Gila County

Annual Financial Report and Single Audit Report

Year Ended June 30, 2015

A Report to the Arizona Legislature

Debra K. Davenport
Auditor General

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Making a Positive Difference

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

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, 2015, 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.

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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 Gila County as of June 30, 2015, 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.

Emphasis of matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.* Our opinions are not modified with respect to this matter.

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-11, the budgetary comparison schedules on pages 48 through 54, schedule of the County's proportionate share of the net pension liability—cost sharing plans on page 55, schedule of changes in the County's net pension liability and related ratios—agent pension plans on pages 56 through 58, schedule of County pension contributions on pages 59 through 60, and schedule of agent OPEB plans' funding progress on page 62 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information—schedule of expenditures of federal awards

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

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

Compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies

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

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

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

December 14, 2017

Gila County
Management's discussion and analysis
June 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements.

For the year ended June 30, 2015, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these GASB Statements had a significant effect on the financial statement amounts. Net position as of July 1, 2014, has been restated from $74.7 million as previously reported in the fiscal year 2014 financial statements to $27.4 million for the prior period adjustments of the beginning net pension liability and County pension contributions made in FY 2014. Other financial areas that were significantly affected are explained below.

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 $22 million (net position). Of this amount, $30.1 million is the net investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, infrastructure and construction in progress); $23.1 million is restricted for specific purposes (restricted net position); and $(31.2) million is the County's deficit that is primarily a result of the implementation of GASB 68.

- At June 30, 2015, total assets were $89.3 million, a decrease of $399,000 or 0.4 percent in comparison with the prior fiscal year's balance of $89.7 million.

- At June 30, 2015, total liabilities were $69 million, an increase of $54.1 million or almost 361.3 percent in comparison with the prior fiscal year's balance of $14.9 million.

- At June 30, 2015, the County reported total deferred outflows of resources related to pensions of $9.5 million and deferred inflows of resources related to pensions of $7.7 million.

- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of $38.0 million, a decrease of $2.7 million in comparison with the prior year's balance of $40.7 million

- At the end of the current fiscal year, general fund had an unrestricted fund balance of $19.6 million or 50.8 percent of total general fund expenditures. Of this amount, assigned fund balance for construction projects, rainy day and cash flow reserves was $15.1 million and unassigned fund balance was $4.5 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 four funds that are considered to be major funds - General, Public Works, Community Services, and Superintendent of Schools. 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 the County holds for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of 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 12 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 62 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 $22 million as presented in the following table.

Condensed statement of net position
(in thousands)
June 30, 2015 and 2014

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	$ 43,732	$45,282	$ 9,014	$ 8,260	$52,746	$53,542
Capital assets	33,297	32,652	3,248	3,496	36,545	36,148
Total assets	77,029	77,934	12,262	11,756	89,291	89,690
Deferred outflows of resources						
Total deferred outflows of resources	9,448		78		9,526	
Current and other liabilities	4,090	3,857	62	83	4,152	3,940
Long-term liabilities	61,075	8,037	3,813	2,989	64,888	11,026
Total liabilities	65,165	11,894	3,875	3,072	69,040	14,966
Deferred inflows of resources						
Total deferred inflows of resources	7,579		158		7,737	
Net Position						
Net invested in capital assets	26,842	25,904	3,248	3,496	30,090	29,400
Restricted	18,353	19,098	4,784	4,771	23,137	23,869
Unrestricted	(31,462)	21,038	275	417	(31,187)	21,455
Total net position	$ 13,733	$66,040	$ 8,307	$ 8,684	$22,040	$74,724

The largest portion of the County's net position is approximately $30.1 million, or 136.5 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 $23.1 million, or 105 percent, is subject to external restrictions on how they may be used. The County's deficit of $(31.2) million, or negative 141.5 percent, was a decrease of $52.6 million from the prior year's unrestricted net position of $21.5 million largely due to the County's implementation of GASB Statement Nos. 68 and 71, as mentioned above.

The following provides an explanation of governmental activities, restricted cash and investments, deferred outflows and inflows of resources, and noncurrent liabilities that changed significantly over the prior year:

- Restricted cash and investments—The increase of almost $2 million was primarily due to the net proceeds of 2015 pledged revenue obligations not being spent at year-end.

- Deferred outflows and inflows of resources—The County reported deferred outflows of resources related to pensions of $9.4 million and deferred inflows of resources related to pensions of $7.6 million as a result of the County's implementation of GASB Nos. 68 and 71 in the current fiscal year.

- Noncurrent liabilities—The net increase of $53.8 million was largely due to the additions of $51.4 million in net pension liability as a result of the County's implementation of GASB Nos. 68 and 71 and $2 million in pledged revenue obligations payable for the issuance of series 2015 in the current fiscal year.

The following provides an explanation of business-type activities, current assets, deferred outflows and inflows of resources, and noncurrent liabilities that changed significantly over the prior year:

- Current assets—The net increase of $754,000 was primarily due to an increase in cash and investments from operating income since cash flows activities remained relatively unchanged over the prior year.

- Deferred outflows and inflows of resources—The County reported deferred outflows of resources related to pensions of $78,000 and deferred inflows of resources related to pensions of $158,000 as a result of the County's implementation of GASB Nos. 68 and 71 in the current fiscal year.

- Noncurrent liabilities—The net increase of $824,000 was largely due to the addition of $670,000 in net pension liability as a result of the County's implementation of GASB Nos. 68 and 71 and an increase of $154,000 in estimated landfill closure and postclosure care costs payable.

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, net position decreased by $5.4 million. The following table presents the changes in net position.

Changes in net position
(in thousands)
Years ended June 30, 2015 and 2014

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Charges for services	$ 2,762	$ 3,020	$1,838	$2,323	$ 4,600	$ 5,343
Program revenues:						
Grants and contributions	20,399	18,985			20,399	18,985
General revenues:						
Property taxes	18,322	19,477			18,322	19,477
County excise tax	5,353	6,198			5,353	6,198
Share of state sales taxes	5,136	5,156			5,136	5,156
Shared revenue, state vehicle license tax	1,600	1,568			1,600	1,568
Shared revenue, state lottery	550	550			550	550
Shared revenue, state liquor license tax	14	12			14	12
Payments in lieu of taxes	3,308	3,617			3,308	3,617
Investment income	141	282	9	42	150	324
Miscellaneous	895	970	3		898	970
Capital contributions	(6)		6			
Gain on sale/trade-in of capital assets		40				40
Total revenues	58,474	59,875	1,856	2,365	60,330	62,240
Expenses:						
General government	$23,790	$20,658			$23,790	$20,658
Public safety	16,824	15,941			16,824	15,941
Highways and streets	6,117	6,273			6,117	6,273
Health	2,680	2,677			2,680	2,677
Welfare	9,516	8,859			9,516	8,859
Sanitation	30	16	$1,466	$1,349	1,496	1,365
Culture and recreation	1,299	1,476			1,299	1,476
Education	3,719	4,135			3,719	4,135
Interest on long-term debt	280	297			280	297
Total expenses	64,255	60,332	1,466	1,349	65,721	61,681
Changes in net position	(5,781)	(457)	390	1,016	(5,391)	559
Net position—beginning	19,514	66,497	7,917	7,668	27,431	74,165
Net position—ending	$13,733	$66,040	$8,307	$8,684	$22,040	$74,724

Overall, the governmental activities revenues decreased by $1.4 million, or 2.3 percent, and program expenses increased by $3.9 million, or 6.5 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:

County excise tax—The net decrease of $844,000 was primarily due to the half-cent transportation tax, which expired on December 31, 2014. Gila County voters passed a half-cent excise tax to pay for highway and street improvements and transportation projects within the County. The excise tax became effective January 1, 1995 for 10 years. To help continue paying for future highway and street projects, Gila County voters approved a second half-cent transportation excise tax for a period of 20 years effective January 1, 2015 that requires Gila County to share it with the cities and towns within the county.

General government expenses—The net increase of $3.1 million was largely due to the addition of $2.4 million of net pension-related expense as a result of the County's implementation of GASB Statement Nos. 68 and 71. In addition, facilities management department incurred additional payroll and other expenses of $236,000 on new and existing renovation and repair projects; the election department and Recorder's Office spent additional professional services of $190,000 and $102,000, respectively, on the primary and general elections expenses in August and November of 2014.

Overall, the business-type activities operating revenues decreased by $509,000, or 21.5 percent, and operating expenses increased by $117,000, or 8.6 percent. The following provides an explanation of business-type activities revenues that changed significantly compared to the prior year.

Charges for services—The decrease of $485,000 was due to two factors. In 2014, ADEQ required a local mine to remove sludge from their property and take it to a lined landfill. The one-time revenue generated by this requirement accounted for $300,000 of revenue in fiscal year 2014. In addition, during fiscal year 2015, a large customer decided to take their waste to another landfill instead of Gila County.

Financial analysis of the governmental funds

The County reported four major funds for this fiscal year: the general fund, public works fund, community services fund, and superintendent of schools fund. At the end of the current fiscal year, the County's governmental funds reported combined fund balances of $38.0 million, which was a decrease of $2.7 million from the prior year. Of the total, $18.9 million constitutes unrestricted fund balances.

The general fund is the County's chief operating fund. At the end of the current fiscal year, fund balance of the general fund was $21,701,150, a decrease of $1.5 million, or 6.6 percent over the prior year's balance of $23,226,207. The decrease was largely due to an increase in current year expenditures. The unrestricted fund balance of the general fund was $19.6 million, which represents 50.8 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

- Accounts payable—The net increase of $178,000 was largely due to additional purchases of goods and services near fiscal year-end.

- Deposits held for others—The net increase of $286,000 was solely due to insurance premiums collected and held in the county insurance pool clearing account at year-end.

- Deferred inflows of resources—The net increase of $807,000 was due to property taxes of $353,000, intergovernmental revenue of $176,000, charges for services of $265,000, and $13,000 of miscellaneous revenue not being collected within 60 days after year-end, and therefore, they were unavailable revenues for the current fiscal year.

- General government expenditures—The net increase of $1.8 million was largely due to an increase of $1.5 million in capital outlay expenditures. The major purchase was $621,000 for a used modular administration building and $509,000 for the Main Street property in Payson and the South Street property in Globe. In addition, capital outlay expenditures of $364,000 were for the renovation project of the offices on the second floor of the Globe Courthouse.

Public works fund

- Accounts payable—The decrease of $114,000 was largely due to a reduction of purchases near fiscal year-end.

- Accrued payroll and employee benefits—The net decrease of $15,000 was solely due to fewer payroll days accrued at year-end.

- Transportation excise tax—The net decrease of $963,000 was solely due to the half-cent transportation tax which expired on December 31, 2014. Gila County voters passed a half-cent excise tax to pay for highway and street improvements and transportation projects within the County. The excise tax became effective January 1, 1995 for 10 years. To help continue paying for future highway and street projects, Gila County voters approved a second half-cent transportation excise tax for a period of 20 years effective January 1, 2015 that requires Gila County to share it with the cities and towns within the county.

- Highways and streets expenditures—The net decrease of $663,000 was largely due to the decrease in half-cent transportation excise tax as mentioned above.

Community services fund

- Cash and investments—The net increase of $118,000 was largely due to an increase in accounts payable and a decrease in due from other governments at year-end.

- Due from other governments—The net decrease of $122,000 was due to additional grants and contributions recognized in the current fiscal year and not reimbursed at year-end.

- Accounts payable—The net increase of $128,000 was primarily due to more purchases of goods and services near fiscal year-end.

- Deferred inflows of resources—The net increase of $548,000 was due largely to intergovernmental revenue of $545,000 and charges for services of $3,000 not being collected within 60 days after year-end and therefore, they were unavailable revenues for the current fiscal year.

- Welfare expenditures—The net increase of $1 million was due largely to additional intergovernmental revenue of $281,000 in the current fiscal year and the unspent grant revenue of $751,000 carried forward from the prior year.

Superintendent of schools fund

- Due from other governments—The decrease of $162,000 was primarily due to additional receivables that were recorded in September last year.

- Accounts payable—The net decrease of $41,000 was primarily due to fewer purchases acquired near fiscal year-end.

- Deferred inflows of resources—The decrease of $246,000 was solely due to all intergovernmental revenues grants and contributions collected within 60 days after year-end.

- Intergovernmental revenue—The net increase of $619,000 was due to two new grants, one is a federal grant of $169,000 for science and another is a state grant of $265,000 for Eastern Central Regional Service Center for Race to the Top. In addition, an increase of $102,000 to existing federal grants for math and science.

- Education expenditures—The net decrease of $434,000 was primarily due to several funds that had expenditures and were closed out in fiscal year 2014. They were the Regional School District's Community School funds and the Educational Service Agency's Helios Foundation, Educator Effectiveness and Small Schools-Pine. In addition, the Educational Service Agency's Eastern Central Research Fund expenditures decreased significantly due solely to services declined from the four counties it serves. Further, Regional School District's Maintenance and Operation Fund expenditures decreased significantly because student enrollment declined.

General fund budgetary highlights

General fund actual expenditures were $14,491,571 under the adopted budget, and actual revenues were more than estimated revenues by $1,660,836. The County had budgeted $13,257,657 for contingency reserve and did not incur any expenditures during the current fiscal year. The education department (school superintendent) had budgeted expenditures of $390,781 while actual expenditures of $1,718,133 were over budget because of not budgeting for the national forest fees of $1,349,460 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 budget are Indigent Legal Defense $77,246, AHCCCS contributions $117,771, School Superintendent $1,327,352, and capital outlay $407,111. The over-budget expenditures for Indigent Legal Defense, AHCCCS contributions and capital outlay were primarily due to unexpected legal cases, additional AHCCCS contributions and capital expenses. The over-budget expenditures for school superintendent were due to unbudgeted pass-through grants as mentioned above. 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 increased by only $396,000, or 1.1 percent, during the current fiscal year in comparison with the prior year's balance of $36,148,850.

The County's investment in capital assets for its governmental activities as of June 30, 2015, amounts to $33,297,233 (net of accumulated depreciation), a net increase of $645,000, or 2.0 percent from the prior year.

The County's investment in capital assets for its business-type activities as of June 30, 2015, amounts to $3,248,272 (net of accumulated depreciation), a net decrease of $248,000, or 7.1 percent from the prior year.

