

**Gila County**  
**Single Audit Reporting Package**  
**Year Ended June 30, 2006**

**Gila County**  
**Single Audit Reporting Package**  
**Year Ended June 30, 2006**

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## Independent Auditor's Report

The Auditor General of the State of Arizona

The Board of Supervisors of  
Gila County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 10, the Schedule of Agent Retirement Plans' Funding Progress on page 39, and the Budgetary Comparison Schedules on pages 40 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2008, 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* and should be considered in assessing the results of our audit.

  
August 8, 2008

Gila County  
Management's Discussion and Analysis  
June 30, 2006

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, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements.

**Financial Highlights**

- The assets of the County exceeded its liabilities at the close of the current fiscal year by \$36,621,722 (net assets). Of this amount, \$21,401,548 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$24,827,158, an increase of \$2,390,383 in comparison with the prior year's balance of \$22,436,775.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$10,407,508 or 31% of total general fund expenditures.
- The County's total long-term liabilities decreased by a net of \$834,587 during the current fiscal year in comparison with the prior year's balance of \$8,649,006. Key factors in this decrease included (a) scheduled principal payments of \$1,253,839, (b) a new capital lease of \$191,110, (ADOT), (c) an increase in the landfill closure and postclosure costs of \$147,688 and, (d) a net increase in compensated absences of \$80,454 during the year.

**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** 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 assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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

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Management's Discussion and Analysis  
June 30, 2006

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, and 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, Street Lighting Districts and Municipal Property Corporation which functions for all practical purposes as departments of the County, and therefore have been included as an integral part of the County.

The *government-wide financial statements* can be found on pages 12 through 13 of this report.

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

The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

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Management's Discussion and Analysis  
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**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 18 and 19 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 20 through 37 of this report.

**Required supplementary information** presents schedules of revenues and expenditures, budget and actual, for the general and major special revenue fund. This section also includes certain information concerning the County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 39 through 45 of this report.

**Government-wide Financial Analysis**

**Statement of Net Assets** - As noted earlier, net assets 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 exceeded liabilities by \$36,621,722.

**Condensed Statement of Net Assets**  
(in thousands)  
**Governmental Activities**  
June 30, 2006 and 2005

	2006	2005
<b>Assets:</b>		
Current and other assets	\$ 28,864	\$ 25,827
Capital assets	19,462	19,387
Total assets	48,326	45,214
<b>Liabilities:</b>		
Long-term liabilities outstanding	7,814	8,649
Other liabilities	3,890	3,069
Total liabilities	11,704	11,718
<b>Net assets:</b>		
Invested in capital assets, net of related debt	14,895	13,757
Restricted for:		
Debt service	325	325
Unrestricted	21,402	19,414
Total net assets	\$ 36,622	\$ 33,496



**Gila County**  
**Management's Discussion and Analysis**  
**June 30, 2006**

By far the largest portion of Gila County's net assets is unrestricted. Unrestricted net assets of \$21,401,548 or 58% may be used to meet the Gila County's ongoing obligations to citizens and creditors. The second largest portion is \$14,894,595 or 41% of the total net assets 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 these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the County is able to report positive balances in both categories of net assets for its governmental activities.

- Current and other assets - this change is largely due to a \$2,537,857 increase in cash balances, and an increase of \$450,833 in accounts receivable. The county's cash position increased due to a better than anticipated collection of major revenues such as local and state shared sales tax and delay in processing accounts payable at year end. It has been the county's desire to increase the counties cash reserves to allow the county to continue operating effectively during an economic down turn.
- Long term liabilities - the decrease in long term liabilities is largely the results of a partial repayment of an ADOT loan, a reduction in certificates of participation payable and a net reduction of capital leases payable. See note 7 to the financial statements.
- Other liabilities - the increase in other liabilities is largely due to a delay in processing accounts payable payments due to installing a new accounting system. Accounts payable at June 30, 2006 was \$3,152,002 compared to \$1,574,228 as of June 30, 2005.
- Invested in capital assets net of related debt - investment in capital assets increased due to significant additions in equipment and vehicles. See note 5 to the financial statements.

***Statement of Activities***

Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during the current fiscal year. A chart of changes in net assets follows. For the fiscal year, net assets increased \$3,125,583, all coming from governmental activities. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes that are used, in part, for the construction of those assets.

Gila County  
Management's Discussion and Analysis  
June 30, 2006

**Changes in Net Assets  
(in thousands)  
Governmental Activities  
June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
<b>Program revenues:</b>		
Charges for services	\$ 6,265	\$ 5,812
Grants and contributions	16,786	16,706
<b>General revenues:</b>		
Property taxes	18,053	16,787
County sales tax	6,122	5,520
Share of state sales tax	5,347	4,791
Vehicle license tax	1,754	1,592
Payments in lieu of taxes	2,030	2,110
Miscellaneous	1,606	1,434
<b>Total revenues</b>	<u>57,963</u>	<u>54,752</u>
<b>Expenses</b>		
General government	16,588	15,230
Public safety	13,402	13,160
Highways and streets	6,983	6,369
Health	2,515	2,292
Welfare	10,289	9,649
Sanitation	1,526	1,388
Culture and recreation	1,304	1,066
Education	2,008	1,469
Interest on long-term debt	222	280
<b>Total expenses</b>	<u>54,837</u>	<u>50,903</u>
<b>Increase in net assets</b>	3,126	3,849
Net assets, beginning of year	33,496	29,647
Net assets, end of year	<u>\$ 36,622</u>	<u>\$ 33,496</u>

**Revenues**

- Charges for service - charges for services increased due to strong economic activity in the county in general government and sanitation functions.
- Property taxes - the county primary property tax rate remained constant at \$4.41 therefore the increase in property tax revenue is due to an increase in assessed valuation.
- County sales tax - county sales tax increased over the last fiscal year due to strong local economic activity.
- Share of state sales tax - the county's share of state sales tax increased proportionally to the 16.7 % increase in sales tax on a state wide basis.

**Gila County**  
Management's Discussion and Analysis  
June 30, 2006

***Expenses***

- General Government - expenditures for general government increased by \$1,357,873 due to salary increases, retirement and health insurance premiums, staffing levels and increases in grant funding.
- Highway and streets-expenditures increased by \$614,375 due to salary increases, retirement and health insurance premiums, staffing levels and additional road maintenance activities.
- Welfare - expenditures increased by \$640,088 due to salary increases, retirement and health insurance premiums, staffing levels and an increase in the mandated AHCCCS contribution
- Education - the \$539,612 increase in education is primarily due to the opening of an accommodation school.

**Financial Analysis of the Government's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate finance-related legal compliance.

***Governmental fund***

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$24,827,158, an increase of \$2,390,383 in comparison with the prior year's balance of \$22,436,775.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$10,407,508, which was an increase of 15% over the prior year's balance of \$9,054,248.

***General Fund Budgetary Highlight***

The general fund had budgeted expenditures before transfers of \$36,749,334. Overall, actual general fund expenditures were under spent by \$2,888,400. The Solid Waste Management had budgeted expenditures of \$2,485,267 while actual expenditures were under spent by \$1,205,938 as the County is reserving funds for the eventual closing of the landfill. The County Sheriff Department, the Board of Supervisors and the County Attorney Department over spent

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**Management's Discussion and Analysis**  
**June 30, 2006**

by \$641,746, 229,922, and \$93,616, respectively. The County will improve budgeting procedures and control. In addition, the County spent \$413,220 for the unanticipated Dude fire that was not budgeted. Further, the debt service principal and interest expense were over spent by \$610,618. The County will increase the amount budgeted for debt service in the future.

**Capital Asset and Debt Administration**

**Capital Assets**

The County's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$19,461,805 (net of accumulated depreciation and related debt). This investment in capital assets includes land, construction in progress, buildings, equipment, vehicles and infrastructure assets (roads, highways, bridges, etc). The total net increase in the County's investment in capital assets for the current fiscal year was .4% in comparison with the prior year's balance of \$19,386,851.

**Gila County's Capital Assets**  
**(net of depreciation)**  
**(in thousands)**  
**Governmental Activities**  
**June 30, 2006 and 2005**

	2006	2005
Land	\$ 4,369	\$ 4,319
Construction in progress	977	622
Buildings	6,734	7,109
Improvements other than buildings	288	120
Equipment	3,661	3,670
Vehicles	1,365	1,456
Infrastructure	2,068	2,091
Total	\$ 19,462	\$ 19,387

Additional information on the County's capital assets can be found in Note 5 on pages 28 through 29 of this report.

**Long-term Debt**

At the end of the current fiscal year, the County had certificates of participation debt outstanding of \$2,045,000. This debt represents certificates of participation issued to finance renovation costs for several County buildings. The certificates are secured by a dedicated excise tax of ¼ cent. The County also had a note payable of \$1,080,595 which is secured by the County's highway user revenue. The remainder of Gila County's debt is long-term capital leases of \$1,441,615 for land, vehicles, and construction and computer equipment.

The County's debt decreased by a net \$834,587 during the current fiscal year. This is primarily due to the County making scheduled debt retirement payments of \$1,253,839, net of a new

**Gila County**  
Management's Discussion and Analysis  
June 30, 2006

\$191,110 capital lease, an increase of landfill closure and postclosure care costs of \$147,688 and a net increase in compensated absences of \$80,454.

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 \$23,768,457. Since the County has no general obligation debt, this amount equals the debt capacity. Additional information on long-term debt can be found in Note 7 on pages 29 through 32 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Gila County is currently 5.4 percent, which is a slight decrease from a rate of 5.8 percent a year ago. This compares unfavorably to the state's average unemployment rate of 4.4 percent.
  
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the County's budget for the fiscal year 2006-07. The unreserved ending fund balance in the general fund of \$10,407,508 was appropriated for spending in the fiscal year 2006-07 budget. The County's primary property tax rate remained unchanged for 2006-07 fiscal year.

