Gila County

Annual Financial Report and
Single Audit Report

Year Ended June 30, 2016

A Report to the Arizona Legislature

Lindsey Perry
Auditor General

ARIZONA AuditorGeneral
Making a Positive Difference

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LINDSEY PERRY, CPA, CFE
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OFFICE OF THE
AUDITOR GENERAL
MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Board of Supervisors of
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, 2016, 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, 2016, 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, 2016, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application.* 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-9, the budgetary comparison schedules on pages 48 through 53, schedule of the County's proportionate share of the net pension liability—cost sharing plans on page 54, schedule of changes in the county's net pension liability and related ratios—agent pension plans on pages 55 through 57, schedule of county pension contributions on pages 58 through 59, and the schedules of agent OPEB plans' funding progress on page 61 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies the County received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the County received 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 September 27, 2018, 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.

Lindsey Perry
Auditor General

September 27, 2018

ARIZONA
Auditor General
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Gila County
Management's discussion and analysis
June 30, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the current fiscal year by $19.7 million (net position). Of this amount, $29.9 million is the net investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress); $24.4 million is restricted for specific purposes (restricted net position); and $(34.6) million is the County's deficit that is primarily a result of recognizing long-term liabilities related to pensions.

- At June 30, 2016, total assets were $88.8 million, a decrease of $448,000, or 0.5 percent, in comparison with the prior fiscal year's balance of $89.3 million.

- At June 30, 2016, total liabilities were $71.5 million, an increase of $2.5 million, or 3.6 percent, in comparison with the prior fiscal year's balance of $69 million.

- At June 30, 2016, the County reported total deferred outflows of resources related to pensions of $7.6 million and deferred inflows of resources related to pensions of $5.3 million.

- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of $37.4 million, a decrease of $600,720 in comparison with the prior year's balance of $38 million.

- At the end of the current fiscal year, the general fund had an unrestricted fund balance of $18.7 million or 45.9 percent of total general fund expenditures. Of this amount, assigned fund balance for construction projects and rainy day and cash flow reserves was $13.0 million and unassigned fund balance was $5.7 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 deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows (full accrual accounting). Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The statement of activities distinguishes functions of the County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or part of their costs through user fees and charges.

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

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

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

Fund financial statements

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

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

Because the focus of governmental fund statements is narrower than the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances include a reconciliation to facilitate this comparison between governmental funds and governmental activities. The County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for two funds that are considered to be major funds, General and Public Works. Data from the other governmental funds is combined into a single, aggregated presentation.

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

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

Fiduciary funds are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 10 and 11 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 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 61 of this report.

Government-wide financial analysis

Statement of net position—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, the County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $19.7 million as presented in the following table.

Condensed statement of net position
(in thousands)
June 30, 2016 and 2015

	Governmental activities		Business-type activities		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Current and other assets	$ 43,638	$ 43,732	$ 9,379	$ 9,014	$53,017	$52,746
Capital assets	32,487	33,297	3,340	3,248	35,827	36,545
Total assets	76,125	77,029	12,719	12,262	88,844	89,291
Deferred outflows of resources						
Total deferred outflows of resources	7,561	9,448	60	78	7,621	9,526
Current and other liabilities	4,559	4,090	70	62	4,629	4,152
Long-term liabilities	62,944	61,075	3,974	3,813	66,918	64,888
Total liabilities	67,503	65,165	4,044	3,875	71,547	69,040

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Deferred inflows of resources						
Total deferred inflows of resources	$ 5,150	$ 7,579	$ 103	$ 158	$ 5,253	$ 7,737
Net position						
Net invested in capital assets	26,563	26,842	3,341	3,248	29,904	30,090
Restricted	19,623	18,353	4,793	4,784	24,416	23,137
Unrestricted	(35,153)	(31,462)	498	275	(34,655)	(31,187)
Total net position	$ 11,033	$ 13,733	$ 8,632	$ 8,307	$ 19,665	$ 22,040

The largest portion of the County's net position is approximately $29.9 million, or 152.1 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 $24.4 million, or 124.2 percent, is subject to external restrictions on how it may be used. The County's unrestricted deficit of $(34.7) million, or negative 176.2 percent, was a decrease of $3.5 million in unrestricted net position from the prior year's unrestricted deficit of $(31.2) million.

The following provides an explanation of governmental activities, deferred outflows and inflows related to pensions that changed significantly over the prior year:

- Deferred outflows and inflows related to pensions—The net decrease of $1.9 million and $2.5 million for the deferred outflows and inflows related to pensions, respectively, was a result of the actuarial valuation performed of the County's participated pension plans as of June 30, 2014, and a measurement date of June 30, 2015.

Business-type activities assets and liabilities did not change significantly over the prior year. Overall, the total assets and deferred outflows of resources increased 3.5 percent and the total liabilities and deferred inflows of resources increased 2.8 percent over the prior year's total.

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 $2.4 million. The following table presents the changes in net position.

Changes in net position
(in thousands)
Years ended June 30, 2016 and 2015

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	$ 2,898	$ 2,762	$1,692	$1,838	$ 4,590	$ 4,600
Grants and contributions	17,035	20,399			17,035	20,399
General revenues:						
Property taxes	21,507	18,322			21,507	18,322
County excise tax	4,050	5,353			4,050	5,353
Share of state sales taxes	5,332	5,136			5,332	5,136
Shared revenue, state vehicle license tax	1,604	1,600			1,604	1,600
State appropriations	550	550			550	550
Shared revenue, state liquor license tax	9	14			9	14
Payments in lieu of taxes	3,915	3,308			3,915	3,308
Investment income	164	141	17	9	181	150
Miscellaneous	1,601	895	3	3	1,604	898
Capital contributions		(6)		6		
Gain on sale/trade-in of capital assets	36				36	
Total revenues	58,701	58,474	1,712	1,856	60,413	60,330
Expenses:						
General government	$24,026	$23,790			$24,026	$23,790
Public safety	18,021	16,824			18,021	16,824
Highways and streets	5,466	6,117			5,466	6,117
Health	2,896	2,680			2,896	2,680
Welfare	6,160	9,516			6,160	9,516
Sanitation	67	30	$1,387	$1,466	1,454	1,496
Culture and recreation	1,314	1,299			1,314	1,299
Education	3,135	3,719			3,135	3,719
Interest on long-term debt	316	280			316	280
Total expenses	61,401	64,255	1,387	1,466	62,788	65,721
Changes in net position	(2,700)	(5,781)	325	390	(2,375)	(5,391)
Net position—beginning	13,733	19,514	8,307	7,917	22,040	27,431
Net position—ending	$11,033	$13,733	$8,632	$8,307	$19,665	$22,040

Overall, the governmental activities revenues increased by $227,000, or 0.39 percent, and program expenses decreased by $2.9 million, or 4.4 percent, in the current fiscal year. The following provides an explanation of governmental activities, revenues and expenses that changed significantly compared to the prior year:

Grants and contributions—The net decrease of $3.4 million was largely due to the Work Innovation and Opportunity Act (WIOA) programs being transferred to the consortium, Northeastern Arizona Innovative Workforce Solutions, effective July 1, 2015. Northeastern Arizona Innovative Workforce Solutions was formed between Apache County, Gila County, and Navajo County through an intergovernmental agreement. Navajo County is the fiscal agent and administrative entity of the consortium.

Property taxes—The net increase of $3.2 million was solely due to an increase in the current-year tax levy and the property tax assessed valuations.

County excise tax—The net decrease of $1.3 million in county excise tax was primarily due to the half-cent transportation tax that 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. Further, the net decrease of $424,000 in general excise tax was due to economic factors creating less stability for consumers.

Payments in lieu of taxes—The net increase of $608,000 was largely due to an increase in federal payments in lieu of tax public lands.

Highways and streets expenses—The net decrease of $651,000 was largely due to the reduction of $879,000 in transportation tax.

Welfare expenses—The net decrease of $3.4 million was solely due to the reduction of $3.5 million in federal grants for the Work Innovation and Opportunity Act programs as mentioned above.

Education expenses—The net decrease of $584,000 was primarily due to the reduction of $376,000 in federal and state grants and contributions and the close-out of a few federal and state-funded programs.

Business-type activities revenues and expenses did not change significantly over the prior year. Overall, the operating revenues decreased by $144,000, or 7.8 percent, and operating expenses decreased by $79,000, or 5.4 percent.

Financial analysis of the governmental funds

The County reported two major funds for this fiscal year: the general fund and public works fund. At the end of the current fiscal year, the County's governmental funds reported combined fund balances of $37.4 million, which was a decrease of $600,720 from the prior year. Of the total, $17.1 million constitutes unrestricted fund balances.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, fund balance of the general fund was $20,840,994, a decrease of $860,156, or 4 percent over the prior year's balance of $21,701,150. The unrestricted fund balance of the general fund was $18.7 million, which represents 45.9 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 funds' activities that changed significantly over the prior year:

General Fund

- Due from other governments—The net increase of $551,000 was due to additional federal and state grants and intergovernmental charges for services were earned in FY 2016 than prior year but not yet collected at fiscal year-end.

- Accounts payable—The net increase of $745,000 was largely due to additional purchases of goods and services near fiscal year-end.

- Accrued payroll and employee benefits—The net increase of $405,000 was solely due to additional payroll days accrued at year-end.

- Deferred inflows of resources—The net increase of $294,000 was largely due to charges of services revenue that was not collected within 60 days after year-end, and therefore, they were deferred and unavailable for the current fiscal year.

- Taxes—The net increase of $2.8 million was primarily due to an increase in the current-year tax levy and the property tax assessed valuations.

- Public safety expenditures—The net increase of $1.8 million was due largely to an increase of expenditures of $1.6 million in the County Sheriff's Office.

Public Works Fund

- Accounts payable—The decrease of $235,000 was due largely to a reduction of purchases near fiscal year-end.

- Accrued payroll and employee benefits—The net increase of $58,000 was solely due to additional payroll days accrued at year-end.

- Taxes—The net decrease of $879,000 was solely due to the half-cent transportation tax that expired on December 31, 2014. Gila County voters passed a half-cent transportation excise tax to pay for highway and street improvements and transportation projects within the County. The excise tax became effective January 1, 1995. 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 $1.3 million was largely due to the decrease in half-cent transportation excise tax as mentioned above.

General fund budgetary highlights

General fund actual expenditures were $1,369,602 under the adopted budget, and actual revenues were more than estimated revenues by $1,493,613. The County had budgeted $885,000 for contingency reserve but did not have to spend any of the reserve during the fiscal year. The Education department (School Superintendent) had budgeted expenditures of $390,160 while actual expenditures of $1,240,413 were over budget due to not budgeting for the national forest fees of $1,270,340 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 Professional Services $128,598, School Superintendent $1,240,413, and debt service $218,420. The over budget expenditures for professional services and debt service were primarily due to unexpected costs and forecasting errors. The over budget expenditures for School Superintendent was 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 decreased by only $718,000, or 2.0 percent, during the current fiscal year in comparison with the prior year's balance of $36,545,505.

The County's investment in capital assets for its governmental activities as of June 30, 2016, amounts to $32.5 million (net of accumulated depreciation), a net decrease of $811,000, or 2.4 percent, from the prior year.

The County's investment in capital assets for its business-type activities as of June 30, 2016, amounts to $3.3 million (net of accumulated depreciation), a net decrease of $92,000, or 2.8 percent from the prior year.

Major capital asset activity during the fiscal year included:

Governmental activities:

- Construction in progress—The net decrease of $1.3 million was primarily due to additional construction costs of $451,000 spent on existing projects and transfers of three completed projects totaling $1.7 million to machinery and equipment, buildings, and infrastructure. The completed projects were $941,000 for the Oak Creek new bridge, $617,000 for the Sheriff's Office communication system and equipment, and $145,000 for Globe jail renovation.

- Buildings—The net decrease of $560,000 consists of transfers of buildings with a net book value of $1.4 million to Gila County Community College and several building improvement projects of $1.7 million and the accumulated depreciation of $925,000 added in fiscal year 2016. The major building improvement project was $1.4 million for the newly purchased modular administration building.

- Infrastructure—The net increase of $651,000 consists of $1.3 million of completed road and bridge projects and the accumulated depreciation of $647,000 added in fiscal year 2016. The two major road projects were $297,000 for the Colcord Road and $941,000 for the Oak Creek Bridge, which was transferred from construction in progress.

The following table provides a breakdown of the County's capital assets as of June 30, 2016 and 2015.

Capital Assets at Year-End
(Net of Accumulated Depreciation)
(in thousands)
June 30, 2016 and 2015

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Land	$ 2,261	$ 2,222	$3,000	$3,000	$ 5,261	$ 5,222
Construction in progress	3,237	4,489			3,237	4,489
Buildings	12,071	12,630			12,071	12,630
Improvements other than buildings	678	599			678	599
Machinery and equipment	3,705	3,473	327	226	4,032	3,699
Infrastructure	10,535	9,884	13	22	10,548	9,906
Total capital assets, net	$32,487	$33,297	$3,340	$3,248	$35,827	$36,545

Additional information on the County's capital assets can be found in Note 5 on pages 21 through 22 of this report.