Major capital asset activity during the fiscal year included:

Governmental activities:

- Land—The increase of $847,000 was for the purchases of $451,000 for the Main Street property in Payson, $338,000 for the Tonto Creek Bridge right-of way, and $58,000 for the South Street property in Globe.

- Construction in progress—The net increase of $127,000 was primarily due to additional construction costs of $864,000 spent on existing projects and transfers of five completed projects totaling $586,000 to buildings and infrastructure and abandonment of the Russell Road Pedestrian project that accumulated construction costs of $151,000 as of June 30, 2015. The major completed project was $302,000 for the Houston/Colcord new bridge.

- Buildings—The net increase of $607,000 consists of several building improvement projects of $768,000, purchase of a used modular administration building of $621,000 including some renovation costs and the accumulated depreciation of $782,000 added in fiscal year 2015. The major building improvement was $364,000 for the renovation project of the offices on the second floor of the Globe Courthouse.

- Machinery and equipment—The net decrease of $614,000 was primarily a result of new acquisitions of $655,000 and the accumulated depreciation of $1.3 million added in fiscal year 2015.

The following table breaks down the County's capital assets as of June 30, 2015 and 2014:

Capital assets at year-end
(Net of accumulated depreciation)
(in thousands)
June 30, 2015 and 2014

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 2,222	$ 1,375	$3,000	$3,000	$ 5,222	$ 4,375
Construction in progress	4,489	4,362			4,489	4,362
Buildings	12,630	12,023			12,630	12,023
Improvements other than buildings	599	646			599	646
Machinery and equipment	3,473	4,087	226	466	3,699	4,553
Infrastructure	9,884	10,159	22	31	9,906	10,190
Total capital assets, net	$33,297	$32,652	$3,248	$3,497	$36,545	$36,149

Additional information on the County's capital assets can be found in Note 6 on pages 21 and 22 of this report.

Long-term debt—The County's total long-term liabilities as of June 30, 2015, amounts to $64.9 million, a net increase of $53.9 million during the current fiscal year in comparison with the prior year's balance of $11 million.

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

Governmental activities:

- Net pension liability—An increase of $51.4 million was a result of the County's implementation of GASB Nos. 68 and 71.

- Pledged revenue obligations payable—The net increase of $1.7 million was a result of the new 2015 series pledged revenue obligations of $2 million issued in the current fiscal year and the regular scheduled principal payment of $325,000 for the 2009 series pledged revenue obligations.

Business-type activities:

- Net pension liability—An increase of $670,000 was a result of the County's implementation of GASB Nos. 68 and 71.

- Landfill closure and postclosure care costs payable—The increase of $154,000 was a result of changing its estimate at year-end.

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 $24,965,982. 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 7 on pages 23 through 25 of this report.

Economic factors and next year's budgets and rates

The unemployment rate for Gila County is 7.7 percent at June 2015 which is lower than the previous year's rate of 8.3 percent. The state unemployment rate was 5.9 percent at June 2015. There is an increase in property assessed valuations with no change in tax rate for the fiscal year 2016. These economic factors were considered in preparing the County's budget for this fiscal year 2016.

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 E. Ash St.
Globe, AZ 85501-1483

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Gila County
Statement of net position
June 30, 2015

	Governmental activities	Business-type activities	Total
Assets			
Cash and investments	$ 36,881,564	$ 4,080,722	$ 40,962,286
Receivables (net of allowances for uncollectibles):			
Property taxes	620,481		620,481
Accounts	551,606	112,517	664,123
Interest	45,810	4,957	50,767
Due from other governments	3,489,022		3,489,022
Internal balances	(32,439)	32,439	
Inventories	219,267		219,267
Restricted cash and investments	1,957,032	4,783,457	6,740,489
Capital assets, not being depreciated	6,710,882	3,000,000	9,710,882
Capital assets, being depreciated, net	26,586,351	248,272	26,834,623
Total assets	77,029,576	12,262,364	89,291,940
Deferred outflows of resources			
Deferred outflows related to pensions	9,448,072	77,767	9,525,839
Total deferred outflows of resources	9,448,072	77,767	9,525,839
Liabilities			
Accounts payable	1,942,372	41,029	1,983,401
Accrued payroll and employee benefits	1,256,238	21,072	1,277,310
Due to other governments	486,460		486,460
Deposits held for others	285,976		285,976
Unearned revenue	118,545		118,545
Noncurrent liabilities:			
Due within one year	1,809,171	24,040	1,833,211
Due in more than one year	59,266,168	3,789,182	63,055,350
Total liabilities	65,164,930	3,875,323	69,040,253
Deferred inflows of resources			
Deferred inflows related to pensions	7,579,320	157,873	7,737,193
Total deferred inflows of resources	7,579,320	157,873	7,737,193
Net position			
Net investment in capital assets	26,842,230	3,248,272	30,090,502
Restricted for:			
Public safety	418,841		418,841
Highways and streets	8,053,583		8,053,583
Health services	965,799		965,799
Judicial activities	4,983,854		4,983,854
Law enforcement	468,530		468,530
Education	1,208,384		1,208,384
Sanitation	73,733		73,733
Social services	1,099,173		1,099,173
Library	332,085		332,085
Street lighting improvement	13,312		13,312
Capital projects	18,185		18,185
Other purposes	718,006		718,006
Landfill closure and postclosure care costs		4,783,457	4,783,457
Unrestricted	(31,462,317)	275,206	(31,187,111)
Total net position	$ 13,733,398	$ 8,306,935	$ 22,040,333

See accompanying notes to financial statements.

Gila County
Statement of activities
Year ended June 30, 2015

		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							
Governmental activities							
General government	$ 23,789,535	$ 1,696,115	$ 2,472,329		$ (19,621,091)		$ (19,621,091)
Public safety	16,824,179	676,032	2,567,503		(13,580,644)		(13,580,644)
Highways and streets	6,117,491	2,292		$ 4,707,681	(1,407,518)		(1,407,518)
Health	2,679,526	256,918	1,589,963		(832,645)		(832,645)
Welfare	9,515,719	48,935	5,364,459		(4,102,325)		(4,102,325)
Sanitation	30,533		120,219		89,686		89,686
Culture and recreation	1,299,258	16,412	176,565		(1,106,281)		(1,106,281)
Education	3,718,985	65,075	3,400,439		(253,471)		(253,471)
Interest on long-term debt	279,526				(279,526)		(279,526)
Total governmental activities	64,254,752	2,761,779	15,691,477	4,707,681	(41,093,815)		(41,093,815)
Business-type activities							
Landfill	1,465,903	1,837,863				371,960	371,960
Total business-type activities	1,465,903	1,837,863				371,960	371,960
Total primary government	$ 65,720,655	$ 4,599,642	$ 15,691,477	$ 4,707,681	(41,093,815)	371,960	(40,721,855)
General revenues							
Taxes:							
Property taxes, levied for general purposes					17,436,875		17,436,875
Property taxes, levied for street lighting districts					12,398		12,398
Property taxes, levied for library district					872,326		872,326
County excise tax for general purpose					3,174,240		3,174,240
County excise tax for transportation purpose					2,179,214		2,179,214
Shared revenue - state sales tax					5,136,080		5,136,080
Shared revenue - state vehicle license tax					1,599,671		1,599,671
Shared revenue - state liquor license tax					14,231		14,231
State appropriations					550,038		550,038
Payments in lieu of taxes					3,307,716		3,307,716
Investment earnings					141,278	8,423	149,701
Miscellaneous					895,492	3,269	898,761
Capital contributions					(6,303)	6,303	
Gain on sale/trade-in of capital assets					231		231
Total general revenues					35,313,487	17,995	35,331,482
Change in net position					(5,780,328)	389,955	(5,390,373)
Net position, July 1, 2014, as restated					19,513,726	7,916,980	27,430,706
Net position, June 30, 2015					$ 13,733,398	$ 8,306,935	$ 22,040,333

See accompanying notes to financial statements.

Gila County
Balance sheet
Governmental funds
June 30, 2015

	General fund	Public works fund	Community services fund	Superintendent of schools fund	Other governmental funds	Total governmental funds
Assets						
Cash and investments	$ 20,368,982	$ 7,847,885	$ 281,629	$ 1,544,400	$ 6,838,668	$ 36,881,564
Receivables (net of allowances for uncollectibles):						
Property taxes	588,615				31,866	620,481
Accounts	364,181	3,187	1,256	31,325	151,657	551,606
Interest	25,565	9,549	388	1,871	8,437	45,810
Due from:						
Other funds	2,580					2,580
Other governments	1,524,987	614,394	719,470	211,708	418,463	3,489,022
Cash and investments held by trustee-restricted	1,957,032					1,957,032
Inventories	147,050	72,217				219,267
Total assets	$ 24,978,992	$ 8,547,232	$ 1,002,743	$ 1,789,304	$ 7,449,091	$ 43,767,362
Liabilities						
Accounts payable	1,005,641	308,495	330,993	81,241	216,002	1,942,372
Accrued payroll and employee benefits	909,032	111,310	45,376	13,219	177,301	1,256,238
Due to:						
Other funds	33,000	1,627	392			35,019
Other governments				486,460		486,460
Deposits held for others	285,976					285,976
Unearned revenue	118,545					118,545
Total liabilities	$ 2,352,194	$ 421,432	$ 376,761	$ 580,920	$ 393,303	$ 4,124,610
Deferred inflows of resources:						
Unavailable revenue–property taxes	461,772				26,519	488,291
Unavailable revenue–intergovernmental	185,868		544,609		159,255	889,732
Unavailable revenue–charges for services	265,284		3,451			268,735
Unavailable revenue–miscellaneous	12,724				1,866	14,590
Total deferred inflows of resources	925,648		548,060		187,640	1,661,348
Fund balances:						
Nonspendable	147,050	72,217				219,267
Restricted	1,975,185	8,053,583	551,113	1,208,384	7,103,377	18,891,642
Assigned	15,116,789					15,116,789
Unassigned	4,462,126		(473,191)		(235,229)	3,753,706
Total fund balances	21,701,150	8,125,800	77,922	1,208,384	6,868,148	37,981,404
Total liabilities, deferred inflows of resources and fund balances	$ 24,978,992	$ 8,547,232	$ 1,002,743	$ 1,789,304	$ 7,449,091	$ 43,767,362

See accompanying notes to financial statements.

Gila County
Reconciliation of the governmental funds balance sheet to the government-wide statement of net position
Governmental funds
June 30, 2015

Fund balances—total governmental funds	$ 37,981,404
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.	33,297,233
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	1,661,348
Some liabilities, such as net pension liabilities, pledged revenue obligations payable, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(61,075,339)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds	1,868,752
Net position of governmental activities	$ 13,733,398

See accompanying notes to financial statements.

Gila County
Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2015

	General fund	Public works fund	Community services fund	Superintendent of schools fund	Other governmental funds	Total governmental funds
Revenues:						
Taxes	$ 20,257,736	$ 2,179,214			$ 865,866	$ 23,302,816
Licenses and permits	403,703	2,292			141,580	547,575
Intergovernmental	13,570,437	4,707,681	$ 4,703,666	$ 1,997,301	4,498,302	29,477,387
Charges for services	512,399			65,075	805,831	1,383,305
Fines and forfeits	341,656				34,639	376,295
Donations and contributions	129		186,547	9,392		196,068
Investment earnings	95,757	36,753		8,768		141,278
Miscellaneous	872,465	27,522	47,187	41,759	353,216	1,342,149
Total revenues	36,054,282	6,953,462	4,937,400	2,122,295	6,699,434	56,766,873
Expenditures:						
Current:						
General government	19,315,863				1,762,944	21,078,807
Public safety	12,789,847				2,395,379	15,185,226
Highways and streets		6,782,085			54,491	6,836,576
Health					2,826,366	2,826,366
Welfare	4,047,509		5,657,490			9,704,999
Sanitation					154,766	154,766
Culture and recreation	29,658				1,296,274	1,325,932
Education	1,718,133			1,971,421		3,689,554
Debt service:						
Principal retirement	325,000					325,000
Interest and fiscal charges	291,098					291,098
Bond issuance costs	43,000					43,000
Total expenditures	38,560,108	6,782,085	5,657,490	1,971,421	8,490,220	61,461,324
Excess (deficiency) of revenues over expenditures	(2,505,826)	171,377	(720,090)	150,874	(1,790,786)	(4,694,451)
Other financing sources (uses):						
Pledged revenue obligations proceeds	2,000,000					2,000,000
Proceeds from sale of capital assets		231				231
Transfers in			47,000		955,142	1,002,142
Transfers out	(1,002,142)					(1,002,142)
Total other financing sources (uses)	997,858	231	47,000		955,142	2,000,231
Net change in fund balances	(1,507,968)	171,608	(673,090)	150,874	(835,644)	(2,694,220)
Fund balances, July 1, 2014	23,226,207	7,954,192	751,012	1,057,510	7,703,792	40,692,713
Changes in nonspendable resources:						
Decrease in reserve for inventories	(17,089)					(17,089)
Fund balances, June 30, 2015	$ 21,701,150	$ 8,125,800	$ 77,922	$ 1,208,384	$ 6,868,148	$ 37,981,404

See accompanying notes to financial statements.

Gila County

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities

Governmental funds

Year ended June 30, 2015

Net change in fund balances—total governmental funds		$ (2,694,220)
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	3,374,126	
Depreciation expense	(2,729,232)	644,894
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.		
Debt issued	(2,000,000)	
Bond premium amortized	11,572	
Principal repaid	325,000	(1,663,428)
County pension 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 liability is measured a year before the County's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.		
County pension contributions	3,136,434	
Pension expense	(6,882,494)	(3,746,060)
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		(18,048)
Collections of revenues in the governmental funds exceeded revenues reported in the statement of activities		
Miscellaneous revenue		(446,656)
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	372,237	
Intergovernmental	549,257	
Charges for services	454,603	
EORP subsidy	784,182	2,160,279
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		(17,089)
Change in net position of governmental activities		$ (5,780,328)

See accompanying notes to financial statements.

