

**Gila County, Arizona**  
**Single Audit Reporting Package**  
**June 30, 2001**

**Table of Contents**

	<b>Page</b>
<b>Independent Auditors' Report</b> .....	1-2
<b>General Purpose Financial Statements</b>	
Combined Balance Sheet-All Fund Types and Account Groups.....	3-4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances All Governmental Fund Types.....	5
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual-All Governmental Fund Types .....	6-8
Statement of Net Assets-Investment Trust Fund .....	9
Statement of Changes in Net Assets-Investment Trust Fund .....	10
Notes to Financial Statements.....	11-24
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards.....	26-28
Notes to Schedule of Expenditures of Federal Awards .....	29
<b>Reports on Compliance and Internal Control</b>	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	31-32
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-1 33.....	33-34
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results.....	35
Financial Statement Findings .....	36-37
<b>County Responses</b>	
Corrective Action Plan.....	39-42
Summary Schedule of Prior Audit Findings.....	43-44

## Independent Auditors' Report

The Auditor General of the State of Arizona

The Board of Supervisors of  
Gila County, Arizona

We have audited the accompanying general purpose financial statements of Gila County as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as explained in the third and fourth paragraphs, 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The County did not maintain adequate accounting records to support interfund receivables and payables. As a result, we were unable to satisfy ourselves as to the amounts at which interfund receivables and payables are reported in the general purpose financial statements.

The records of the General Fixed Assets Account Group were incomplete as to cost. As a result, we were unable to satisfy ourselves as to the stated cost of the assets reported in the General Fixed Assets Account Group.

In our opinion, except for the effects, if any, of the matters set forth in the third and fourth paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Gila County as of June 30, 2001, and the results of its operations, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of Gila County taken as a whole. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2002 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Walker & Armstrong LLP  
Certified Public Accountants

Phoenix, Arizona  
June 7, 2002

**Gila County**  
**Combined Balance Sheet - All Fund Types and Account Groups**  
**June 30, 2001**

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Debt Service	Trust and Agency	General Fixed Assets	General Long- Term Debt
<b>Assets and Other Debits</b>						
Cash and cash equivalents	\$ 3,319,163	\$ 4,841,318	\$ 392	\$ 50,608,856	\$ -	\$ -
Investments held by trustee	2,653,515	-	326,366	-	-	-
Receivables:						
Property taxes	533,431	31,105	-	-	-	-
Other	231,088	349,893	-	-	-	-
Due from:						
Other funds	1,398,902	1,871,883	-	-	-	-
Other governments	815,780	1,560,728	-	-	-	-
Prepaid items	44,724	925	-	-	-	-
Fixed assets:						
Land	-	-	-	-	621,377	-
Buildings and improvements	-	-	-	-	7,060,395	-
Machinery and equipment	-	-	-	-	15,643,281	-
Amount available in debt service fund	-	-	-	-	-	326,758
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	10,011,310
<b>Total assets</b>	<b>\$ 8,996,603</b>	<b>\$ 8,655,852</b>	<b>\$ 326,758</b>	<b>\$ 50,608,856</b>	<b>\$ 23,325,053</b>	<b>\$ 10,338,068</b>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Balance Sheet - All Fund Types and Account Groups - Continued**  
**June 30, 2001**

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Debt Service	Trust and Agency	General Fixed Assets	General Long- Term Debt
<b>Liabilities, Fund Equity and Other Credits</b>						
Liabilities:						
Accounts payable	\$ 1,426,628	\$ 1,197,707	\$ -	\$ -	\$ -	\$ -
Accrued payroll and employee benefits	434,842	295,405	-	-	-	1,114,931
Due to:						
Other funds	1,056,716	2,839,313	-	-	-	-
Other governments	-	10,929	-	199,291	-	-
Deposits held for others	-	-	-	379,135	-	-
Obligations under capital leases	-	-	-	-	-	4,206,989
Landfill closure and postclosure costs	-	-	-	-	-	2,126,148
Certificates of participation payable	-	-	-	-	-	2,890,000
Deferred revenues	370,291	21,297	-	-	-	-
<b>Total liabilities</b>	<b>3,288,477</b>	<b>4,364,651</b>	<b>-</b>	<b>578,426</b>	<b>-</b>	<b>10,338,068</b>
Fund equity and other credits:						
Investment in general fixed assets	-	-	-	-	23,325,053	-
Fund balances:						
Reserved for investment trust participants	-	-	-	50,030,430	-	-
Unreserved	5,708,126	4,291,201	326,758	-	-	-
<b>Total fund equity and other credits</b>	<b>5,708,126</b>	<b>4,291,201</b>	<b>326,758</b>	<b>50,030,430</b>	<b>23,325,053</b>	<b>-</b>
<b>Total liabilities, fund equity, and other credits</b>	<b>\$ 8,996,603</b>	<b>\$ 8,655,852</b>	<b>\$ 326,758</b>	<b>\$ 50,608,856</b>	<b>\$ 23,325,053</b>	<b>\$ 10,338,068</b>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**All Governmental Fund Types**  
**Year Ended June 30, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<b>Revenues:</b>			
Taxes	\$ 20,166,014	\$ 4,197,397	\$ -
Licenses and permits	350,918	308,540	-
Intergovernmental	2,410,168	12,431,311	-
Charges for services	3,507,153	430,311	-
Fines and forfeits	842,961	216,685	-
Investment income	406,824	250,432	5,981
Miscellaneous	884,259	1,035,287	-
Total revenues	<u>28,568,297</u>	<u>18,869,963</u>	<u>5,981</u>
<b>Expenditures:</b>			
Current:			
General government	9,903,759	1,725,459	-
Public safety	7,346,370	2,578,555	-
Highways and streets	21,083	6,711,622	-
Health, welfare, and sanitation	8,539,863	6,184,031	-
Culture and recreation	101,962	672,887	-
Education	1,163,422	186,224	-
Capital outlay	1,321,890	948,474	-
Debt service:			
Principal retirement	-	-	140,000
Interest and fiscal charges	-	-	191,840
Total expenditures	<u>28,398,349</u>	<u>19,007,252</u>	<u>331,840</u>
Excess (deficiency) of revenues over expenditures	169,948	(137,289)	(325,859)
<b>Other financing sources (uses):</b>			
Operating transfers in	2,077,648	2,561,593	319,546
Operating transfers out	(3,916,938)	(1,041,849)	-
Net other financing sources (uses)	<u>(1,839,290)</u>	<u>1,519,744</u>	<u>319,546</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(1,669,342)	1,382,455	(6,313)
Fund balances, beginning of year	<u>7,377,468</u>	<u>2,908,746</u>	<u>333,071</u>
Fund balances, end of year	<u>\$ 5,708,126</u>	<u>\$ 4,291,201</u>	<u>\$ 326,758</u>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - All Governmental Fund Types**  
**Year Ended June 30, 2001**