Long-term debt—The County's total long-term liabilities as of June 30, 2016, amounts to $66.9 million, a net increase of $2 million during the current fiscal year in comparison with the prior year's balance of $64.9 million.

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

Governmental activities:

- Net pension liability—An increase of $1.8 million was a result of the actuarial valuation performed of the County's participated pension plans as of June 30, 2015, and a measurement date of June 30, 2015.

- Pledged revenue obligations payable—The net decrease of $519,000 was a result of the regular scheduled principal payments for the 2009 and 2015 series pledged revenue obligations.

Business-type activities:

- Landfill closure and postclosure care costs payable—The increase of $159,000 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 $28,950,910. 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 6 on pages 23 through 25 of this report.

Economic factors and next year's budgets and rates

The unemployment rate for Gila County is 7.4 percent at June 2016, which is lower than the previous year's rate of 7.7 percent. The state unemployment rate was 5.3 percent at June 2016. 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 Street
Globe, Arizona 85501-1483

Gila County
Statement of net position
June 30, 2016

	Governmental activities	Business-type activities	Total
Assets			
Cash and investments	$ 36,593,790	$ 4,430,107	$ 41,023,897
Receivables (net of allowances for uncollectibles):			
Property taxes	557,667		557,667
Accounts	515,624	114,048	629,672
Interest	66,802	8,109	74,911
Due from other governments	3,754,461	285	3,754,746
Internal balances	(33,000)	33,000	
Prepaid items	472		472
Inventories	225,057		225,057
Restricted cash and investments	1,957,255	4,793,041	6,750,296
Capital assets, not being depreciated	5,497,744	3,000,000	8,497,744
Capital assets, being depreciated, net	26,988,947	340,527	27,329,474
Total assets	76,124,819	12,719,117	88,843,936
Deferred outflows of resources			
Deferred outflows related to pensions	7,560,651	59,643	7,620,294
Total deferred outflows of resources	7,560,651	59,643	7,620,294
Liabilities			
Accounts payable	2,145,489	39,789	2,185,278
Accrued payroll and employee benefits	1,807,707	29,832	1,837,539
Due to other governments	286,460		286,460
Deposits held for others	184,818		184,818
Unearned revenue	134,191		134,191
Noncurrent liabilities:			
Due within one year	2,370,068	24,805	2,394,873
Due in more than one year	60,574,117	3,949,502	64,523,619
Total liabilities	67,502,850	4,043,928	71,546,778
Deferred inflows of resources			
Deferred inflows related to pensions	5,149,626	102,986	5,252,612
Total deferred inflows of resources	5,149,626	102,986	5,252,612
Net position			
Invested in capital assets, net of related debt	26,562,585	3,340,527	29,903,112
Restricted for:			
Public safety	862,542		862,542
Highways and streets	8,939,898		8,939,898
Health services	1,408,151		1,408,151
Judicial activities	4,538,864		4,538,864
Law enforcement	428,292		428,292
Education	1,745,370		1,745,370
Sanitation	108,989		108,989
Social services	521,031		521,031
Library	407,582		407,582
Street lighting improvement	13,085		13,085
Other purposes	649,431		649,431
Landfill closure and postclosure care costs		4,793,041	4,793,041
Unrestricted (deficit)	(35,152,826)	498,278	(34,654,548)
Total net position	$ 11,032,994	$ 8,631,846	$ 19,664,840

See accompanying notes to financial statements.

Gila County
Statement of activities
Year ended June 30, 2016

		Program revenues			Net (expense) revenue and changes in net position		
					Primary government		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/programs							
Governmental activities							
General government	$ 24,026,166	$ 1,961,833	$ 1,819,564		$ (20,244,769)		$ (20,244,769)
Public safety	18,020,680	478,177	2,782,990	$ 161,503	(14,598,010)		(14,598,010)
Highways and streets	5,466,119	2,293	2,401	4,961,023	(500,402)		(500,402)
Health	2,896,333	257,544	2,060,563		(578,226)		(578,226)
Welfare	6,160,324	67,328	2,006,668		(4,086,328)		(4,086,328)
Sanitation	66,515		127,968		61,453		61,453
Culture and recreation	1,313,892		158,411		(1,155,481)		(1,155,481)
Education	3,134,985	131,241	2,953,264		(50,480)		(50,480)
Interest on long-term debt	315,928				(315,928)		(315,928)
Total governmental activities	61,400,942	2,898,416	11,911,829	5,122,526	(41,468,171)		(41,468,171)
Business-type activities							
Landfill	1,386,819	1,692,216				$ 305,397	305,397
Total business-type activities	1,386,819	1,692,216				305,397	305,397
Total primary government	$ 62,787,761	$ 4,590,632	$ 11,911,829	$ 5,122,526	(41,468,171)	305,397	(41,162,774)
General revenues							
Taxes:							
Property taxes, levied for general purposes					20,297,180		20,297,180
Property taxes, levied for street lighting districts					54,161		54,161
Property taxes, levied for library district					1,155,958		1,155,958
County excise tax for general purpose					2,750,391		2,750,391
County excise tax for transportation purpose					1,299,859		1,299,859
Shared revenue—state sales tax					5,331,588		5,331,588
Shared revenue—state vehicle license tax					1,604,369		1,604,369
Shared revenue—state liquor license tax					8,636		8,636
State appropriations					550,050		550,050
Payments in lieu of taxes					3,915,479		3,915,479
Investment earnings					163,583	16,427	180,010
Miscellaneous					1,600,863	3,087	1,603,950
Gain on disposal of capital assets					35,650		35,650
Total general revenues					38,767,767	19,514	38,787,281
Change in net position					(2,700,404)	324,911	(2,375,493)
Net position, July 1, 2015					13,733,398	8,306,935	22,040,333
Net position, June 30, 2016					$ 11,032,994	$ 8,631,846	$ 19,664,840

See accompanying notes to financial statements.

Gila County
Balance sheet
Governmental funds
June 30, 2016

	General fund	Public works fund	Other governmental funds	Total governmental funds
Assets				
Cash and investments	$ 20,472,487	$ 8,457,840	$ 7,663,463	$ 36,593,790
Receivables (net of allowances for uncollectibles):				
Property taxes	523,665		34,002	557,667
Accounts	257,508	2,149	255,967	515,624
Interest	37,321	15,495	13,986	66,802
Due from other governments	2,076,012	631,888	1,046,561	3,754,461
Cash and investments held by trustee-restricted	1,957,255			1,957,255
Prepaid items	184		288	472
Inventories	152,840	72,217		225,057
Total assets	25,477,272	9,179,589	9,014,267	43,671,128
Liabilities				
Accounts payable	1,750,340	73,138	322,011	2,145,489
Accrued payroll and employee benefits	1,313,803	168,954	324,950	1,807,707
Due to:				
Other funds	33,000			33,000
Other governments			286,460	286,460
Deposits held for others	184,818			184,818
Unearned revenue	134,191			134,191
Total liabilities	3,416,152	242,092	933,421	4,591,665
Deferred inflows of resources:				
Unavailable revenue—property taxes	420,332		28,824	449,156
Unavailable revenue—intergovernmental	202,545		420,914	623,459
Unavailable revenue—charges for services	584,341			584,341
Unavailable revenue—miscellaneous	12,908		28,914	41,822
Total deferred inflows of resources	1,220,126		478,652	1,698,778
Fund balances:				
Nonspendable	153,024	72,217	288	225,529
Restricted	1,956,948	8,865,280	9,254,287	20,076,515
Assigned	13,056,577			13,056,577
Unassigned	5,674,445		(1,652,381)	4,022,064
Total fund balances	20,840,994	8,937,497	7,602,194	37,380,685
Total liabilities, deferred inflows of resources, and fund balances	$ 25,477,272	$ 9,179,589	$ 9,014,267	$ 43,671,128

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, 2016

Fund balances—total governmental funds	$ 37,380,685
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	32,486,691
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	1,698,778
Long-term liabilities, such as net pension liabilities and pledged revenue obligations payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(62,944,185)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds	2,411,025
Net position of governmental activities	$ 11,032,994

See accompanying notes to financial statements.

Gila County
Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2016

	General fund	Public works fund	Other governmental funds	Total governmental funds
Revenues:				
Taxes	$ 23,089,011	$ 1,299,859	$ 1,207,815	$ 25,596,685
Licenses and permits	529,270	2,293	130,664	662,227
Intergovernmental	13,981,939	4,961,023	8,456,721	27,399,683
Charges for services	578,592		930,984	1,509,576
Fines and forfeits	392,156		18,851	411,007
Donations and contributions	82		322,296	322,378
Investment earnings	103,231	42,476	17,881	163,588
Miscellaneous	1,157,923	10,712	404,991	1,573,626
Total revenues	39,832,204	6,316,363	11,490,203	57,638,770
Expenditures:				
Current:				
General government	19,632,636		1,561,260	21,193,896
Public safety	14,623,740		2,478,428	17,102,168
Highways and streets		5,491,822	51,184	5,543,006
Health			3,092,627	3,092,627
Welfare	4,035,312		2,182,448	6,217,760
Sanitation			92,711	92,711
Culture and recreation			1,345,950	1,345,950
Education	1,630,573		1,323,769	2,954,342
Debt service:				
Principal retirement	519,070			519,070
Interest and fiscal charges	327,500			327,500
Total expenditures	40,768,831	5,491,822	12,128,377	58,389,030
Excess (deficiency) of revenues over expenditures	(936,627)	824,541	(638,174)	(750,260)
Other financing sources (uses):				
Proceeds from sale of capital assets	50,282	7,555	85,913	143,750
Transfers in	20,399			20,399
Transfers out		(20,399)		(20,399)
Total other financing sources (uses)	70,681	(12,844)	85,913	143,750
Net change in fund balances	(865,946)	811,697	(552,261)	(606,510)
Fund balances, July 1, 2015	21,701,150	8,125,800	8,154,455	37,981,405
Changes in nonspendable resources:				
Increase in reserve for inventories	5,790			5,790
Fund balances, June 30, 2016	$ 20,840,994	$ 8,937,497	$ 7,602,194	$ 37,380,685

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, 2016

Net change in fund balances—total governmental funds		$	(606,510)
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	3,225,747		
Depreciation expense	(2,672,165)		553,582
In the statement of activities, only the gain/loss on the sale of capital assets is reported, where as in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.			(1,525,626)
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.			
Bond premium amortized	11,572		
Principal repaid	519,070		530,642
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	3,345,640		
Pension expense	(5,410,398)		(2,064,758)
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	(111,119)		
Increase in claims and judgments payable	(508,522)		(619,641)
Collections of revenues in the governmental funds exceeded revenues reported in the statement of activities			
Property taxes	(39,135)		
Intergovernmental	(266,273)		(305,408)
Some revenues reported in the statement of activities do not represent the collection of current financial resources and therefore are not reported as revenues in the governmental funds.			
Charges for services	315,606		
Miscellaneous revenue	27,232		
Capital contributions (donated equipment)	161,503		
EORP subsidy	827,184		1,331,525
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			5,790
Change in net position of governmental activities		$	(2,700,404)

See accompanying notes to financial statements.

Gila County
Statement of net position
Proprietary funds
June 30, 2016

	Business-type activities—enterprise fund landfill
Assets	
Current assets:	
Cash and investments	$ 4,430,107
Accounts receivable	114,048
Interest receivable	8,109
Due from other governments	285
Due from other funds	33,000
Total current assets	4,585,549
Noncurrent assets:	
Restricted cash and investments	4,793,041
Capital assets	
Nondepreciable	3,000,000
Depreciable (net)	340,527
Total noncurrent assets	8,133,568
Total assets	12,719,117
Deferred outflows of resources	
Deferred outflows related to pensions	59,643
Total deferred outflows of resources	59,643
Total assets and deferred outflows of resources	12,778,760
Liabilities	
Current liabilities:	
Accounts payable	39,789
Accrued payroll and employee benefits	29,832
Total current liabilities	69,621
Noncurrent liabilities:	
Compensated absences payable	24,805
Landfill closure and postclosure care costs payable	3,277,987
Net pension liability	671,515
Total noncurrent liabilities	3,974,307
Total liabilities	4,043,928
Deferred inflows of resources	
Deferred inflows related to pensions	102,986
Total deferred inflows of resources	102,986
Total liabilities and deferred inflows of resources	4,146,914
Net position	
Net investment in capital assets	3,340,527
Restricted for landfill closure and postclosure care costs	4,793,041
Unrestricted	498,278
Total net position	$ 8,631,846

See accompanying notes to financial statements.