**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 Ash Street  
Globe, Arizona 85501-1483

## Basic Financial Statements

Gila County  
Statement of Net Assets  
June 30, 2006

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 24,065,830
Cash and investments held by trustee	325,579
Receivables (net of allowances for uncollectibles):	
Property taxes	257,384
Accounts	1,186,382
Due from other governments	2,911,072
Prepaid items	117,767
Capital assets, not being depreciated	5,346,221
Capital assets, being depreciated, net	14,115,584
Total assets	48,325,819
 <b>Liabilities</b>	
Accounts payable	3,152,002
Accrued payroll and employee benefits	513,532
Deposits held for others	34,692
Due to other governments	189,452
Noncurrent liabilities:	
Due within one year	2,371,567
Due in more than one year	5,442,852
Total liabilities	11,704,097
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	14,894,595
Restricted for:	
Debt service	325,579
Unrestricted	21,401,548
Total net assets	\$ 36,621,722

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

Gila County  
Statement of Activities  
Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental activities</i>					
General government	\$ 16,587,854	\$ 2,732,342	\$ 891,893	\$ 267,048	\$ (12,696,571)
Public safety	13,402,013	1,196,068	2,665,949	516,866	(9,023,130)
Highways and streets	6,982,827	66,758	100,449	5,549,111	(1,266,509)
Health	2,514,629	403,060	978,994		(1,132,575)
Welfare	10,289,481	109,617	4,512,447	94,787	(5,572,630)
Sanitation	1,525,871	1,749,475	83,231		306,835
Culture and recreation	1,304,342	6,970	97,432	15,112	(1,184,828)
Education	2,008,374	175	1,013,061		(995,138)
Interest on long-term debt	222,055	-	-	-	(222,055)
<b>Total governmental activities</b>	<b>\$ 54,837,446</b>	<b>\$ 6,264,465</b>	<b>\$ 10,343,456</b>	<b>\$ 6,442,924</b>	<b>(31,786,601)</b>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					17,252,824
Property taxes, levied for Street Lighting Districts					10,081
Property taxes, levied for Library District					790,029
County general and transportation sales tax					6,122,438
Government property lease excise tax					6,010
Share of state sales tax					5,347,259
Shared revenue-state vehicle license tax					1,754,126
Payment in lieu of taxes					2,029,459
Shared revenue-state lottery					550,035
Grants and contributions not restricted to specific programs					64,320
Gain on sales of capital assets					27,783
Investment income					639,270
Miscellaneous					318,550
<b>Total general revenues</b>					<b>34,912,184</b>
Change in net assets					3,125,583
Net assets, July 1, 2005					33,496,139
Net assets, June 30, 2006					<b>\$ 36,621,722</b>

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



Gila County  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General Fund	Public Works Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 9,179,061	\$ 7,593,228	\$ 7,293,541	\$ 24,065,830
Cash and investments held by trustee	325,579			325,579
Receivables (net of allowances for uncollectibles):				
Property taxes	236,020		21,364	257,384
Accounts	1,067,321	8,727	110,334	1,186,382
Due from:				
Other funds	678,907		364,251	1,043,158
Other governments	1,130,924	818,219	961,929	2,911,072
Prepaid items	117,767	-	-	117,767
<b>Total assets</b>	<b>\$ 12,735,579</b>	<b>\$ 8,420,174</b>	<b>\$ 8,751,419</b>	<b>\$ 29,907,172</b>
<b>Liabilities and Fund Balances</b>				
<i>Liabilities:</i>				
Accounts payable	\$ 1,331,369	\$ 652,676	\$ 1,167,957	\$ 3,152,002
Accrued payroll and employee benefits	341,635	61,799	110,098	513,532
Due to other funds		395,494	647,664	1,043,158
Due to other governments	189,452			189,452
Deposits held for others			34,692	34,692
Deferred revenue	140,036	-	7,142	147,178
<b>Total liabilities</b>	<b>2,002,492</b>	<b>1,109,969</b>	<b>1,967,553</b>	<b>5,080,014</b>
<i>Fund balances:</i>				
Unreserved, reported in:				
General fund	10,407,508			10,407,508
Special revenue funds		7,310,205	6,783,866	14,094,071
Reserved for debt service	325,579	-	-	325,579
<b>Total fund balances</b>	<b>10,733,087</b>	<b>7,310,205</b>	<b>6,783,866</b>	<b>24,827,158</b>
<b>Total liabilities and fund balances</b>	<b>\$ 12,735,579</b>	<b>\$ 8,420,174</b>	<b>\$ 8,751,419</b>	<b>\$ 29,907,172</b>

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

Gila County  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
June 30, 2006

Fund balances - total governmental funds	\$ 24,827,158
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	19,461,805
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	147,178
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(7,814,419)</u>
Net assets of governmental activities	<u>\$ 36,621,722</u>

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

Gila County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2006

	General Fund	Public Works Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 20,441,894	\$ 3,107,708	\$ 806,121	\$ 24,355,723
Licenses and permits	541,788	10,869	314,612	867,269
Intergovernmental	10,476,382	5,639,835	10,391,287	26,507,504
Charges for services	3,520,130	55,889	1,174,872	4,750,891
Fines and forfeits	612,717		50,985	663,702
Donations and contributions			6,678	6,678
Investment income	228,504	201,751	209,015	639,270
Miscellaneous	184,863	130,435	3,252	318,550
<b>Total revenues</b>	<b>36,006,278</b>	<b>9,146,487</b>	<b>12,956,822</b>	<b>58,109,587</b>
<b>Expenditures:</b>				
<i>Current:</i>				
General government	14,746,392		1,077,698	15,824,090
Public safety	9,981,681		3,061,400	13,043,081
Highways and streets		6,319,172	9,287	6,328,459
Health			2,204,976	2,204,976
Welfare	5,153,316		5,136,165	10,289,481
Sanitation	1,279,329		98,854	1,378,183
Culture and recreation	242,210		1,061,564	1,303,774
Education	621,239		1,386,537	2,007,776
<i>Debt service:</i>				
Principal retirement	752,177	497,006	4,656	1,253,839
Interest and fiscal charges	188,441	30,846	2,768	222,055
<i>Capital outlay</i>	896,149	391,089	906,772	2,194,010
<b>Total expenditures</b>	<b>33,860,934</b>	<b>7,238,113</b>	<b>14,950,677</b>	<b>56,049,724</b>
Excess (deficiency) of revenues over expenditures	2,145,344	1,908,374	(1,993,855)	2,059,863
<b>Other financing sources (uses):</b>				
Capital lease agreements			191,110	191,110
Proceeds from sale of capital assets	133,984		5,426	139,410
Transfers in	517,734	7,461	1,443,707	1,968,902
Transfers out	(1,443,707)	(517,734)	(7,461)	(1,968,902)
<b>Total other financing sources (uses)</b>	<b>(791,989)</b>	<b>(510,273)</b>	<b>1,632,782</b>	<b>330,520</b>
Net change in fund balances	1,353,355	1,398,101	(361,073)	2,390,383
Fund balances, July 1, 2005	9,379,732	5,912,104	7,144,939	22,436,775
Fund balances, June 30, 2006	<b>\$ 10,733,087</b>	<b>\$ 7,310,205</b>	<b>\$ 6,783,866</b>	<b>\$ 24,827,158</b>

The accompanying notes are an integral part of these 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, 2006

Net change in fund balances - total governmental funds		\$ 2,390,383
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	\$ 2,194,010	
Depreciation expense	<u>(2,007,429)</u>	186,581
The net effect of various miscellaneous transactions involving the disposal of capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets in the Statement of Activities.		
		(111,627)
Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities.		
		(174,341)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt issued or incurred	(191,110)	
Principal repaid	<u>1,253,839</u>	1,062,729
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	(80,454)	
Increase in landfill closure and postclosure costs	<u>(147,688)</u>	(228,142)
Change in net assets of governmental activities		<u>\$ 3,125,583</u>

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

Gila County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

	Investment Trust Funds	Agency Funds
<b>Assets</b>		
Cash and investments	\$ 40,516,862	\$ 681,683
Total assets	40,516,862	\$ 681,683
<b>Liabilities</b>		
Due to other governments	-	\$ 139,260
Deposits held for others	-	542,423
Total liabilities	-	\$ 681,683
<b>Net Assets</b>		
Held in trust for investment trust participants	\$ 40,516,862	

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

Gila County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2006

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 110,344,688
Investment loss	(1,048,644)
Total additions	109,296,044
Deductions:	
Distributions to participants	108,509,972
Change in net assets	786,072
Net assets, July 1, 2005	39,730,790
Net assets, June 30, 2006	\$ 40,516,862

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

Gila County  
Notes to Financial Statements  
June 30, 2006

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

The accounting policies of Gila County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

**A. Reporting Entity**

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. The accompanying financial statements present the activities of the County (the primary government) and its component units.

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are 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. Each blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

The following table describes the County's component units:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Gila County Library District	Provides and maintains library services for County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Gila County Street Lighting Districts	Operates and maintains street lighting in areas outside local city jurisdictions; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Gila County Municipal Property Corporation	A nonprofit corporation that assists in the acquisition of tangible real and personal property; exists only to serve the County	Blended	Not available

**Related Organizations**

The Industrial Development Authority, Environmental Economic Community Organization, Eastern Arizona Counties Organization and Northern Gila County Economic Development are legally separate entities that were created to assist in the economic development of commercial and industrial enterprises for Gila County. Their operations are completely separate from the County and the County is not

Gila County  
Notes to Financial Statements  
June 30, 2006

financially accountable for these organizations. Therefore, the financial activities of these organizations are not included in the accompanying financial statements.

**B. Basis of Presentation**

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

**Government-wide statements** - provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

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

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, 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 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.