	General Fund			Special Revenue Funds			Debt Service Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>									
Taxes	\$ 18,807,953	\$ 20,166,014	\$ 1,358,061	\$ 3,590,785	\$ 4,197,397	\$ 606,612	\$ -	\$ -	\$ -
Licenses and permits	415,000	350,918	(64,082)	326,270	308,540	(17,730)	-	-	-
Intergovernmental	3,134,572	2,410,168	(724,404)	11,617,717	12,431,311	813,594	-	-	-
Charges for services	2,691,112	3,507,153	816,041	155,700	430,311	274,611	-	-	-
Fines and forfeits	635,000	842,961	207,961	255,050	216,685	(38,365)	-	-	-
Investment income	150,000	406,824	256,824	30,000	250,432	220,432	-	5,981	5,981
Miscellaneous	407,543	884,259	476,716	378,014	1,035,287	657,273	-	-	-
Total revenues	26,241,180	28,568,297	2,327,117	16,353,536	18,869,963	2,516,427	-	5,981	5,981
<b>Expenditures:</b>									
Current:									
General government									
Administrative services	72,604	75,028	(2,424)	-	-	-	-	-	-
Assessor	595,543	614,573	(19,030)	-	-	-	-	-	-
Board of Supervisors	410,224	401,106	9,118	-	-	-	-	-	-
Clerk of the Superior Court	757,147	737,717	19,430	145,005	24,805	120,200	-	-	-
Computer services	392,678	546,735	(154,057)	-	-	-	-	-	-
Constable - Globe	46,982	42,132	4,850	-	-	-	-	-	-
Constable - Payson	76,236	74,946	1,290	-	-	-	-	-	-
County Attorney	-	-	-	887,675	1,087,087	(199,412)	-	-	-
Elections	247,342	243,116	4,226	-	-	-	-	-	-
Facilities management	878,862	806,927	71,935	-	-	-	-	-	-
Finance	396,655	518,003	(121,348)	-	88,853	(88,853)	-	-	-
General administration	4,835,544	2,372,839	2,462,705	-	-	-	-	-	-
Indigent legal	936,043	852,471	83,572	-	-	-	-	-	-
Justice Court - Globe	409,434	395,880	13,554	48,300	-	48,300	-	-	-
Justice Court - Payson	366,845	350,687	16,158	90,000	-	90,000	-	-	-
Law library	-	-	-	104,787	93,290	11,497	-	-	-
Multi-information systems	-	-	-	203,970	185,092	18,878	-	-	-
Payroll costs	295,000	207,645	87,355	-	-	-	-	-	-
Personnel	132,696	127,203	5,493	-	-	-	-	-	-
Purchasing	52,369	45,942	6,427	-	-	-	-	-	-
Recorder	353,715	353,416	299	84,100	75,333	8,767	-	-	-
Superior Court - general	505,149	460,412	44,737	249,984	170,999	78,985	-	-	-
Superior Court - division I	185,782	192,885	(7,103)	-	-	-	-	-	-
Superior Court - division II	160,275	160,108	167	-	-	-	-	-	-
Treasurer	325,787	323,988	1,799	15,700	-	15,700	-	-	-
Total general government	12,432,912	9,903,759	2,529,153	1,829,521	1,725,459	104,062	-	-	-

The accompanying notes are an integral part of these financial statements.



**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - All Governmental Fund Types - Continued**  
**Year Ended June 30, 2001**

	General Fund			Special Revenue Funds			Debt Service Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Public safety									
County attorney	\$ 1,111,029	\$ 712,262	\$ 398,767	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
County attorney - child support	460,140	480,533	(20,393)	-	-	-	-	-	-
County sheriff	4,836,021	4,685,931	150,090	879,400	517,391	362,009	-	-	-
Juvenile detention	384,783	649,509	(264,726)	-	-	-	-	-	-
Probation	658,542	818,135	(159,593)	2,178,728	2,050,493	128,235	-	-	-
Street light improvement districts	-	-	-	-	10,671	(10,671)	-	-	-
Total public safety	7,450,515	7,346,370	104,145	3,058,128	2,578,555	479,573	-	-	-
Highways and streets									
Engineering services	-	-	-	1,606,327	1,493,973	112,354	-	-	-
Road fund	-	21,083	(21,083)	5,680,240	5,217,649	462,591	-	-	-
Total highways and streets	-	21,083	(21,083)	7,286,567	6,711,622	574,945	-	-	-
Health, welfare, and sanitation									
9-1-1 installation	258,188	249,382	8,806	-	-	-	-	-	-
Community development	780,822	754,331	26,491	4,973,320	4,557,738	415,582	-	-	-
Emergency services	172,285	166,703	5,582	-	-	-	-	-	-
Flood plain management	25,320	24,847	473	-	-	-	-	-	-
Health services	-	-	-	1,577,748	1,515,428	62,320	-	-	-
Indigent health	634,640	3,185,570	(2,550,930)	-	-	-	-	-	-
Public fiduciary	180,309	1,200,581	(1,020,272)	-	-	-	-	-	-
Rural addressing/GIS	61,363	39,408	21,955	-	-	-	-	-	-
Solid waste	3,999,500	2,919,041	1,080,459	170,000	110,865	59,135	-	-	-
Total health, welfare, and sanitation	6,112,427	8,539,863	(2,427,436)	6,721,068	6,184,031	537,037	-	-	-
Culture and recreation									
Fairgrounds	114,535	101,962	12,573	-	-	-	-	-	-
Library district	-	-	-	663,817	672,887	(9,070)	-	-	-
Total culture and recreation	114,535	101,962	12,573	663,817	672,887	(9,070)	-	-	-