Gila County
Statement of revenues, expenses, and changes in fund net position
Proprietary funds
Year ended June 30, 2016

	Business-type activities— enterprise fund landfill
Operating revenues:	
Landfill fees	$ 1,691,619
Other	597
Total operating revenues	1,692,216
Operating expenses:	
Personal services	549,041
Professional services	44,194
Supplies	76,989
Utilities	7,045
Repairs and maintenance	350,498
Landfill closure and postclosure care costs	159,399
Depreciation	103,400
Other	96,253
Total operating expenses	1,386,819
Operating income	305,397
Nonoperating revenues:	
Donations and contributions	3,087
Investment earnings	16,427
Total nonoperating revenues	19,514
Increase in net position	324,911
Net position, July 1, 2015	8,306,935
Net position, June 30, 2016	$ 8,631,846

See accompanying notes to financial statements.

Gila County
Statement of cash flows
Proprietary funds
Year ended June 30, 2016

	Business-type activities—enterprise fund landfill
Cash flows from operating activities	
Receipts from customers	$ 1,690,400
Payments to suppliers and providers of goods and services	(576,780)
Payments for employee wages and benefits	(575,358)
Net cash provided by operating activities	538,262
Cash flows from noncapital financing activities	
Donations and contributions	3,087
Net cash provided by noncapital and related financing activities	3,087
Cash flows from capital and related financing activities	
Purchases of capital assets	(195,655)
Net cash used for capital and related financing activities	(195,655)
Cash flows from investing activities	
Interest received on investments	13,275
Net cash provided by investing activities	13,275
Net increase in cash and cash equivalents	358,969
Cash and cash equivalents, July 1, 2015	8,864,179
Cash and cash equivalents, June 30, 2016	$ 9,223,148
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 305,397
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	103,400
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
Increase and decrease in:	
Accounts receivable	(1,531)
Due from other governments	(285)
Deferred outflows related to pensions	18,124
Accounts payable	(1,240)
Accrued payroll and employee benefits	8,760
Due to other funds	(561)
Compensated absences payable	765
Landfill closure and postclosure care costs payable	159,399
Net pension liability	921
Deferred inflows related to pensions	(54,887)
Net cash provided by operating activities	$ 538,262

See accompanying notes to financial statements.

Gila County
Statement of fiduciary net position
Fiduciary funds
June 30, 2016

	Investment trust funds	Agency funds
Assets		
Cash and investments	$ 28,692,536	$ 1,233,220
Interest receivable	48,846	603
Total assets	$ 28,741,382	$ 1,233,823
Liabilities		
Due to other governments		328,395
Deposits held for others		905,428
Total liabilities		$ 1,233,823
Net position		
Held in trust for investment trust participants	$ 28,741,382	

See accompanying notes to financial statements.

Gila County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2016

	Investment trust funds
Additions:	
Contributions from participants	$ 90,130,455
Investment earnings	189,398
Total additions	90,319,853
Deductions:	
Distributions to participants	95,002,492
Change in net position	(4,682,639)
Net position, July 1, 2015	33,424,021
Net position, June 30, 2016	$ 28,741,382

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, 2016, the County implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 established standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

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, these units' data is combined with the primary government's data. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. The County has no discretely presented component units. Each blended component unit discussed below has a June 30 year-end.

The following table describes the County's component units:

Component unit	Description; criteria for inclusion	Reporting method	For separate financial statements
Gila County Library District	A tax-levying district that provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors, and county management has operational responsibility for the component unit.	Blended	Not available
Gila County Street Lighting Districts	A tax-levying district that operates and maintains street lighting in areas outside local city jurisdictions; the County's Board of Supervisors serves as the board of directors, and county management has operational responsibility for the component unit.	Blended	Not available

B. Basis of presentation

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

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

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include:

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

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

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

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

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

The County reports the following major governmental funds:

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

The *public works fund* accounts for road construction and maintenance of major and nonmajor regional roads. It is funded by a half-cent county sales tax, impact fees, highway user revenues, and vehicle license taxes.

The County reports the following proprietary fund:

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

The County also reports the following fund types:

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

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

C. Basis of accounting

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

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted 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 acquisition value.

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

	Capitalization threshold	Depreciation method	Estimated useful life
Land	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 that 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 by fiscal year-end.

Note 2 - Individual fund deficits

The following special revenue funds had fund deficits in excess of $1,000 as of June 30, 2016:

Fund	Deficit
Health Service	$579,813
Rabies Control	208,247
State Aid Enhancement	151,392
Drug Gang Violent Crime Control	146,688
Superior & JP Crts Security	146,071
HIV Consortium	71,330
Conciliation Court Fund	56,518
Adult Intensive Prob Supervision	40,711
Law Library Fund	40,580
Drug Prosecution Grant	37,865
Juvenile Evening/Weekend Res Ctr	26,861
Crime Victim Assistance Prog	25,750
Prop 201 Smoke Free AZ Act	19,099
Housing	15,411
Attorney's Justice Enhancement	12,968
HSGP-Dispatch Communications	12,956

Fund	Deficit
Juvenile Standards Probation	$ 11,555
Marijuana Eradication	10,938
CASA - Globe	9,620
Public Hlth Emerg Preparedness	8,686
Supp Nutrtn Asst Prg Ed 10.561	6,830
Housing Rehabilitation	5,184
IV D Incentive/SSRE	3,583
Teen Pregnancy Prevention Svcs	1,428

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

Note 3 - Deposits and investments

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

Credit risk
Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top 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 at 102 percent of all deposits federal depository insurance does not cover.

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

Interest rate risk
Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

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

Deposits—At June 30, 2016, the carrying amount of the County's deposits was $13,185,664, and the bank balance was $13,542,082. The County does not have a formal policy related to custodial credit risk for deposits.

Investments—The County's investments at June 30, 2016, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

		Fair value measurement using	
	Amount	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**
Investments by fair value level			
U.S. Treasury securities	$ 8,142,010	$ 8,142,010	
Federal Farm Credit Banks	6,654,270	6,654,270	
Federal Home Loan Bank	23,591,553	18,084,943	$ 5,506,610
Federal Home Loan Mortgage Corporation	3,005,151	3,005,151	
Federal National Mortgage Association	14,802,557	2,990,009	11,812,548
Corporate notes	1,043,020		1,043,020
Corporate bonds	5,243,473	3,242,883	2,000,590
U.S. Treasury money market funds	2,026,249	68,993	1,957,256
Total investments by fair value level	$64,508,283	$42,188,259	$22,320,024

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

Investments categorized as Level 2 of the fair value hierarchy are valued using prices quoted for those investments in markets that are not active.

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

At June 30, 2016, credit risk for the County's investments was as follows:

Investment type	Rating	Rating agency	Amount
U.S. agency securities	Aaa	Moody's	$48,053,531
U.S. Treasury securities	Aaa	Moody's	8,142,010
Corporate bonds	A3	Moody's	1,000,000
Corporate bonds	AA3	Moody's	1,000,590
Corporate bonds	Aa2	Moody's	1,991,270
Corporate bonds	A1	Moody's	1,251,613
Corporate notes	A2	Moody's	1,043,020
U.S. Treasury money market funds	Unrated	N/A	2,026,249
			$64,508,283

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, 2016, representing 5 percent or more of the County's total investments as follows:

U.S. agency	Percent
Federal Home Loan Bank	36.57%
Federal National Mortgage Association	22.95%
U.S. Treasury	15.76%
Federal Farm Credit Banks	10.32%

Interest rate risk—The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2016, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity (years)
U.S. agency securities	$48,053,531	0.82
U.S. Treasury securities	8,142,010	0.82
Corporate bonds	5,243,473	0.87
Corporate notes	1,043,020	0.96
U.S. Treasury money market funds	2,026,249	0.00
Total	$64,508,283	

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	13,185,666
Amount of investments	64,508,283
Total	$77,699,949

Statement of net position

	Governmental activities	Business-type activities	Investment trust funds	Agency funds	Total
Cash and investments	$36,593,790	$4,430,107	$28,692,536	$1,233,220	$70,949,653
Cash and investments held by trustee—restricted	1,957,255	4,793,041			6,750,296
Total	$38,551,045	$9,223,148	$28,692,536	$1,233,220	$77,699,949

Gila County
Notes to financial statements
June 30, 2016

Note 4 – Due from other governments

Amounts due from other governments at June 30, 2016, are shown as follows:

	Governmental activities				
	General fund	Public works fund	Other governmental funds	Business-type	Total
State-shared sales tax	$ 544,792				$ 544,792
County excise tax	496,585	$240,268			736,853
State-shared vehicle license tax	73,602	47,201			120,803
Highway user revenue		344,419			344,419
Grants and contributions from local, state, and federal governments	179,605		$ 999,288		1,178,893
Reimbursements for goods or services provided for governmental units	781,428		47,273	$285	828,986
Total	$2,076,012	$631,888	$1,046,561	$285	$3,754,746

Note 5 - Capital assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,221,923	$ 38,903		$ 2,260,826
Construction in progress	4,488,959	450,869	$1,702,910	3,236,918
Total capital assets not being depreciated	6,710,882	489,772	1,702,910	5,497,744
Capital assets being depreciated:				
Buildings	$28,631,101	$1,748,741	$7,920,770	$22,459,072
Improvements other than buildings	1,024,756	126,570		1,151,326
Machinery and equipment	24,816,395	1,427,805	704,242	25,539,958
Infrastructure	18,908,200	1,297,272		20,205,472
Total capital assets being depreciated	73,380,452	4,600,388	8,625,012	69,355,828
Less accumulated depreciation for:				
Buildings	16,000,577	924,984	6,537,500	10,388,061
Improvements other than buildings	426,149	47,223		473,372
Machinery and equipment	21,343,587	1,053,371	561,885	21,835,073
Infrastructure	9,023,788	646,587		9,670,375
Total accumulated depreciation	46,794,101	2,672,165	7,099,385	42,366,881
Total capital assets being depreciated, net	26,586,351	1,928,223	1,525,627	26,988,947
Governmental activities, capital assets, net	$33,297,233	$2,417,995	$3,228,537	$32,486,691

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
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	2,758,556	$ 195,655		2,954,211
Infrastructure	169,340			169,340
Total capital assets being depreciated	2,927,896	195,655		3,123,551
Less accumulated depreciation for:				
Machinery and equipment	2,532,122	94,933		2,627,055
Infrastructure	147,502	8,467		155,969
Total	2,679,624	103,400		2,783,024
Total capital assets being depreciated, net	248,272	92,255		340,527
Business-type activities, capital assets, net	$ 3,248,272	$ 92,255		$ 3,340,527

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 988,335
Public safety	378,271
Highways and streets	1,163,499
Health	28,708
Welfare	29,984
Sanitation	25,783
Culture and recreation	54,595
Education and economic opportunity	2,990
Total governmental activities depreciation expense	$2,672,165
Business-type activities:	
Sanitation	$ 103,400

Note 6 - Long-term liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Governmental activities					
Pledged revenue obligations payable	$ 8,250,000		$ 519,070	$ 7,730,930	$ 540,208
Revenue obligations premium payable	162,003		11,572	150,431	11,572
Net pension liability	51,356,745	$1,927,370	147,523	53,136,592	
Compensated absences payable	1,306,591	1,329,992	1,218,873	1,417,710	1,309,766
Claims and judgments payable		508,522		508,522	508,522
Total governmental activities long-term liabilities	$61,075,339	$3,765,884	$1,897,038	$62,944,185	$2,370,068

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Business-type activities					
Net pension liability	$ 670,594	$ 921		$ 671,515	
Compensated absences payable	24,040	27,084	$ 26,319	24,805	$ 24,805
Landfill closure and postclosure care costs payable	3,118,588	159,399		3,277,987	
Total business-type activities long-term liabilities	$ 3,813,222	$ 187,404	$ 26,319	$ 3,974,307	$ 24,805

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, 2016:

Description	Original amount issued	Interest rates	Maturities	Outstanding June 30, 2016
Gila County Pledged Revenue Obligations, Series 2009	$6,860,000	3-5%	2017-2029	$5,070,000
Gila County Pledged Revenue Refunding Obligations, Series 2009	1,140,000	3-5%	2017-2029	840,000
Gila County Pledged Revenue Obligations, Series 2015	2,000,000	0.53-2.7%	2017-2025	1,820,930
Total				$7,730,930

The following schedule details debt service requirements to maturity for the County's pledged revenue and pledged revenue refunding obligations payable at June 30, 2016:

	Governmental activities	
	Principal	Interest
Year ending June 30		
2017	$ 540,208	$ 302,762
2018	557,149	286,822
2019	574,493	269,878
2020	592,274	251,897
2021	615,549	232,822
2022-2026	3,166,257	820,725
2027-2029	1,685,000	171,250
	$7,730,930	$2,336,156

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, 2016. At June 30, 2016, future pledged revenues through final maturity at July 1, 2029, totaled $10,067,086, consisting of $7,730,930 for principal and $2,336,156 for interest. Future principal and interest payments are expected to require less than 13 percent of pledged revenues. In the current year, total principal and interest paid, and total pledged resources were $846,570 and $6,858,829, 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 $3,277,987 reported as landfill closure and postclosure care liability at June 30, 2016, represents the cumulative amount reported to date based on the approximate use of 72 percent of the estimated capacity of the Buckhead Mesa Landfill and 66 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $1,463,407 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 2016.