Gila County
Statement of net position
Proprietary funds
June 30, 2015

	Business-type activities - enterprise fund landfill
Assets	
Current assets:	
Cash and investments	$ 4,080,722
Accounts receivable	112,517
Interest receivable	4,957
Due from other funds	33,000
Total current assets	4,231,196
Noncurrent assets:	
Restricted cash and investments	4,783,457
Capital assets	
Nondepreciable	3,000,000
Depreciable (net)	248,272
Total noncurrent assets	8,031,729
Total assets	12,262,925
Deferred outflows of resources	
Deferred outflows related to pensions	77,767
Total deferred outflows of resources	77,767
Total assets and deferred outflows of resources	12,340,692
Liabilities	
Current liabilities:	
Accounts payable	41,029
Accrued payroll and employee benefits	21,072
Due to other funds	561
Total current liabilities	62,662
Noncurrent liabilities:	
Compensated absences payable	24,040
Landfill closure and postclosure care costs payable	3,118,588
Net pension liability	670,594
Total noncurrent liabilities	3,813,222
Total liabilities	3,875,884
Deferred inflows of resources	
Deferred inflows related to pensions	157,873
Total deferred inflows of resources	157,873
Total liabilities and deferred inflows of resources	4,033,757
Net position	
Net investment in capital assets	3,248,272
Restricted for landfill closure and postclosure care costs	4,783,457
Unrestricted	275,206
Total net position	$ 8,306,935

See accompanying notes to financial statements.

Gila County
Statement of revenues, expenses, and changes in fund net position
Proprietary funds
Year ended June 30, 2015

	Business-type activities—enterprise fund landfill
Operating revenues:	
Landfill fees	$ 1,837,863
Total operating revenues	1,837,863
Operating expenses:	
Personal services	548,841
Professional services	49,289
Supplies	119,916
Utilities	7,583
Repairs and maintenance	145,660
Landfill closure and postclosure care costs	153,647
Depreciation	142,640
Other	172,534
Total operating expenses	1,340,110
Operating income	497,753
Nonoperating revenues (expenses):	
Donations and contributions	3,269
Investment earnings	8,423
Loss on disposal of capital assets	(125,793)
Total nonoperating revenues (expenses)	(114,101)
Capital contributions	6,303
Increase in net position	389,955
Net position, as restated, July 1, 2014	7,916,980
Net position, June 30, 2015	$ 8,306,935

See accompanying notes to financial statements.

Gila County
Statement of cash flows
Proprietary funds
Year ended June 30, 2015

	Business-type activities— enterprise fund landfill
Cash flows from operating activities	
Receipts from customers	$ 1,788,351
Payments to suppliers and providers of goods and services	(516,403)
Payments to employees	(564,697)
Net cash provided by operating activities	707,251
Cash flows from noncapital and related financing activities	
Donations and contributions	3,269
Net cash provided by noncapital and related financing activities	3,269
Cash flows from capital and related financing activities	
Purchases of capital assets	(13,891)
Net cash used for capital and related financing activities	(13,891)
Cash flows from investing activities	
Interest received on investments	8,410
Net cash provided by investing activities	8,410
Net increase in cash and cash equivalents	705,039
Cash and cash equivalents , July 1, 2014	8,159,140
Cash and cash equivalents, June 30, 2015	$ 8,864,179
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 497,753
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	142,640
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities	
Increase and decrease in:	
Accounts receivable	(49,525)
Due from other governmental units	13
Deferred outflows of resources related to pensions	(77,767)
Accounts payable	(21,982)
Accrued payroll and employee benefits	673
Due to other funds	561
Compensated absences payable	44
Landfill closure and postclosure care costs payable	153,647
Net pension liability	(96,679)
Deferred inflows of resources related to pensions	157,873
Net cash provided by operating activities	$ 707,251

See accompanying notes to financial statements.

Gila County
Statement of fiduciary net position
Fiduciary funds
June 30, 2015

	Investment trust funds	Agency funds
Assets		
Cash and investments	$ 33,386,174	$ 1,704,173
Interest receivable	37,847	1,004
Total assets	$ 33,424,021	$ 1,705,177
Liabilities		
Due to other governments		822,319
Deposits held for others		882,858
Total liabilities		$ 1,705,177
Net position		
Held in trust for investment trust participants	$ 33,424,021	

See accompanying notes to financial statements.

Gila County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2015

	Investment trust funds
Additions:	
Contributions from participants	$ 98,581,430
Investment earnings	350,378
Total additions	98,931,808
Deductions:	
Distributions to participants	96,420,603
Change in net position	2,511,205
Net position, July 1, 2014	30,912,816
Net position, June 30, 2015	$ 33,424,021

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).

For the year ended June 30, 2015, the County implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension (assets and) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, GASB Statement No. 68 requires disclosure of information related to pension benefits. The implementation of GASB Statement Nos. 68 and 71 had a significant effect on the financial statement amounts.

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 ½ cent county sales tax, impact fees, highway user revenues and vehicle license taxes.

The *community services fund* provides housing services, employment training and other community programs to county residents. Funding sources include federal and state grants and contributions and private donations.

The *superintendent of schools fund* accounts for educational services and programs operated by Gila County Regional School District #49 and Gila County Educational Service Agency. Funding sources include federal and state grants and contributions, private donations, and charges for services from local school districts.

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 net position 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.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at the time of purchase are stated at amortized cost. 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 estimated fair value at the time received.

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

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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 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.

Note 2 - Change in accounting principle

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Governmental activities	Business-type activities
Net position as previously reported at June 30, 2014	$66,039,841	$8,684,253
Prior period adjustments—implementation of GASB 68:		
Net pension liability (measurement date as of June 30, 2013	49,588,343	810,986
Deferred outflows—county contributions made during fiscal year 2014	(3,062,228)	(43,713)
Total prior period adjustment	46,526,115	767,273
Net position as restated, July 1, 2014	$19,513,726	$7,916,980

Note 3 - Individual fund deficits

The following special revenue funds had fund deficits in excess of $1,000 as of June 30, 2015:

Fund	Deficit
Juvenile Evening/Weekend Resource Center	$59,671
Health service	27,237
Drug gang violent crime control	24,681
HIV consortium	22,010
Maternal & child home visiting	17,361
Adult intensive probation supervision	14,968
Crime victim assistance program	13,671
Homeland security grant program-dispatch communications	12,956
Proposition 201 Smoke Free AZ Act	12,851
Cenpatico prevention services	9,038
Public Health in Action	5,664
Conciliation court	4,980
Juvenile standards probation	4,156
Apache Hills Street Lighting Improvement District	1,602
Midland/Central Hgts Street Lighting Improvement District	1,346
Criminal justice enhancement fund substance abuse	1,154

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 4 - 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 two ratings by a nationally recognized rating agency.
2. 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 two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody’s investors service and Standard and Poor’s rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk
Statutes require collateral for deposits and certificates of deposit at 102 percent of all deposits not covered by federal depository insurance.

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

Interest rate risk
Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. 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, 2015, the carrying amount of the County’s deposits was $18,559,478, and the bank balance was $19,708,712. The County does not have a formal policy related to custodial credit risk for deposits.

Investments—The County’s investments at June 30, 2015, were as follows:

Investment type	Fair value
U.S. agency securities	$43,940,188
U.S. Treasury securities	7,299,593
Corporate bonds	5,287,189
Corporate notes	4,094,630
Corporate money market funds	1,572,170
U.S. Treasury money market funds	2,033,874
	$64,227,644

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

At June 30, 2015, credit risk for the County's investments was as follows:

Investment type	Rating	Rating agency	Amount
U.S. agency securities	Aaa	Moody's	$43,940,188
U.S. Treasury securities	Aaa	Moody's	7,299,593
Corporate bonds	A1	Moody's	1,252,549
Corporate bonds	A2	Moody's	2,000,020
Corporate bonds	Aa3	Moody's	1,014,370
Corporate bonds	A3	Moody's	1,020,250
Corporate notes	A1	Moody's	3,008,460
Corporate notes	A2	Moody's	1,086,170
Corporate money market funds	Unrated	N/A	1,572,170
U.S. Treasury money market funds	Unrated	N/A	2,033,874
			$64,227,644

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, 2015, representing 5 percent or more of the County's total investments as follows:

U.S. agency	Percent of county investments
Federal Home Loan Bank	28.73%
Federal National Mortgage Association	22.23%
Federal Home Loan Mortgage Corporation	12.77%

Interest rate risk—The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2015, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity (years)
U.S. agency securities	$43,940,188	1.56
U.S. Treasury securities	7,299,593	0.45
Corporate bonds	5,287,189	1.10
Corporate notes	4,094,630	0.91
Corporate money market funds	1,572,170	0.00
U.S. Treasury money market funds	2,033,874	0.00
Total	$64,227,644	

At June 30, 2015, $4,200,168 of the investments in U.S. agency step-up securities were considered to be highly sensitive to interest rate changes. On specified dates, the issuer can call the security. If the security is not called, the interest rate is increased by a specified amount. Prevailing interest rates may increase faster than the increase in the coupon interest rate.

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	18,559,478
Amount of investments	64,227,644
Total	$82,793,122

	Governmental activities	Business-type activities	Investment trust funds	Agency funds	Total
Cash and investments	$36,881,564	$4,080,722	$33,386,174	$1,704,173	$76,052,633
Cash and investments held by trustee—restricted	1,957,032	4,783,457			6,740,489
Total	$38,838,596	$8,864,179	$33,386,174	$1,704,173	$82,793,122

Note 5 – Due from other governments

Amounts due from other governments at June 30, 2015, are shown as follows:

	Governmental activities					
	General fund	Public works fund	Community services fund	Superintendent of schools fund	Other governmental funds	Total
State-shared sales tax	$ 390,254					$ 390,254
County excise tax	495,348	$242,123				737,471
State-shared vehicle license tax	69,696	38,474				108,170
Highway user revenue		333,797				333,797
Grants and contributions from state and federal governments	68,315		$719,470	$211,708	$418,463	1,417,956
Reimbursements for goods or services provided for governmental units	501,374					501,374
Total	$1,524,987	$614,394	$719,470	$211,708	$418,463	$3,489,022

Note 6 - Capital assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,374,626	$ 847,297		$ 2,221,923
Construction in progress	4,362,085	863,910	$ 737,036	4,488,959
Total capital assets not being depreciated	5,736,711	1,711,207	737,036	6,710,882

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets being depreciated:				
Buildings	$27,241,172	$1,389,929		$28,631,101
Improvements other than buildings	1,024,756			1,024,756
Machinery and equipment	24,507,973	654,738	$ 346,316	24,816,395
Infrastructure	18,546,609	361,591		18,908,200
Total capital assets being depreciated	71,320,510	2,406,258	346,316	73,380,452
Less accumulated depreciation for:				
Buildings	15,218,126	782,451		16,000,577
Improvements other than buildings	378,926	47,223		426,149
Machinery and equipment	20,420,952	1,262,648	340,013	21,343,587
Infrastructure	8,386,878	636,910		9,023,788
Total accumulated depreciation	44,404,882	2,729,232	340,013	46,794,101
Total capital assets being depreciated, net	26,915,628	(322,974)	6,303	26,586,351
Governmental activities, capital assets, net	$32,652,339	$1,388,233	$ 743,339	$33,297,233
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:				
Machinery and equipment	4,246,612	$ 20,195	$1,508,251	2,758,556
Infrastructure	169,340			169,340
Total	4,415,952	20,195	1,508,251	2,927,896
Less accumulated depreciation for:				
Machinery and equipment	3,780,406	134,173	1,382,457	2,532,122
Infrastructure	139,035	8,467		147,502
Total accumulated depreciation	3,919,441	142,640	1,382,457	2,679,624
Total capital assets being depreciated, net	496,511	(122,445)	125,794	248,272
Business-type activities, capital assets, net	$ 3,496,511	$ (122,445)	$ 125,794	$ 3,248,272

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 932,281
Public safety	470,925
Highways and streets	1,174,124
Health	33,418
Welfare	39,192
Sanitation	21,631
Culture and recreation	49,721
Education	7,940
Total governmental activities depreciation expense	$2,729,232
Business-type activities:	
Sanitation	$ 142,640

Note 7 - Long-term liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2015:

	Restated balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Governmental activities					
Pledged revenue obligations payable	$ 6,575,000	$ 2,000,000	$ 325,000	$ 8,250,000	$ 519,070
Revenue obligations premium payable	173,575		11,572	162,003	
Net pension liability	46,526,115	8,831,446	4,000,816	51,356,745	
Compensated absences payable	1,288,543	1,430,013	1,411,965	1,306,591	1,290,100
Total governmental activities long-term liabilities	$54,563,233	$12,261,459	$5,749,353	$61,075,339	$1,809,170
Business-type activities					
Net pension liability	$ 767,273		$ 96,679	$ 670,594	
Compensated absences payable	23,996	$ 25,942	25,898	24,040	$ 24,040
Landfill closure and postclosure care costs payable	2,964,941	153,647		3,118,588	
Total business-type activities long-term liabilities	$ 3,756,210	$ 179,589	$ 122,577	$ 3,813,222	$ 24,040

* There was a restatement of net position as a result of the implementation of GASB Statement No. 68 (see Note 2).

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.

Series 2009 pledged revenue and pledged revenue refunding obligations—During the year ended June 30, 2010, the County issued $8 million in series 2009 pledged revenue obligations with an interest rate of 3-5 percent to finance renovation costs for a newly acquired county administration building and several other county buildings, and to advance refund the outstanding 1999 Series A certificates of participation. The obligations are generally noncallable, with interest payable semiannually.

The following pledged revenue and pledged revenue refunding obligations were outstanding at June 30, 2015:

Description	Original amount issued	Interest rates	Maturities	Outstanding June 30, 2015
Gila County Pledged Revenue Obligations, Series 2009	$6,860,000	3-5%	2016-2029	$5,360,000
Gila County Pledged Revenue Refunding Obligations, Series 2009	1,140,000	3-5%	2016-2029	890,000
Gila County Pledged Revenue Obligations, Series 2015	2,000,000	0.53-2.7%	2016-2025	2,000,000
Total				$8,250,000

The following schedule details debt service requirements to maturity for the County's pledged revenue and pledged revenue refunding obligations payable at June 30, 2015:

	Governmental activities	
	Principal	Interest
Year ending June 30		
2016	$ 519,070	$ 327,500
2017	540,208	302,762
2018	557,149	286,822
2019	574,493	269,878
2020	592,274	251,897
2021-2025	3,276,806	944,047
2026-2029	2,190,000	280,750
	$8,250,000	$2,663,656

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, 2015. Future principal and interest payments are expected to require less than 9 percent of pledged revenues. In the current year, total principal and interest paid, and total pledged resources were $616,098 and $9,441,954, 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 $3,118,588 reported as landfill closure and postclosure care liability at June 30, 2015, represents the cumulative amount reported to date based on the approximate use of 69 percent of the estimated capacity of the Buckhead Mesa Landfill and 64 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $1,555,357 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 2015.