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - All Governmental Fund Types - Continued**  
**Year Ended June 30, 2001**

	<u>General Fund</u>			<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Education									
School superintendent	\$ 208,811	\$ 207,811	\$ 1,000	\$ 227,870	\$ 186,224	\$ 41,646	\$ -	\$ -	\$ -
Community college development	<u>955,482</u>	<u>955,611</u>	<u>(129)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total education	1,164,293	1,163,422	871	227,870	186,224	41,646	-	-	-
Contingency	477,044	-	477,044	-	-	-	-	-	-
Capital outlay	331,451	1,321,890	(990,439)	670,727	948,474	(277,747)	-	-	-
Debt service									
Principal retirement	-	-	-	-	-	-	140,000	140,000	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,840</u>	<u>191,840</u>	<u>10,000</u>
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>341,840</u>	<u>331,840</u>	<u>10,000</u>
Total expenditures	<u>28,083,177</u>	<u>28,398,349</u>	<u>(315,172)</u>	<u>20,457,698</u>	<u>19,007,252</u>	<u>1,450,446</u>	<u>341,840</u>	<u>331,840</u>	<u>10,000</u>
<b>Excess (deficiency)</b>									
<b>of revenues over expenditures</b>	(1,841,997)	169,948	2,011,945	(4,104,162)	(137,289)	3,966,873	(341,840)	(325,859)	15,981
<b>Other financing sources (uses)</b>									
Operating transfers in	1,065,672	2,077,648	1,011,976	1,552,069	2,561,593	1,009,524	-	319,546	319,546
Operating transfers out	<u>(2,547,741)</u>	<u>(3,916,938)</u>	<u>(1,369,197)</u>	<u>(70,000)</u>	<u>(1,041,849)</u>	<u>(971,849)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>(1,482,069)</u>	<u>(1,839,290)</u>	<u>(357,221)</u>	<u>1,482,069</u>	<u>1,519,744</u>	<u>37,675</u>	<u>-</u>	<u>319,546</u>	<u>319,546</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(3,324,066)	(1,669,342)	1,654,724	(2,622,093)	1,382,455	4,004,548	(341,840)	(6,313)	335,527
Fund balances, beginning of year	<u>3,324,066</u>	<u>7,377,468</u>	<u>4,053,402</u>	<u>2,622,093</u>	<u>2,908,746</u>	<u>286,653</u>	<u>341,840</u>	<u>333,071</u>	<u>(8,769)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 5,708,126</u>	<u>\$ 5,708,126</u>	<u>\$ -</u>	<u>\$ 4,291,201</u>	<u>\$ 4,291,201</u>	<u>\$ -</u>	<u>\$ 326,758</u>	<u>\$ 326,758</u>

The accompanying notes are an integral part of these financial statements.

**Gila County  
Statement of Net Assets  
Investment Trust Fund  
Year Ended June 30, 2001**

---

**Assets**

Cash and cash equivalents	\$ 50,030,430
Total Assets	50,030,430
Total Liabilities	<u>-</u>
Net assets held in trust	<u>\$ 50,030,430</u>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Statement of Changes in Net Assets**  
**Investment Trust Fund**  
**Year Ended June 30, 2001**

---

Additions:	
Contributions from participants	\$ 85,633,194
Net investment income	<u>2,753,923</u>
Total Additions	<u>88,387,117</u>
Deductions:	
Distributions to participants	<u>80,152,771</u>
Net increase in net assets	8,234,346
Net assets held in trust	
July 1, 2000	<u>41,796,084</u>
June 30, 2001	<u><u>\$ 50,030,430</u></u>

The accompanying notes are an integral part of these financial statements.

**Gila County**  
**Notes to Financial Statements**  
**June 30, 2001**

---

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Gila County conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, highway and street maintenance and construction, health, welfare, and sanitation, culture and recreation, and education.

***Reporting Entity***

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. These general purpose financial statements present all the fund types and account groups of the County (a 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 in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. The blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

**Blended Component Unit** – The Gila County Municipal Property Corporation is a nonprofit organization established under Arizona law for the purpose of acquiring property and building improvements for the County. The County Board of Supervisors appoints the Corporation's Board of Directors and, therefore, the Corporation's transactions have been accounted for within the County's governmental fund types and account groups.

Separate financial statements of the Gila County Municipal Property Corporation are not prepared.

***Fund Accounting***

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

## Notes to Financial Statements – Continued

---

### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***Fund Accounting – Continued***

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows.

**Governmental Funds** account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types.

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

The *Special Revenue Funds* account for specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

**Fiduciary Funds** account for assets the County holds on behalf of others, and include the following fund types.

The *Investment Trust Fund* accounts for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

**Account Groups** are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all of the County's fixed assets.

The *General Long-Term Debt Account Group* accounts for all of the County's long-term obligations.

#### ***Basis of Accounting***

The financial statements of the Governmental and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due.

## Notes to Financial Statements – Continued

---

### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***Basis of Accounting – Continued***

Revenues susceptible to accrual are property taxes; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the County's behalf. Fines and forfeits and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Investment Trust Fund are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

#### ***Budgeting and Budgetary Control***

Arizona Revised Statutes (A.R.S.) require the County to prepare and adopt a balanced budget annually for each separate 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. prohibit expenditures or liabilities in excess of the amounts budgeted.