Gila County  
Notes to Financial Statements  
June 30, 2006

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, and is funded by a ½ cent County sales tax, impact fees, and by highway user revenue.

The County reports the following fund types:

The *Investment Trust Funds* account for pooled assets held and invested by the County Treasurer on behalf of the County's departments and other governmental entities.

The *Agency Funds* account for assets held by the County as an agent for the State and various local governments, individuals, and for property taxes collected and distributed to the State, local school districts, community college districts and special districts.

### **C. Basis of Accounting**

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of the agency funds, and the accrual basis of accounting. 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.

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. 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.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are

**Gila County**  
Notes to Financial Statements  
June 30, 2006

incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

**D. Cash and Investments**

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 time of purchase are stated at amortized cost. All other investments are stated at fair value.

**E. Property Taxes Calendar**

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

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

**F. Capital Assets**

Capital assets are reported at actual cost or estimated historical cost if historical records are not available. At June 30, 2006, 25 percent of the total governmental activities capital assets are stated at estimated historical cost based on price levels at time of acquisition. Donated assets are reported at estimated fair value at the time received.

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

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	\$ 5,000	N/A	N/A
Buildings	5,000	Straight-line	7-30 years
Improvements, other than buildings	5,000	Straight-line	20-40 years
Machinery and Equipment	5,000	Straight-line	3-25 years
Vehicles	5,000	Straight-line	5-10 years
Infrastructure	10,000	Straight-line	7-50 years

**G. Investment Income**

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

Gila County  
Notes to Financial Statements  
June 30, 2006

**H. 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 fiscal 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 financial statements. A liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year end.

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 vested sick leave is recorded in the Statement of Net Assets.

**Note 2 – Individual Fund Deficits**

The following Special Revenue Funds had fund deficits in excess of \$1,000 as of June 30, 2006:

Fund Number	Fund Name	Deficit
116	Education Service—Reading First	\$ 4,952
140	Education Service—Title II	8,553
141	Education Service—Workshop Fees	10,811
180	Education Service—Rural Counties Consortium	17,799
185	Drug Enforcement/Superior Court	3,197
193	CAP Department	8,660
194	Housing Department	102,425
212	WIA	24,365
223	Field Trainer	16,635
229	Education Service—IDEA-JDC	7,552
270	Globe Safe Schools	3,562
276	Health Start Program	7,983
300	Education Service—Fund for the Improvement of Education	37,716
319	Emergency Response	126,930
371	Family Law Commissioner	1,696

**Gila County**  
**Notes to Financial Statements**  
**June 30, 2006**

382	U.S. Department of Justice Equipment	19,577
386	04 State Homeland Security Grant Fund	39,457
407	Pandemic Influenza	1,877
419	Teen Pregnancy Prevention Services	13,191
426	HIV Consortium	1,184
444	Education Service—Governor’s Office	9,523
449	Gila County Wellness Program	1,366
456	Narcotics Task Force/Sheriff	221,119
473	Enforce Governor’s Office Highway Safety Grant	26,551
475	Sheriff Boating Law Enforcement and Safety Fund	82,725
510	Homeland Security Grant Fund 2004 Sheriff	15,446
548	Drug Prosecution Grant	1,450
561	Library District Grants	2,002
562	Library Assistance	72,671
610	Regional School—Unrestricted Capital Outlay	12,222
620	Regional School—Soft Capital Allocation	1,801

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; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in 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 rated P1 by Moody’s investors service or A1 or better by Standard and Poor’s rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody’s investors service or Standard and Poor’s rating service.
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

**Gila County**  
Notes to Financial Statements  
June 30, 2006

above-mentioned services rates the security, it must carry the highest rating of that service.

**Custodial credit risk**

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

**Concentration of credit risk**

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

**Interest rate risk**

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

**Foreign currency risk**

Statutes do not allow foreign investments.

*Deposits* - At June 30, 2006, the carry amount of the County's deposits was \$2,314,817, and the bank balance was \$4,196,173. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2006, \$75,238 of the County's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Investments* - The County's investments at June 30, 2006, were as follows:

<u>Investment Type</u>	<u>Amount</u>
U.S. agency securities	\$ 61,525,120
Repurchase agreement (collateralized by Federal Agency Securities)	1,418,438
U.S. Treasury money market fund	325,579
	<u>\$ 63,269,137</u>

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

At June 30, 2006, credit risk for the County's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
U.S. agency securities	Aaa	Moody's	\$ 61,525,120
Repurchase agreement (collateralized by Federal Agency Securities)	Aaa	Moody's	1,418,438
U.S. Treasury money market fund	Unrated	Not applicable	325,579
			<u>\$ 63,269,137</u>

**Gila County**  
Notes to Financial Statements  
June 30, 2006

*Custodial credit risk* - For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2006, the County had a \$325,579 investment reported in the General Fund. The investment was held by a trustee in a U. S. Treasury money market fund and was uninsured, not registered in the County's name, and held by the counterparty.

*Concentration of credit risk* - Concentration of credit risk is the risk of loss associated with the significance of investments in a single issuer. The County does not have a formal policy with respect to concentration of credit risk.

More than 5 percent of the County's investments at June 30, 2006, were in debt securities of various U.S. agencies as follows:

<u>U.S. Agency</u>	<u>Amount</u>	<u>Percent of County Investments</u>
Federal Home Loan Bank System	\$ 14,870,435	23.6
Federal Home Loan Mortgage Corporation	22,895,445	36.4
Federal National Mortgage Association	18,462,465	29.3
Federal Farm Credit Banks	4,800,000	7.6
	<u>\$ 61,028,345</u>	

*Interest rate risk* - Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal policy with respect to interest rate risk.

At June 30, 2006, interest rate risk for the County's debt securities was as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
U.S. agency securities	\$ 61,525,120	\$ 29,010,545	\$ 32,514,575
Repurchase agreement (collateralized by Federal Agency Securities)	1,418,438	1,418,438	
U.S. Treasury money market fund	325,579	325,579	-
	<u>\$ 63,269,137</u>	<u>\$ 30,754,562</u>	<u>\$ 32,514,575</u>

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

Cash, deposits, and investments:	
Cash on hand	\$ 6,000
Amount of deposits	2,314,817
Amount of investments	63,269,137
Total	<u>\$ 65,589,954</u>

Gila County  
Notes to Financial Statements  
June 30, 2006

	Statement of Net Assets	Statement of Fiduciary Net Assets		Total
	Governmental Activities	Investment Trust Funds	Agency Funds	
Cash and investments	\$ 24,065,830	\$ 40,516,862	\$ 681,683	\$ 65,264,375
Cash and investments held by trustee	325,579	-	-	325,579
Total	<u>\$ 24,391,409</u>	<u>\$ 40,516,862</u>	<u>\$ 681,683</u>	<u>\$ 65,589,954</u>

**Note 4 – Due from Other Governments**

Amounts due from other governments at June 30, 2006, in the Statement of Net Assets include \$404,276 in Highway User Revenues, \$294,640 in auto lieu taxes, \$285,197 in Gila County Transportation tax, \$277,657 in County excise tax and \$151,359 in sales taxes; \$456,060 in Child Support Enforcement grant, \$398,448 in Workforce Investment Act grant, \$322,629 in other federal grants and \$165,099 in state grants due from the State of Arizona; and \$155,707 in reimbursements and charges for services due from various government agencies.

**Note 5 – Capital Assets**

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,318,631	\$ 50,319		\$ 4,368,950
Construction in progress (estimated cost to complete \$5,285,227)	622,426	526,008	\$ 171,163	977,271
Total capital assets not being depreciated	<u>4,941,057</u>	<u>576,327</u>	<u>171,163</u>	<u>5,346,221</u>
<i>Capital assets being depreciated:</i>				
Buildings	18,464,909	108,908		18,573,817
Improvements other than buildings	122,482	287,867	114,489	295,860
Equipment	12,952,856	917,713	21,770	13,848,799
Vehicles	7,769,499	423,008	69,409	8,123,098
Infrastructure	2,201,912	51,350	-	2,253,262
Total	<u>41,511,658</u>	<u>1,788,846</u>	<u>205,668</u>	<u>43,094,836</u>
Less accumulated depreciation for:				
Buildings	11,355,675	484,409		11,840,084
Improvements other than buildings	3,062	7,596	2,862	7,796
Equipment	9,282,592	927,341	21,770	10,188,163
Vehicles	6,313,354	513,830	69,409	6,757,775
Infrastructure	111,181	74,253	-	185,434
Total	<u>27,065,864</u>	<u>2,007,429</u>	<u>94,041</u>	<u>28,979,252</u>
Total capital assets being depreciated, net	<u>14,445,794</u>	<u>(218,583)</u>	<u>111,627</u>	<u>14,115,584</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 19,386,851</u>	<u>\$ 357,744</u>	<u>\$ 282,790</u>	<u>\$ 19,461,805</u>

Gila County  
Notes to Financial Statements  
June 30, 2006

Depreciation expense was charged to functions as follows:

<b>Governmental activities:</b>	
General government	\$ 683,310
Public safety	358,932
Highways and streets	654,368
Health	309,653
Culture and recreation	568
Education	598
Total governmental activities depreciation expense	<u>\$ 2,007,429</u>

**Construction Commitments**

The County has active construction projects as of June 30, 2006, with estimated costs to complete of \$5,285,227 of which the more significant of these projects includes the Ice House Bridge, \$1,816,205; Six Shooter Canyon Road, \$1,264,243; and Fossil Creek Road phrase II project, \$902,492. All of these projects' source of payment comes from loan proceeds.