The County has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2020 and 2034. The actual costs may also be higher due to inflation, changes in technology, or changes in regulations. The County is planning for expansion of these landfills to extend their useful lives.

In order to comply with state and federal laws and regulations, the County obtained a letter of credit on July 9, 2009, to ensure the costs of landfill closure, postclosure, and possible corrective action can be met. As part of the agreement for the line of credit, the County established a mandatory sinking fund with an escrow agent. The sinking fund balance will equal the estimated landfill closure and postclosure care costs when the landfills are expected to close. The current balance is reported as restricted cash and investments in the business-type activities statement of net position and the proprietary fund statement of net position. The County is in compliance with these requirements.

Special use permit—The Buckhead Mesa Landfill was issued a special use permit from the United States Department of Agriculture Forest Service for the purpose of using and maintaining a sanitary landfill, which expires on December 31, 2019, and has annual fees of $18,998.

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, 2015, the County paid for compensated absences as follows: 71 percent from the general fund, 10 percent from the public works fund, 3 percent from the community services fund, 2 percent from the landfill fund, and 14 percent from other funds.

Note 8 - Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2015, were as follows:

	General fund	Public works fund	Community services fund	Superintendent of schools fund	Other governmental funds	Total
Fund balances:						
Nonspendable:						
Inventories	$ 147,050	$ 72,217				$ 219,267
Total nonspendable	147,050	72,217				219,267
Restricted for:						
Public safety					$ 282,907	282,907
Highways and streets		8,268,983				8,268,983
Health services					829,548	829,548
Judicial activities					4,644,381	4,644,381
Law enforcement					468,530	468,530
Education				$1,208,384		1,208,384
Sanitation					73,733	73,733
Social services			$ 551,113			551,113
Library					309,023	309,023
Street lighting improvement					9,855	9,855
Capital projects	1,975,185					1,975,185
Other purposes					485,400	485,400
Total restricted	1,975,185	8,268,983	551,113	1,208,384	7,103,377	19,107,042
Assigned to:						
Contingency reserve	13,650,000					13,650,000
Education	3,599					3,599
Other capital projects	1,039,730					1,039,730
Other purposes	423,460					423,460
Total assigned	15,116,789					15,116,789
Unassigned	4,462,126		(473,191)		(235,229)	3,753,706
Total fund balances	$21,701,150	$8,341,200	$ 77,922	$1,208,384	$6,868,148	$38,196,804

Note 9 - 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 12 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of $25,000 per occurrence for property claims and $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 11 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 County provides health, prescription, dental, vision, life, short-term disability, and accidental death benefits to its employees and their dependents through the Arizona Local Government Employee Benefit (Trust), currently composed of six member counties. The Trust provides the benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and requires its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims' run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

The Arizona Counties Property and Casualty Pool, 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.

The County has not experienced any significant decreases in insurance coverage from the prior year and has not had any settlements in excess of coverage in the past 3 years.

Note 10 - Pension and other postemployment benefits

The County contributes to the plans described below. The plans are component units of the State of Arizona.

At June 30, 2015, the County reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of net position and statement of activities	Governmental activities	Business-type activities	Total
Net pension liabilities	$51,356,745	$670,594	$52,027,339
Deferred outflows of resources	9,448,072	77,767	9,525,839
Deferred inflows of resources	7,579,320	157,873	7,737,193
Pension expense	6,882,494	26,667	6,909,161

The County's accrued payroll and employee benefits includes $219,193 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2015. Also, the County reported $3,136,434 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan descriptions—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, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. 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, health insurance premium supplement, long-term disability, 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 earning. 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 survivor benefit is determined by the retirement benefit option chosen. 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, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the County was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.31 percent for retirement, 0.2 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the County in positions that would typically be filled by an employee who contributes to the ASRS. The County's contributions to the pension plan for the year ended June 30, 2015, were $1,832,179. The County's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS

Year ended June 30	Health benefit supplement fund	Long-term disability fund
2015	$ 99,175	$20,171
2014	104,352	41,741
2013	114,477	42,269

During fiscal year 2015, the County paid for ASRS pension and OPEB contributions as follows: 60 percent from the general fund, 13 percent from the public works fund, 5 percent from the superintendent of schools fund, 5 percent from the community services fund, 2 percent from the landfill fund, and 15 percent from other governmental funds.

Pension liability—At June 30, 2015, the County reported a liability of $28,415,012 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. 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, 2013, to the measurement date of June 30, 2014. The County's proportion of the net pension 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, 2014. The County's proportion measured as of June 30, 2014, was 0.192037 percent, which was a decrease of 0.01467 from its proportion measured as of June 30, 2013.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2015, the County recognized pension expense for ASRS of $1,129,968. At June 30, 2015, 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	$1,444,134	
Net difference between projected and actual earnings on pension plan investments		$4,968,909
Changes in proportion and differences between county contributions and proportionate share of contributions	18,878	1,720,628
County contributions subsequent to the measurement date	1,832,179	
Total	$3,295,191	$6,689,537

The $1,832,179 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, 2016. 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	
2016	$(1,354,234)
2017	(1,354,234)
2018	(1,275,829)
2019	(1,242,228)

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

ASRS	
Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 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 arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS Asset class	**Target allocation**	**Long-term expected real rate of return**
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.75%
Commodities	4%	4.50%
Total	100%	

Discount rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 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 8 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 (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
County's proportionate share of the net pension liability	$35,915,118	$28,415,012	$24,345,827

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). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-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.

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). The CORP administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan for county detention officers and dispatchers (agent plans), and a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for AOC officers (cost-sharing plans). 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 and CORP issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS website at www.psprs.com.

Benefits provided—The PSPRS and CORP provide retirement, health insurance premium supplement, 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
Retirement and disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years 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%	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
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
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	2.0% to 2.5% 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 or normal retirement, whichever is greater	
Survivor benefit		
Retired members	80% of retired member's pension benefit	

CORP	Initial membership date:	
	Before January 1, 2012	**On or after January 1, 2012**
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.	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. 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, 2015, 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	28	7	3
Inactive employees entitled to but not yet receiving benefits	16	25	4
Active employees	30	59	6
Total	74	91	13

Contributions and annual OPEB cost—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 and health insurance premium 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. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Active members—pension	11.05%	8.41%	7.96%	8.41%
County				
Pension	32.51%	8.13%	12.00%	14.88%
Health insurance premium benefit	1.69%	1.04%	1.06%	1.24%

For the agent plans, the County's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers
Pension			
Contributions made	$641,694	$181,989	$30,530
Health insurance premium benefit			
Annual OPEB cost	33,309	22,113	2,697
Contributions made	33,309	22,113	2,697

Contributions to the CORP AOC pension plan for the year ended June 30, 2015, were $227,801. The County's contributions for the current and 2 preceding years for the CORP AOC OPEB, all of which were equal to the required contributions, were as follows:

CORP AOC

Year ended June 30	**Health insurance fund**
2015	$19,879
2014	18,907
2013	18,024

During fiscal year 2015, the County paid for PSPRS and CORP pension and OPEB contributions as follows: 84 percent from the general fund and 16 percent from other governmental funds.

Pension liability—At June 30, 2015, the County reported the following net pension liabilities:

	Net pension liability
PSPRS	$10,437,412
CORP Detention	630,474
CORP Dispatchers	440,355
CORP AOC (County's proportionate share)	3,475,563

The net pension liabilities were measured as of June 30, 2014, 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 liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions.

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

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, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%–8.0% for PSPRS and 4.0%–7.25% for CORP
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.85 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 real rate of return**
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	100%	

Pension discount rates—The following discount rates were used to measure the total pension liabilities:

	PSPRS Sheriff	**CORP Detention**	**CORP Dispatchers**	**CORP AOC**
Discount rates	7.85%	7.85%	7.85%	7.85%

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 for these plans 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 (a) – (b)**
Balances at June 30, 2014	$13,572,217	$5,702,499	$ 7,869,718
Changes for the year:			
Service cost	367,275		367,275
Interest on the total pension liability	1,044,461		1,044,461
Changes of benefit terms	451,808		451,808
Differences between expected and actual experience in the measurement of the pension liability	94,471		94,471
Changes of assumptions or other inputs	2,180,190		2,180,190
Contributions—employer		520,920	(520,920)
Contributions—employee		175,906	(175,906)
Net investment income		792,461	(792,461)
Benefit payments, including refunds of employee contributions	(901,225)	(901,225)	
Administrative expense		(6,383)	6,383
Other changes		87,607	(87,607)
Net changes	3,236,980	669,286	2,567,694
Balances at June 30, 2015	$16,809,197	$6,371,785	$10,437,412

CORP Detention	**Increase (decrease)**		
	Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a) – (b)**
Balances at June 30, 2014	$4,007,973	$3,213,756	$ 794,217
Changes for the year:			
Service cost	349,379		349,379
Interest on the total pension liability	322,522		322,522
Changes of benefit terms	24,688		24,688
Differences between expected and actual experience in the measurement of the pension liability	(181,113)		(181,113)
Changes of assumptions or other inputs	155,825		155,825
Contributions—employer		191,319	(191,319)
Contributions—employee		186,454	(186,454)
Net investment income		461,443	(461,443)
Benefit payments, including refunds of employee contributions	(148,202)	(148,202)	
Administrative expense		(3,628)	3,628
Other changes		(544)	544
Net changes	523,099	686,842	(163,743)
Balances at June 30, 2015	$4,531,072	$3,900,598	$ 630,474

CORP Dispatchers	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2014	$1,672,988	$1,205,299	$ 467,689
Changes for the year:			
Service cost	39,102		39,102
Interest on the total pension liability	127,496		127,496
Changes of benefit terms	12,908		12,908
Differences between expected and actual experience in the measurement of the pension liability	(103,659)		(103,659)
Changes of assumptions or other inputs	80,874		80,874
Contributions—employer		26,396	(26,396)
Contributions—employee		20,281	(20,281)
Net investment income		158,620	(158,620)
Benefit payments, including refunds of employee contributions	(136,774)	(136,774)	
Administrative expense		(1,247)	1,247
Other changes		(19,995)	19,995
Net changes	19,947	47,281	(27,334)
Balances at June 30, 2015	$1,692,935	$1,252,580	$ 440,355

The County's proportion of the CORP AOC net pension liability as of June 30, 2013 and 2014, 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, 2014. The County's proportion measured as of June 30, 2013 and 2014, was 1.548873 percent.

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 rates noted above, 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 or 1 percentage point higher than the current rate:

	1% Decrease	Current discount rate	1% Increase
PSPRS Sheriff			
Rate	6.85%	7.85%	8.85%
Net pension liability	$12,283,583	$10,437,412	$8,883,928
CORP Detention			
Rate	6.85%	7.85%	8.85%
Net pension liability	$1,259,778	$630,474	$109,440
CORP Dispatchers			
Rate	6.85%	7.85%	8.85%
Net pension liability	$642,003	$440,355	$271,692
CORP AOC			
Rate	6.85%	7.85%	8.85%
County's proportionate share of the net pension liability	$4,589,400	$3,475,563	$2,550,113

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, 2015, the County recognized the following pension expense:

	Pension expense
PSPRS Sheriff	$1,702,623
CORP Detention	200,715
CORP Dispatchers	69,005
CORP AOC (County's proportionate share)	465,073

Pension deferred outflows/inflows of resources—At June 30, 2015, 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	$ 68,540	
Changes of assumptions or other inputs	1,581,763	
Net difference between projected and actual earnings on pension plan investments		$264,312
County contributions subsequent to the measurement date	641,694	
Total	$2,291,997	$264,312

CORP Detention	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$142,868
Changes of assumptions or other inputs	$122,920	
Net difference between projected and actual earnings on pension plan investments		153,191
County contributions subsequent to the measurement date	181,989	
Total	$304,909	$296,059

CORP Dispatchers	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$ 78,628
Changes of assumptions or other inputs	$61,345	
Net difference between projected and actual earnings on pension plan investments		52,660
County contributions subsequent to the measurement date	30,530	
Total	$91,875	$131,288

CORP AOC	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$164,975	
Changes of assumptions or other inputs	510,616	
Net difference between projected and actual earnings on pension plan investments		$192,407
County contributions subsequent to the measurement date	227,801	
Total	$903,392	$192,407

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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Year ending June 30				
2016	$558,280	$(43,638)	$(18,666)	$99,420
2017	558,280	(43,638)	(18,666)	99,420
2018	335,509	(43,638)	(18,667)	99,420
2019	(66,078)	(42,225)	(13,944)	99,420
2020				85,504
Thereafter				

Agent plan OPEB actuarial assumptions—The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plans as the County and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS and CORP plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2015 contribution requirements:

PSPRS and CORP—OPEB contribution requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%–8.5% for PSPRS and 4.5%–7.75% for CORP
Wage growth	4.5% for PSPRS and CORP

Agent plan OPEB trend information—Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

Year ended June 30	Annual OPEB cost	Percentage of annual cost contributed	Net OPEB obligation
PSPRS Sheriff			
2015	$33,309	100.0%	$ 0
2014	28,474	100.0	0
2013	33,597	38.0	(20,840)
CORP Detention			
2015	$22,113	100.0%	$ 0
2014	21,715	100.0	0
2013	36,744	2.3	(35,894)
CORP Dispatchers			
2015	$ 2,696	100.0%	$ 0
2014	2,130	100.0	0
2013	2,165	0.0	(2,165)

Agent plan OPEB funded status—The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Sheriff	CORP	CORP Dispatchers
Actuarial value of assets (a)	$615,835	$306,989	$81,404
Actuarial accrued liability (b)	$429,239	$220,543	38,213
Unfunded actuarial accrued liability (funding excess) (b) – (a)	$(186,596)	$ (86,446)	(43,191)
Funded ratio (a)/(b)	143.47%	139.20%	213.03%
Annual covered payroll (c)	$1,970,217	$2,081,145	254,418
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c)	(9.47%)	(4.15%)	(16.98%)

The actuarial methods and assumptions used are the same for all the PSPRS and CORP health insurance premium benefit plans (unless noted), and for the most recent valuation date are as follows:

PSPRS and CORP—OPEB funded status	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%–8% for PSPRS and 4%–7.25% for CORP
Wage growth	4% for PSPRS and CORP

C. Elected Officials Retirement Plan

Plan description—Elected officials and judges participate in the Elected Officials Retirement Plan (EORP). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) 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 EORP issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on PSPRS's website at www.psprs.com.