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 to expand these landfills to extend their useful lives.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure, and correction action when needed. In order to comply with the local government financial test requirements, the County established a restricted bank account with a cash balance that will cover the estimated landfill closure and postclosure care costs when Russell Gulch and Buckhead Mesa landfills are expected to close. The current balance is reported in the business-type activities statement of net position and the proprietary fund statement of net position as restricted cash. Although the restricted bank account is not one of the allowable mechanisms listed in 40 CFR §258.74, Arizona Department Environmental Quality (ADEQ) approved the calendar year 2016 financial assurance demonstration for the Russell Gulch and Buckhead Mesa landfills and required the County to submit future financial assurance in compliance with 40 CFR §258.74.

Special use permit—The Buckhead Mesa Landfill was issued a special use permit from the United States Department of Agriculture 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, 2016, the County paid for compensated absences as follows: 71 percent from the general fund, 10 percent from the public works fund, 2 percent from the landfill fund, and 17 percent from other funds.

Claims and judgments payable—Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. At June 30, 2016, the total claims and judgments payable of $508,522 consists of excess employee contributions made to the Public Safety Personnel Retirement System and Elected Officials Retirement Plan.

Note 7 - Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2016, were as follows:

	General fund	Public works fund	Other governmental funds	Total
Fund balances:				
Nonspendable:				
Prepaid items	$ 184		$ 288	$ 472
Supplies inventories	152,840	$ 72,217		225,057
Total nonspendable	153,024	72,217	288	225,529
Restricted for:				
Public safety			276,369	276,369
Highways and streets		8,865,280		8,865,280
Health services			946,519	946,519
Judicial activities			4,413,523	4,413,523
Law enforcement			428,292	428,292
Education			1,745,370	1,745,370
Sanitation			108,989	108,989
Social services			467,930	467,930
Library			361,544	361,544
Street lighting improvement			9,037	9,037
Capital projects	1,956,948			1,956,948
Other purposes			496,714	496,714
Total restricted	1,956,948	8,865,280	9,254,287	20,076,515
Assigned to:				
Contingency reserve	12,450,000			12,450,000
Education	3,599			3,599
Other purposes	602,978			602,978
Total assigned	13,056,577			13,056,577
Unassigned	5,674,445		(1,652,381)	4,022,064
Total fund balances	$20,840,994	$8,937,497	$ 7,602,194	$37,380,685

Note 8 - 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 12 member counties. The pool provides member counties with workers' compensation coverage, as law requires, and risk management services. The County is responsible for paying a premium based on an experience-rating formula that allocates pool expenditures and liabilities among the members.

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

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

Note 9 - 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, 2016, 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	$53,136,592	$671,515	$53,808,107
Deferred outflows of resources	7,560,651	59,643	7,620,294
Deferred inflows of resources	5,149,626	102,986	5,252,612
Pension expense	5,410,398	7,482	5,417,880

The County's accrued payroll and employee benefits include $176,936 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the County reported $3,345,640 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 retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, statute required the County to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 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 an employee who contributes to the ASRS would typically fill. The County's contributions to the pension plan for the year ended June 30, 2016, were $1,768,338. The County's OPEB contributions for the current and 2 preceding years, 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
2016	$ 82,512	$19,803
2015	99,175	20,171
2014	104,352	41,741

During fiscal year 2016, the County paid for ASRS pension and OPEB contributions as follows: 61 percent from the general fund, 14 percent from the public works fund, 3 percent from the landfill fund, and 22 percent from other governmental funds.

Pension liability—At June 30, 2016, the County reported a liability of $28,452,591 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015. 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, 2015. The County's proportion measured as of June 30, 2015, was 0.18267 percent, which was a decrease of 0.009367 from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2016, the County recognized pension expense for ASRS of $305,397. At June 30, 2016, 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	$ 776,409	$1,490,945
Net difference between projected and actual earnings on pension plan investments		911,842
Changes in proportion and differences between county contributions and proportionate share of contributions	10,670	2,046,456
County contributions subsequent to the measurement date	1,768,338	
Total	$2,555,417	$4,449,243

The $1,768,338 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, 2017. 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	
2017	$(1,831,863)
2018	(1,732,006)
2019	(756,530)
2020	658,235

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

ASRS	
Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
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, 2014, 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 arithmetic real rate of return**
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
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	$37,282,618	$28,452,591	$22,401,129

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

Benefits provided—The PSPRS and CORP provide retirement, 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	

Survivor benefit

Retired members	80% of retired member's pension benefit
Active members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. 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, 2016, 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	29	7	3
Inactive employees entitled to but not yet receiving benefits	16	22	4
Active employees	37	55	6
Total	82	84	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 that employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Active members—pension	11.65%	8.41%	7.96%	8.41%
County				
Pension	40.28%	8.54%	14.17%	19.10%
Health insurance premium benefit	0.00%	0.38%	0.00%	0.85%

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, 2016, were:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers
Pension			
Contributions made	$867,460	$191,008	$35,930
Health insurance premium benefit			
Annual OPEB cost		8,578	
Contributions made		8,578	

Contributions to the CORP AOC pension plan for the year ended June 30, 2016, were $276,212. 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
2016	$12,510
2015	19,879
2014	18,907

During fiscal year 2016, 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, 2016, the County reported the following net pension liabilities:

	Net pension liability
PSPRS	$10,968,029
CORP Detention	614,390
CORP Dispatchers	567,776
CORP AOC (County's proportionate share)	3,344,124

The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the County's net pension liability as a result of the statutory adjustments is not known.

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, 2015
Actuarial cost method	Entry age normal
Investment rate of return	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, 2015, 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 geometric real rate of return
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

Pension discount rates—The discount rate used to measure the PSPRS and CORP total pension liabilities was 7.85 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability

PSPRS Sheriff	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2015	$16,809,197	$ 6,371,785	$10,437,412
Changes for the year:			
Service cost	299,129		299,129
Interest on the total pension liability	1,290,430		1,290,430
Differences between expected and actual experience in the measurement of the pension liability	(29,030)		(29,030)
Contributions—employer		641,694	(641,694)
Contributions—employee		211,706	(211,706)
Net investment income		230,228	(230,228)
Benefit payments, including refunds of employee contributions	(1,040,337)	(1,040,337)	
Administrative expense		(5,984)	5,984
Other changes		(47,732)	47,732
Net changes	520,192	(10,425)	530,617
Balances at June 30, 2016	$17,329,389	$ 6,361,360	$10,968,029

CORP Detention	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2015	$4,531,072	$3,900,598	$ 630,474
Changes for the year:			
Service cost	322,777		322,777
Interest on the total pension liability	353,739		353,739
Differences between expected and actual experience in the measurement of the pension liability	(184,916)		(184,916)
Contributions—employer		181,989	(181,989)
Contributions—employee		188,093	(188,093)
Net investment income		144,624	(144,624)
Benefit payments, including refunds of employee contributions	(372,466)	(372,466)	
Administrative expense		(3,947)	3,947
Other changes		(3,075)	3,075
Net changes	119,134	135,218	(16,084)
Balances at June 30, 2016	$4,650,206	$4,035,816	$ 614,390

CORP Dispatchers	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2015	$1,692,935	$1,252,580	$440,355
Changes for the year:			
Service cost	30,280		30,280
Interest on the total pension liability	130,939		130,939
Differences between expected and actual experience in the measurement of the pension liability	59,963		59,963
Contributions—employer		30,530	(30,530)
Contributions—employee		20,252	(20,252)
Net investment income		45,656	(45,656)
Benefit payments, including refunds of employee contributions	(80,128)	(80,128)	
Administrative expense		(1,505)	1,505
Other changes		(1,172)	1,172
Net changes	141,054	13,633	127,421
Balances at June 30, 2016	$1,833,989	$1,266,213	$567,776

The County's proportion of the CORP AOC net pension liability was based on the County's actual contributions to the plan relative to the total of all participating counties' actual contributions for the year ended June 30, 2015. The County's proportion measured as of June 30, 2015, was 1.375558 percent, which was a decrease of 0.173315 from its proportion measured as of June 30, 2014.

Sensitivity of the County's net pension liability to changes in the discount rate—The following table presents the County's net pension liabilities calculated using the discount rate of 7.85 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

	1% Decrease 6.85%	Current discount rate 7.85%	1% Increase 8.85%
PSPRS Sheriff			
Net pension liability	$12,860,556	$10,968,029	$9,373,831
CORP Detention			
Net pension liability	$1,248,054	$614,390	$90,088
CORP Dispatchers			
Net pension liability	$789,886	$567,776	$381,957
CORP AOC			
County's proportionate share of the net pension liability	$4,372,460	$3,344,124	$2,488,285

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, 2016, the County recognized the following pension expense:

	Pension expense
PSPRS Sheriff	$1,543,937
CORP Detention	140,183
CORP Dispatchers	52,824
CORP AOC (County's proportionate share)	383,550

Pension deferred outflows/inflows of resources—At June 30, 2016, 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	$ 42,609	$21,754
Changes of assumptions or other inputs	983,336	
Net difference between projected and actual earnings on pension plan investments	10,174	
County contributions subsequent to the measurement date	867,460	
Total	$1,903,579	$21,754

CORP Detention	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$251,501
Changes of assumptions or other inputs	$ 90,015	
Net difference between projected and actual earnings on pension plan investments	14,069	
County contributions subsequent to the measurement date	191,008	
Total	$295,092	$251,501

CORP Dispatchers	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 45,328	$53,597
Changes of assumptions or other inputs	41,816	
Net difference between projected and actual earnings on pension plan investments	1,637	
County contributions subsequent to the measurement date	35,930	
Total	$124,711	$53,597

CORP AOC	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$114,521	$ 18,875
Changes of assumptions or other inputs	354,458	
Net difference between projected and actual earnings on pension plan investments	18,387	
Changes in proportion and differences between county contributions and proportionate share of contributions		272,495
County contributions subsequent to the measurement date	276,212	
Total	$763,578	$291,370

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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
2017	$603,106	$(49,435)	$6,252	$58,269
2018	380,335	(49,435)	6,252	58,269
2019	(21,179)	(48,023)	10,974	58,269
2020	52,103	(524)	11,706	45,908
2021				(24,719)

Agent plan OPEB actuarial assumptions—The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, 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 2016 contribution requirements:

PSPRS and CORP—OPEB contribution requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 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%–8% for PSPRS and 4%–7.25% for CORP
Wage growth	4% 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			
2016	$ 0	0.000%	$0
2015	33,309	100.0	0
2014	28,474	100.0	0
CORP Detention			
2016	$ 8,578	100.0%	$0
2015	22,113	100.0	0
2014	21,715	100.0	0
CORP Dispatchers			
2016	$ 0	0.000%	$0
2015	2,696	100.0	0
2014	2,130	100.0	0

Agent plan OPEB funded status—The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Sheriff	CORP	CORP Dispatchers
Actuarial value of assets (a)	$ 637,565	$ 332,957	$ 86,805
Actuarial accrued liability (b)	$ 430,381	$ 220,622	$ 40,624
Unfunded actuarial accrued liability (funding excess) (b) – (a)	$ (207,184)	$ (112,335)	$ (46,181)
Funded ratio (a)/(b)	148.14%	150.92%	213.68%
Annual covered payroll (c)	$2,080,091	$2,206,156	$242,660
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c)	(10.0%)	(5.1%)	(19.0%)

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, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	20 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	7.50%, net of investment and administrative expenses
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 PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on PSPRS's website at www.psprs.com.

Benefits provided—The EORP provides retirement, 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. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

Contributions—State statutes establish active member and employer contribution requirements. Statute also appropriates $5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2016, statute required active EORP members to contribute 13 percent of the members' annual covered payroll and the County to contribute 23.5 percent of active EORP members' annual covered payroll. The County's contributions to the pension plan for the year ended June 30, 2016, were $250,016. No OPEB contributions were required or made for the years ended June 30, 2015 and 2016.

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
2016	-
2015	-
2014	17,392

During fiscal year 2016, the County paid for EORP pension contributions as follows: 100 percent from the general fund.