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue, and Debt Service Funds.

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 approval of the Board of Supervisors.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

#### ***Cash and Investments***

All investments are stated at fair value.

#### ***Inventories***

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2001, were immaterial, they are not included in the balance sheet.

## Notes to Financial Statements – Continued

---

### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***Fixed Assets***

Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, and drainage and lighting systems, are not capitalized.

#### ***Compensated Absences***

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and therefore, are not accrued. However upon retirement, employees who have accumulated at least 1,000 hours of sick leave receive a \$3,000 bonus.

The liability for vested compensated absences of the Governmental Funds is recorded in the General Long-Term Debt Account Group since the amount expected to be paid from current financial resources is not significant.

#### ***Investment Income***

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

#### ***Property Taxes***

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.



## Notes to Financial Statements – Continued

### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### *Intergovernmental Grants and Aid*

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

### **Note 2 – Excess of Expenditures over Appropriations**

Thirteen General Fund departments and five Special Revenue Funds had an excess of actual expenditures over appropriations as reported on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-All Governmental Fund Types. Generally, the excesses were the result of unexpected expenditures in those departments during the year.

### **Note 3 – Individual Fund Deficits**

The following Special Revenue Funds had significant fund deficits as of June 30, 2001:

<b>Fund</b>	<b>Deficit</b>
Attorney's Justice Enhancement	\$ 10,973
Bad Check-County Attorney	7,422
Drug Enforcement – Superior Court	11,351
Case Processing Fund	2,684
Criminal History Improvement	10,511
Video Conference	226,054
Health Services Fund	412,921
Indigent Defense Extraordinary	10,000
Adult Drug Court	9,823
Adult Intensive Probation Services	52,314
Adult Probation Service Fees	35,390
Community Punishment Program	2,152
Court Appointed Special Advocate	10,251
Diversion – Consequences	22,386
Drug Treatment Education	12,051
Juvenile Drug Court	5,501
Parole Services	1,127
Globe Safe Schools	1,367
State Aid Enhancement	110,267
District Two Equipment	4,132
Narcotics Task Force/Sheriff	19,465
Juvenile Victim's Rights	7,688
Drug Prosecution	135,331
Crime Victim Compensation Fund	22,049

## Notes to Financial Statements – Continued

---

### **Note 3 – Individual Fund Deficits - Continued**

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 operating transfers in future years.

### **Note 4 – Deposits and Investments**

Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

*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 (see Note 13). Those monies are pooled with County monies for investment purposes.

*Deposits* – At June 30, 2001, the investment pool had cash on hand of \$6,000. The carrying amount of the investment pool's total cash in bank was \$822,935, and the bank balance was \$849,864. Of the bank balance, \$61,897 was covered by federal depository insurance and \$787,967 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

*Investments* – At June 30, 2001, the investments in the County Treasurer's investment pool consisted of U.S. government securities with a fair value of \$54,153,782 and money market funds invested in U.S. government securities with a fair value of \$2,733,915. The County's investments in U.S. government securities were uninsured and unregistered with the securities held by the counterparty, but not in the County's name. The County's investments in the money market funds represents a proportionate interest in that fund's portfolio; however, the County's portion is not identified with specific investments and, therefore, not subject to custodial credit risk.

*Other Deposits*-At June 30, 2001, the carrying amount of the County's total nonpooled cash on hand was \$2,070. The carrying amount of the County's total nonpooled cash in bank was \$1,051,027, and the bank balance was \$1,060,529. Of the bank balance, \$381,141 was covered by federal depository insurance; \$325,969 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name; and \$353,419 was uninsured and uncollateralized.

*Investments held by trustee* – The \$2,979,881 of investments held by the trustee, consisting of U.S. government securities, were uninsured and unregistered with the securities held by the counterparty, but not in the County's name.

**Notes to Financial Statements – Continued**

**Note 4 – Deposits and Investments – Continued**

A reconciliation of cash and investments to amounts shown on the combined balance sheet follows.

	County Treasurer's Investment Pool	Other	Total
<b><i>Cash and investments:</i></b>			
Cash on hand	\$ 6,000	\$ 2,070	\$ 8,070
Carrying amount of deposits	822,935	1,051,027	1,873,962
Reported amount of investments	56,887,697	2,979,881	59,867,578
Total cash and investments	<u>\$ 57,716,632</u>	<u>\$ 4,032,978</u>	<u>\$ 61,749,610</u>
 <b><i>Combined Balance Sheet:</i></b>			
Cash and cash equivalents			\$ 58,769,729
Investments held by trustee			2,979,881
Total			<u>\$ 61,749,610</u>

**Note 5 – Property Taxes Receivable**

The County levies real 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.

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

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

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2001, were as follows:

Fiscal Year	General Fund	Special Revenue Fund
2000-2001	\$ 499,547	\$ 30,535
Prior	33,884	570
Total	<u>\$ 533,431</u>	<u>\$ 31,105</u>

That portion of property taxes receivable not collected within 60 days after June 30, 2001, has been deferred and, consequently, is not included in current-year revenues.

**Notes to Financial Statements – Continued**

**Note 6 – Due from Other Governments**

Amounts due from other governments at June 30, 2001, in the General Fund include \$226,872 in county excise taxes; \$134,688 in sales taxes from the State of Arizona; \$48,125 in vehicle license taxes from the State of Arizona; \$202,800 in disproportionate share revenue from the State of Arizona; and \$203,295 from various other grants.

Amounts due from other governments in the Special Revenue Funds include \$295,873 in state-shared revenue from highway user taxes and \$231,137 in county excise taxes. The remaining balance of \$1,033,718 consists of grants from the state and federal governments.