Benefits provided—The EORP provides retirement, health insurance premium supplement, 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 excess investment earning.

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, 2015, active EORP members were required by statute to contribute 13 percent of the members' annual covered payroll, and the County was required to contribute a designated portion of certain court fees and 23.5 percent of active EORP members' annual covered payroll. The County's contributions to the pension plan for the year ended June 30, 2015, were $265,481. No OPEB contributions were required or made for the year ended June 30, 2015. The County's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

EORP

Year ended June 30	Health insurance fund
2015	-
2014	$17,392
2013	21,016

During fiscal year 2015, the County paid for EORP pension contributions as follows: 100 percent from the general fund.

Pension liability—At June 30, 2015, 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	$ 8,628,523
State's proportionate share of the EORP net pension liability associated with the County	2,645,585
Total	$11,274,108

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, for the June 30, 2014, actuarial valuation, the plan changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.

The County's proportion of the net pension liability as of June 30, 2013 and 2014, was based on the County's actual contributions to the plan relative to the total of all participating employers' actual contributions for the year ended June 30, 2014. The County's proportion measured as of June 30, 2013 and 2014, was 1.2867408 percent.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2015, the County recognized pension expense for EORP of $3,341,777 and revenue of $784,182 for the County's proportionate share of the State's appropriation to EORP. At June 30, 2015, 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	$ 37,914	
Changes of assumptions or other inputs	2,335,080	
Net difference between projected and actual earnings on pension plan investments		$163,590
County contributions subsequent to the measurement date	265,481	
Total	$2,638,475	$163,590

The $265,481 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, 2016. 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	
2016	$1,325,719
2017	965,479
2018	(40,897)
2019	(40,897)

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

EORP	
Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.25%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.85 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 real rate of return
Short-term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	100%	

Discount rate—At June 30, 2014, the discount rate used to measure the EORP total pension liability was 5.67 percent, which was a decrease of 2.18 from the discount rate used as of June 30, 2013. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.85 percent was applied to periods of projected benefit payments through the year ended June 30, 2030. A municipal bond rate of 4.29 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 30, 2014, was applied to periods of projected benefit payments after June 30, 2030.

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 5.67 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 (4.67 percent) or 1 percentage point higher (6.67 percent) than the current rate:

EORP	1% Decrease (4.67%)	Current discount rate (5.67%)	1% Increase (6.67%)
County's proportionate share of the net pension liability	$10,073,081	$8,628,523	$7,408,823

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

Note 11 - Interfund balances and activity

Interfund receivables and payables—Interfund balances at June 30, 2015, were as follows:

	Payable to		
	General fund	Landfill fund	Total
Payable from			
General fund		$33,000	$33,000
Public works fund	$1,627		1,627
Landfill fund	561		561
Community services fund	392		392
	$2,580	$33,000	$35,580

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, 2015, were as follows:

	Transfers to		
Transfers from	**Community services fund**	**Nonmajor governmental funds**	**Total**
General fund	$47,000	$955,142	$1,002,142

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 12 - 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 deposits and investments the County holds are included in the County Treasurer's investment pool, except for $4,342,291 in deposits. 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 4 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	$43,925,000	0.125% - 1.050%	07/15 – 05/18	$43,940,188
U.S. Treasury securities	7,295,000	0.250% - 0.625%	08/15 – 12/16	7,299,539
U.S. Treasury money market funds	76,844	0.000% - 0.010%	N/A	76,844
Corporate bonds	5,250,000	Variable	05/16 – 01/17	5,287,189
Corporate notes	4,000,000	1.000% - 5.750%	01/16 – 06/17	4,094,630
	$60,546,844			$60,698,390

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

Statement of net position	
Assets	$ 75,011,248
Liabilities	822,319
Net position	$ 74,188,929
Net position held in trust for:	
Internal participants	$ 40,764,908
External participants	33,424,021
Total net position held in trust	$ 74,188,929
Statement of changes in net position	
Total additions	$166,051,737
Total deductions	164,908,069
Net increase	1,143,668
Net position held in trust:	
July 1, 2014	73,045,261
June 30, 2015	$ 74,188,929

Note 13 – Significant construction commitments

At June 30, 2015, the County had major construction commitments related to various capital projects for the construction of Tonto Creek Bridge, improvement of Monroe Street and installation of communication system for the Sheriff's Office. As of June 30, 2015, the County had spent $4,488,959 on these major projects and other less significant capital projects and reported the total amount in construction in progress. An estimated cost to complete these capital projects is approximately $25.4 million, which is predominantly financed by transportation excise tax, and state and federal grants.

Other Required Supplementary Information

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2015

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 20,334,578	$ 20,257,736	$ (76,842)
Licenses and permits	383,000	403,703	20,703
Intergovernmental	12,000,544	13,570,437	1,569,893
Charges for services	977,665	512,399	(465,266)
Fines and forfeitures	460,848	341,656	(119,192)
Donations and contributions		129	129
Investment earnings	64,665	95,757	31,092
Miscellaneous	172,146	872,465	700,319
Total revenues	34,393,446	36,054,282	1,660,836
Expenditures:			
Current:			
General government			
Administrative services	123,762	117,777	5,985
Assessor	1,060,955	875,926	185,029
Board of supervisors	1,009,024	954,157	54,867
Community development	1,074,170	973,633	100,537
Computer services	715,572	678,003	37,569
Constituent services	270,000	223,258	46,742
Elections	536,342	423,632	112,710
Facilities management	1,696,228	1,599,189	97,039
Finance/purchasing	862,394	847,386	15,008
General administration	456,386	257,156	199,230
Personnel	720,093	714,785	5,308
Professional services	377,500	362,139	15,361
Recorder	730,324	507,442	222,882
Treasurer	459,063	423,090	35,973
Contingency reserve	13,257,657		13,257,657

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2015
(Continued)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Judicial services			
County attorney	$ 2,034,591	$ 1,758,714	$ 275,877
County attorney—child support	841,435	659,307	182,128
Constable—Globe	142,616	127,311	15,305
Constable—Payson	177,941	149,765	28,176
Justice Court—Globe	633,072	547,246	85,826
Justice Court—Payson	536,249	509,530	26,719
Indigent legal defense	1,187,878	1,265,124	(77,246)
Clerk of the superior court	1,270,713	1,083,503	187,210
Superior Court—Division I	251,197	253,847	(2,650)
Superior Court—Division II	244,658	243,265	1,393
Superior Court—General	851,711	673,194	178,517
Court system multi-information systems	258,689	228,568	30,121
Total general government	31,780,220	16,456,947	15,323,273
Public safety			
County sheriff	10,657,163	9,859,292	797,871
County sheriff—facilities management	297,635	286,281	11,354
Emergency services	269,166	269,530	(364)
Flood plain management	201,986	179,887	22,099
Juvenile detention	1,322,285	1,119,424	202,861
Probation	828,390	819,503	8,887
Total public safety	13,576,625	12,533,917	1,042,708
Welfare			
AHCCCS contributions	3,520,600	3,638,371	(117,771)
Community agencies	131,335	126,500	4,835
Public fiduciary	411,354	409,137	2,217
Total welfare	4,063,289	4,174,008	(110,719)

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2015
(Concluded)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Culture and recreation			
Fairgrounds	$ 13,210	$ 12,490	$ 720
Education			
School superintendent	390,781	1,718,133	(1,327,352)
Special school reserve	1,000		1,000
Total education	391,781	1,718,133	(1,326,352)
Capital outlay	3,888,412	4,295,523	(407,111)
Debt service	628,150	659,098	(30,948)
Total expenditures	54,341,687	39,850,116	14,491,571
Excess (deficiency) of revenues over expenditures	(19,948,241)	(3,795,834)	16,152,407
Other financing sources (uses)			
Pledged revenue obligations issued		2,000,000	2,000,000
Indirect costs		1,290,008	1,290,008
Transfers in	25,399	-	(25,399)
Transfers out	1,605,600	(1,002,142)	(2,607,742)
Total other financing sources (uses)	1,630,999	2,287,866	656,867
Net change in fund balances	(18,317,242)	(1,507,968)	16,809,274
Fund balances, July 1, 2014	18,317,242	23,226,207	4,908,965
Decrease in reserve for inventories		(17,089)	(17,089)
Fund balances, June 30, 2015	$ -	$ 21,701,150	$ 21,701,150

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
Public works fund
Year ended June 30, 2015

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 2,282,844	$ 2,179,214	$ (103,630)
Licenses and permits	1,000	2,292	1,292
Intergovernmental	4,353,583	4,707,681	354,098
Investment earnings	29,500	36,753	7,253
Miscellaneous	35,150	27,522	(7,628)
Total revenues	6,702,077	6,953,462	251,385
Expenditures:			
Highways and streets	13,019,171	6,566,685	6,452,486
Total expenditures	13,019,171	6,566,685	6,452,486
Excess (deficiency) of revenues over expenditures	(6,317,094)	386,777	6,703,871
Other financing sources (uses):			
Proceeds from sale of capital assets		231	231
Transfers out	(25,399)		25,399
Total other financing sources and uses	(25,399)	231	25,630
Net change in fund balances	(6,342,493)	387,008	6,729,501
Beginning fund balance	6,342,493	7,954,192	1,611,699
Fund balances, end of year	$ -	$ 8,341,200	$ 8,341,200

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
Community services fund
Year ended June 30, 2015

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Intergovernmental	$ 4,699,083	$ 4,703,666	$ 4,583
Donations and contributions	195,079	186,547	(8,532)
Miscellaneous		47,187	47,187
Total revenues	4,894,162	4,937,400	43,238
Expenditures:			
Welfare	5,194,540	5,657,490	(462,950)
Total expenditures	5,194,540	5,657,490	(462,950)
Excess (deficiency) of revenues over expenditures	(300,378)	(720,090)	(419,712)
Other financing sources (uses):			
Transfers in	47,000	47,000	
Total other financing sources and uses	47,000	47,000	
Net change in fund balances	(253,378)	(673,090)	(419,712)
Beginning fund balance	253,378	751,012	497,634
Ending fund balance	$ -	$ 77,922	$ 77,922

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Notes to budgetary comparison schedules
June 30, 2015

Note 1 - Budgeting and budgetary control

Arizona Revised Statutes (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
Deficiency of revenues over expenditures from the statement of revenues, expenditures, and changes in fund balances	$(2,505,826)
Indirect cost expenditures allocated to other county funds	(1,290,008)
Deficiency of revenues over expenditures from the budgetary comparison schedule	$(3,795,834)

Note 3 - Expenditures in excess of appropriations

For the year ended June 30, 2015, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/department	Excess
General fund:	
Indigent legal defense	$ 77,246
Superior Court—Division I	2,650
Emergency services	364
AHCCCS contributions	117,771
School superintendent	1,327,352
Capital outlay	407,111
Debt service	30,948
Community services	462,950

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 2015, the County School Superintendent's Office received national forest monies of $1,349,460 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, 2015

Arizona State Retirement System

	Reporting fiscal year (Measurement date)	
	2015 (2014)	2014 through 2006
County's proportion of the net pension liability	0.19%	Information not available
County's proportionate share of the net pension liability	$ 28,415,012	
County's covered-employee payroll	$ 17,866,484	
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	159.04%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year (Measurement date)	
	2015 (2014)	2014 through 2006
County's proportion of the net pension liability	1.55%	Information not available
County's proportionate share of the net pension liability	$ 3,475,563	
County's covered-employee payroll	$ 1,667,965	
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	208.37%	
Plan fiduciary net position as a percentage of the total pension liability	58.59%	

Elected Officials Retirement Plan

	Reporting fiscal year (Measurement date)	
	2015 (2014)	2014 through 2006
County's proportion of the net pension liability	1.29%	Information not available
County's proportionate share of the net pension liability	$ 8,628,523	
State's proportionate share of the net pension liability associated with the County	2,645,585	
Total	$ 11,274,108	
County's covered-employee payroll	1,182,686	
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	729.57%	
Plan fiduciary net position as a percentage of the total pension liability	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, 2015

PSPRS Sheriff	Reporting fiscal year (Measurement date)	
	2015 (2014)	2014 through 2006
Total pension liability		Information
Service cost	$ 367,275	not available
Interest on the total pension liability	1,044,461	
Changes of benefit terms	451,808	
Differences between expected and actual experience in the measurement of the pension liability	94,471	
Changes of assumptions or other inputs	2,180,190	
Benefit payments, including refunds of employee contributions	(901,225)	
Net change in total pension liability	3,236,980	
Total pension liability—beginning	13,572,217	
Total pension liability—ending (a)	$ 16,809,197	
Plan fiduciary net position		
Contributions—employer	$ 520,920	
Contributions—employee	175,906	
Net investment income	792,461	
Benefit payments, including refunds of employee contributions	(901,225)	
Administrative expense	(6,383)	
Other changes	87,607	
Net change in plan fiduciary net position	669,286	
Plan fiduciary net position—beginning	5,702,499	
Plan fiduciary net position—ending (b)	$ 6,371,785	
County's net pension liability—ending (a) – (b)	$ 10,437,412	
Plan fiduciary net position as a percentage of the total pension liability	37.91%	
Covered-employee payroll	$ 1,895,363	
County's net pension liability as a percentage of covered-employee payroll	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, 2015

CORP Detention

	Reporting fiscal year (Measurement date)	
	2015 (2014)	**2014 through 2006**
Total pension liability		Information not available
Service cost	$ 349,379	
Interest on the total pension liability	322,522	
Changes of benefit terms	24,688	
Differences between expected and actual experience in the measurement of the pension liability	(181,113)	
Changes of assumptions or other inputs	155,825	
Benefit payments, including refunds of employee contributions	(148,202)	
Net change in total pension liability	523,099	
Total pension liability—beginning	4,007,973	
Total pension liability—ending (a)	$ 4,531,072	
Plan fiduciary net position		
Contributions—employer	$ 191,319	
Contributions—employee	186,454	
Net investment income	461,443	
Benefit payments, including refunds of employee contributions	(148,202)	
Administrative expense	(3,628)	
Other changes	(544)	
Net change in plan fiduciary net position	686,842	
Plan fiduciary net position—beginning	3,213,756	
Plan fiduciary net position—ending (b)	$ 3,900,598	
County’s net pension liability—ending (a) – (b)	$ 630,474	
Plan fiduciary net position as a percentage of the total pension liability	86.09%	
Covered-employee payroll	$ 2,074,538	
County’s net pension liability as a percentage of covered-employee payroll	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, 2015