**Note 6 – Line of Credit**

The County maintains a revolving line of credit with a \$3,500,000 limit and interest payable at the same time as principal, which is contingent on the County's receipt of "nonrestricted operating revenues" as defined by A.R.S. §11-604.01. The credit line is secured by "nonrestricted" operating revenues received by the County Treasurer. Any unpaid principal and interest becomes due on the maturity date of June 30, 2006. The interest rate is at the bank's prime rate less 3.55% for fiscal year 2006. As of June 30, 2006, the County had no outstanding balance on this credit line.

**Note 7 – Long-Term Liabilities**

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
<b>Governmental activities:</b>					
Certificates of participation payable	\$ 2,235,000	\$ -	\$ 190,000	\$ 2,045,000	\$ 205,000
ADOT loan payable	1,528,095	-	447,500	1,080,595	447,500
Capital leases payable	1,866,844	191,110	616,339	1,441,615	589,425
Landfill closure and postclosure care costs payable	1,844,363	147,688	-	1,992,051	-
Compensated absences payable	1,174,704	1,222,545	1,142,091	1,255,158	1,129,642
Governmental activities long-term liabilities	<u>\$ 8,649,006</u>	<u>\$ 1,561,343</u>	<u>\$ 2,395,930</u>	<u>\$ 7,814,419</u>	<u>\$ 2,371,567</u>



Gila County  
Notes to Financial Statements  
June 30, 2006

**Certificates of participation** - 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.

Certificates at June 30, 2006, were as follows:

Description	Interest Rates	Maturities	Outstanding Principal July 1, 2005	Issues	Retirements	Outstanding Principal June 30, 2006
Series 1999	6.4%	11/24/06-5/24/14	\$ 2,235,000	\$ -	\$ 190,000	\$ 2,045,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2006:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 205,000	\$ 127,520
2008	215,000	114,400
2009	230,000	100,320
2010	245,000	85,440
2011	260,000	69,440
2012-2014	890,000	102,080
Total	<u>\$ 2,045,000</u>	<u>\$ 599,200</u>

**ADOT Loan** – On May 27, 2003, the County received a \$1,237,500 loan from the Arizona Department of Transportation (ADOT). The purpose of this loan is to fund the construction improvement of Fossil Creek Road. The loan calls for quarterly payments of principal and interest at 1.428%, beginning on June 15, 2004, and ending on March 15, 2009.

On September 10, 2004, the County received a \$600,000 loan from the Arizona Department of Transportation (ADOT). The purpose of this loan is to fund the construction improvement of Six Shooter Canyon Road. The loan calls for quarterly payments of principal and interest at 1.805%, beginning on September 15, 2005, and ending on June 15, 2008.

The following schedule details debt service requirements to maturity for the County's loan with ADOT:

Gila County  
Notes to Financial Statements  
June 30, 2006

<u>Year Ending June 30</u>	<i>Governmental</i>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 447,500	\$ 14,259
2008	447,500	7,115
2009	185,595	1,325
Total	<u>\$ 1,080,595</u>	<u>\$ 22,699</u>

**Capital leases** - The County has acquired land 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.

The assets acquired through capital leases are as follows:

Land	\$ 3,000,000
Equipment	1,392,363
Less: accumulated depreciation	(258,742)
Carrying value	<u>\$ 4,133,621</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable as June 30, 2006:

<u>Year Ending June 30</u>	
2007	\$ 652,192
2008	608,933
2009	209,090
2010	44,540
2011	37,117
Total minimum lease payments	\$ 1,551,872
Less amount representing interest	(110,257)
Present value of net minimum lease payments	<u>\$ 1,441,615</u>

**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 even though actual payouts will not occur until the landfill is closed. These costs will be paid from the General Fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$1,992,051 reported as landfill closure and postclosure care liability at June 30, 2006, represents the cumulative amount reported to date based on the

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Notes to Financial Statements  
June 30, 2006

approximate use of 49 percent of the estimated capacity of the Buckhead Mesa Landfill and 41 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,493,853 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 2006.

The County has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2010 and 2017. The actual costs may also 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 entered this agreement as an alternative to complying with the local government financial test requirements.

**Insurance Claims** - 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 requires its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

**Compensated Absences** - During the year ended June 30, 2006, the County paid for compensated absences as follows: 62% from the General Fund, 16% from the Public Works Fund, and 21% from other funds.

**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; 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 and the Arizona Counties Workers' Compensation Pool, which are described below, and the Arizona Local Government Employee Benefit Trust, which is described above.

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Notes to Financial Statements  
June 30, 2006

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. However, lower limits apply to certain categories of losses. 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 every 5 years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

**Note 9 – Retirement Plans**

**Plan Descriptions**

The County contributes to the four 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 employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* 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 participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund

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Notes to Financial Statements  
June 30, 2006

Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Corrections Officer Retirement Plan* (CORP) is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and county employees whose primary duties require direct inmate contact. The CORP is governed by The Fund Manager of PSPRS and participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities. 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	PSPRS, CORP and EORP
3300 N. Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or (800) 621-3778	3010 E. Camelback Rd, Suite 200 Phoenix, AZ 85016-4416  (602) 255-5575

### **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, 2006, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2006, 2005, and 2004 were \$1,208,671, \$871,221, and \$842,910, 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 certain court fees plus additional contributions of 20.21 percent of the member's annual covered payroll, as determined by actuarial valuations. The County's contributions to EORP for the years ended June 30, 2006, 2005, and 2004

**Gila County**  
**Notes to Financial Statements**  
June 30, 2006

were \$123,955, \$57,105 and \$56,502, respectively, which were equal to the required contributions for the year.

*Agent plans* - For the year ended June 30, 2006, 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 15.35 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 6.17 percent for its corrections officers and 5.56 percent for its dispatchers.

**Annual Pension Cost** - The County's pension cost for the agent plans for the year ended June 30, 2006 and related information follow.

	<b>PSPRS</b>	<b>CORP</b>
Contribution rates:		
County	15.35%	6.17% and 5.56%
Plan members	7.65%	8.50%
Annual pension costs	\$ 231,563	\$ 199,266
Contributions made	\$ 231,563	\$ 199,266

The current-year annual required contribution for the PSPRS and CORP was determined as a part of its June 30, 2004, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8.75 percent investment rate of return and (b) projected salary increases ranging from 6.25 percent to 9.25 percent per year. Both (a) and (b) included an inflation component of 5.25 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 seven year period. The unfunded actuarial accrued liability excess is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2004, was 20 years.

**Trend Information** - Annual pension cost information for the current and two preceding years follows for each of the agent plans:

<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	2006	\$ 231,563	100%	\$ -
	2005	192,362	100%	-
	2004	163,838	100%	-
CORP	2006	\$199,266	100%	-
	2005	95,406	100%	-
	2004	35,339	100%	-

Gila County  
Notes to Financial Statements  
June 30, 2006

**Note 10 – Interfund Balances and Activity**

**Interfund receivables and payables** - Interfund balances at June 30, 2006, were as follows:

Payable From	Payable To		
	General Fund	Other Governmental Funds	Total
Public Works Fund	\$ 31,243	\$ 364,251	\$ 395,494
Other Governmental Funds	647,664	-	647,664
Total	<u>\$ 678,907</u>	<u>\$ 364,251</u>	<u>\$ 1,043,158</u>

Interfund balances resulted from time lags between the dates that (1) interfund goods and services are provided or *reimbursable* expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund transfers** - Interfund transfers for the year ended June 30, 2006, were as follows:

Transfer From	Transfers To			Total
	General Fund	Public Works Fund	Other Governmental Funds	
General Fund	\$ -	\$ -	\$ 1,443,707	\$ 1,443,707
Public Works	517,734	-	-	517,734
Other Governmental Funds	-	7,461	-	7,461
Total	<u>\$ 517,734</u>	<u>\$ 7,461</u>	<u>\$ 1,443,707</u>	<u>\$ 1,968,902</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments are due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 11 – 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

Gila County  
Notes to Financial Statements  
June 30, 2006

oversight of its operations. The pool's structure does not provide for shares, and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments.

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

A majority of all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$251,438 of deposits and \$325,579 of cash and investments held by a trustee. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks disclosed in Note 3.

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	\$ 62,573,764	2.0-5.0%	7/5/06-9/11/09	\$ 61,525,120
Repurchase agreement	1,418,438	Unknown	7/1/06	1,418,438

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

**Statement of Net Assets**

Assets	\$ 64,331,254
Liabilities	-
Net assets	<u>\$ 64,331,254</u>

Net assets held in trust for:

Internal participants	\$ 23,814,392
External participants	40,516,862
Total net assets held in trust	<u>\$ 64,331,254</u>

**Statement of Changes in Net Assets**

Total additions	\$ 220,057,078
Total deductions	216,798,091
Net increase	<u>3,258,987</u>

Net assets held in trust

July 1, 2005	<u>61,072,267</u>
June 30, 2006	<u>\$ 64,331,254</u>



Other Required Supplementary Information

Gila County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2006

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
<b>Public Safety Personnel Retirement System</b>						
6/30/2006	\$ 6,272,366	\$ 8,250,167	\$ (1,977,801)	76.0%	\$ 1,636,540	120.9%
6/30/2005	6,118,732	7,733,325	(1,614,593)	79.1%	1,599,123	101.0%
6/30/2004	5,960,067	6,541,881	(581,814)	91.1%	1,606,149	36.2%
<b>Correction Officers Retirement Plan</b>						
<b>Corrections Officers</b>						
6/30/2006	\$ 1,335,104	\$ 1,262,314	\$ 72,790	105.8%	\$ 1,843,708	N/A
6/30/2005	957,988	828,966	129,022	115.6%	1,466,915	N/A
6/30/2004	70,617	709,363	(638,746)	10.0%	1,290,104	49.5%
<b>Dispatchers</b>						
6/30/2006	\$ 954,549	\$ 910,955	\$ 43,594	104.8%	\$ 630,779	N/A
6/30/2005	776,004	813,612	(37,608)	95.4%	639,899	5.9%
6/30/2004	32,804	686,994	(654,190)	4.8%	482,740	135.5%