**Note 7 – Certificates of Participation Payable**

During the year ended June 30, 2000, the County issued \$3,245,000 in certificates of participation with an interest rate of 6.4 percent to finance renovation costs for a newly-acquired county administration building and several other County buildings, and to refund the outstanding 1991 Series A certificates of participation. The certificates are generally noncallable, with interest payable semiannually.

Principal and interest requirements at June 30, 2001, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2000</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2001</u>
Series 1999	6.4%	11/24/00-5/24/14	\$ 3,030,000	\$ -	\$ 140,000	\$ 2,890,000

Certificates of participation debt service requirements to maturity, including \$1,409,120 of interest, are as follows:

Year ending June 30,	
2002	\$ 332,560
2003	327,960
2004	332,720
2005	331,680
2006	330,000
Thereafter	<u>2,644,200</u>
Total	<u>\$ 4,299,120</u>

**Note 8 – Obligations Under Capital Leases**

The County has acquired machinery and equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term. Accordingly, such assets totaling \$6,274,379 at June 30, 2001, are capitalized in the General Fixed Assets Account Group. In addition, capital lease proceeds of \$535,871 are being held by the County Treasurer for future landfill projects.

## Notes to Financial Statements – Continued

### Note 8 – Obligations Under Capital Leases – Continued

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments at June 30, 2001, were as follows:

	General Long-Term Debt Account Group
Year ending June 30,	
2002	\$ 1,220,707
2003	1,087,269
2004	781,158
2005	442,745
2006	396,305
Thereafter	990,843
Total minimum lease payments	<u>4,919,027</u>
Less amount representing interest	<u>712,038</u>
Present value of net minimum lease payments	<u>\$ 4,206,989</u>

### Note 9 – 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 as an addition to the General Long-Term Debt Account Group in each period based on landfill capacity used as of each balance sheet date. The \$2,126,148 reported as landfill closure and postclosure care liability at June 30, 2001, represents the cumulative amount reported to date based on the approximate use of 47 percent of the estimated capacity of the landfills. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,134,079 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 2001. The County has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2009 and 2017. The actual costs may be higher due to inflation, changes in technology, or changes in regulations.

In order to comply with state and federal laws and regulations, the County obtained a letter of credit on September 22, 1999, to ensure the costs of landfill closure, postclosure, and possible corrective action can be met. As part of the agreement for the line of credit, the County established a mandatory sinking fund with an escrow agent. The sinking fund balance will equal the estimated landfill closure and postclosure care costs when the landfills are expected to close. The County's annual payments to comply with this agreement total \$518,756. The County entered this agreement as an alternative to complying with the local government financial test requirements.

## Notes to Financial Statements – Continued

---

### **Note 10 – Risk Management**

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 for each occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. A county must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance triennially. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

The County provides life, health, and disability benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust currently composed of six member counties. The Trust provides the benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and may require its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

**Notes to Financial Statements – Continued**

**Note 11 – Changes in Long-Term Liabilities**

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group follows.

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
Accrued payroll and employee benefits	\$ 882,886	\$ 232,045	\$ -	\$ 1,114,931
Obligations under capital leases	6,071,604	-	1,864,615	4,206,989
Landfill closure and postclosure care costs payable	1,530,736	595,412	-	2,126,148
Certificates of participation payable	3,030,000	-	140,000	2,890,000
Total	<u>\$ 11,515,226</u>	<u>\$ 827,457</u>	<u>\$ 2,004,615</u>	<u>\$ 10,338,068</u>

**Note 12 – Retirement Plans**

***Plan Descriptions***

The County contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan (EORP)* is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.

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

ASRS  
3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910

PSPRS and EORP  
1020 E. Missouri Avenue  
Phoenix, AZ 85014

(602) 240-2000 or (800) 621-3778

(602) 255-5575

## Notes to Financial Statements – Continued

### Note 12 – Retirement Plans – Continued

#### *Funding Policy*

The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

*Cost-sharing plans* – For the year ended June 30, 2001, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2001, 2000 and 1999 were \$293,375, \$361,711 and \$416,421, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of court docket fees plus additional contributions of 0.73 percent of the member's annual covered payroll, as determined by actuarial valuation. The County's contributions to EORP for the years ended June 30, 2001, 2000, and 1999 were \$6,013, \$6,947, and \$0, respectively, which were equal to the required contributions for the year.

*Agent plan*—For the year ended June 30, 2001, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 8.74 percent.

**Annual Pension Cost** – The County's pension cost for the PSPRS for the year ended June 30, 2001, and related information follow.

	<u>PSPRS</u>
Contribution rates:	
County	8.74%
Plan members	7.65%
Annual pension costs	\$112,694
Contributions made	\$112,694

The current-year annual required contribution for the PSPRS was determined as apart of their June 30, 1999, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 1999, was 20 years.

**Trend Information** – Annual pension cost information for the current and two preceding years follows for the PSPRS plan.



**Notes to Financial Statements – Continued**

**Note 12 – Retirement Plans – Continued**

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2001	\$ 112,694	100%	\$ -
	2000	75,174	100	-
	1999	89,513	100	-

**Analysis of Funding Progress** – The following information was obtained from the three most recent actuarial valuations of the PSPRS plan.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</u>
6/30/01	\$ 5,588,847	\$ 4,612,648	\$ 976,199	121.2%	\$ 1,128,987	-
6/30/00	5,015,760	4,424,431	591,329	113.4	1,341,317	-
6/30/99	4,431,615	4,163,302	268,313	106.4	1,266,143	-

**Note 13 – 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 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.

Details of each investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. government securities	\$ 53,825,976	3.35-7.09%	7/23/01-5/24/04	\$ 54,153,782
U.S. government securities money market	2,733,915	None stated	None stated	2,733,915