CORP Dispatchers

	Reporting fiscal year (Measurement date)	
	2015 (2014)	**2014 through 2006**
Total pension liability		Information not available
Service cost	$ 39,102	
Interest on the total pension liability	127,496	
Changes of benefit terms	12,908	
Differences between expected and actual experience in the measurement of the pension liability	(103,659)	
Changes of assumptions or other inputs	80,874	
Benefit payments, including refunds of employee contributions	(136,774)	
Net change in total pension liability	19,947	
Total pension liability—beginning	1,672,988	
Total pension liability—ending (a)	$ 1,692,935	
Plan fiduciary net position		
Contributions—employer	$ 26,396	
Contributions—employee	20,281	
Net investment income	158,620	
Benefit payments, including refunds of employee contributions	(136,774)	
Administrative expense	(1,247)	
Other changes	(19,995)	
Net change in plan fiduciary net position	47,281	
Plan fiduciary net position—beginning	1,205,299	
Plan fiduciary net position—ending (b)	$ 1,252,580	
County's net pension liability—ending (a) – (b)	$ 440,355	
Plan fiduciary net position as a percentage of the total pension liability	73.99%	
Covered-employee payroll	$ 254,265	
County's net pension liability as a percentage of covered-employee payroll	173.19%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of county pension contributions
June 30, 2015

Arizona State Retirement System

	Reporting fiscal year		
	2015	2014	2013-2006
Statutorily required contribution	$ 1,832,179	$ 1,852,259	Information not available
County's contributions in relation to the statutorily required contribution	1,832,179	1,852,259	
County's contribution deficiency (excess)	$ -	$ -	
County's covered-employee payroll	$ 16,959,971	$ 17,866,484	
County's contributions as a percentage of covered-employee payroll	10.80%	10.37%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year		
	2015	2014	2013-2006
Statutorily required contribution	$ 227,801	$ 240,875	Information not available
County's contributions in relation to the statutorily required contribution	227,801	240,875	
County's contribution deficiency (excess)	$ -	$ -	
County's covered-employee payroll	$ 1,539,683	$ 1,667,965	
County's contributions as a percentage of covered-employee payroll	14.80%	14.44%	

Elected Officials Retirement Plan

	Reporting fiscal year		
	2015	2014	2013-2006
Statutorily required contribution	$ 265,481	$ 274,171	Information not available
County's contributions in relation to the statutorily required contribution	265,481	274,171	
County's contribution deficiency (excess)	$ -	$ -	
County's covered-employee payroll	$ 1,134,316	$ 1,182,686	
County's contributions as a percentage of covered-employee payroll	23.40%	23.18%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of county pension contributions
June 30, 2015

PSPRS Sheriff

	Reporting fiscal year		
	2015	2014	2013-2006
Statutorily required contribution	$ 641,694	$ 520,920	Information not available
County's contributions in relation to the statutorily required contribution	641,694	520,920	
County's contribution deficiency (excess)	$ -	$ -	
County's covered-employee payroll	$ 2,001,288	$ 1,895,363	
County's contributions as a percentage of covered-employee payroll	32.06%	27.48%	

CORP Detention

	Reporting fiscal year		
	2015	2014	2013-2006
Statutorily required contribution	$ 181,989	$ 191,319	Information not available
County's contributions in relation to the statutorily required contribution	181,989	191,319	
County's contribution deficiency (excess)	$ -	$ -	
County's covered-employee payroll	$ 2,058,827	$ 2,074,538	
County's contributions as a percentage of covered-employee payroll	8.84%	9.22%	

CORP Dispatchers

	Reporting fiscal year		
	2015	2014	2013-2006
Statutorily required contribution	$ 30,530	$ 26,396	Information not available
County's contributions in relation to the statutorily required contribution	30,530	26,396	
County's contribution deficiency (excess)	$ -	$ -	
County's covered-employee payroll	$ 254,000	$ 254,265	
County's contributions as a percentage of covered-employee payroll	12.02%	10.38%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Notes to pension plan schedules
June 30, 2015

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 closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2013 actuarial valuation	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	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 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	RP-2000 mortality table (adjusted by 105% for both males and females)

Gila County
Required supplementary information
Schedule of agent OPEB plans' funding progress
June 30, 2015

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL as a percentage of covered payroll ([b-a]/c)
PSPRS sheriff						
6/30/2015	$615,835	$429,239	$(186,596)	143.5%	$1,970,217	-9.5%
6/30/2014	570,662	385,269	(185,393)	148.1%	1,535,690	-12.1%
6/30/2013	-	372,339	372,339	0.0%	1,884,079	19.8%
CORP detention						
6/30/2015	306,989	220,543	(86,446)	139.2%	2,081,145	-4.2%
6/30/2014	272,817	232,448	(40,369)	117.4%	2,132,979	-1.9%
6/30/2013	-	206,729	206,729	0.0%	2,306,057	9.0%
CORP dispatchers						
6/30/2015	81,404	38,213	(43,191)	213.0%	254,418	-17.0%
6/30/2014	75,039	35,231	(39,808)	213.0%	223,276	-17.9%
6/30/2013	-	38,152	38,152	0.0%	279,116	13.7%

Note 1 – Factors that affect the identification of trends

Beginning in fiscal year 2014, PSPRS and CORP established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same pension fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.

SINGLE AUDIT REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 14, 2017.

Internal control over financial reporting

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

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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified 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 2015-01 through 2015-03 and 2015-06 to be material weaknesses.

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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 items 2015-04, 2015-05 and 2015-07 to be significant deficiencies.

Compliance and other matters

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

Gila County response to findings

Gila 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's responses 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.

Debbie Davenport
Auditor General

December 14, 2017

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
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 OMB Circular A-133

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, 2015. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

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

Auditors' responsibility

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

We believe that our audit 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.

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Basis for adverse opinion on the Child Support Enforcement program

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Child Support Enforcement (93.563) program's activities allowed or unallowed, allowable costs/cost principles, matching, and reporting requirements as described in 2015-102 through 2015-105. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Adverse opinion on the Child Support Enforcement program

In our opinion, because of the significance of the matters discussed in the basis for adverse opinion paragraph, Gila County did not comply in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Child Support Enforcement (93.563) program for the year ended June 30, 2015.

Unmodified opinion on each of the other major federal programs

In our opinion, Gila County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other matters

The results of our auditing procedures disclosed other instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying schedule of findings and questioned costs as items 2015-101, 2015-106 and 2015-107. Our opinion on each major federal program is not modified with respect to these matters.

Report on internal control over compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-101 through 2015-105 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-106 and 2015-107 to be significant deficiencies.

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

Gila County response to findings

Gila 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's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Report on schedule of expenditures of federal awards required by OMB Circular A-133

We have audited 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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated December 14, 2017, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, based on our audit, and the procedures performed as described previously, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Debbie Davenport
Auditor General

December 14, 2017

ARIZONA
Auditor General
Making a Positive Difference

Summary of auditors' results

Financial statements

Type of auditors' report issued: 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 deficiency identified?	Yes

Type of auditors' report issued on compliance for major programs: Unmodified for all major programs except for Child Support Enforcement (93.563), which was adverse.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])? Yes

Identification of major programs

CFDA number	Name of federal program or cluster
10.665	Schools and Roads—Grants to States
15.226	Payment in Lieu of Taxes
17.258, 17.259, 17.278	WIA Cluster
84.041	Impact Aid
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs	$384,785
Auditee qualified as low-risk auditee?	No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	Yes

Financial statement findings

2015-01

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

Criteria—The County should prepare its annual financial report that includes its financial statements and related note disclosures in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users to make important decisions about the County's financial operations. In addition, the County's annual financial report must be issued in a timely manner to satisfy the audit requirements imposed by federal and state laws and regulations, grants, contracts, and long-term debt covenants.

Condition and context—The County did not have adequate policies and procedures over its financial statement preparation process to ensure that its financial statements and note disclosures were accurate and complete. Consequently, the County had to correct numerous misstatements in its financial statements and notes. The more significant errors are described below:

- Overstated property taxes receivables and taxes revenues by $836,000 in the general fund.
- Misclassified $185,868 as unavailable revenue-charges for services instead of unavailable revenue-intergovernmental in the general fund.
- Overstated highways and streets expenditures and beginning fund balance by $139,730 in the public works fund.
- Understated accounts payable and highways and streets expenditures by $215,400 in the public works fund.
- A $338,482 land purchase was reported in the construction in progress balance.

In addition, the County's annual financial report was not issued in time to meet the federal Single Audit Act's reporting deadline.

Effect—The County's financial statements and note disclosures were not initially accurate and complete or prepared in accordance with GAAP. The County made the necessary audit adjustments to correct the financial statements and note disclosures for all significant errors and omissions. In addition, the County's annual financial report was not issued in time to meet the federal Single Audit Act's reporting deadline, which is 9 months after the County's fiscal year-end. The County did not issue its single audit reporting package until December 2017.

Cause—The County did not have comprehensive internal control policies and procedures or sufficient resources needed to prepare accurate, complete, and timely financial statements in accordance with GAAP. In addition, detailed reviews and appropriate approvals were not performed to ensure the accuracy of the financial statements and note disclosures.

Recommendations—To help ensure that the County's annual financial report is accurate, complete, and prepared in accordance with GAAP and is issued in time to meet the federal Single Audit Act's reporting deadline, the County should:

- Develop and implement comprehensive written policies and procedures over financial statement preparation, including instructions for closing the general ledger at fiscal year-end, instructions for preparing common year-end financial statement adjustments, and performing a detailed supervisory review over the draft financial statements, supporting schedules, and note disclosures. These procedures should also include detailed instructions for obtaining information from the accounting system and information not readily available from the accounting system but necessary for financial statement preparation, preparing supporting schedules, and documenting and reviewing adjustments necessary for preparing its financial statements.

- Dedicate appropriate resources, assign employees specific responsibilities, and establish completion dates.
- Require an employee who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to review the statements and related note disclosures. This review should ensure that the amounts are accurate, properly supported, and presented in accordance with GAAP.

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 2014-01.

2015-02

The County needs to improve controls over its capital assets

Criteria—The County should have effective internal controls over capital assets that are sufficient to control, safeguard, and report capital assets.

Condition and context—Capital assets comprise approximately $36.5 million, or 41 percent of the County's total assets. During test work, auditors noted the following deficiencies:

- The County misclassified land as construction in progress.
- The County did not prepare capital asset disposal forms during fiscal year 2015 for $1,508,251 in capital asset disposals of the landfill fund.
- The County's fixed asset policy did not include a requirement to perform a physical inventory of its capital assets, and the County had not performed a physical inventory since 2009. Further, the County did not maintain documentation of the physical inventory.

Effect—The County's capital assets reported in its draft financial statements and notes were not accurate. The County made recommended audit adjustment to the financial statements and related note disclosure for all significant errors. In addition, capital assets were exposed to potential theft or misuse.

Cause—The County did not appropriately implement procedures to properly dispose of capital assets. In addition, the County's policies and procedures did not require a physical inventory of its capital assets.

Recommendations—To help ensure the County's capital assets are safeguarded against theft and misuse and accurately reported, the County should develop and implement capital assets procedures for properly classifying and disposing of capital assets and for performing a physical inventory at least every 2 years.

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 2014-02.

2015-03

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts

Criteria—Because cash is highly susceptible to potential theft or misuse, county management should have detailed written policies and procedures to provide guidance to its departments for collecting, recording, reconciling, and depositing cash receipts.

Condition and context—The Superintendent of Schools did not always record department revenues in accordance with U.S. generally accepted accounting principles (GAAP) or record department revenues in the proper fiscal year. In addition, the landfill department did not properly separate cash-handling duties. Specifically, the landfill manager was responsible for reconciling daily cash receipt logs to daily cash receipts, performing month-end close procedures, making deposits to the Treasurer from the landfill bank account, and had access to monies in the landfill's bank account.

Effect—Departmental revenues were not always recorded in accordance with GAAP. In addition, there was an elevated risk of theft or misuse over the landfill's cash receipts. The County adjusted its financial statements for all significant errors.

Cause—The County had poorly designed policies and procedures for recording departmental revenues and safeguarding cash receipts.

Recommendations—To help strengthen controls over departmental revenues and cash receipts, the County should develop and implement written policies and procedures to provide guidance to its departments for collecting, recording, reconciling, and depositing cash receipts. In addition, the County should monitor that these procedures over recording revenues and controlling cash receipts are being followed at the individual departments.

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 2014-03.

2015-04

The County should comply with laws governing conflict of interest

Criteria—Arizona Revised Statutes §18-444 require that all public officers file financial disclosure statements by January 31 of each year with the Secretary of State. In addition, conflict-of-interest statements should be retained in accordance with the *General Records Retention Schedule* as prescribed by the Arizona State Library, Archives, and Public Records for a minimum of 3 years after the fiscal year.

Condition and context—The County did not have adequate policies and procedures in place to ensure compliance with state laws. As a result, auditors identified the following instances of noncompliance:

- The County did not require one elected official to submit financial disclosure statements for the 2014 calendar year since the public officer vacated office during June 2015.

- The County did not retain the conflict-of-interest forms that county employees prepared for the period July 1, 2014 through June 30, 2015.

Effect—The County risks engaging in transactions with a conflict of interest that have not been disclosed.

Cause—The County did not realize that public officers were required to submit financial disclosures for each year they are in office. In addition, the County destroyed the conflict-of-interest forms when new forms were requested for the following fiscal year.

Recommendation—To help ensure compliance with state laws, the County should develop policies and procedures that require all public officers to prepare and file financial disclosure statements with the Secretary of State annually and retain a copy of employee conflict-of-interest forms for a period of 3 years.

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 2014-05.

2015-05

The County should comply with laws governing the preparation of budgets

Criteria—Arizona Revised Statutes §§11-201(A)(6) and 11-401 require the County's Board of Supervisors (Board) to determine the budgets of all elected and appointed county officers. Further, Governmental Accounting Standards Board (GASB) Statement No. 34 requires the County to report in its financial statements a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget.

