.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: January 31, 2022

Corrective Action Plan: To help improve its risk-analysis for information and technology security the County IT Department developed a new Security Risk Assessment policy BOS-IT-003 that was adopted by the Board of Supervisors on June 25, 2019. IT will provide appropriate training on the policy requirements and will assist in identification and classification of sensitive information and how to safeguard information with proper controls. IT has developed additional procedures to perform multiple IT risk-assessment processes. Gila County has contracted a 3rd party vendor to conduct an IT internal and external penetration and risk assessment in Oct 2021 and January 2022. Since October 2020, IT staff has reviewed Elevated Access logs from Netwrix. Penetration and Vulnerability assessment was conducted by IT in June of 2019 and Nessus Vulnerability Scans are being conducted by IT staff semi Annually.

October 2020, IT staff implemented querying and classifying sensitive information utilizing Netwrix Data Discovery and Classification module to manage the risks of holding sensitive information by classifying and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations. Full internal implementation of multi factor authentication will be completed by December 2021.

Redundant backup systems to protect data and quickly restore operations in the event of any disruption was completed in January 2020. IT has Evaluated and determined system recovery priorities based on safety and essential business operations Oct 2020.

2020-06

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2021

Corrective Action Plan:

Based on the audit recommendations from FY2019 and those of Arizona Counties Insurance Pool the following recommendations were implemented:

To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the has developed effective logical access policies and procedures over its IT resources.

Restricting access—Netwrix reporting on elevated access to systems and notifications as well as utilizing elevated privileges with Multi Factor Authentication (MFA) for system access was implemented in October 2020. Created Disabled users Organizational Unit in Active Directory Oct 1, 2020, and IT staff continually review and remediate stale permissions and accounts. Remove terminated employees' access to IT systems and data. Implemented Oct 1, 2020, process and calendar to remove users. Review all other account access to ensure it remains appropriate and necessary. Enhance authentication requirements for IT systems-Implemented RSA Secure ID Multi Factor Authentication for remote access and elevated credentials Aug-September 2020. Implemented sign in Sheet as and required by all Staff entering Main Data Facility Mar 2021.

Managing system configurations and changes—Change control process and documentation was implemented in Aug 2020.

Securing systems and data—Netwrix reporting on elevated access to systems and notifications as well as utilizing elevated privileges with MFA for system access October 2020.

Ensuring operations continue—Contingency plan key elements related to restoring operations in the event of a disaster or other system interruption plan/steps were documented for recovery process for server environment June 2021. Tested Disaster Recovery data site and data in February 2021. Backup systems have been operational including offline September 2019.

Change control process-Established and follow a documented change management process for all changes August 2020.

Identify, evaluate, and apply patches in a timely manner-Patch management in place and on top of since June 2020 evaluate all MS-ISAC alerts and Patches and Deploy as necessary.

Security systems and data- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges. Netwrix event logging of all elevated Logins setup Oct 2020.

Prepare and implement a security-incident-response plan clearly stating how to report and handle such incidents-Implementation of incident response plan based on risk level September 2020 and incident report form or root cause analysis write ups July 2020.

Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected-Implemented Know Be 4 Training January 2020.

Federal Award Findings and Questioned Costs

2020-101

CFDA No.: NOT APPLICABLE
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2022

Corrective Action Plan: To help ensure that the County prepares the SEFA in compliance with Uniform Guidance, 2 Code of Federal Regulations (CFR) §200.510. The County will develop and implement policies and procedures to identify in its accounting system all federal awards the County receives and disburses, and establish a review process to help ensure that the SEFA is accurate and complete. Further, the County will improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end in accordance with 2 CFR §200.512.

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August 30, 2021

Lindsey Perry
Auditor General
2910 North 44th Street
Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Mary Jane Springer
Finance Director

Status of Financial Statement Findings

The County should improve its policies and procedures to ensure monies awarded for economic development are used for the intended and authorized services and activities and are constitutional.
Finding No.: 2019-01
This finding initially occurred in fiscal year 2017.
Status: Not Corrected

In FY2020 the county is requiring all entities receiving economic development awards to execute an agreement that states the purpose of the funding and a stipulation in the agreement requires the recipient to return any unused portion not expended for the specific purpose. The requests for funding come to the Finance Director and County Manager for review prior to award and the funding is budgeted in the annual budget process. In FY2020 Gila County Finance revised its process to follow the requirements in Policy BOS-FIN-006 Economic Development to address the lack of agreements for the contributions. The policy will be reviewed and revised to ensure full compliance when awarding economic development funds completion by July 30, 2021. The new policy was being drafted by a civil County Attorney who left in December 2020. The drafting of the new policy has taken longer than expected due to the new civil Deputy County Attorney taking over the reviewing and rewriting of the draft policy.