Gila County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2006

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>			
Taxes	\$ 19,529,507	\$ 20,441,894	\$ 912,387
Licenses and permits	352,000	541,788	189,788
Intergovernmental	10,142,284	10,476,382	334,098
Charges for services	3,132,300	3,520,130	387,830
Fines and forfeits	590,000	612,717	22,717
Investment earnings	110,000	228,504	118,504
Miscellaneous	391,500	184,863	(206,637)
<b>Total revenues</b>	<b>34,247,591</b>	<b>36,006,278</b>	<b>1,758,687</b>
<b>Expenditures:</b>			
<i>Current:</i>			
General government			
Administrative Services	114,649	102,087	12,562
Assessor	810,877	814,269	(3,392)
Auctions	-	6,713	(6,713)
Board of Supervisors	742,794	972,716	(229,922)
Community Development	691,654	709,831	(18,177)
Computer Services	682,411	729,951	(47,540)
Constituent Services	300,000	255,902	44,098
Elections	207,419	203,400	4,019
Facilities Management	1,272,117	847,814	424,303
Finance	496,851	406,528	90,323
General Administration	569,961	556,077	13,884
Natural Resources	150,000	126,570	23,430
Payroll Costs	240,000	159,527	80,473
Personnel	214,496	199,649	14,847
Professional Services	326,171	326,532	(361)
Purchasing	55,013	48,856	6,157
Recorder	610,821	613,181	(2,360)
Rural Addressing	102,680	125,829	(23,149)
Treasurer	438,894	457,434	(18,540)
Water Supply Development	100,000	133,337	(33,337)

(continued)

See accompanying notes to budgetary comparison schedule.

Gila County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2006

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
General government - continued			
Judicial Services			
County Attorney	\$ 1,525,421	\$ 1,619,037	\$ (93,616)
County Attorney - Child Support	773,218	644,725	128,493
Constable - Globe	87,895	87,447	448
Constable - Payson	120,200	129,411	(9,211)
Justice Court - Globe	564,788	512,568	52,220
Justice Court - Payson	462,667	439,677	22,990
Indigent Legal Defense	1,196,278	1,090,792	105,486
Clerk of the Superior Court	1,111,366	972,974	138,392
Superior Court - Division I	214,500	205,845	8,655
Superior Court - Division II	199,031	198,025	1,006
Superior Court - General	791,673	761,434	30,239
Superior Court - Multi-Information Systems	304,748	288,254	16,494
Total general government	<u>15,478,593</u>	<u>14,746,392</u>	<u>732,201</u>
Public safety			
County Sheriff	5,530,483	6,172,229	(641,746)
County Sheriff - Detention Health Services	511,198	548,554	(37,356)
County Sheriff - Facilities Management	304,004	223,821	80,183
Dude Fire Emergency	-	413,220	(413,220)
Emergency Services	344,293	249,409	94,884
Flood Plain Management	189,487	148,571	40,916
Juvenile Detention	1,112,680	1,054,433	58,247
Probation	807,882	794,645	13,237
9-1-1	359,715	376,799	(17,084)
Total public safety	<u>9,159,742</u>	<u>9,981,681</u>	<u>(821,939)</u>
Welfare			
AHCCCS Contributions	4,617,808	4,655,516	(37,708)
Indigent Health	25,000	28,512	(3,512)
Community agencies	197,250	150,900	46,350
Public Fiduciary	302,043	318,388	(16,345)
Total welfare	<u>5,142,101</u>	<u>5,153,316</u>	<u>(11,215)</u>

(continued)

See accompanying notes to budgetary comparison schedule.

Gila County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2006

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Sanitation			
Solid Waste Management	\$ 2,485,267	\$ 1,279,329	\$ 1,205,938
Culture and recreation			
Fairgrounds	203,504	242,210	(38,706)
Education			
School Superintendent	331,789	356,124	(24,335)
Special School Reserve	14,658	15,115	(457)
Gila County Community College	250,000	250,000	-
Total education	596,447	621,239	(24,792)
Contingency	1,250,000	-	1,250,000
<i>Capital outlay</i>	2,103,680	896,149	1,207,531
<i>Debt service:</i>			
Principal retirement	330,000	752,177	(422,177)
Interest and fiscal charges	-	188,441	(188,441)
Total debt service	330,000	940,618	(610,618)
Total expenditures	36,749,334	33,860,934	2,888,400
Excess (deficiency) of revenues over expenditures	(2,501,743)	2,145,344	4,647,087
Other financing sources (uses)			
Proceeds from sale of capital assets	5,000	133,984	128,984
Transfers in	-	517,734	517,734
Transfers out	(122,921)	(1,443,707)	(1,320,786)
Total other financing sources and uses	(117,921)	(791,989)	(674,068)
Net change in fund balances	(2,619,664)	1,353,355	3,973,019
Fund balances, July 1, 2005	2,619,664	9,379,732	6,760,068
Fund balances, June 30, 2006	\$ -	\$ 10,733,087	\$ 10,733,087

See accompanying notes to budgetary comparison schedule.

Gila County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Public Works Fund  
 Year Ended June 30, 2006

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>			
Taxes	\$ 2,847,655	\$ 3,107,708	\$ 260,053
Licenses and permits	8,800	10,869	2,069
Intergovernmental	6,694,468	5,639,835	(1,054,633)
Charges for services		55,889	55,889
Investment earnings	235,600	201,751	(33,849)
Miscellaneous	-	130,435	130,435
Total revenues	<u>9,786,523</u>	<u>9,146,487</u>	<u>(640,036)</u>
<b>Expenditures:</b>			
<i>Current:</i>			
Highways and streets			
Administrative services	775,975	623,755	152,220
Engineering services	1,147,057	881,375	265,682
Survey department	447,238	249,248	197,990
Road maintenance and repair	4,515,103	3,565,460	949,643
Maintenance shops	1,373,960	999,334	374,626
Emergency Reserve	1,943,683	-	1,943,683
Total highways and streets	<u>10,203,016</u>	<u>6,319,172</u>	<u>3,883,844</u>
<i>Capital outlay</i>	<u>3,115,543</u>	<u>391,089</u>	<u>2,724,454</u>
<i>Debt service</i>			
Principal retirement	-	497,006	(497,006)
Interest and fiscal charges	-	30,846	(30,846)
Total debt service	<u>-</u>	<u>527,852</u>	<u>(527,852)</u>
Total expenditures	<u>13,318,559</u>	<u>7,238,113</u>	<u>6,080,446</u>
Excess (deficiency) of revenues over expenditures	<u>(3,532,036)</u>	<u>1,908,374</u>	<u>5,440,410</u>
<b>Other financing sources (uses):</b>			
Transfers in	-	7,461	7,461
Transfers out	-	(517,734)	(517,734)
Total other financing sources and uses	<u>-</u>	<u>(510,273)</u>	<u>(510,273)</u>
Net change in fund balances	(3,532,036)	1,398,101	(4,930,137)
Fund balances, July 1, 2005	<u>3,532,036</u>	<u>5,912,104</u>	<u>(2,380,068)</u>
Fund balances, June 30, 2006	<u>\$ -</u>	<u>\$ 7,310,205</u>	<u>\$ (7,310,205)</u>

See accompanying notes to budgetary comparison schedule.

Gila County  
 Required Supplementary Information  
 Notes to Budgetary Comparison Schedules  
 Year Ended June 30, 2006

**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 approval of the Board of Supervisors.

**Note 2 - Budgetary Basis of Accounting**

The County's adopted budget is prepared on a basis consistent with generally accepted accounting principles.

**Note 3 - Expenditures in Excess of Appropriations**

For the year ended June 30, 2006, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
<b>General Fund:</b>	
Assessor	\$ 3,392
Auctions	6,713
Board of Supervisors	229,922
Community Development	18,177
Computer Services	47,540
Professional Services	361
Recorder	2,360
Rural Addressing	23,149
Treasurer	18,540
Water Supply Development	33,337
County Attorney	93,616
Constable - Payson	9,211
County Sheriff	641,746
County Sheriff – Detention Health Services	37,356
Dude Fire Emergency	413,220
9-1-1	17,084
AHCCCS Contributions	37,708
Indigent Health	3,512
Public Fiduciary	16,345

Gila County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
Year Ended June 30, 2006

Fairgrounds	38,706
School superintendent	24,335
Special School Reserve	457
Principal retirement	422,177
Interest and fiscal charges	188,441
 <b><i>Public Works Fund:</i></b>	
Principal retirement	497,006
Interest and fiscal charges	30,846

These amounts are due to unanticipated expenditures and departments exceeding the budget. The Finance Department will continue to work with 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.



## Supplementary Information

Gila County  
 Supplementary Information  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
<b>Passed through the Arizona Department of Health Services</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG361075	\$ 130,260
Commodity Supplemental Food Program	10.565	HG361101	5,306
<b>Passed through the Arizona State Treasurer</b>			
Schools and Roads – Grants to States	10.665	None	237,708
Collaborative Forest Restoration	10.679	05-DG-11030121-006	16,857
Total U.S. Department of Agriculture			390,131
<b>U.S. Department of Commerce</b>			
Automated Flood Warning Systems	11.450		25,000
Total U.S. Department of Commerce			25,000
<b>U.S. Department of Housing and Urban Development</b>			
Section 8 Housing Choice Vouchers	14.871		280,933
<b>Passed through the Arizona Department of Commerce</b>			
Community Development Block Grants/State's Program	14.228	105-04, 126-05, 179-06	120,122
<b>Passed through the Arizona Department of Economic Security</b>			
Emergency Shelter Grants Program	14.231	E6306015	6,794
<b>Passed through the Arizona Department of Housing</b>			
Home Investment Partnerships Program	14.239	313-04, 309-06	91,856
Total U.S. Department of Housing and Urban Development			499,705
<b>U.S. Department of the Interior</b>			
National Spatial Data Infrastructure Cooperative Agreements Program	15.809		7,953
Total U.S. Department of the Interior			7,953
<b>U.S. Department of Justice</b>			
<b>Passed through the Arizona Criminal Justice Commission</b>			
Crime Victim Compensation	16.576	VC-06-052	11,790
Edward Byrne Memorial Formula Grant Program	16.579	AC-110-06, PC-080-06	207,551
Total U.S. Department of Justice			219,341
			(Continued)

See accompanying notes to schedule.