Condition and context—The County did not have adequate policies and procedures in place to ensure compliance with state laws.

Specifically, the Board did not determine and approve a budget for the County's Superintendent of Schools education service agency or regional school district that are special revenue funds. Also, as a result, the County did present a budgetary comparison schedule in its financial statements for these funds.

Effect—The County did not comply with state laws and U.S. generally accepted accounting principles.

Cause—The Superintendent of Schools had a budget for its general fund department; however, it was not aware that a budget was required for its special revenue fund departments.

Recommendation—To help ensure compliance with state laws, the County should develop policies and procedures that require the preparation of budgets for departments administered by all elected and appointed county officers.

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 2014-06.

2015-06

The County should improve access controls over its information technology resources

Criteria—Logical access controls help to protect a County's information technology (IT) resources, which include its systems, network, infrastructure, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Logical access controls also help to ensure that authenticated users access only what they are authorized to. Therefore, the County should have effective internal control policies and procedures to control access to its IT resources.

Condition and context—The County did not have adequate policies and procedures or consistently implement its policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT resources.

Effect—There is an increased risk that the County may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its IT resources, including sensitive and confidential information.

Cause—The County had incomplete logical access controls that were inconsistently applied.

Recommendations—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County needs to develop effective logical access policies and procedures over its IT resources. The County should review these policies and procedures against current IT standards and best practices and implement them county-wide, as appropriate. Further the County should train staff on the policies and procedures. The information below provides guidance and best practices to help the County achieve this objective.

- **Review user access—**A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- **Remove terminated employees' access to its IT resources—**Employees' network and system access should immediately be removed upon their terminations.
- **Review contractor and other nonentity account access—**A periodic review should be performed on contractor and other nonentity accounts with access to an entity's IT resources to help ensure their access remains necessary and appropriate.
- **Review all shared accounts—**Shared network access accounts should be reviewed and eliminated or minimized when possible.
- **Perform proactive logging and log monitoring—**Key user and system activity should be logged, particularly for users with administrative access privileges and remote access, along with other activities that could result in potential security incidents such as unauthorized or inappropriate access. An entity should determine what events to log, configure the system to generate the logs, and decide how often to monitor these logs for indicators of potential attacks or misuse of IT resources. Finally, activity logs should be maintained where users with administrative access privileges cannot alter them.

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 2014-07.

2015-07

The County should improve its contingency planning procedures for its information technology resources

Criteria—It is critical that the County have contingency planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption. Contingency planning procedures include having a comprehensive, up-to-date contingency plan, taking steps to facilitate the plan's activation, and having system and data backup policies and procedures.

Condition and context—The County did not have a written contingency plan. Also, although the County was performing system and data backups, it did not have documented policies and procedures for performing the backups or testing them to ensure they were operational and could be used to restore its IT resources.

Effect—The County risks not being able to provide for the continuity of operations, recover vital IT systems and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery.

Cause—The County has not dedicated the necessary resources to develop and implement a contingency plan.

Recommendations—To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County needs to develop contingency planning procedures. The County should review its contingency planning procedures against current IT standards and best practices and implement them county-wide, as appropriate. The information below provides guidance and best practices to help the County achieve this objective.

- **Develop and implement a contingency plan—**A contingency plan should be developed and implemented and include essential business functions and associated contingency requirements; recovery objectives and restoration priorities and metrics as determined in the entity's business-impact analysis; contingency roles and responsibilities and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for eventual system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The contingency plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- **Test the contingency plan—**A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing with other plans of the entity such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.

- **Train staff responsible for implementing the contingency plan**—An ongoing training schedule should be developed for staff responsible for implementing the plan that is specific to each user's assigned role and responsibilities.

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 2014-08.

Federal award findings and questioned costs

2015-101

CFDA number and name: Not Applicable
Questioned costs: N/A

Criteria—OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the County to:

- Identify, in its accounts, all federal awards it received and expended and the federal programs under which it received them.
- Prepare an accurate and complete schedule of expenditures of federal awards (SEFA) that reports federal award expenditures in accordance with OMB Circular A-133, §.205.
- Submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end.

Condition and context—The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, the County understated its federal award expenditures by $1.1 million. Further, the federal reporting deadline for the County's 2015 single audit reporting package was March 31, 2016. However, the County did not issue its single audit reporting package until December 2017.

Effect—The County's initial SEFA was not accurate and complete and the late submission resulted in noncompliance for all federal programs the County administered. 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 ensure that all federal awards were identifiable in its accounting system and properly reported on the SEFA.

Recommendation—To help ensure that the County prepares its SEFA in compliance with OMB Circular A-133, the County should 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 should 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.

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 2014-101.

2015-102

Cluster name:	**WIA Cluster**
CFDA number and name:	17.258 **WIA/WIOA Adult Program** 17.259 **WIA/WIOA Youth Activities** 17.278 **WIA/WIOA Dislocated Worker Formula Grants**
Award numbers and years:	DE14-055408, October 1, 2012 through June 30, 2015
Federal agency:	**Department of Labor**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirements:	Allowable costs/cost principles
Questioned costs:	Unknown
CFDA number and name:	93.563 **Child Support Enforcement**
Award numbers and years:	DE111165001, October 1, 2010 through September 30, 2015 DE111170001, October 1, 2010 through September 30, 2015
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirements:	Allowable costs/cost principles
Questioned costs:	Unknown

Criteria—In accordance with 2 Code of Federal Regulations (CFR) §225, Appendix C, Section A, governmental units must prepare a central service cost allocation plan (plan) to assign central service costs to federal awards. Further, in accordance with 2 CFR §225, Appendix E, Sections D.1-D.3, all governmental units desiring to claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. In addition, the proposal must include a county organizational chart and a signed certification from an official at the governmental unit. The signed certification must state that the information is true and correct, the plan included a calculation to equitably distribute indirect costs to all of the governmental units using an estimate of benefits received, and indirect costs have not also been claimed as direct costs to the federal grant. Also, in accordance with 2 CFR §225, Appendix E, Section B.9, the indirect cost rate used should coincide with the governmental unit's fiscal year.

Condition and context—During fiscal year 2015, the County received $472,095 of federal monies to recover indirect costs associated with the Child Support Enforcement program and $173,781 for the WIA cluster. However, the County did not have adequate review procedures in place to ensure the plan and proposal were compliant with 2 CFR §225 requirements. Specifically:

- The proposal did not include the required county organizational charts and signed certifications.
- The plan and proposal did not include a separate indirect cost rate for the Family Law Commissioner Office's (Commissioner) administration of the Child Support Enforcement program.
- The plan and proposal included $16,697 in equipment depreciation for the WIA grant; however, there was no county-owned capital equipment used in the WIA grant.
- The plan and proposal contained indirect costs that the County also requested for reimbursement as Child Support Enforcement program direct costs.

The County's plan established an indirect cost rate to be used for the county fiscal year of July 1 through June 30. However, the County used a rate based on the federal fiscal year of October 1 through September 30. Further, the indirect cost rate the Commissioner used did not include $1,175,800 in fees paid to contract attorney's in the indirect cost base, which resulted in an inequitable distribution of indirect costs.

Effect—It was not practical to extend our auditing procedures sufficiently to determine any additional questioned costs that resulted from this finding. This finding has the potential to affect other federal programs the County administered and multiple grant award periods.

Cause—Although the County used the services of a qualified outside consultant to prepare its fiscal year 2015 proposal in accordance with 2 CFR §225, the County did not clearly designate employees responsible for communicating with, overseeing, and monitoring the consultant.

Recommendation—To help ensure that the County complies with 2 CFR §225, the County should establish clear policies and procedures for communicating with, overseeing, and monitoring the consultant contracted to prepare the annual plan and proposal.

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 2014-102.

2015-103

CFDA number and name:	93.563 **Child Support Enforcement**
Award numbers and years:	DE111165001, October 1, 2010 through September 30, 2015 DE111170001, October 1, 2010 through September 30, 2015
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirement:	Activities allowed or unallowed, allowable costs/cost principles, and matching
Questioned costs:	$149,711

Criteria—In accordance with the County Attorney's Child Support Division's (Division) grant agreement with the Arizona Department of Economic Security (ADES), the Division may receive incentive pay for the program based on a methodology set forth in the ADES current incentive policy, and these monies are to be used solely to enhance the program. ADES is to determine the amount of incentive payments 45 days after the end of the quarter in which they were earned. Further, upon receiving these incentive payments, the County should separately account for these monies from other program monies and use them solely to enhance the program. In addition, in accordance with 2 CFR §225, Appendix B, Section 37.a, rental costs of buildings and equipment are allowable charges to the program to the extent the rates are reasonable. Finally, in accordance with 45 CFR §301.1, the County may be reimbursed for 66 percent of allowable expenditures incurred for administering the program.

Condition and context—During the fiscal year, the Division submitted program expenditure reimbursement requests to ADES that included $195,276 in salary and wages and employee-related expenses as incentive payments based on the County's incentive policy. However, these incentive payments should not have been included in the reimbursement requests because ADES is responsible for determining the amount of the incentives the Division earned. Consequently, the Division received both reimbursements for the employee payroll incentives the Division included in its reimbursement requests and the incentives ADES calculated and paid to the Division. Further, the Division did not separately account for incentive payments received from other program monies. In addition, the Division included $63,118 in building rental costs in the reimbursement requests; however, the Division did not maintain documentation such as comparable properties' rental costs to demonstrate that the rental costs it charged to the program were reasonable. Further, although the federal program occupied only 50 percent of the building space, the Division charged 100 percent of the rental costs to this program.

Effect—The Division was reimbursed for unallowable costs totaling $149,711. In addition, the Division did not meet the matching requirement because it included these unallowable costs when reporting its program costs; therefore, the Division was reimbursed more than 66 percent of allowable expenditures. It was not practical to extend our auditing procedures sufficiently to determine any additional questioned costs that may have resulted from this finding.

Cause—The Division did not understand that ADES was responsible for determining the amount of any incentives the Division earned. Further, the Division did not have adequate procedures in place to ensure all costs charged to the program and claimed for reimbursement were allowable and that rates charged were reasonable and adequately documented in compliance with federal cost principles.

Recommendation—To help ensure that the Division complies with the grant agreement and 2 CFR §225, the Division should not calculate and claim incentive pay for reimbursement from ADES. It should make it clear to its employees that ADES is responsible for calculating the amount of any incentives due to the Division for the program. Further, when incentive payments are received, the Division should separately account for those payments and ensure those monies are used solely to enhance the program. In addition, the Division should improve its procedures to ensure all program costs charged to the program and claimed for reimbursement are for allowable costs and adequately supported and that rates charged are reasonable and in accordance with federal cost principles.

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 2014-103.

2015-104

CFDA number and name: 93.563 **Child Support Enforcement**
Award numbers and years: DE111165001, October 1, 2010 through September 30, 2015
DE111170001, October 1, 2010 through September 30, 2015
Federal agency: **Department of Health and Human Services**
Pass-through grantor: Arizona Department of Economic Security
Compliance requirement: Allowable costs/cost principles, matching and reporting
Questioned costs: Unknown

Criteria—In accordance with 2 CFR §225, Appendix B, Section 8.h, the County's Family Law Commissioner Office (Commissioner) should ensure that employee payroll costs charged to the Child Support Enforcement program are supported by personnel activity reports or equivalent documentation that support the distribution of each employee's activity during the period. In addition, in accordance with 45 CFR §92.20(b)(1), the Commissioner's fiscal control and accounting procedures should be sufficient to report accurate, current, and complete financial results of its Child Support Enforcement program.

Condition and context—During the fiscal year, the Commissioner spent $173,112 in salaries and wages and employee-related expenses for its Child Support Enforcement program. The Commissioner charged salaries and wages and employee-related expenses to the program using estimates rather than actual time spent working on the program and did not prepare personnel activity reports that reflected an after-the-fact distribution of the actual activity.

Effect—The Commissioner did not meet the matching requirement because it included these unallowable costs when reporting its program costs; therefore, the Commissioner was reimbursed more than 66 percent of allowable expenditures. It was not practical to extend our auditing procedures sufficiently to determine any additional questioned costs that may have resulted from this finding.

Cause—The Commissioner did not have adequate policies and procedures to support its allocation of payroll costs to the federal program.

Recommendation—The Commissioner should develop and implement policies and procedures to ensure its distribution of employees' payroll costs charged to the program are supported by items such as the employees' time sheets or a time-study analysis. In addition, the Commissioner should improve procedures to help ensure that financial results are accurate, current, and complete.

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 2014-104.

2015-105

CFDA number and name:	93.563 **Child Support Enforcement**
Award numbers and years:	DE111165001, October 1, 2010 through September 30, 2015 DE111170001, October 1, 2010 through September 30, 2015
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirement:	Allowable costs/cost principles
Questioned costs:	Unknown

Criteria—In accordance with 45 CFR §92.20(b)(2), subgrantees must maintain records that adequately identify the source and application of monies provided for financially assisted activities.

Condition and context—The Family Law Commissioner Office's expenditures were commingled with other Clerk of the Court and Superior Court department expenditures and were not identifiable in the accounting system.

Effect—The County may request reimbursement for costs that are not allowed per the regulations and provisions of the intergovernmental agreement with its pass-through grantor. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding has the potential to affect other federal programs the County administered.

Cause—The County did not have a properly designed account code structure.

Recommendation—In order to comply with 45 CFR §92.20(b)(2), the County should restructure its chart of accounts to better separate and track expenditures that are reimbursed by a third party.

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 2014-105.

2015-106

Cluster name: **Forest Service Schools and Roads Cluster**
CFDA number and name: 10.665 **Schools and Roads—Grants to States**
Award number and years: N/A, October 1, 2013 through September 30, 2014
Federal agency: **Department of Agriculture**
Compliance requirement: Cash management
Questioned costs: Unknown

Criteria—In accordance with 2 CFR §215.22(a), payment methods shall minimize the time elapsed between the transfer of funds from the United States Treasury and the recipient's issuance or redemption of checks or warrants or payment by other means.

Condition and context—The County did not distribute $1,442,909 of program monies allocated to public schools within a reasonable period of time after the State Treasurer received the money.

Effect—The County had excess cash on hand and could have incurred an interest liability on cash balances. It was not practical to extend our auditing procedures sufficiently to determine the questioned costs, if any, that may have resulted from this finding.