**Notes to Financial Statements – Continued**

---

**Note 13 – County Treasurer's Investment Pool – Continued**

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

<b>Statement of Net Assets</b>	
Assets	\$ 57,716,632
Liabilities	-
Net assets	<u>\$ 57,716,632</u>
Net assets held in trust for:	
Internal participants	\$ 7,686,202
External participants	50,030,430
Total net assets held in trust	<u>\$ 57,716,632</u>
 <b>Statement of Changes in Net Assets</b>	
Total additions	\$ 145,878,502
Total deductions	<u>137,374,830</u>
Net increase	8,503,672
Net assets held in trust	
July 1, 2000	<u>49,212,960</u>
June 30, 2001	<u>\$ 57,716,632</u>

**Note 14 – Reimbursement of Misused Public Fiduciary Funds**

During the year ended June 30, 2001, the County General Fund paid \$1,012,303 to the County Public Fiduciary's Office to replace the monies of various wards of the County that had been embezzled and misused over the past several years by the former Public Fiduciary. In September 2000, the County received a \$300,000 reimbursement from the Arizona Counties Property and Casualty Pool, but it also is seeking reimbursement from the Pool of the \$712,303 unreimbursed balance.

**Note 15 – Implementation of GASB No. 34**

Beginning with fiscal year 2003, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Implementing this standard will significantly change the accounting principles and reporting format used by the County in future financial reports.

## **Supplementary Information**

**Gila County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
<i>Passed through the Arizona Department of Health Services</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	761091	\$ 123,637
Commodity Supplemental Food Program	10.565	761116	1,508
<i>Passed through the Arizona State Treasurer</i>			
Schools and Roads-Grants to States	10.665	None	<u>18,999</u>
<i>Total U.S. Department of Agriculture</i>			144,144
<b>U.S. Department of Housing and Urban Development</b>			
<i>Passed through the Arizona Department of Commerce</i>			
Community Development Block Grants/State's Program	14.228	114-00, 126-99, 032-01	119,599
HOME Investment Partnerships Program	14.239	232-98	20,193
<i>Passed through the Arizona Department of Economic Security</i>			
Community Shelters Grant Program	14.231	E6301005	<u>36,332</u>
<i>Total U.S. Department of Housing and Urban Development</i>			176,124
<b>U.S. Department of the Interior</b>			
Payments in Lieu of Taxes	15.226		1,046,563
<b>U.S. Department of Justice</b>			
Drug Court Discretionary Grant Program	16.585		17,413
<i>Passed through the Arizona Criminal Justice Commission</i>			
Byrne Formula Grant Program	16.579	AC-110-99	<u>334,991</u>
<i>Total U.S. Department of Justice</i>			352,404
<b>U.S. Department of Labor</b>			
<i>Passed through the Arizona Department of Economic Security</i>			
Employment and Training Assistance - Dislocated Workers	17.255	E5700021 E5700022 E5701035 E5701001 E5701002 E4370232	2,764,789

See the accompanying notes to schedule.

**Gila County**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2001**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Energy</b>			
<i>Passed through the Arizona Department of Commerce</i>			
Weatherization Assistance for Low-Income Persons	81.042	203-00	\$ 49,720
<b>U.S. Federal Emergency Management Agency</b>			
Emergency Food and Shelter National Board Program	83.523		5,593
<b>U.S. Department of Education</b>			
<i>Passed through the Arizona Department of Economic Security</i>			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	E5311526 E5319040 E5319042	109,329
Supported Employment Services for Individuals with Severe Disabilities	84.187	E2509006	73,556
<i>Total U.S. Department of Education</i>			<u>182,885</u>
<b>U.S. Department of Health and Human Services</b>			
Immunizations	93.268	30-4060.7 152040	32,631
<i>Passed through the Arizona Department of Economic Security</i>			
Temporary Assistance for Needy Families	93.558	E5900009 E6301031 E5900071 E6300155 E6307038 E6301005	358,690
Child Support Enforcement	93.563	E7208007 E7209007	586,221
Low-Income Home Energy Assistance	93.568	E6309031 E6301005 E6307038	62,847

See the accompanying notes to schedule.

**Gila County**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2001**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services - Continued</b>			
<i>Passed through the Arizona</i>			
<i>Department of Economic Security - Continued</i>			
Community Services Block Grant	93.569	E6301005 E6307038	\$ 81,847
Social Services Block Grant	93.667	E6301005 E6307038	20,513
<i>Passed through the Arizona Department of Commerce</i>			
Low-Income Home Energy Assistance	93.568	203-00	84,914
<i>Passed through the Arizona Department of Health Services</i>			
HIV Prevention Activities - Health			
Department Based	93.940	85-2024 15-2012	2,489
Preventive Health and Health Services Block Grant	93.991	952016	47,253
Maternal and Child Health Services Block Grant to the States	93.994	96-1123	5,965
<i>Total U.S. Department of Health and Human Services</i>			<u>1,283,370</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 6,005,592</u>

See the accompanying notes to schedule.

**Gila County**  
**Supplementary Information**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**

---

**Note 1 - Basis of Accounting**

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

**Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers**

The program titles and CFDA numbers were obtained from the 2001 Catalog of Federal Domestic Assistance.

## **Reports on Compliance and Internal Control**



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

The Auditor General of the State of Arizona

The Board of Supervisors of Gila County, Arizona

We have audited the general purpose financial statements of Gila County as of and for the year ended June 30, 2001, and have issued our report thereon dated June 7, 2002 which was qualified as to interfund receivables and payables and the General Fixed Assets Account Group. 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.

***Compliance***

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the County's management in a separate letter dated June 7, 2002.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-01, 01-02 and 01-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course

of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-01 and 01-02 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to the County's management in a separate letter dated June 7, 2002.