Pension liability—At June 30, 2016, the County reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the County's proportionate share of the State's appropriation for EORP. The amount the County recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the County were as follows:

County's proportionate share of the EORP net pension liability	$ 9,861,197
State's proportionate share of the EORP net pension liability associated with the County	3,074,311
Total	$12,935,508

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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' actual contributions for the year ended June 30, 2015. The County's proportion measured as of June 30, 2015, was 1.2619081 percent, which was a decrease of 0.0248327 from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2016, the County recognized pension expense for EORP of $2,991,989 and revenue of $827,184 for the County's proportionate share of the State's appropriation to EORP and the designated court fees. At June 30, 2016, 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	$ 15,769	$109,791
Changes of assumptions or other inputs	1,652,324	
Net difference between projected and actual earnings on pension plan investments	59,808	
Changes in proportion and differences between county contributions and proportionate share of contributions		75,356
County contributions subsequent to the measurement date	250,016	
Total	$1,977,917	$185,147

The $250,016 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, 2017. 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	
2017	$1,311,277
2018	181,520
2019	4,925
2020	45,032

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

EORP	
Actuarial valuation date	June 30, 2015
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, 2015, 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 geometric real rate of return**
Short-term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

Discount rate—At June 30 2015, the discount rate used to measure the EORP total pension liability was 4.86 percent, which was a decrease of 0.81 from the discount rate used as of June 30, 2014. 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, 2028. A municipal bond rate of 3.80 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 25, 2015, was applied to periods of projected benefit payments after June 30, 2028.

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 4.86 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 (3.86 percent) or 1 percentage point higher (5.86 percent) than the current rate:

EORP	1% Decrease (3.86%)	Current discount rate (4.86%)	1% Increase (5.86%)
County's proportionate share of the net pension liability	$11,479,678	$9,861,197	$8,500,140

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 10 - County Treasurer's investment pool

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

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

The Treasurer allocates interest earnings to each of the pool's participants.

The deposits and investments the County holds are included in the County Treasurer's investment pool, except for $5,985,405 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 3 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment type	Principal	Interest rates	Maturities	Fair value
U.S. agency securities	$48,010,000	0.38% - 1.25%	07/16 – 12/19	$48,053,531
U.S. Treasury securities	8,120,000	0.50% - 1.00%	12/16 – 10/17	8,142,010
U.S. Treasury money market funds	68,993	0.000% - 0.010%	N/A	68,993
Corporate bonds	5,230,000	0.90%-3.15%	07/16 – 05/18	5,243,473
Corporate notes	1,000,000	5.75%	06/15/2017	1,043,020
	$62,428,993			$62,551,027

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

Statement of net position	
Assets	$ 69,881,644
Liabilities	328,395
Net position	$ 69,553,249
Net position held in trust for:	
Internal participants	$ 40,811,867
External participants	28,741,382
Total net position held in trust	$ 69,553,249
Statement of changes in net position	
Total additions	$158,191,331
Total deductions	162,827,011
Net decrease	(4,635,680)
Net position held in trust:	
July 1, 2015	74,188,929
June 30, 2016	$ 69,553,249

Note 11 – Significant construction commitments

At June 30, 2016, the County had major construction commitments related to various capital projects for the constructions of Tonto Creek Bridge and Main Street sidewalk and the improvements of Monroe Street, Roberts Road, and Cemetery Road. As of June 30, 2016, the County had spent $3,236,918 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 $25.1 million, which is predominantly financed by transportation excise tax and state and federal grants.

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Other Required Supplementary Information

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2016

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 22,885,211	$ 23,089,011	$ 203,800
Licenses and permits	381,500	529,270	147,770
Intergovernmental	13,164,868	13,981,939	817,071
Charges for services	921,636	578,592	(343,044)
Fines and forfeitures	449,630	392,156	(57,474)
Donations and contributions		82	82
Investment earnings	100,000	103,231	3,231
Miscellaneous	435,746	1,157,923	722,177
Total revenues	38,338,591	39,832,204	1,493,613
Expenditures:			
Current:			
General government			
Administrative services	129,691	131,240	(1,549)
Assessor	1,088,921	987,412	101,509
Board of supervisors	1,126,297	1,063,798	62,499
Community development	1,071,540	998,782	72,758
Computer services	744,977	743,541	1,436
Constituent services	270,000	261,804	8,196
Elections	357,595	320,746	36,849
Facilities management	1,744,351	1,642,548	101,803
Finance/purchasing	861,634	789,178	72,456
General administration	564,374	395,058	169,316
Personnel	760,526	632,867	127,659
Professional services	277,500	406,098	(128,598)
Recorder	700,975	640,407	60,568
Treasurer	458,799	475,393	(16,594)
Contingency reserve	885,000		885,000

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2016
(Continued)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Judicial services			
County attorney	$ 2,063,291	$ 1,955,810	$ 107,481
County attorney—child support	847,810	650,069	197,741
Constable—Globe	153,424	156,228	(2,804)
Constable—Payson	181,485	150,025	31,460
Justice Court—Globe	598,766	555,256	43,510
Justice Court—Payson	553,105	563,447	(10,342)
Indigent legal defense	1,193,000	1,284,244	(91,244)
Clerk of the superior court	1,379,672	1,328,714	50,958
Superior Court—Division I	261,321	221,272	40,049
Superior Court—Division II	253,098	259,860	(6,762)
Superior Court—General	674,608	607,289	67,319
Court system multi-information systems	193,924	159,836	34,088
Total general government	19,395,684	17,380,922	2,014,762
Public safety			
County sheriff	11,159,245	11,099,034	60,211
County sheriff—facilities management	294,405	273,314	21,091
Emergency services (including GIS Rural Addressing)	322,908	287,216	35,692
Flood plain management	202,102	173,104	28,998
Juvenile detention	1,298,649	1,296,279	2,370
Probation	864,894	841,833	23,061
Total public safety	14,142,203	13,970,780	171,423
Welfare			
AHCCCS contributions	3,531,100	3,420,503	110,597
Community agencies	131,335	156,300	(24,965)
Public fiduciary	437,066	438,110	(1,044)
Total welfare	4,099,501	4,014,913	84,588

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2016
(Concluded)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Education			
School superintendent	$ 390,160	$ 1,630,573	$ (1,240,413)
Capital outlay	4,094,238	3,536,576	557,662
Debt service	628,150	846,570	(218,420)
Total expenditures	42,749,936	41,380,334	1,369,602
Excess (deficiency) of revenues over expenditures	(4,411,345)	(1,548,130)	2,863,215
Other financing sources (uses)			
Proceeds from sale of capital assets		50,282	50,282
Indirect costs		611,503	611,503
Transfers in	26,000	20,399	(5,601)
Transfers out	1,366,240		(1,366,240)
Total other financing sources (uses)	1,392,240	682,184	(710,056)
Net change in fund balances	(3,019,105)	(865,946)	2,153,159
Fund balances, July 1, 2015	3,019,105	21,701,150	18,682,045
Decrease in reserve for inventories		5,790	5,790
Fund balances, June 30, 2016	$ -	$ 20,840,994	$ 20,840,994

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
Public works fund
Year ended June 30, 2016

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 1,368,000	$ 1,299,859	$ (68,141)
Licenses and permits	2,200	2,293	93
Intergovernmental	4,374,044	4,961,023	586,979
Investment earnings	32,500	42,476	9,976
Miscellaneous	71,921	10,712	(61,209)
Total revenues	5,848,665	6,316,363	467,698
Expenditures:			
Highways and streets	11,812,226	5,491,822	6,320,404
Total expenditures	11,812,226	5,491,822	6,320,404
Excess (deficiency) of revenues over expenditures	(5,963,561)	824,541	6,788,102
Other financing sources (uses):			
Proceeds from sale of capital assets		7,555	7,555
Transfers out	(5,000)	(20,399)	(15,399)
Total other financing sources and uses	(5,000)	(12,844)	(7,844)
Net change in fund balances	(5,968,561)	811,697	6,780,258
Beginning fund balance	5,968,561	8,125,800	2,157,239
Fund balances, end of year	$ -	$ 8,937,497	$ 8,937,497

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Notes to budgetary comparison schedules
June 30, 2016

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	$ (936,627)
Indirect cost expenditures allocated to other county funds	(611,503)
Deficiency of revenues over expenditures from the budgetary comparison schedule	$(1,548,130)

Note 3 - Expenditures in excess of appropriations

For the year ended June 30, 2016, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/department	Excess
General fund:	
Administrative services	$ 1,549
Professional services	128,598
Treasurer	16,594
Constable—Globe	2,804
Justice Court—Payson	10,342
Indigent legal defense	91,244

Fund/department	Excess
Superior Court—Division II	6,762
Community agencies	24,965
School superintendent	1,240,413
Public fiduciary	1,044
Debt service	218,420

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 2016, the County School Superintendent's Office received national forest monies of $1,270,340 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, 2016

Arizona State Retirement System

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
County's proportion of the net pension liability	0.18%	0.19%	Information
County's proportionate share of the net pension liability	$ 28,452,591	$ 28,415,012	not available
County's covered payroll	$ 16,959,971	$ 17,866,484	
County's proportionate share of the net pension liability as a percentage of its covered payroll	167.76%	159.04%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
County's proportion of the net pension liability	1.38%	1.55%	Information
County's proportionate share of the net pension liability	$ 3,344,124	$ 3,475,563	not available
County's covered payroll	$ 1,539,683	$ 1,667,965	
County's proportionate share of the net pension liability as a percentage of its covered payroll	217.20%	208.37%	
Plan fiduciary net position as a percentage of the total pension liability	57.89%	58.59%	

Elected Officials Retirement Plan

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
County's proportion of the net pension liability	1.26%	1.29%	Information
County's proportionate share of the net pension liability	$ 9,861,197	$ 8,628,523	not available
State's proportionate share of the net pension liability associated with the County	3,074,311	2,645,585	
Total	$ 12,935,508	$ 11,274,108	
County's covered payroll	1,134,316	1,182,686	
County's proportionate share of the net pension liability as a percentage of its covered payroll	869.35%	729.57%	
Plan fiduciary net position as a percentage of the total pension liability	28.32%	31.91%	

See accompanying notes to pension plan schedules.

Gila County

Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2016

PSPRS Sheriff	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	$ 299,129	$ 367,275	
Interest on the total pension liability	1,290,430	1,044,461	
Changes of benefit terms		451,808	
Differences between expected and actual experience in the measurement of the pension liability	(29,030)	94,471	
Changes of assumptions or other inputs		2,180,190	
Benefit payments, including refunds of employee contributions	(1,040,337)	(901,225)	
Net change in total pension liability	520,192	3,236,980	
Total pension liability—beginning	16,809,197	13,572,217	
Total pension liability—ending (a)	$ 17,329,389	$ 16,809,197	
Plan fiduciary net position			
Contributions—employer	$ 641,694	$ 520,920	
Contributions—employee	211,706	175,906	
Net investment income	230,228	792,461	
Benefit payments, including refunds of employee contributions	(1,040,337)	(901,225)	
Administrative expense	(5,984)	(6,383)	
Other changes	(47,732)	87,607	
Net change in plan fiduciary net position	(10,425)	669,286	
Plan fiduciary net position—beginning	6,371,785	5,702,499	
Plan fiduciary net position—ending (b)	$ 6,361,360	$ 6,371,785	
County's net pension liability—ending (a) – (b)	$ 10,968,029	$ 10,437,412	
Plan fiduciary net position as a percentage of the total pension liability	36.71%	37.91%	
Covered payroll	$ 2,001,288	$ 1,895,363	
County's net pension liability as a percentage of covered payroll	548.05%	550.68%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2016

CORP Detention

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	$ 322,777	$ 349,379	
Interest on the total pension liability	353,739	322,522	
Changes of benefit terms		24,688	
Differences between expected and actual experience in the measurement of the pension liability	(184,916)	(181,113)	
Changes of assumptions or other inputs		155,825	
Benefit payments, including refunds of employee contributions	(372,466)	(148,202)	
Net change in total pension liability	119,134	523,099	
Total pension liability—beginning	4,531,072	4,007,973	
Total pension liability—ending (a)	$ 4,650,206	$ 4,531,072	
Plan fiduciary net position			
Contributions—employer	$ 181,989	$ 191,319	
Contributions—employee	188,093	186,454	
Net investment income	144,624	461,443	
Benefit payments, including refunds of employee contributions	(372,466)	(148,202)	
Administrative expense	(3,947)	(3,628)	
Other changes	(3,075)	(544)	
Net change in plan fiduciary net position	135,218	686,842	
Plan fiduciary net position—beginning	3,900,598	3,213,756	
Plan fiduciary net position—ending (b)	$ 4,035,816	$ 3,900,598	
County’s net pension liability—ending (a) – (b)	$ 614,390	$ 630,474	
Plan fiduciary net position as a percentage of the total pension liability	86.79%	86.09%	
Covered payroll	$ 2,058,827	$ 2,074,538	
County’s net pension liability as a percentage of covered payroll	29.84%	30.39%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of changes in the County's net pension liability and related ratios
Agent pension plans
June 30, 2016