Cause—The county Board of Supervisors did not meet to approve the disbursement of amounts allocated to the schools until 48 days after the receipt of the monies.

Recommendation—The County should ensure the Board of Supervisors approves the program allocations prior to receiving program monies. Additionally, the County should minimize the time elapsing between the transfer of funds and disbursement by the recipient.

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 2014-106.

2015-107

Cluster name: **Forest Service Schools and Roads Cluster**
CFDA number and name: 10.665 **Schools and Roads—Grants to States**
Award number and years: N/A, October 1, 2013 through September 30, 2014
Federal agency: **Department of Agriculture**
Compliance requirement: Suspension and debarment
Questioned costs: Unknown

Criteria—In accordance with 2 CFR §180.300, when a nonfederal entity enters into a procurement transaction that is expected to equal or exceed $25,000, the nonfederal entity must verify that vendors are not suspended or debarred or are otherwise excluded from participating in federal programs.

Condition and context—The County's procurement policy does not include procedures for ensuring vendors are not suspended or debarred; therefore, the County did not verify that vendors awarded contracts for goods and services costing more than $25,000 were not suspended or debarred prior to making payments or awarding contracts to vendors using federal monies. Specifically, the County paid $74,404 to three vendors during the fiscal year for contracts that exceeded $25,000 without ensuring that the vendors were not suspended or debarred.

Effect—The County did not comply with the program's requirements for suspension and debarment. Also, there is an increased risk that the County could make payments or award contracts to suspended or debarred parties. However, auditors were able to perform auditing procedures to verify that no program payments or awards were made to suspended or debarred parties. This finding has the potential to affect other federal programs the County administered.

Cause—The County did not have effective policies and procedures over its procurement process to verify that vendors have not been suspended or debarred.

Recommendation—To help ensure that it complies with the program's requirements for suspension and debarment, the County should establish written policies and procedures to verify that vendors have not been suspended or debarred prior to making payments and awarding contracts of $25,000 or more using federal monies. This verification may be accomplished by checking the Excluded Parties List System maintained by the U.S. General Services Administration, obtaining vendor certifications, or adding clauses or conditions to the contract.

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

COUNTY SECTION

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053062	$ 254,066	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS12-010890	4,216	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			1,517,313	
10 Unknown	Law Enforcement Agreements				74,800	
	Total Department of Agriculture				1,850,395	
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	152-12, 103-15, 108-15	208,171	
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Town of Hayden	131-13	92,629	
	Total 14.228				300,800	
14 239	Home Investment Partnerships Program		Arizona Department of Housing	309-13	206,215	
14 871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster			371,908	
	Total Department of Housing and Urban Development				878,923	
Department of the Interior						
15 226	Payments in Lieu of Taxes				3,121,489	
Department of Justice						
16 606	State Criminal Alien Assistance Program				2,661	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-15-004, DC-15-023	160,229	
16 Unknown	Domestic Cannabis Eradication and Suppression Program				35,966	
	Total Department of Justice				198,856	
Department of Labor						
17 258	WIA/WIOA Adult Program	WIA Cluster	Arizona Department of Economic Security	DE14-055408	1,121,154	$ 950,108
17 259	WIA/WIOA Youth Activities	WIA Cluster	Arizona Department of Economic Security	DE14-055408	894,620	750,113
17 278	WIA/WIOA Dislocated Worker Formula Grants	WIA Cluster	Arizona Department of Economic Security	DE14-055408	1,173,933	
	Total WIA Cluster				3,189,707	1,700,221
17 267	Incentive Grants-WIA Section 503		Arizona Department of Economic Security	DE14-055408	76,787	
	Total Department of Labor				3,266,494	
Department of Transportation						
20 600	State and Community Highway Safety	Highway Safety Cluster	Governor's Office of Highway Safety	2015-PT-054	21,899	
Department of Energy						
81 042	Weatherization Assistance for Low-Income Persons		Arizona Department of Commerce	EW-ESA-14-4181-02Y3, LW-ESA-12-2182-02Y4, SW-ESA-12-2182-02Y4	136,063	

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Education						
84 002	Adult Education-Basic Grants to States		Arizona Department of Education	15FAEABE-513181-16B, 15FAEAEF-513181-16B, 15FAEADL-513181-16B	46,967	
84 010	Title I Grants to Local Educational Agencies		Arizona Department of Education	15FT1TTI-511207-01A	43,287	
84 010	Title I Grants to Local Educational Agencies		Arizona Supreme Court	KR13-0132	20,010	
	Total 84.010				63,297	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	15FESCBG-511207-09A, 15FESSCG-513181-55B	21,929	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court	KR13-0132	32,782	
	Total Special Education Cluster (IDEA)				54,711	
84 041	Impact Aid				156,611	
84 358	Rural Education		Arizona Department of Education	15FTIRLC-511207-04A	7,151	
84 365	English Language Acquisition State Grants		Arizona Department of Education	15FELENG-513181-66A	12,873	
84 366	Mathematics and Science Partnerships		Arizona Department of Education	15FSDSPG-513181-10C	310,477	
84 367	Improving Teacher Quality State Grants		Arizona Department of Education	15FT1TII-511207-03A	259	
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court	KR13-0067 KR13-0132	3,423	
	Total 84.367				3,682	
84 377	School Improvement Grants	School Improvement Grants Cluster	Arizona Department of Education	15FSISPR-511207-34B	24,607	
84 413	Race to the Top		Arizona Department of Education	15FSERY4-511207-33A	588	
	Total Department of Education				680,964	
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007886	268,213	
93 243	Substance Abuse and Mental Health Services—Projects of Regional and National Significance				170,217	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041539	123,600	
93 505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		Arizona Department of Health Services	ADHS13-028437	104,208	
93 558	Temporary Assistance for Needy Families	TANF Cluster	Arizona Department of Economic Security	DE111073001	122,285	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DE111165001 DE111170001	1,018,094	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	DE111073001	179,841	
93 569	Community Services Block Grant		Arizona Department of Economic Security	DE111073001	162,792	
93 617	Voting Access for Individuals with Disabilities—Grants to States		Arizona Secretary of State	0903AZVOTE	75	
93 667	Social Services Block Grant		Arizona Department of Economic Security	DE111073001	9,991	

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
93 917	HIV Care Formula Grants		Arizona Department of Health Services	ADHS13-040496	181,588	
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS13-031248	3,325	
93 945	Assistance Programs for Chronic Disease Prevention and Control		Arizona Department of Health Services	ADHS15-078663	20,000	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS14-063025	65,976	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS12-010923 ADHS13-034536	78,772	
	Total Department of Health and Human Services				2,508,977	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2013-EP-000024 EMW-2014-EP-000016	109,246	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	11-AZDOHS-HSGP-888303-02 13-AZDOHS-HSGP-130301-01 13-AZDOHS-HSGP-130301-02	51,785	
	Total Department of Homeland Security				161,031	
	Total expenditures of federal awards				$ 12,825,091	$ 1,700,221

See accompanying notes to schedule.

Gila County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2015

Note 1 - Basis of accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2015 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "Unknown" were used.

COUNTY RESPONSE

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December 13, 2017

Debbie Davenport,
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

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 Budget Circular A-133. 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,

Teresa A Williams
Interim Finance Director

Gila County
Corrective Action Plan
Year Ended June 30, 2015

Financial Statement Findings

2015-01

The County should improve its policies and procedures to accurately compile, record, and report financial information in its financial report and issue its report in a timely manner

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: Concur. 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 the County will develop and implement comprehensive written policies and procedures, dedicate appropriate resources, and require an employee who is independent of the person preparing the financial statements to review the statements and related note disclosures.

2015-02

The County needs to improve controls over its capital assets

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. 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.

2015-03

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help strengthen controls over departmental revenues and cash receipts, the County will develop and implement written policies and procedures to provide guidance to its departments for collecting, recording, reconciling, and depositing cash receipts. In addition, the County will monitor that these procedures over recording revenues and controlling cash receipts are being followed at the individual departments.

2015-04

The County should comply with laws governing conflict of interest

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure compliance with state laws, the County will develop policies and procedures that require all public officers to prepare and file financial disclosure statements with the Secretary of State annually and retain a copy of employee conflict-of-interest forms for a period of 3 years.

2015-05

The County should comply with laws governing the preparation of budgets

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure compliance with state laws, the County will develop policies and procedures that require the preparation of budgets for departments administered by all elected and appointed county officers.

2015-06

The County should improve access controls over its information technology resources

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. 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 County will review these policies and procedures against current IT standards and best practices and implement them county-wide, as appropriate. Further the County will train staff on the policies and procedures.

2015-07

The County should improve its contingency planning procedures for its information technology resources.

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County will develop contingency planning procedures. The County will review its contingency planning procedures against current IT standards and best practices and implement them county-wide, as appropriate.

Federal Award Findings and Questioned Costs

2015-101

CFDA No.: NOT APPLICABLE
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that the County prepares the SEFA in compliance with OMB Circular A-133, 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.

2015-102

CFDA Nos.: 17.258 – WIA/WIOA Adult Program; 17.259 – WIA/WIOA Youth Activities; 17.278 – WIA/WIOA Dislocated Worker Formula Grants; 93.563 Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan-WIA/WIOA: Concur. Gila County merged the WIA/WIOA program with the Navajo/Apache County program as of July 1, 2015. Consequently, this audit finding will no longer be applicable to Gila County beginning in fiscal year 2015-16.

Corrective Action Plan – Child Support Enforcement: Concur. To help ensure that the County complies with 2 CFR §225, the County will establish clear policies and procedures for communicating with, overseeing, and monitoring the consultant contracted to prepare the annual plan and proposal.

2015-103

CFDA No.: 93.563 – Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that the Division complies with the grant agreement and 2 CFR §225, the Division will not calculate and claim incentive pay for reimbursement from ADES. It will make it clear to its employees that ADES is responsible for calculating the amount of any incentives due to the Division for the program. Further, when incentive payments are received, the Division will separately account for those payments and ensure those monies are used solely to enhance the program. In addition, the Division will improve its procedures to ensure all program costs charged to the program and claimed for reimbursement are for allowable costs and adequately supported and that rates charged are reasonable and in accordance with federal cost principles.

2015-104

CFDA No.: 93.563 – Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. The Commissioner will develop and implement policies and procedures to ensure its distribution of employees' payroll costs charged to the program are supported by items such as the employees' time sheets or a time-study analysis. In addition, the Commissioner will improve procedures to help ensure that financial results are accurate, current, and complete.

2015-105

CFDA No.: 93.563 – Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. In order to comply with 45 CFR 92.20(b)(2), the County will segregate and separately track expenditures that are reimbursed by a third-party.

2015-106

CFDA No.: 10.665 – Schools and Roads—Grants to States
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. 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.

2015-107

CFDA No.: 10.665 – Schools and Roads—Grants to States
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that it complies with the program's requirements for suspension and debarment, the County will establish written policies and procedures to verify that vendors have not been suspended or debarred prior to making payments and awarding contracts of $25,000 or more using federal monies. This verification will be accomplished by obtaining vendor certifications with all contracts or adding clauses or conditions to contracts.

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November 6, 2017

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

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Teresa A. Williams
Interim Finance Director

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

Status of Federal Award Findings and Questioned Costs

CFDA No: ALL FEDERAL AWARDS
Finding No: 2014-101, 2013-002, 2012-14
Status: Not Corrected

The County is in the process of completing the audits for fiscal years 2014, 2015, and 2016. The March 31 deadline has passed for these three years. Once these audits are complete, the County has developed internal procedures to ensure that future single audits are filed by the March 31 deadline.

CFDA No: ALL FEDERAL AWARDS
Finding No: 2014-101, 2013-003, 2012-15, 2012-19, 2011-19, 2010-21
Status: Not Corrected

The County began to reconcile grant revenues and expenditures to CFDA numbers after August 2016.

CFDA No: ALL FEDERAL AWARDS
Finding No: 2014-101, 2013-004
Status: Not Corrected

The County was not aware of this finding prior to August 2016. Once notified of the finding, the County implemented procedures to properly compile, review, and report the SEFA. The County will further improve the financial reporting process so that the Single Audit Reporting Package is submitted to the Federal Clearinghouse no later than nine months after fiscal year-end.

CFDA No: 10.665 Schools and Roads—Grants to States
Finding No: 2014-106, 2013-007
Status: Not Corrected

The County was not aware of this finding prior to August 2016. The County will implement policies and procedures to ensure program allocations are properly approved and that there is a minimal amount of time between the transfer and disbursement of funds.

CFDA No:	14.871
Finding No:	2013-008
Status:	Not Corrected

The County was not aware of this finding prior to August 2016. In 2016, the County sent the bank the form required by HUD. The bank's legal department refused to sign the form on behalf of the bank. County staff is in the process of looking for alternative banks in order to move these funds to become compliant.

CFDA No:	17.258, 17.259, 17.260, 17.278, 93.563
Finding No:	2014-102
Status:	Not Corrected

17.258, 17.259, 17.260, 17.278—The County was not aware of this finding prior to June 2017. Gila County merged the WIA/WIOA program with the Navajo/Apache County program as of July 1, 2015. Consequently, this audit finding is no longer applicable to Gila County beginning in fiscal year 2015-16.

93.563—The County was not aware of this finding prior to June 2017. Once notified of the finding, the County developed policies and procedures for communication, oversight, and monitoring the preparation of the annual plan and proposal.

CFDA No:	93.563
Finding No:	2014-103
Status:	Not Corrected

The County was not aware of this finding prior to June 2017. The County will implement applicable policies and procedures with regards to incentive payments to help ensure the Child Support Enforcement division complies with the grant agreement and 2 CFR §225.

CFDA No:	93.563
Finding No:	2014-104, 2013-006
Status:	Not Corrected

The County was not aware of this finding prior to August 2016. The County has subsequently developed and implemented policies and procedures to ensure the distribution of employees' payroll costs are accurate, current, and complete including the submission of a semi-annual certificate that indicates the employee worked solely for that federal program.

CFDA No:	93.563
Finding No:	2014-105, 2013-005, 2012-20, 2011-21, 2010-24, 2009-16, 08-19, 07-21, 06-20, 05-21, 04-21, 03-101
Status:	Not Corrected

The County will segregate and separately track expenditures that are reimbursed by a third party in compliance with 45 CFR §92.20(b)(2).

ARIZONA Auditor General

Making a Positive Difference