The County should follow its travel policy and require necessary travel expense reports, receipts and other documentation including any supporting documentation for exceptions to the travel policy to ensure expenditures are appropriate and constitutional.
Finding No.: 2019-02
This finding initially occurred in fiscal year 2017
Status: Not Corrected

The Finance Department has implemented additional training to Departments on the travel policy and the required forms and documentation required for approved travel expenses. Exceptions to the travel policy are reviewed and approved by the County Manager. The County Manager or Designee will review travel expenditures for the County Supervisors and approve future exceptions as necessary to aid them in fulfillment of their constitutional responsibilities representing Gila County. Due to limited resources focused on catching up on prior audits corrective actions were delayed. Additional training to Gila County Supervisors executive administrative staff occurred in January 2021 to review the policy and the required documentation and approvals. Completion June 30, 2021

The County should improve its policies and procedures to ensure credit card purchases comply with the Arizona Constitution, Art. IX, Sec. 7, which bans gifts or loans of public monies to private organizations. In addition, the County should revise its County Credit Card policy to ensure that proper documentation is retained demonstrating that the purpose of the expenditure was for official County Business.
Finding No.: 2019-03
Status: Not Corrected

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: March 31, 2021

To help ensure that County employees comply with the Credit Card Policy, staff will review and revise the policy and procedures to ensure clarity in the responsibility of the credit card holder that purchases must be for official County business and proper documentation is retained. Due to limited resources focused on catching up on prior audits corrective actions were delayed. Staff will provide additional training on revised Credit Card Policy and procedure to all Elected Offices and Departments Completion March 2021. Finance staff will audit credit card purchases for proper documentation and policy compliance.

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner.
Finding No.: 2019-04
This finding initially occurred in fiscal year 2013
Status: Not Corrected

County is working with Arizona AG office and outside consultant to expedite completion of past due financial statements and single audit by June 30, 2021. Due to limited resources focused on catching up on prior audits corrective actions were delayed. Finance staff is revising desk manuals and procedures to conduct timely year-end close. New policies were adopted by the Gila County Board of Supervisors as follows:

Policy #	Regarding	Adopted
BOS-FIN-101	CALENDAR OF EVENTS	11-20-2018
BOS-FIN-102	CHART OF ACCOUNTS	11-20-2018
BOS-FIN-103	BUDGET	11-20-2018
BOS-FIN-104	ACCOUNTING RECORDS	11-20-2018
BOS-FIN-105	FUND BALANCE	11-20-2018
BOS-FIN-106	FINANCIAL REPORTING	11-20-2018
BOS-FIN-107	AUDIT REQUIREMENTS	11-20-2018
BOS-FIN-108	CASH	11-20-2018
BOS-FIN-109	INVESTMENTS	11-20-2018
BOS-FIN-110	SUPPLIES INVENTORY	11-20-2018
BOS-FIN-111	CAPITAL ASSETS	11-20-2018
BOS-FIN-112	TRAVEL	11-20-2018
BOS-FIN-113	PROCUREMENT	11-20-2018
BOS-FIN-114	CREDIT CARD	11-20-2018

The County needs to improve controls over its capital assets.
Finding No.: 2019-05
This finding initially occurred in fiscal year 2013
Status: Not Corrected

New capital asset policy (BOS-FIN-111) was adopted by the Board of Supervisors on November 20, 2018. The Finance Department staff completed the physical inventory December 31, 2020. Delay of the capital asset reconciliation was due largely in part of consolidating all capital asset records including photos into the Financial Data system. Reconciliation was completed by March 2021.

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts.
Finding No.: 2016-03
This finding initially occurred in fiscal year 2013
Status: Not Corrected

New Cash policy (BOS-FIN-108) adopted by the Board of Supervisors on November 20, 2018. The County is implementing an automated interface between the Treasurer's system and the Finance accounting software to increase accuracy and timeliness of recording and tracking revenues. Interface implementation to be completed by June 2021. Gila County has been diligently working on catching up past due audits therefore deficiencies in processes arise during each audit year and procedures and policy revisions result to address compliance.

The County should improve process for managing its risk-assessment to include information technology security by identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use disclosure, disruption, modification, or destruction of IT data systems.
Finding No.: 2019-06
This finding initially occurred in fiscal year 2014
Status: Partially Corrected

To help improve its risk-analysis for information and technology security the County IT Department developed a new Security Risk Assessment policy BOS-IT-003 that was adopted by the Board of Supervisors on June 25, 2019. IT will provide appropriate training on the policy requirements and will assist in identification and classification of sensitive information and how to safeguard information with proper controls. IT will develop additional procedures to perform an IT risk-assessment processes to be completed by December 31, 2020. The IT Department has been able to hire additional personnel including staff dedicated to identifying and conduct risk-analysis and implement security measures to address unauthorized access, use, disclosure, disruption, and destruction of IT data and systems. Redundant backup systems to protect data and quickly restore operations in the event of any disruption was completed in January 2020. Due to lack of adequate resources timing to implement improvement measures have been delayed.