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

Walker & Armstrong LLP  
Certified Public Accountants

Phoenix, Arizona  
June 7, 2002

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of Gila County, Arizona

***Compliance***

We have audited the compliance of Gila County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Gila County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

***Internal Control over Compliance***

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Walker & Armstrong LLP  
Certified Public Accountants

Phoenix, Arizona  
June 7, 2002

**Gila County**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2001**

---

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors report issued:	Qualified	
	Yes	No
Material weaknesses identified in internal control over financial reporting?	X	_____
Reportable conditions identified not considered to be material weaknesses?	X	_____
Noncompliance material to the financial statements noted?	_____	X

***Federal Awards***

Material weakness identified in internal control over major programs?	_____	X
Reportable conditions identified not considered to be material weaknesses?	_____	X (None reported)

Type of auditors report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	_____	X

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
15.226	Payments in lieu of taxes
16.579	Byrne Formula Grant Program
17.255	Employment and training assistance - dislocated workers
93.558	Temporary assistance for needy families
93.563	Child support enforcement

Dollar threshold to distinguish between Type A and Type B programs:	\$	300,000
Auditee qualified as a low risk auditee?	_____	X
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	_____

**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2001**

---

**Financial Statement Findings**

**01-01 The County's General Fixed Assets System of Accountability Is Inadequate**

As reported in prior years, the County's general fixed assets system of accountability was inadequate, as evidenced by the following weaknesses in internal control policies and procedures. As a result of these weaknesses, we were unable to determine the propriety of the assets' costs recorded in the County's General Fixed Assets Account Group.

- Documentation supporting the historical costs of such assets was not maintained.
- Although a listing of general fixed assets was provided, a reconciliation of the beginning balances could not be performed.
- The County did not prepare an annual reconciliation of capital outlay expenditures to capitalized additions.
- The County did not have adequate policies and procedures to differentiate between repair and maintenance expenditures and fixed asset betterment.

To help ensure that fixed assets are accounted for in compliance with the *Uniform Accounting Manual for Arizona Counties*, section VI-E, adequately safeguarded, and reported in accordance with U.S. generally accepted accounting principles, the County should maintain a complete and accurate listing of capitalized land, buildings, improvements, and machinery and equipment and related costs excluding expenditures for repair and maintenance. In addition, documentation supporting the recorded costs of such assets should be retained for three years after the asset's disposal date. Also, the County should reconcile its fixed assets listing to the general ledger, the prior year balances to the current year balances, and capital outlay expenditures to capitalized additions annually.

**01-02 The County Did Not Maintain Supporting Documentation for Interfund Receivables and Payables**

As reported in prior years, the County did not maintain documentation supporting the interfund receivable and payable balances reported on the financial statements. In addition, interfund receivables did not equal interfund payables by \$625,244 at June 30, 2001, which included \$362,764 in differences in the current year. Further, a number of transactions affecting the balances were from previous years and should have been eliminated. As a result, we were unable to determine the propriety of the June 30, 2001, account balances.

**Gila County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2001**

---

**01-02 The County Did Not Maintain Supporting Documentation for Interfund Receivables and Payables - Continued**

County management should establish policies and procedures that will ensure that all financial transactions are supported by adequate documentation. The County should maintain a list of interfund receivables and payables referenced to supporting documentation and periodically transfer the cash or reverse the balances as necessary to prevent balances from accumulating for years. Also, the County should balance interfund receivables to interfund payables at least monthly.

**01-03 Control over Cash Receipts and Account Receivables**

Although the County Finance Department has changed the control procedures over cash receipts, the County has not prepared written policies and procedures. Various departments outside of the Finance Department have yet to ensure effective control over and accountability for cash receipts and accounts receivable.

*Cash Receipt Procedures* — County departments were not provided with guidelines to properly safeguard and account for cash receipts, which increased the susceptibility of these monies to potential abuse. The County needs to improve controls over the consistent preparation of cash receipt forms and the restrictive endorsement immediately upon receipt of checks received. Furthermore, detailed accounting records should be maintained for cash receipts. In addition, cash receipts need to be adequately safeguarded prior to deposit and deposited in a timely manner. Some cash receipts are not transferred from the departments' bank accounts to the County Treasurer's Office in a timely manner and many departments still maintain significant balances after the transfers are made. Such deficiencies were noted in following departments: Assessor's Office, Community Development, Globe Constable's Office, Sheriffs Office, and Solid Waste.

*Accounting for Receivables* — The Finance Department has not prepared policies and procedures to request accounts receivable information from the various departments, as recommended in the prior year. Also, there are no guidelines to help ensure that receivables are analyzed and adjusted for uncollectible accounts at year-end.

In order to properly account for and safeguard cash, County management should establish policies and procedures to control cash receipts, record accounts receivable, and adjust accounts receivable for uncollectible accounts. Furthermore, County management should enforce and monitor department compliance with the policies and procedures established.

## **County Responses**



January 31, 2003

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

Dear Ms. Davenport:

The accompanying corrective action plan for the year ended June 30, 2001 has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for each audit finding included in the current year's schedule of findings and questioned costs.

Sincerely,

John F. Nelson  
County Manager/Administrator

**Gila County  
Corrective Action Plan  
June 30, 2001**

---

**FINANCIAL STATEMENT FINDINGS**

**Finding No. 01-01**

**The County's General Fixed Assets System of Accountability Is Inadequate**

**Contact Person: Don White, Manager Purchasing**

**Phone Number: 928-473-7659**

**Anticipated Completion Date: Completed May 7, 2002**

On May 7, 2002, Procurement Policy and Procedures were adopted by Gila County's Board of Supervisors. The adopted Procurement Policy and Procedures consists of Article 1.0 Purchasing Procedures and Article 2.0 Material Management Procedures. These procedures became effective July 1, 2002.

Article 2.0, Material Management Procedures, addresses the issues stated above effective July 1, 2002. Gila County will maintain a complete and accurate listing of capitalized land, buildings, improvements, and machinery and equipment and related costs excluding expenditures for repair and maintenance. In addition, documentation supporting the recorded costs of such assets will be retained for three years after the asset's disposal date. Also, the County will reconcile its fixed assets listing to the general ledger, prior year balances, and current year balances, and capital outlay expenditures to capitalized additions, annually.