CORP Dispatchers

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	$ 30,280	$ 39,102	
Interest on the total pension liability	130,939	127,496	
Changes of benefit terms		12,908	
Differences between expected and actual experience in the measurement of the pension liability	59,963	(103,659)	
Changes of assumptions or other inputs		80,874	
Benefit payments, including refunds of employee contributions	(80,128)	(136,774)	
Net change in total pension liability	141,054	19,947	
Total pension liability—beginning	1,692,935	1,672,988	
Total pension liability—ending (a)	$ 1,833,989	$ 1,692,935	
Plan fiduciary net position			
Contributions—employer	$ 30,530	$ 26,396	
Contributions—employee	20,252	20,281	
Net investment income	45,656	158,620	
Benefit payments, including refunds of employee contributions	(80,128)	(136,774)	
Administrative expense	(1,505)	(1,247)	
Other changes	(1,172)	(19,995)	
Net change in plan fiduciary net position	13,633	47,281	
Plan fiduciary net position—beginning	1,252,580	1,205,299	
Plan fiduciary net position—ending (b)	$ 1,266,213	$ 1,252,580	
County's net pension liability—ending (a) – (b)	$ 567,776	$ 440,355	
Plan fiduciary net position as a percentage of the total pension liability	69.04%	73.99%	
Covered payroll	$ 254,000	$ 254,265	
County's net pension liability as a percentage of covered payroll	223.53%	173.19%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of county pension contributions
June 30, 2016

Arizona State Retirement System

	Reporting fiscal year 2016	2015	2014	2013-2007
Statutorily required contribution	$ 1,768,338	$ 1,832,179	$ 1,852,259	Information not available
County's contributions in relation to the statutorily required contribution	1,768,338	1,832,179	1,852,259	
County's contribution deficiency (excess)	$ -	$ -	$ -	
County's covered payroll	$ 16,464,044	$ 16,959,971	$ 17,866,484	
County's contributions as a percentage of covered payroll	10.74%	10.80%	10.37%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year 2016	2015	2014	2013-2007
Statutorily required contribution	$ 276,212	$ 227,801	$ 240,875	Information not available
County's contributions in relation to the statutorily required contribution	276,212	227,801	240,875	
County's contribution deficiency (excess)	$ -	$ -	$ -	
County's covered payroll	$ 1,452,609	$ 1,539,683	$ 1,667,965	
County's contributions as a percentage of covered payroll	19.01%	14.80%	14.44%	

Elected Officials Retirement Plan

	Reporting fiscal year 2016	2015	2014	2013-2007
Statutorily required contribution	$ 250,016	$ 265,481	$ 274,171	Information not available
County's contributions in relation to the statutorily required contribution	250,016	265,481	274,171	
County's contribution deficiency (excess)	$ -	$ -	$ -	
County's covered payroll	$ 977,941	$ 1,134,316	$ 1,182,686	
County's contributions as a percentage of covered payroll	25.57%	23.40%	23.18%	

See accompanying notes to pension plan schedules.

Gila County
Required supplementary information
Schedule of county pension contributions
June 30, 2016

PSPRS Sheriff

	Reporting fiscal year			
	2016	2015	2014	2013-2007
Actuarially determined contribution	$ 1,210,141	$ 641,694	$ 520,920	Information not available
County's contributions in relation to the actuarially determined contribution	867,460	641,694	520,920	
County's contribution deficiency (excess)	$ 342,681	$ -	$ -	
County's covered payroll	$ 2,167,935	$ 2,001,288	$ 1,895,363	
County's contributions as a percentage of covered payroll	40.01%	32.06%	27.48%	

CORP Detention

	Reporting fiscal year			
	2016	2015	2014	2013-2007
Actuarially determined contribution	$ 208,141	$ 181,989	$ 191,319	Information not available
County's contributions in relation to the actuarially determined contribution	191,008	181,989	191,319	
County's contribution deficiency (excess)	$ 17,133	$ -	$ -	
County's covered payroll	$ 2,226,105	$ 2,058,827	$ 2,074,538	
County's contributions as a percentage of covered payroll	8.58%	8.84%	9.22%	

CORP Dispatchers

	Reporting fiscal year			
	2016	2015	2014	2013-2007
Actuarially determined contribution	$ 47,090	$ 30,530	$ 26,396	Information not available
County's contributions in relation to the actuarially determined contribution	35,930	30,530	26,396	
County's contribution deficiency (excess)	$ 11,160	$ -	$ -	
County's covered payroll	$ 254,265	$ 254,000	$ 254,265	
County's contributions as a percentage of covered payroll	14.13%	12.02%	10.38%	

See accompanying notes to pension plan schedules.

Note 1 – Actuarially determined contribution rates

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

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 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	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS and from 4.5%–7.75% to 4.0%–7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%– 7.75% for CORP
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006-June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

Note 2 – Factors that affect trends

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 PSPRS, CORP, and CORP-AOC changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS' and CORP's changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the County's net pension liability and related ratios. These changes also increased the PSPRS, CORP, and CORP-AOC's required contributions beginning in fiscal year 2016 in the schedule of county pension contributions. PSPRS and CORP allowed the County to phase in the increased contributions over 3 years. As a result, the County's contributions were less than the actuarially determined contributions for 2016.

Gila County
Required supplementary information
Schedule of agent OPEB plans' funding progress
June 30, 2016

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						
6/30/2016	$637,565	$430,381	$(207,184)	148.1%	$2,080,191	-10.0%
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%
CORP detention						
6/30/2016	332,957	220,622	$(112,335)	150.9%	2,206,156	-5.1%
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%
CORP dispatchers						
6/30/2016	86,805	40,624	(46,181)	213.7%	242,660	-19.0%
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%

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SINGLE AUDIT REPORT

STATE OF ARIZONA
LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL
OFFICE OF THE
AUDITOR GENERAL
MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2018.

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 did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-01 through 2016-05 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 2016-06 through 2016-08 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 instance 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.

Lindsey Perry
Auditor General

September 27, 2018

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and report on internal control over compliance

Members of the Arizona State Legislature

The Board of Supervisors of
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, 2016. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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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 2016-102 through 2016-104. 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 types of 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, 2016.

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, 2016.

Other matters

The results of our auditing procedures disclosed other instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as items 2016-101, 2016-105 and 2016-106. 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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 2016-101 through 2016-104 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 2016-105 and 2015-106 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 the Uniform Guidance. 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.

Lindsey Perry
Auditor General

September 27, 2018

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 deficiencies 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 2 CFR §200.516(a)? **Yes**

Identification of major programs

CFDA number	Name of federal program or cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.665	Forest Service Schools and Roads Cluster
15.226	Payments in Lieu of Taxes
93.563	Child Support Enforcement

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

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.516(a)?	Yes

Financial statement findings

2016-01

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:

- The County did not remove $7.9 million in buildings and $6.5 million in related accumulated depreciation from its capital assets listing that were donated to another government.
- The actuarially determined contribution amounts for the Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP) pension plans were incorrectly calculated using the after-phase-in contribution rate rather than the before-phase-in contribution rate resulting in contribution deficiencies of $342,681, $17,133, and $11,160 for the PSPRS Sheriff, CORP Detention, and CORP Dispatchers, respectively not being reported.
- The County did not include $679,225 of covered payroll amounts in its schedule of county pension contributions.
- The County did not report and disclose $508,522 of claims and judgments payable in its financial statements or long-term liabilities disclosure.
- The County misclassified $ 1,011,790 as invested in capital assets instead of unrestricted net position in the landfill fund.
- The County did not report and disclose $172,335 of donated machinery and equipment in its financial statements or capital assets disclosure.
- The County misclassified $312,886 of tax revenues as proceeds from sale of capital assets.

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 October 2018.

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, 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 preparing financial statements, 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 2015-01.

2016-02

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 $35.8 million, or 40 percent of the County's total assets. During test work, auditors noted the following deficiencies:

- The County did not prepare capital asset disposal forms for the $8.6 million in capital asset disposals.
- 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 adjustments 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 2015-02.

2016-03

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 have a process to 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, and making deposits to the Treasurer from the landfill bank account, and had access to monies in the landfill's bank account.

Effect—Departmental revenues and related receivables may not have been recorded in accordance with GAAP. In addition, there was an elevated risk of theft or misuse over the landfill's cash receipts.

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 2015-03.

2016-04

The County should improve its risk-assessment process to include information technology security

Criteria—The County risks reporting inaccurate financial information and exposing sensitive data. An effective internal control system should include an entity-wide risk assessment process that involves members of the County's administration and IT management to determine the risks the County faces as it seeks to achieve its objectives to report accurate financial information and protect sensitive data. An effective risk-assessment process provides the basis for developing appropriate risk responses and should include defining objectives to better identify risks and define risk tolerances, and identifying, analyzing, and responding to identified risks.

Condition and context—The County did not have documented risk-assessment policies and procedures. The County did not have a formal overall risk assessment process including a county-wide information technology (IT) security risk assessment over the County's IT resources, which include its systems, network, infrastructure, and data. Also, the County did not identify and classify sensitive information. Further, the County did not evaluate the impact disasters or other system interruptions could have on its critical IT resources.

Effect—There is an increased risk that the County's administration and IT management may not effectively identify, analyze, and respond to risks that may impact its IT resources.

Cause—The County did not document its entity-wide risk-assessment policies and procedures including a county-wide information technology security risk assessment.

Recommendations—To help ensure the County has effective policies and procedures to identify, analyze, and respond to risks that may impact its IT resources, the County needs to develop, document, and implement a county-wide IT risk-assessment process. The information below provides guidance to help the County achieve this objective:

- **Conduct an IT risk-assessment process at least annually—**A risk assessment process should include the identification of risk scenarios, including the scenarios' likelihood and magnitude; documentation and dissemination of results; reviewing by appropriate personnel; and prioritization of risks identified for remediation. An IT risk assessment could also incorporate any unremediated threats identified as part of an entity's security vulnerability scans.
- **Identify, classify, inventory, and protect sensitive information—**Security measures should be developed to identify, classify, and inventory sensitive information and protect it, such as implementing controls to prevent unauthorized access to that information. Policies and procedures should include the security categories into which information should be classified, details as to how to protect data in each category, as well as any state statutes and federal regulations that could apply, and require disclosure to affected parties if sensitive information covered by state statutes or federal regulations is compromised.
- **Evaluate the impact disasters or other system interruptions could have on critical IT resources—**The evaluation should identify key business processes and prioritize resuming these functions within time frames acceptable to the entity in the event of contingency plan activation. Further, evaluation results should be considered when developing its disaster recovery plan.

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

2016-05

The County should improve access controls over its information technology resources

Criteria—Logical and physical access controls help to protect the 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 documented logical and physical access 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 did not develop written policies and procedures for managing logical and physical access to its IT resources.

Recommendations—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County needs to develop and document effective logical and physical access policies and procedures over its IT resources and implement them county-wide, as appropriate. Further, the County should train staff on the policies and procedures. The information below provides guidance 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.
- **Manage shared accounts—**Shared accounts should be used only when appropriate and in accordance with an established policy authorizing the use of shared accounts. In addition, account credentials should be reissued on shared accounts when a group member leaves.
- **Monitor and review key activity of users—**Key activities of users and those with elevated access should be monitored and reviewed for propriety.
- **Improve network and system password policies—**Network and system password policies should require strong passwords and be applied to all accounts.
- **Protect IT resources with account lock outs—**System sessions should lock after defined periods of inactivity, repeated invalid logon attempts, and upon user request.
- **Adopt an official acceptable use agreement—**The agreement should be updated, as necessary, and signed by employees.

- **Manage employee-owned and entity-owned electronic devices connecting to the network—**The use of employee-owned and entity-owned electronic devices connecting to the network should be managed, including specifying configuration requirements and the data appropriate to access; inventorying devices; establishing controls to support wiping data; requiring security features, such as passwords, antivirus controls, file encryption, and software updates; and restricting the running of unauthorized software applications while connected to the network.
- **Manage remote access—**Security controls should be utilized for all remote access. These controls should include appropriately configuring security settings such as configuration/connection requirements and using encryption to protect remote sessions' confidentiality and integrity.
- **Segregate public and internal wireless networks and secure internal wireless network access—** Internal network wireless access should enforce secure configuration and connection requirements and utilize strong encryption.
- **Utilize data sharing agreements—**Data sharing agreements should include security restrictions to ensure access granted is limited to data subject to sharing. In addition, data sharing agreements should be monitored to ensure enforcement of data sharing security restrictions.
- **Disable unused infrastructure—**Ethernet ports in publicly accessible areas should be disabled.
- **Review data center access—**A periodic review of physical access granted to the data center should be performed to ensure that it's still needed.
- **Physically protect the data center—**Controls such as emergency power shutoff, backup power supply, fire protection and detection systems, temperature and humidity controls, and water damage protection should be used to physically protect the data center.
- **Protect sensitive information—**Security measures should be developed to protect sensitive information, such as implementing controls to prevent unauthorized access to that information.

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 2015-06.