Gila County  
Supplementary Information  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Labor</b>			
<b>Passed through the Arizona Department of Economic Security</b>			
Workforce Investment Act Cluster:			
WIA Adult Program	17.258	E5704004, E5705004, E5706006	817,256
WIA Youth Activities	17.259	E5704004, E5705004, E5706006	570,834
WIA Dislocated Workers	17.260	E5704004, E7505004, E5706006	\$ 1,606,067
<b>Passed through Maricopa County</b>			
WIA Dislocated Workers	17.260	C-22-06-158-2	50,000
Total WIA Dislocated Workers			<u>1,656,067</u>
Total Workforce Investment Act Cluster			<u>3,044,157</u>
Total U.S. Department of Labor			<u>3,044,157</u>
<b>U.S. Department of Transportation</b>			
<b>Passed through the Arizona Department of Emergency Services and Military Affairs</b>			
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	None	47
Total U.S. Department of Transportation			<u>47</u>
<b>U.S. Office of Library Services</b>			
<b>Passed through the Arizona Department of Environmental Quality</b>			
Nonpoint Source Implementation Grants	66.460	EV05-0021	204,112
Total U.S. Office of Library Services			<u>204,112</u>
<b>U.S. Department of Energy</b>			
<b>Passed through the Arizona Department of Commerce</b>			
Weatherization Assistance for Low-Income Persons	81.042	048-04, 006-06	109,611
Total U.S. Department of Energy			<u>109,611</u>
<b>U.S. Department of Education</b>			
Fund for the Improvement of Education	84.215		282,224
			(Continued)

See accompanying notes to schedule.

Gila County  
 Supplementary Information  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>Passed through the Arizona Department of Education</b>			
Title I Grants to Local Educational Agencies	84.010	S010A030003	72,313
Education Technology State Grants	84.318	S318X040005	38,866
Reading First State Grants	84.357	S357A020003	23,062
<b>Passed through the Arizona Supreme Court</b>			
Title I Program for Neglected and Delinquent Children	84.013	28206	21,860
State Grants for Innovative Programs	84.298	28206	1,530
<b>Passed through the Arizona Department of Education</b>			
Special Education – Grants to State	84.027	H027A0500007	\$ 12,550
<b>Passed through the Arizona Supreme Court</b>			
Special Education – Grants to State	84.027	28206	12,185
Total Special Education – Grants to State			24,735
<b>Passed through the Arizona Department of Education</b>			
Improving Teacher Quality State Grants	84.367	S367A40049	15,543
<b>Passed through the Arizona Supreme Court</b>			
Improving Teacher Quality State Grants	84.367	28206	6,989
Total Improving Teacher Quality State Grants			22,532
<b>Passed through the Arizona Department of Economic Security</b>			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	E5344530	183,144
Total U.S. Department of Education			670,266
<b>Elections Assistance Commission</b>			
<b>Passed through the Arizona Secretary of State's Office</b>			
Help America Vote Act Requirements Payments	90.401	None	267,048
Total Elections Assistance Commission			267,048
<b>U.S. Department of Health and Human Services</b>			
<b>Passed through the Arizona Department of Health Services</b>			
Immunization Grants	93.268	HG352192	43,983

(Continued)

See accompanying notes to schedule.

Gila County  
Supplementary Information  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	252042	251,256
HIV Prevention Activities – Health Department Based	93.940	HG352240	6,037
Preventive Health and Health Services Block Grant	93.991	HG354179	10,112
Maternal and Child Health Services Block Grant, Special Needs	93.994	HG461413	160
<b>Passed through the Arizona Department of Economic Security</b>			
Temporary Assistance for Needy Families	93.558	E6306115	150,000
Child Support Enforcement	93.563	E7203007, E7204007, E7205007	736,823
Low-Income Home Energy Assistance	93.568	E6306015	62,266
Community Services Block Grant	93.569	E6306015	154,000
Social Services Block Grant	93.667	E6306015	9,774
HIV Care Formula Grants	93.917	HP652141-001	30,925
Total U.S. Department of Health and Human Services			<u>1,455,336</u>
<b>Homeland Security Grant Program Cluster:</b>			
<b>U.S. Department of Justice:</b>			
<b>Passed through the Arizona Department of Emergency Services and Military Affairs</b>			
State Domestic Preparedness Equipment Support Program	16.007	2003-TE-TX-0196, 2003-MU-T3-0034	60,363
<b>U.S. Department of Homeland Security:</b>			
<b>Passed through the Arizona Department of Emergency Services and Military Affairs</b>			
State Domestic Preparedness Equipment Support Program:			
Citizens Corps	97.004	2004-GE-T4-0051	71,853
Emergency Management Performance Grants	97.042	None	54,601
Homeland Security Grant Program	97.067	2005-GE-T5-0030	16,868
Total U.S. Department of Homeland Security			<u>143,322</u>
Total Homeland Security Grant Program Cluster			<u>203,685</u>
<b>U.S. Department of Homeland Security:</b>			
<b>Passed through the Arizona Department of Emergency Services and Military Affairs</b>			
Emergency Food and Shelter National Board Program	97.024	23-0248-00, 24-0248-00	5,008
Total U.S. Department of Homeland Security			<u>5,008</u>
Total Expenditures of Federal Awards			<u>\$ 7,101,400</u>

See accompanying notes to schedule.

Gila County  
 Supplementary Information  
 Notes to Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2006

**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 2006 *Catalog of Federal Domestic Assistance*.

**Note 3 - Subrecipients**

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Paid to Subrecipient</u>
Workforce Investment Act - Adult and Youth Programs	17.258 & 17.259	\$1,215,247

**Independent Auditor's 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***

The Auditor General of the State of Arizona

The Board of Supervisors of  
Gila County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**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 opinions on the basic financial statements and not to provide an opinion 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 initiate, record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **06-1** through **06-16**.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the basic 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 the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 **06-13** through **06-16** to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of 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 an instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item **06-17**.

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.

A handwritten signature in black ink that reads "Miller, Dan G., P.C." The signature is written in a cursive, flowing style.

August 8, 2008



**Independent Auditor's 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, 2006. The County's major federal programs are identified in the Summary of Auditor's 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 auditing standards generally accepted in the United States of America; 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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items **06-18** through **06-22**.

## Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with 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.

We noted certain matters involving the internal control over compliance 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 the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **06-18** through **06-22**.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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.

  
August 8, 2008

Gila County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2006

**Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:

**Unqualified**

YES                      NO

Material weaknesses identified in internal control over financing 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                              

Type of auditor's 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:

- Workforce Investment Act Cluster
- 17.258            WIA Adult Program
- 17.259            WIA Youth Activities
- 17.260            WIA Dislocated Workers
  
- 93.563            Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs:                      \$300,000

Auditee qualified as low-risk auditee?                                                    X  

**Other Matters**

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  
Year Ended June 30, 2006

**Financial Statement Findings**

**Item: 06-1** (Repeat Finding)

*Subject:* Segregation of Duties -Payroll

*Criteria:* The payroll and personnel functions should be separate.

*Condition:* The County has inadequate segregation of duties among personnel and payroll duties which has resulted in the payroll manager having the ability to make changes to the payroll system without prior approval.

*Cause:* Personnel changes to payroll records are not reviewed.

*Effect:* The lack of segregation of duties could create control situations that would allow personnel to implement the creation of ghost employees or the collusion between departmental employees and the payroll manager position.

*Recommendation:* Human Resources should have the sole responsibility to make any changes to personnel information and have the information clearly documented.

**Item: 06-2** (Repeat Finding)

*Subject:* Segregation of Duties - Payroll

*Criteria:* There should be an independent review of warrants printed and a comparison performed between the printed warrants and the payroll register. Also, a signature sheet should accompany the register indicating that an independent review was performed.

*Condition:* There is not an independent review or comparison of warrants printed to the payroll register.

*Cause:* As all warrants are printed prior to signature stamping there is no review to ensure that erroneous hours or ghost employees are adequately identified.

*Effect:* The lack of proper review of the payroll register could create situations in which ghost employees are paid via warrants.

*Recommendation:* Policies and procedures should be implemented to ensure that there is a proper review of the payroll register and warrants printed, and that the review is performed by an employee independent of the personnel and payroll functions.

**Item: 06-3** (Repeat Finding)

*Subject:* Cash

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Criteria:* Checks that have not been presented for payment within one year of issuance should be added back to check register. An attempt should be made to contact payee to determine why check was not cashed and a replacement check should be issued.

*Condition:* The County has checks that are included on outstanding check lists that have been outstanding since 1997.

*Cause:* The County does not follow the requirements of the Uniform Accounting Manual for Arizona Counties (UAMAC).

*Effect:* The risks of financial statement misrepresentation and the misappropriation of assets are increased.

*Recommendation:* The policies and procedures prescribed in the UAMAC should be followed.

**Item: 06-4**

*Subject:* Capital Assets

*Criteria:* The "Request for Disposal of Equipment" form could not be located for 3 of 4 items tested.

*Condition:* Request for Disposal of Equipment forms should be retained to support removal from the County's capital assets list.

*Cause:* The County's procedures, as listed in the Uniform Accounting Manual for Arizona Counties (UAMAC), for disposal of equipment was not followed.