The County should improve Information technology (IT) controls – access, configuration and change management, security, and contingency planning
Finding No.: 2019-07
This finding initially occurred in fiscal year 2014

Status: Not Corrected

To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County will develop effective logical access policies and procedures over its IT resources. The new IT policies and procedures BOS-IT-002 Access Control and BOS-IT-004 Contingency Planning were adopted by the Board of Supervisors on June 25, 2019. The County will train staff on the policies and procedures and perform periodic reviews of employee user accounts to help ensure appropriate access to network systems are compatible with current job responsibilities. To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County will establish a remote data recovery site and exercise its contingency planning procedures at least annually and identify potential system improvements. Data recovery site was set up October 2020 and contingency planning procedure testing will be completed by December 31, 2021. The DR site was not completely setup until October 2020. This delay was in large part due to covid interference. Testing could not be completed in fy20 as the site was not completed.

Vulnerability scans and penetration testing will be conducted at least annually and evaluate the impact disasters or other system interruptions could have on critical IT resources.
Based on the audit recommendations from FY2018 the following recommendations were implemented:
Access – Security software, quarterly manual reviews, and physical security access has been implemented since February 2019 to prevent unauthorized access so systems, files, and equipment.
Configuration and change management - Control procedures for I.T. staff implemented (August 2019)

Implemented format review impacts related to security appropriateness and justification. Utilizes software snapshots taken for rollback if required. System changes are implemented in test environments where applicable and end users report results to IT Administrators. Post implementation review is performed by IT Administrators and end users and any deviations identified and corrected. IT Administrators maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes. In FY2020 post implementation review of all change controls was being performed by the System administrator performing the change. (Documentation of these changes and reviews is unavailable due to the old ticketing system being unavailable). Baseline configuration settings are maintained through our Backup solution which maintains the original full backup and maintains incremental history up to 30 days from present.

Security - Software monitoring and review (implemented Feb 2019). Security incident response reports and root cause analysis implemented, and documentation retained by IT Department. Multi-factor authentication for remote access was implemented in August 2020. On-going periodic internal testing employee response with phishing email and education on suspicious email detection. Due to ever increasing security threats, steps have been taken to significantly increase the security of the environment.

Contingency planning - In process of implementing a live offsite VM replicated environment and documenting Disaster Recovery plan anticipated completion December 31, 2021. Offsite back up installed and reporting successful backup jobs using reporting software – completed December 2019. Due to lack of adequate resources timing to implement improvement measures have been delayed.

The County should comply with laws requiring all public deposits to be collateralized.
Finding No.: 2017-09
Status: Corrected

Status of Federal Award Findings and Questioned Costs

CFDA No.: NOT APPLICABLE
Finding No.: 2019-101,
This finding initially occurred in fiscal year 2010
Status: Not Corrected

Corrective Action Plan: To help ensure that the County prepares the SEFA in compliance with Uniform Guidance, 2 Code of Federal Regulations (CFR) §200.510. The County will develop and implement policies and procedures identify in its accounting system all federal awards the County receives and disburses and establish a review process to help ensure that the SEFA is accurate and complete. Further, the County will improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end in accordance with 2 CFR §200.512. Anticipated date to be current with audit June 2021. Turnover in departments who report data for the SEFA compilation has caused delays and additional training has been conducted by the Grants Administrator to ensure expenses are accurately reported.

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 2017-102
Status: Corrected

Corrective Action Plan – To help ensure that the County complies with its Administrative Plan and does not provide federal housing assistance to those who are not qualified, it should develop and implement quality control document check policies to ensure the forms are accurately prepared if a live-in aide is essential for the care for the eligible tenant. Program supervisors will follow procedures that include obtaining a written verification that demonstrates that a live-in aide is essential for the care for the eligible tenant, retaining this documentation in the tenant file, and performing and reporting annual family composition reexaminations. In addition, the County Community Services Fiscal Manager will follow established policies and procedures for obtaining third-party income verifications. Completed 12/31/2019.

CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 2018-104
This finding initially occurred in fiscal year 2017
Status: Partially Corrected

Corrective Action Plan – The annual financial data schedules were filed timely with HUD however the audit and certification of the financial data schedules have not been completed for FY2017, FY2018, and FY2019. To help ensure that the County meets HUD's financial reporting requirements, the County's Finance Director will engage the auditors annually to perform necessary services on the schedules to ensure they are audited and certified through HUD within the required time frame. Completion for FY2017 occurred on June 30, 2020 & FY2018 occurred on August 26, 2020, audit, and certification October 31, 2020. Audits were not performed timely due to a change in personnel within Community Services Department.

CFDA No.: 10.665 – Schools and Roads—Grants to States
Finding No.: 2019-102
This finding initially occurred in fiscal year 2013
Status: Partially Corrected

Corrective Action Plan: In accordance with 2 CFR §200.305(b), and §200.303 The County will ensure the Board of Supervisors approves the program allocations prior to receiving program monies. Additionally, the County will minimize the time elapsing between the transfer of funds and disbursement by the recipient by requesting Board approval based on the estimated allocations. Once funds are received actual disbursements will be made and staff will provide final disbursement report to the Board of the Supervisors. Completion May 2021. New process corrected the delay in distribution. Delay in distribution was caused by internal process which has now been corrected.

ARIZONA
Auditor General
Making a Positive Difference