**Finding No. 01-02**

**The County Did Not Maintain Supporting Documentation  
for Interfund Receivables and Payables**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: Completed June 30, 2002**

The discrepancies between Interfund Receivables and Payables were the result of unintentional errors when creating and posting journal entries to transfer monies or loan monies between funds.

The creation and use of Interfund Receivables (Due From) and Interfund Payables (Due To) to transfer monies between funds was confusing and resulted in numerous errors. Sometimes only the Treasurer's Journal or the General Journal were posted, but not both journals simultaneously. This error would result in an Interfund Receivable and Payable being permanent. However, the Interfund Receivable and Payable would be equal but would go forward from one year to the next.

The error that generated inequity between Interfund Receivables and Payables occurred through the inadvertent misclassification of one side of the transaction on a journal entry as a balance sheet item and the other side as an item that would be closed to fund balance at year end. An example of this type of inadvertent classification would be the designation of an

**Gila County**  
**Corrective Action Plan - Continued**  
**June 30, 2001**

---

Interfund Receivable as a Budget Transfer Out with the offset as an Interfund Payable. At year end the Budget Transfer amount is closed to Fund Balance whereas the Interfund

Payable amount carries over to future years. This type of transaction has occurred when transferring loan/payback monies between funds.

To correct the above problems, several initiatives have been implemented. First, an adjusting entry was made to correct the inequality between Interfund Receivables and Interfund Payables. As of June 30, 2002, Interfund Receivables and Payables are equal.

Second, on May 7, 2002, a process has been established whereby the two-journal entry process, Treasurer and General, is no longer necessary. The procedure addresses Transfers/Corrections Between Funds. When transfer of monies between funds is necessary from either an incorrect posting of a deposit or expense, the requesting department fills out a "Demand on Gila County" identifying the fund/account where an expense will be charged and the amount of the expense. When a deposit is in error the Demand is submitted against the fund where the incorrect deposit is made. When an expense is in error the Demand is submitted against the fund where the expense should have been charged. The requesting department submits a Treasurer's Receipt that identifies the fund/account where the monies are to be deposited and the amount of the deposit along with documentation supporting the reason for the transfer/correction between funds. Once the monies have been transferred a General Journal is used to remove the error. Depending on whether the error was a deposit or an expense will determine how a General Journal will be used. If the error was a deposit, the General Journal will be used to remove the expense created by the Demand and the incorrect deposit. If the error was an expense, the General Journal will be used to remove the incorrect expense and the deposit created by the Treasurer's Receipt.

Third, the Treasurer has established a line of credit with a bank. This line of credit is accessed whenever a Fund incurs expenses greater than its available cash. In the past departments would receive budgeted monies from the General Fund semi-annually. This semi-annual transfer of budgeted monies would result in departments incurring expenses greater than their available cash. When the line of credit for all funds nears the overall available limit, the Treasurer's office will notify the Finance Department resulting in the loaning of monies from the General Fund to other departments until budgeted monies are transferred. Then the loans will be paid back. This will result in errors by trying to combine budget transfers with payback of loaned monies. A procedure has been established to transfer budgeted monies to departments once a month. Even though some departments still exceed their available cash and access the line of credit, we have not approached the credit line limit since implementing this procedure on October 2, 2002.

We are now in the process of identifying those funds that have available cash to payback their loans. The goal is to remove those chronic outstanding Interfund Receivables and Payables that seem to carry over from year to year by March 31, 2003.

**Gila County**  
**Corrective Action Plan - Continued**  
**June 30, 2001**

---

**Finding No. 01-03**

**Control over Cash Receipts and Account Receivables**

**Contact Person: David Patterson, Finance Director**

**Phone Number: 928-425-3231 ext 8777**

**Anticipated Completion Date: March 31, 2003**

*Cash Receipt Procedures* — Those departments identified as having Cash Receipt Procedure deficiencies are to be interviewed to determine how cash is received, handled, deposited, and transferred. Based on this information, a Cash Receipt Procedure will be documented, distributed, and discussed with those departments that receive cash. This endeavor should be completed by March 31, 2003.

*Accounting for Receivables* — Gila County uses the modified accrual basis of accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Under the modified accrual basis of accounting, amounts are recognized as revenue when earned, only so long as they are collectible within the period or soon enough afterwards to be used to pay liabilities of the current period. Revenues are only recognized under modified accrual accounting to the degree that they are available to finance expenditures of the fiscal period.

Gila County implements an accrual process whereby revenues received within 60 days after June 30 that can be identified to the year just ended are recognized as a receivable in the year just ended. This receivable is necessary as the Treasurer's books are closed the end of June so deposits made after June 30 can only be recognized as a receivable. This receivable is in name only as the monies are received prior to a receivable being recognized. This is in accordance with the modified accrual basis of accounting whereby revenue is recognized as earned, only so long as they are collectible soon enough after the year just ended. Gila County records receivables for the recognition of revenue at year-end only when monies have actually been collected within 60 days of the year-end. Since the recording of a receivable is after monies have been received, receivables do not need to be analyzed and adjusted for uncollectible amounts at year-end.

*Account for and Safeguard Cash* — See the responses above to *Cash Receipt Procedures* and *Accounting for Receivables*.

January 31, 2003

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

Dear Ms. Davenport:

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

Sincerely,

John F. Nelson  
County Manager/Administrator

**Gila County**  
**Summary Schedule of Prior Audit Findings**  
**June 30, 2001**

---

**STATUS OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding No. 00-101**

**CFDA No. 93.563 Child Support Enforcement**

**Status: Completed**

**Contact Person: Margaret Toot, Clerk of the Superior Court**

**Phone Number: 928-425-3231 ext. 8553**

**Anticipated Completion Date: Completed on June 30, 2002**

The finding is fully corrected. The Arizona Department of Economic Security Contracts Division assisted and advised the County in determining a reasonable approach for allocation of the Family Law Commissioner's time to this program.