2016-06

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 did not have a written contingency plan. Additionally, the County did not plan and prepare for contingency operations through the development of a sufficiently detailed contingency/disaster recovery plan that is documented, disseminated to appropriate staff who are trained on implementation of the plan, and tested on a regular basis for the County's significant information systems. Finally, the County did not consider and plan for an alternative operations site and did not prepare backups for information systems, data, and system documentation that are secure, tested, and available for use during the restoration process.

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 and document its 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. 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.

- **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.
- **Move critical operations to a separate alternative site—**Policies and procedures should be developed and documented for migrating critical IT operations to a separate alternative site for essential business functions, including putting contracts in place or equipping the alternative site to resume essential business functions, if necessary. The alternative site's information security safeguards should be equivalent to the primary site.
- **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.
- **Backup systems and data—**Establish and document policies and procedures for testing IT system software and data backups to help ensure they could be recovered if needed. Policies and procedures should require system software and data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be stored at an alternative site or in a fire-rated container.

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 2015-07.

2016-07

The County should comply with laws governing conflict of interest

Criteria—In accordance with Arizona Revised Statutes §38-503, any public officer or employee who has a substantial interest in any contract, sale, purchase, service, or decision of Gila County should make known that interest, and refrain from participating in any manner in the relevant contract, purchase, or decision in relation to that interest. 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 retain the conflict-of-interest forms that county employees prepared for the period July 1, 2015 through June 30, 2016.
- A county official disclosed a conflict of interest with an entity on a required financial disclosure statement; however, the official participated in awarding county monies to that entity during the fiscal year.

Effect—The County risks engaging in transactions with a conflict of interest that have not been disclosed and did not comply with state statutes in awarding county monies to an entity with a known conflict.

Cause—The county official was not aware of the requirement to abstain from awarding county monies to an entity with whom the official had a conflict of interest. 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 require all public officers and employees to complete conflict-of-interest forms annually, retain copies of conflict-of-interest forms for a period of 3 years, and develop policies and procedures that require all public officers to abstain from participating in awarding county monies to an entity with whom the officer has a conflict of interest.

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 2015-04.

2016-08

The County should comply with laws governing contributions to pension plans

Criteria—Arizona Revised Statutes §38-881 defines salary for the Corrections Officer Retirement Plan (CORP) to only include base salary, shift differential pay, military differential wage pay, and holiday pay. This definition does not include overtime pay. Employers and employees make contributions to the plan based on a percentage of the employees' salary and employees' retirement benefits are based on the salary amount.

Condition and context—The County calculated employer and employee CORP contributions including overtime pay for county detention officers and county dispatchers that participated in the plan. As a result, the County improperly contributed county monies equal to 14.17 percent of CORP Dispatchers and 8.54 percent of CORP Detention members overtime pay. In addition, the County improperly withheld employee contributions of 7.96 percent for CORP Dispatchers and 8.41 percent for CORP Detention from members' overtime pay during the fiscal year.

Effect—The County's contributions were based on improper salary amounts; therefore, the affected employees' retirement benefits may be incorrectly calculated.

Cause—On July 1, 2007, the County implemented the New World System (system), and the system was improperly programmed to automatically calculate the retirement contributions on salary including overtime pay for CORP employer and employee contributions.

Recommendation—To help ensure compliance with state laws, the County should develop policies and procedures to review monthly contributions to the retirement plans to ensure that the County's contributions are calculated based on the statutory requirements. In addition, the County should contact the Public Safety Personnel Retirement System to determine how it should address the prior employee withholdings and misstated salary amounts for pension calculation for CORP members.

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

Federal award findings and questioned costs

2016-101

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

Criteria—The County should prepare an accurate and complete schedule of expenditures of federal awards (SEFA) that reports federal award expenditures in accordance with Uniform Guidance, 2 Code of Federal Regulations (CFR) §200.510, and submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end in accordance with 2 CFR §200.512.

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 overstated its federal award expenditures by $141,421. Further, the federal reporting deadline for the County's 2016 single audit reporting package was March 31, 2017. However, the County did not issue its single audit reporting package until October 2018.

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 the Uniform Guidance, 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 2015-101.

2016-102

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 DI16002156, October 1, 2015 through September 30, 2019
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 the Intergovernmental Agreement with the Arizona Department of Economic Security and 2 CFR §200, appendix V, the County is required to prepare a central service cost allocation plan to include central service costs that will be claimed under federal awards. Further, in accordance with 2 CFR §200, appendix V, section E.1, the proposed plan must be accompanied by an organization chart sufficiently detailed to show operations. In addition, the proposal must include a signed certification from an official at the governmental unit. The signed certification must state that the costs included in the proposal are allowable in accordance with the Uniform Guidance requirements and the costs are properly allocable to federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the same costs that have been treated as indirect costs have not been claimed as direct costs. Also, in accordance with 2 CFR §200, appendix VII, section B.2, the indirect cost rate used should coincide with the County fiscal year. Lastly, in accordance with 2 CFR §200.303, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the award's terms and conditions.

Condition and context—During fiscal year 2016, the County received $179,761 of federal monies to recover indirect costs associated with the Child Support Enforcement program. However, the County did not have adequate review procedures in place to ensure the plan and proposal were compliant with 2 CFR §200. Specifically:

- The proposal did not include the required county organization charts, and the signed certification incorrectly referred to OMB Circular A-87 and had not been updated to comply with the Uniform Guidance.
- 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 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's fiscal year of July 1 through June 30, 2016. However, the County used a rate established for the County's fiscal year July 1 through June 30, 2015. Further, the indirect cost rate the Commissioner used did not include $917,817 in fees paid to contract attorney's in the indirect cost base, which resulted in an inequitable distribution of indirect costs.

Effect—The County received a higher recovery of indirect costs than it was entitled to receive.

Cause—Although the County used the services of a qualified outside consultant to prepare its fiscal year 2016 proposal in accordance with 2 CFR §200, 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 §200, 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 2015-102.

2016-103

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 DI16002156, October 1, 2015 through September 30, 2019
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirements:	Activities allowed or unallowed, allowable costs/cost principles, cash management, matching, period of availability of federal funds/period of performance, and reporting
Questioned costs:	$55,060

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 §200.465, rental costs of buildings and equipment are allowable charges to the program to the extent the rates are reasonable. Also, in accordance with 45 CFR §304.20, the County may be reimbursed for 66 percent of allowable expenditures incurred for administering the program. Lastly, in accordance with 2 CFR §200.303, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the award's terms and conditions.

Condition and context—During the fiscal year, the Division submitted program expenditure reimbursement requests to ADES that included $65,015 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 $36,819 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 $55,060. 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

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 §200, 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 2015-103.

2016-104

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 DI16002156, October 1, 2015 through September 30, 2019
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirements:	Allowable costs/cost principles; reporting
Questioned costs:	None

Criteria—In accordance with the Family Law Commissioner Office's (Commissioner) grant agreement with the Arizona Department of Economic Security (ADES), the Commissioner must submit its monthly Certified Public Expenditure Statement (CPES) by the 28th day of the month following the month services were provided. Further, in accordance with 2 CFR §200.302, nonfederal entities must maintain records that adequately identify the source and application of monies provided for federally funded activities. Lastly, in accordance with 2 CFR §200.303, the County must establish and maintain effective internal control over its federal award that provides reasonable assurance that the County is managing the award in compliance with federal statutes, regulations, and the award's terms and conditions.

Condition and context—During the fiscal year, the Commissioner incurred $39,652 in program expenditures; however, the Commissioner did not submit the required monthly CPES requests for reimbursement to ADES and did not receive reimbursement for the program costs. Further, the Commissioner'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 Commissioner did not receive the 66 percent reimbursement of program expenditures that it was entitled to receive.

Cause—The Commissioner did not submit the CPES requests by the due date. Further, the County did not have a properly designed account code structure.

Recommendation—To help ensure that the Commissioner complies with the grant agreement, the Commissioner should develop and implement policies and procedures to submit reimbursement requests to the pass-grantor by the due date. Further, in order to comply with 2 CFR §200.302, 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 2015-105.

2016-105

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, 2014 through September 30, 2015 N/A, October 1, 2015 through September 30, 2016
Federal agency:	**Department of Agriculture**
Compliance requirement:	Suspension and debarment
Questioned costs:	None

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. In addition, the County is required by 2 CFR §200.303 to maintain effective internal control over its Schools and Roads—Grants to States program to provide reasonable assurance that it is managing the federal award in compliance with federal statutes, regulations, and the award terms and conditions.

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 $331,460 to two vendors during the year 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 System for Award Management 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.

This finding is similar to prior-year finding 2015-107.

2016-106

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, 2014 through September 30, 2015 N/A, October 1, 2015 through September 30, 2016
Federal agency:	**Department of Agriculture**
Compliance requirement:	Cash management
Questioned costs:	Unknown

Criteria—In accordance with 2 CFR §200.305(b), 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. In addition, the County is required by 2 CFR §200.303 to maintain effective internal control over its Schools and Roads—Grants to States program to provide reasonable assurance that it is managing the federal award in compliance with federal statutes, regulations, and the award terms and conditions.

Condition and context—The County did not distribute $1,312,182 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.

Cause—The County Board of Supervisors did not meet to approve the disbursement of amounts allocated to the schools until 53 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 2015-106.

COUNTY SECTION

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2016

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						
10 551	Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Community Action Association	None	$ 2,956	
10 561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Department of Health Services	ADHS16-106556	175,671	85,000
	Total SNAP Cluster				178,627	85,000
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053062	300,241	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS12-010890	6,873	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			1,636,779	
10 704	Law Enforcement Agreements				74,000	
	Total Department of Agriculture				2,196,520	85,000
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, 127-16	102,561	
14 239	Home Investment Partnerships Program		Arizona Department of Housing	309-13	11,718	
14 871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster			355,343	
	Total Department of Housing and Urban Development				469,622	
Department of the Interior						
15 226	Payments in Lieu of Taxes				3,716,197	
Department of Justice						
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2015-253	6,542	
16 606	State Criminal Alien Assistance Program				6,093	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-16-004, DC-16-023	160,229	
16 Unknown	Domestic Cannabis Eradication and Suppression Program				30,255	
	Total Department of Justice				203,119	
Department of Transportation						
20 616	National Priority Safety Programs (Non-cash)	Highway Safety Cluster	Governor's Office of Highway Safety	2015-405D-502	86,835	
Department of Energy						
81 042	Weatherization Assistance for Low-Income Persons		Arizona Department of Commerce	EW-ESA-14-4181-02, LW-ESA-12-2182-02, SW-ESA-12-2182-02	120,193	
Department of Education						
84 002	Adult Education-Basic Grants to States		Arizona Department of Education	16FAEABE-613181-16B, 16FAEAEF-613181-16B , 16FAEWPL-613181-05A, 16FAEWIO-613181-05A, 16FAEADL-613181-16B, 16FAEAPL-613181-16B	53,320	
84 010	Title I Grants to Local Educational Agencies		Arizona Supreme Court	KR13-0132, KR15-0007, KR16-0008	16,279	

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2016

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	16FESCBG-611207-09A, 16FESSCG-613181-55B	5,667	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court	KR13-0132, KR15-0007, KR16-0008	3,843	
	Total Special Education Cluster (IDEA)				9,510	
84 041	Impact Aid				217,082	
84 365	English Language Acquisition State Grants		Arizona Department of Education	16FTIRLC-611207-04A, 16FELENG-613181-66A	10,419	
84 366	Mathematics and Science Partnerships		Arizona Department of Education	15-FSDSPG-513181-10C	329,717	42,852
84 367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)		Arizona Department of Education	16FT1TII-611207-03A	1,235	
84 367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)		Arizona Supreme Court	KR13-0067, KR13-0132, KR15-0007, KR16-0008	3,482	
	Total 84.367				4,717	
84 413	Race to the Top		Arizona Department of Education	13-02-EDSG	121,980	
	Total Department of Education				763,024	42,852
U.S. Election Assistance Commission						
90 401	Help America Vote Act Requirements Payments		Arizona Secretary of State	N/A	2,509	
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007886	228,612	
93 136	Injury Prevention and Control Research and State and Community Based Programs		Arizona Department of Health Services	ADHS16-110815	79,598	
93 243	Substance Abuse and Mental Health Services—Projects of Regional and National Significance				186,540	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041539	153,371	
93 505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		Arizona Department of Health Services	ADHS13-028437	102,766	
93 558	Temporary Assistance for Needy Families	TANF Cluster	Arizona Department of Economic Security	ADES15-089113	160,487	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DE111165001, DE111170001, DI16-002156	427,054	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	ADES15-089113	127,316	
93 569	Community Services Block Grant		Arizona Department of Economic Security	ADES15-089113	159,127	
93 667	Social Services Block Grant		Arizona Department of Economic Security	ADES15-089113	7,534	
93 917	HIV Care Formula Grants		Arizona Department of Health Services	ADHS13-040496	204,796	
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS13-031248	3,515	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS14-063025, ADHS15-094962, ADHS16-098369	50,372	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS12-010923, ADHS13-034536, ADHS15-094962, ADHS16-098369	94,589	
	Total Department of Health and Human Services				1,985,677	

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2016

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 Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2015-EP-00048, 1FDXE45S14HBO96	247,484	
	Total expenditures of federal awards				$ 9,791,180	$ 127,852

See accompanying notes to schedule.