*Effect:* Capital assets are not being properly safeguarded.

*Recommendation:* The County should ensure that the policies and procedures as described in the UAMAC are followed.

**Item: 06-5 (Repeat Finding)**

*Subject:* Cash Disbursements - Finance

*Criteria:* An employee independent of the payable and general ledger functions should compare printed warrants to invoices and distribute signed warrants.

*Condition:* The accounts payable clerk compares printed warrants to invoices and mails signed warrants to vendors.

*Cause:* The communication deficiencies between the employees and management in addressing job descriptions and procedures were main contributors to the problem.

*Effect:* The County's assets may not be properly safeguarded.

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Recommendation:* To help ensure that the assets of the County are properly safeguarded, accounting duties should be segregated. If this is not possible, due to size of available staff, the employee's supervisor or another staff member should review and approve the activity.

**Item: 06-6** (Repeat Finding)

*Subject:* Cash Disbursements – School Superintendent's Office

*Criteria:* The blank warrant and facsimile signature plate custody function should be segregated from the authorization and record keeping functions.

*Condition:* All accounting personnel have unrestricted access to blank warrants and facsimile signature plates.

*Cause:* The County has not adopted policies and procedures for segregating these functions.

*Effect:* The ability of all accounting staff to have unrestricted access to blank warrants and the signature plate increases the risk of an unauthorized warrant being processed.

*Recommendation:* The County should adopt policies and procedures that require blank warrants and facsimile signature plates to be maintained in a secure manner.

**Item: 06-7** (Repeat Finding)

*Subject:* Cash Disbursements – School Superintendent's Office

*Criteria:* Printed warrants should be compared to the expense voucher by the School Superintendent or other responsible employee who is independent of the payable function.

*Condition:* Printed warrants are not compared to supporting documentation prior to mailing to vendor.

*Cause:* Policies and procedures have not been established.

*Effect:* The lack of a proper review increases the risk that an unauthorized warrant could be processed.

*Recommendation:* The School Superintendent's office should adopt policies and procedures that require a proper review to be performed.

**Item: 06-8** (Repeat Finding)

*Subject:* Cash Disbursements – School Superintendent's Office

*Criteria:* After warrants are issued, invoices should be cancelled to prevent duplicate payments.

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Condition:* The School Superintendent's Office does not cancel invoices.

*Cause:* The School Superintendent's Office procedure is to attach a copy of the warrant to the invoice.

*Effect:* Invoices could be resubmitted for duplicate payment.

*Recommendation:* To help ensure that invoices are not resubmitted for duplicate payment all invoices should be cancelled by stamping the payment date and recording the warrant number on the invoice.

**Item: 06-9 (Repeat Finding)**

*Subject:* Procurement

*Criteria:* The County's procurement policy requires the following:

1. For purchases costing at least \$5,000 but less than \$15,000, at least three oral price quotations should be obtained.
2. For purchases costing at least \$15,000 but less than \$35,000, at least three written quotations should be obtained.
3. For purchases in excess of \$35,000, invitations for bids must be issued.

*Condition:* The County's procurement policy was not followed.

*Cause:* Proper review was not performed to ensure that the County's policies were followed.

*Effect:* The County may not receive the best price for goods or services.

*Recommendation:* To help ensure that the County receives the best possible prices for goods and services the County should establish procedures that enforce their procurement policies.

**Item: 06-10 (Repeat Finding)**

*Subject:* Capital Assets

*Criteria:* A complete physical inventory of capital assets should be taken at least once every two years for equipment costing \$5,000 or more.

*Condition:* A physical inventory of capital assets has not been performed in the last two years.

*Cause:* Procedures are not in place to ensure that a physical inventory is performed as required.

*Effect:* Capital assets might not be properly controlled and accounted for.

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Recommendation:* The County should adopt policies and procedures that require physical inventories to be performed in a timely manner.

**Item: 06-11** (Repeat Finding)

*Subject:* Capital Assets

*Criteria:* The County should prepare and maintain a current capital assets list.

*Condition:* The County has three separate capital assets lists, one is for items purchased through capital lease agreements, the second is for infrastructure and the third is for all other purchases that meet the County's capitalization thresholds.

*Cause:* The County maintains a separate list for items purchased through capital lease agreements.

*Effect:* The County's capital assets are not included in one comprehensive list.

*Recommendation:* The County should adopt policies and procedures that require all items that meet the County's capitalization threshold to be included in one comprehensive list.

**Item: 06-12** (Repeat Finding)

*Subject:* Capital Assets

*Criteria:* The County's capital assets list should include the following information:

1. Location
2. Identification number
3. Description
4. Method of acquisition
5. Source of funding
6. Acquisition date
7. Purchase document number
8. Cost

*Condition:* The County's capital assets list does not include location, method of acquisition, source of funding and purchase document number.

*Cause:* The County does not follow the Uniform Accounting Manual for Arizona Counties (UAMAC).

*Effect:* The County's capital assets list is incomplete.

*Recommendation:* The County should follow the procedures outlined in the UAMAC or adopt policies and procedures that meet the same level of internal controls for capital assets.



Gila County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

**Item: 06-13** (Repeat Finding)

*Subject:* General Ledger

*Criteria:* Interfund payables and receivables should be reconciled between funds.

*Condition:* Interfund payables and receivables are not reconciled.

*Cause:* The County does not have policies and procedures that require that the interfund payables and receivables be reconciled.

*Effect:* The interfund payables and receivables do not equal. The County corrected the deficiencies prior to audit of financial statements.

*Recommendation:* The County should implement policies and procedures that require interfund payables and receivables to be reconciled timely to ensure that all transactions are being recognized in the accounting records.

**Item: 06-14** (Repeat Finding)

*Subject:* General Ledger

*Criteria:* Subsidiary accounting ledgers maintained by County departments should be reconciled to the County's general ledger.

*Condition:* Subsidiary ledgers maintained by County departments are not reconciled to the County's general ledger.

*Cause:* The County does not have policies and procedures that require that the subsidiary accounting ledgers be reconciled to the County's general ledger.

*Effect:* Numerous close-out adjustments were necessary to properly record cash held by other departments, investments, accounts receivables, due from other governments, accrued liabilities, capital assets, long-term debt and the related principal and interest payments, and fund balances. It was also noted that revenues were not properly recorded on the County's general ledger for grants and contracts from other governments making it difficult to determine the proper presentation of federal grants and contracts on the Schedule of Expenditures of Federal Awards.

*Recommendation:* The County should implement policies and procedures that require subsidiary accounting ledgers to be reconciled to the County's general ledger.

**Item: 06-15** (Repeat Finding)

*Subject:* General Ledger

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Criteria:* The account code structure used in the County's general ledger should be logically organized in a manner that allows for the efficient preparation of budgets and financial reports.

*Condition:* The County's account code structure is inadequate.

*Cause:* The County uses old accounting software that does not meet its current needs.

*Effect:* Numerous unused accounts, accounts used improperly and close-out adjustments at year-end were noted.

*Recommendation:* The County should restructure their chart of accounts.

**Item: 06-16** (Repeat Finding)

*Subject:* Financial and Accounting Reporting

*Criteria:* The County should establish adequate internal control policies and procedures to ensure all funds and accounts are included and classified properly on its financial and accounting reports.

*Condition:* The County does not have adequate internal control policies and procedures to ensure all funds and accounts are included and classified properly on its financial statements to comply with GASB 14.

*Cause:* Many departments maintain their own accounting records and an employee was not assigned to understand GASB 14 to review existing and new funds and accounts prior to recording them in the County's general ledger.

*Effect:* The County's general ledger, the source for the financial statements, did not include many funds administered by the County School Superintendent's Office and incorrectly included several outside organizations that were not part of the County's jurisdictions. Further, many funds were incorrectly classified on the County's financial statements. The County corrected the deficiencies prior to the audit of its financial statements.

*Recommendation:* To comply with GASB 14, the County should establish policies and procedures to ensure all departments' records are reported on the County's general ledger. Further, the County should assign an employee to review the departments' records, purpose of all existing and new funds and determine proper financial and accounting reporting.

**Item: 06-17**

*Subject:* Budgeting

*Criteria:* The County's assessed primary and secondary property taxation, plus all estimated sources of revenue and unencumbered balances from the preceding fiscal year, must equal

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

budgeted expenditures for the current fiscal year, as required by Arizona Revised Statute (A.R.S.) §42-17051(A).

*Condition:* The County's budgeted beginning fund balance for the General Fund, for the fiscal year ended June 30, 2006 was \$2,619,664, which was \$6,760,068 less than ending fund balance for the General Fund at June 30, 2005.

*Cause:* The County does not have internal controls in place to ensure that budgets are prepared properly.

*Effect:* Property tax levies could be calculated incorrectly due to the County not being in compliance with Arizona Revised Statutes.

*Recommendation:* To comply with A.R.S. §42-17051(A), the County should establish policies and procedures to ensure that Budgets are prepared as required.

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

**Federal Award Findings and Questioned Costs**

**Item: 06-18**

*CFDA Number:* 93.563

*Program:* Child Support Enforcement

*Agency:* U.S. Department of Health and Human Services

*Pass-through Entity:* Arizona Department of Economic Security

*Award Year:* 10/1/05-9/30/06

*Award Numbers:* E7203007, E7204007, E7205007

*Questioned Costs:* Unknown

*Criteria:* Subsidiary grant accounting ledgers maintained by the programs should be reconciled to the County's general ledger.

*Condition:* Subsidiary grant accounting ledgers maintained by grant administrators are not reconciled to the County's general ledger.

*Cause:* The County does not have policies and procedures that require that the subsidiary accounting ledgers be reconciled to the County's general ledger.

*Effect:* Expenditures reported to granting agencies are not the same as the amounts in the County's general ledger.

*Recommendation:* The County should implement policies and procedures that require subsidiary accounting ledgers to be reconciled to the County's general ledger.