Gila County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2016

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes Gila County's federal grant activity for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2 - Summary of significant accounting policies

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

Note 3 - Catalog of Federal Domestic Assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance.* When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

Note 4 - Indirect cost rate

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

COUNTY RESPONSE

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September 27, 2018

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

Dear Ms. Perry,

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and 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,

Mary Jane Springer
Finance Director

Gila County
Corrective Action Plan
Year Ended June 30, 2016

Financial Statement Findings

2016-01

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.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help ensure that the County's financial statements and note disclosures are accurate, complete, follow GAAP, and are issued in time to meet the Single Audit reporting requirements the County will develop and implement comprehensive written policies and procedures, dedicate appropriate staff who are assigned specific responsibilities independent of the person preparing the financial statements to review the statements and related note disclosures. County is working with Arizona AG office and outside consultant to expedite completion of past due financial statements and single audit. Gila County Finance Department has had tremendous turnover in the past few years however is planning to fill the open vacant positions with staff members qualified to perform these functions. Staffing should be complete by October 2018.

2016-02

The County needs to improve controls over its capital assets

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help ensure the County's capital assets are safeguarded against theft and misuse and accurately reported, the County will develop and implement capital asset procedures for properly classifying and disposing of capital assets and for performing a physical inventory at least every 2 years. Physical inventory was completed in 2017 by an outside consulting firm and staff is reconciling the physical inventory report to the existing capital asset listing. New capital asset policy will be presented to the Board of Supervisors and anticipated approval by October 2018. Training on new capital asset policy and proper procedures for disposal for all departments will follow Board adoption to be completed by December 2018.

2016-03

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

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help strengthen controls over departmental revenues and cash receipts, the County will develop, adopt, and implement written policies and procedures to provide guidance to its departments for collecting, recording, reconciling, and depositing cash receipts. New policies will be presented to the Board of Supervisors and anticipated approval by October 2018. In addition, the Finance staff will monitor the individual departments to ensure policies and procedures over recording revenues and controlling cash receipts are being followed.

2016-04

The County should improve its risk-assessment to include information technology security.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help improve its risk-analysis for information and technology security the County will develop and implement written policies and procedures to provide guidance to its departments to assist in identification and classification of sensitive information and how to safeguard information with proper controls. The policies will be presented to the Board of Supervisors by December 2018 for approval and will include a schedule to Identify, classify, inventory, and protect sensitive information. IT will provide training to all departments on the policy requirements after Board approval. IT will develop procedures to perform an IT risk-assessment process and conduct assessment at least annually and evaluate the impact disasters or other system interruptions could have on critical IT resources.

2016-05

The County should improve access controls over its information technology resources.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: 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 policies and procedures will be completed and presented for Board approval by December 2018. 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 and perform periodic reviews of employee user accounts to help ensure appropriate access to network systems are compatible with current job responsibilities.

2016-06

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

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: 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. Contingency planning procedures are planned to be completed by December 2018 and presented to the Board for approval. Training for all departments for IT contingency planning will follow Board approval.

2016-07

The County should comply with laws governing conflict of interest

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: September 30, 2018

Corrective Action Plan: To help ensure compliance with state laws, the County will develop procedures to verify all public officers 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 will review and compile a list of all declared conflicts to ensure potential conflicts are identified and affected public officials or staff is made aware of potential conflicts, so they would properly abstain from participating in awarding County monies to a known conflict. The list of declared conflicts will be compiled by staff and provided to appropriate personnel responsible for identifying the conflicts before any action is taken.

2016-08

The County should comply with laws governing contributions to pension plans.

Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: July 30, 2018

Corrective Action Plan: To help ensure compliance with laws governing contributions to pension plans, the County will revise procedures for setting up deduction codes in the financial software system to include the proper calculation for each pension group's contributions and will identify how the calculation is derived. Annually system hours codes will be reviewed to match pension statutes.

Federal Award Findings and Questioned Costs

2016-101

CFDA No.: NOT APPLICABLE
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: 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.

2016-102

CFDA No.: 93.563 Child Support Enforcement
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200, appendix V the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes and ensures the County is collecting and retaining supporting documentation, organizational charts, and signed certifications. The County will also oversee, review, and monitor the consultant responsible for preparing the Indirect Cost Plan to ensure the County is entitled to receive the appropriate indirect costs and include a separate indirect cost rate for the Family Law Commissioner’s Office (Commissioner) and Child Support Enforcement program.

2016-103

CFDA No.: 93.563 Child Support Enforcement
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200.465, 45 CFR §304.20, and 2 CFR 200.303 the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes. The County will provide appropriate guidance, training, and program oversight to departments to ensure all aspects of the grant follows Federal statutes, regulations and the terms and conditions of the award.

2016-104

CFDA No.: 93.563 Child Support Enforcement
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan – Child Support Enforcement: To help ensure that the County complies with 2 CFR §200.302 and 2 CFR §200.303, the County will establish clear policies and procedures that provides reasonable assurance that the County is managing the federal award in compliance with federal statutes. The County plans to hire a Grants Administrator to work with departments to ensure all aspects of the grant follows Federal statutes, regulations and the terms and conditions of the award and that timely submittal of CPES reports occur for each grant program. The County has implemented a change in the chart of accounts structure so that expenditures and reimbursements by a third party can be easily tracked in the accounting system.

2016-105

CFDA No.: 10.665 – Schools and Roads—Grants to States
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: To help ensure that it complies with 2 CFR §180.300 and §200.303 the program's requirements for suspension and debarment and managing the federal award in compliance with federal statutes, regulations and award terms and conditions, 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. New procurement policy will be presented to the Board in October 2018 for approval. The verification will be accomplished by obtaining vendor certifications with all contracts or adding clauses or conditions to contracts awards that are expected to equal or exceed $25,000. Documentation of the verification will be maintained in the procurement file.

2016-106

CFDA No.: 10.665 – Schools and Roads—Grants to States
Contact: Mary Jane Springer, Finance Director
Anticipated Completion Date: June 30, 2019

Corrective Action Plan: In accordance with 2 CFR §200.305(b), and §200.303 The County will ensure the Board of Supervisors approves the program allocations prior to receiving program monies. Additionally, the County will minimize the time elapsing between the transfer of funds and disbursement by the recipient.

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Gila County
Finance Department
1400 E. Ash Street, Globe, Arizona 85501

May 30, 2018

Ms. Lindsey Perry, Auditor General
State of Arizona, Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

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

Thank You,

Mary Jane Springer
Gila County Finance Director

Gila County
Annual summary schedule of prior audit findings

STATUS OF FINANCIAL FINDINGS

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner
Finding No.: 2015-01, 2014-01, 2013-001
Status: Not corrected

Corrective Action Plan: County is working with Arizona AG office and outside consultant to expedite completion of past due financial statements and single audit. Gila County Finance Department has had tremendous turnover in the past few years however is planning to fill the open vacant positions with staff members qualified to perform these functions. Staffing should be complete by August 2018.

The County needs to improve controls over its capital assets
Finding No.: 2015-02, 2014-02, 2013-001
Status: Not Corrected

Corrective Action Plan: Physical inventory was completed in 2017 by an outside consulting firm and staff is reconciling the physical inventory report to the existing capital asset listing. New capital asset policy will be presented to the Board of Supervisors and anticipated approval by October 2018.

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts.
Finding No.: 2015-03, 2014-03, 2013-001
Status: Not corrected

Corrective Action Plan: New financial policies have been written and are currently under review by the county attorney. Finance Department is planning to present new policies to the Board of Supervisors with an anticipated approval October 2018.

The County should comply with laws governing conflict of interest.
Finding No.: 2015-04
Status: Not corrected

Corrective Action Plan: All public officers currently prepare and file financial disclosure statements with the Elections Director annually and retain a copies of employee conflict-of-interest forms with the Human Resources Department for a period of 3 years. Forms are on file with the Elections Director and Human Resources.

The County should comply with laws governing preparation of budgets.
Finding No.: 2015-05, 2014-06
Status: Not corrected

Corrective Action Plan: New financial policies have been written and are currently under review by the county attorney. Finance is planning to present new policies to the Board of Supervisors with an anticipated approval October 2018.

The County should improve access controls over its information technology resources.
Finding No.: 2015-06, 2014-07
Status: Not corrected

Corrective Action Plan: The County's IT department is collaborating with three other Arizona counties to develop standards and best practices and implement them county-wide, as appropriate to ensure adequate controls are in place over the county's technology resources. Further the County will train staff on the policies and procedures. New policies and procedures are targeted to be in place by December 2018.

The County should improve its contingency planning procedures for its information technology resources.
Finding No.: 2015-07, 2014-08
Status: Not corrected

Corrective Action Plan: The County's IT department is collaborating with three other Arizona counties to develop standards and best to ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption. New policies and procedures are targeted to be in place by December 2018.

STATUS OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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 the SEFA is accurate and complete.
CFDA No.: Not Applicable
Finding No.: 2015-101, 2014-101, 2013-002, 2013-004, 2013-003, 2012-19, 2012-15, 2011-19, 2010-21
Status: Not corrected

Corrective Action Plan: New fiscal policies are currently under review by the county attorney and upon final review process will be presented to the Board of Supervisors and anticipated to be adopted in July 2018. In addition, the Finance Department will be hiring a grants administrator who will work with the departments and review reimbursement requests to ensure only allowable costs with proper supporting documentation are submitted. Hiring process should be completed by August 2018.

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.
CFDA No.: 17.258 WIA/WIOA Adult Program
CFDA No.: 17.259 WIA/WIOA Youth Program
CFDA No.: 17.278 WIA/WIOA Dislocated Worker Formula Grants
CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2015-102, 2014-102
Status: Not Corrected

Corrective Action Plan-WIA/WIOA: 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.

Corrective Action Plan – Child Support Enforcement: New fiscal policies are currently under review by the county attorney and upon final review process will be presented to the Board of Supervisors and anticipated to be adopted in July 2018. In addition, the Finance Department will be hiring a grants administrator who will work with the departments and review reimbursement requests to ensure only allowable costs with proper supporting documentation are submitted. Hiring process should be completed by August 2018.

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. The Division should improve its procedures to ensure all program costs charged to the program and claimed for reimbursement are allowable costs and adequately supported and that the rates charged are reasonable and in accordance with federal cost principles.
for CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2015-103, 2014-103, 2013-006
Status: Not corrected

Corrective Action Plan: In an effort to ensure that the Division complies with 2 CFR §225 the Finance Department will be hiring a grants administrator who will work with the departments and review reimbursement requests to ensure only allowable costs with proper supporting documentation are submitted. Hiring process should be completed by August 2018.

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. The Commissioner should improve procedures to help ensure that financial results are accurate, current, and complete.
for CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2015-104, 2014-104, 2013-006
Status: Not corrected

Corrective Action Plan: Concur. New fiscal policies are currently under review by the county attorney and upon final review process will be presented to the Board of Supervisors and anticipated to be adopted in October 2018. In 2018 Finance implemented e-timesheets for all county departments to ensure timely and accurate reporting of hours worked.

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.
for CFDA No.: 93.563 Child Support Enforcement
Finding No.: 2015-105, 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

Corrective Action Plan: The Finance Department sets up fund accounts to track expenditures that are reimbursed by a third party. Once the financial audits are caught up and current the county will plan for the restructuring of its chart of accounts.

The County should ensure the Board of Supervisors approve the program allocations prior to receiving program monies. The County should minimize the time elapsing between transfer of funds and disbursement by recipient.
for CFDA No.: 10.665 Forest Service Schools and Roads Cluster, Schools and Roads – Grants to States
Finding No.: 2015-106, 2014-106, 2013-007
Status: Not corrected

Corrective Action Plan: Finance Department will coordinate with the Public Works Department to ensure allocations are identified and approved by the Board of Supervisors prior to when funds are received then coordinate with the Treasurer to ensure that funds are properly dispersed.

The County did not have effective policies and procedures over its procurement to verify that vendors have not been suspended or debarred.
for CFDA No.: 10.665 Forest Service Schools and Roads Cluster, Schools and Roads – Grants to States
Finding No.: 2015-107
Status: Not corrected

Corrective Action Plan: Suspension and debarment clauses have been incorporated into all county contracts and verification is conducted by the procurement department at time of vendor submission.

The County did not enter into an agreement with the depository in the form required by HUD.
for CFDA No.: 14.871 Section 8 Housing Choice Vouchers
Finding No.: 2013-008
Status: Not Corrected

Corrective Action Plan: Community Services Department will work with current banking institution to ensure accounts meet the HUD requirements in accordance with 24 CFR 982.156(c) June 2018.

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Auditor General
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