**Item: 06-19**

*CFDA Numbers:* 17.258, 17.259, 17.260

*Program:* Workforce Investment Act Cluster

*Agency:* U.S. Department of Labor

*Pass-through Entities:* Arizona Department of Economic Security, Maricopa County

*Award Year:* 7/1/05-6/30/06

*Award Numbers:* E5704004, E5705004, E5706006, C-22-06-158-2

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Questioned Costs:* Unknown

*Criteria:* The County's procurement policy requires the following:

1. For purchases costing at least \$5,000 but less than \$15,000, at least three oral price quotations should be obtained.
2. For purchases costing at least \$15,000, but less than \$35,000, at least three written quotations should be obtained.
3. For purchases in excess of \$35,000, invitations for bids must be issued.

*Condition:* The County's procurement policy was not followed, as three oral quotes were not received for the single item tested in the \$5,000 to \$15,000 range.

*Cause:* Proper review was not performed to ensure that the County's policies were followed.

*Effect:* The County may not receive the best price for goods or services.

*Recommendation:* To help ensure that the County received the best possible prices for goods and services the County should establish procedures that enforce their procurement policies.

***Item: 06-20***

*CFDA Number:* 93.563

*Program:* Child Support Enforcement

*Agency:* U.S. Department of Health and Human Services

*Pass-through Entity:* Arizona Department of Economic Security

*Award Year:* 10/1/05-9/30/06

*Award Numbers:* E7203007, E7204007, E7205007

*Questioned Costs:* None

*Criteria:* The Code of Federal Regulations 45 CFR §92.20 requires grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities.

*Condition:* Transactions of this program are not recorded within a single fund designated specifically for this program.

*Cause:* Inadequate account code structure.

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Effect:* An increased risk that transactions and account balances not related to the program are commingled with those of the program.

*Recommendation:* The County should restructure its chart of accounts and as part of this restructuring, the County should identify programs that are externally funded and record transactions of those programs in their own separate fund.

**Item: 06-21**

*CFDA Numbers:* 17.258, 17.259, 17.260

*Program:* Workforce Investment Act Cluster

*Agency:* U. S. Department of Labor

*Pass-through Entities:* Arizona Department of Economic Security, Maricopa County

*Award Year:* 7/1/05-6/30/06

*Award Numbers:* E5704004, E5705004, E5706006, C-22-06-158-2

*Questioned Costs:* None

*Criteria:* The participants' case files should contain all required eligibility documentation as prescribed by the federal compliance supplement.

*Condition:* Three out of twelve participants' case files tested, did not contain documentation that the participant was unable to obtain funding for training from other sources.

*Cause:* The case workers did not maintain the documentation in participants' files showing that they were not eligible for other types of funding for their training.

*Effect:* Ineligible participants might receive training.

*Recommendation:* The program should implement internal control procedures that require compliance with program requirements.

**Item: 06-22**

*CFDA Numbers:* 17.258, 17.259, 17.260, 93.563

*Program:* Workforce Investment Act Cluster, Child Support Enforcement

*Agencies:* U.S. Department of Labor, U.S. Department of Health and Human Services

**Gila County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

*Pass-through Entities:* Arizona Department of Economic Security, Maricopa County

*Award Year:* 7/1/05-6/30/06, 10/1/05-9/30/06

*Award Numbers:* E5704004, E5705004, E5706006, E7203007, E7204007, F7205007, C-22-06-158-2

*Questioned Costs:* N/A

*Criteria:* OMB Circular A-133, section 320 requires that an audit be completed and the data collection form and single audit reporting package be submitted to the Federal clearinghouse no later than nine months after the end of the audit period.

*Condition:* The County's audit was not completed within the required time period.

*Cause:* The County does not have internal controls in place to ensure that audits are completed on a timely basis.

*Effect:* The County could lose federal funding.

*Recommendation:* The County should follow their policies and procedures to ensure audits are completed timely.

## County Responses



Gila County  
Corrective Action Plan  
Year Ended June 30, 2006

**Financial Statement Findings**

**Item: 06-1** (Repeat Finding)

*Subject:* Segregation of Duties -Payroll

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* June 30, 2008

*Corrective Action:* The County intends to assign the responsibility for changes to the personnel department with the finance department approving the changes.

**Item: 06-2** (Repeat Finding)

*Subject:* Segregation of Duties - Payroll

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* June 30, 2008

*Corrective Action:* The County will assign the task of reviewing the payroll register and payroll warrants to accounts payable personnel.

**Item: 06-3** (Repeat Finding)

*Subject:* Cash

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* August 1, 2008

*Corrective Action:* The County's policies and procedures were changed to correct this deficiency.

**Item: 06-4**

*Subject:* Capital Assets

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2008

*Corrective Action:* The County's policies and procedures are now enforced.

Gila County  
Corrective Action Plan  
Year Ended June 30, 2006

**Item: 06-5** (Repeat Finding)

*Subject:* Cash Disbursements - Finance

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2007

*Corrective Action:* Payroll personnel will compare signed warrants to the invoices and mail them.

**Item: 06-6** (Repeat Finding)

*Subject:* Cash Disbursements – School Superintendent’s Office

*Contact Person:* Debra Moya, Deputy Superintendent

*Anticipated Completion Date:* September 30, 2007

*Corrective Action:* A secure signature system is now in place due to the use of new software. An employee, separate from processing vouchers, has been assigned as custodian of blank warrants.

**Item: 06-7** (Repeat Finding)

*Subject:* Cash Disbursements – School Superintendent’s Office

*Contact Person:* Debra Moya, Deputy Superintendent

*Anticipated Completion Date:* September 30, 2007

*Corrective Action:* An employee, not involved in the processing of vouchers, will compare printed warrants to supporting documentation prior to mailing.

**Item: 06-8** (Repeat Finding)

*Subject:* Cash Disbursements – School Superintendent’s Office

*Contact Person:* Debra Moya, Deputy Superintendent

*Anticipated Completion Date:* September 30, 2007

*Corrective Action:* School Superintendent’s Office personnel will begin to stamp the invoices paid and record the date paid after warrants are written.

**Gila County**  
Corrective Action Plan  
Year Ended June 30, 2006

**Item: 06-9** (Repeat Finding)

*Subject:* Procurement

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2008

*Corrective Action:* The County's policies and procedures are now enforced.

**Item: 06-10** (Repeat Finding)

*Subject:* Capital Assets

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2008

*Corrective Action:* Inventories will be performed as required.

**Item: 06-11** (Repeat Finding)

*Subject:* Capital Assets

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2008

*Corrective Action:* The capital assets lists will be combined.

**Item: 06-12** (Repeat Finding)

*Subject:* Capital Assets

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2008

*Corrective Action:* The County's capital assets list will include all required information.

**Item: 06-13** (Repeat Finding)

*Subject:* General Ledger

*Contact Person:* Richard Gaona, Finance Director

**Gila County**  
Corrective Action Plan  
Year Ended June 30, 2006

*Anticipated Completion Date:* March 31, 2008

*Corrective Action:* Interfund payables and receivables are now being reconciled on a timely basis.

**Item: 06-14** (Repeat Finding)

*Subject:* General Ledger

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* March 31, 2008

*Corrective Action:* The Finance Department is now working with County Departments to improve grant accounting and insure that subsidiary ledgers reconcile to the County's general ledger.

**Item: 06-15** (Repeat Finding)

*Subject:* General Ledger

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* March 31, 2008

*Corrective Action:* The County has installed a new accounting system and a new chart of accounts.

**Item: 06-16** (Repeat Finding)

*Subject:* Financial and Accounting Reporting

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* June 30, 2008

*Corrective Action:* The County has implemented policies and procedures that require that a review is performed on all funds added or deleted from the County's general ledger to assure that all funds are properly recorded in the County financials.

**Item: 06-17**

*Subject:* Budgeting

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* December 2008

*Corrective Action:* The County will establish procedures to ensure that accurate fund balances are used during budget preparation.

Gila County  
Corrective Action Plan  
Year Ended June 30, 2006

**Federal Award Findings and Questioned Costs**

**Item: 06-18**

*CFDA Number:* 93.563

*Program:* Child Support Enforcement

*Subject:* Subsidiary grant accounting ledgers maintained by programs are not reconciled to the County's general ledger.

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* March 31, 2008

*Corrective Action:* Grant administrators have been notified of the requirement to reconcile subsidiary grant accounting ledgers to the County's general ledger. In addition, a new accounting software system was installed July 1, 2007 that will enable the grant administrators to use the County system for grant accounting and eliminate the need for separate subsidiary grant accounting systems.

**Item: 06-19**

*CFDA Number:* 17.258, 17.259, 17.260

*Program:* Workforce Investment Act Cluster

*Subject:* The County's procurement policy requires the following:

1. For purchases costing at least \$5,000 but less than \$15,000, at least three oral price quotations should be obtained.
2. For purchases costing at least \$15,000, but less than \$35,000, at least three written quotations should be obtained.
3. For purchases in excess of \$35,000, invitations for bids must be issued.

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2008

*Corrective Action:* Policies and procedures are now enforced.

**Item: 06-20**

*CFDA Number:* 93.563

**Gila County**  
Corrective Action Plan  
Year Ended June 30, 2006

*Program:* Child Support Enforcement

*Subject:* Transactions of this program are not recorded within a single fund designated specifically for this program.

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* July 1, 2007

*Corrective Action:* The County will record grants in a separate fund.

**Item: 06-21**

*CFDA Number:* 17.258, 17.259, 17.260

*Program:* Workforce Investment Act Cluster

*Subject:* Three out of twelve participants' case files tested, did not contain documentation that the participant was unable to obtain funding for training from other sources.

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* December 1, 2007

*Corrective Action:* The County will ensure that programs are in compliance with program requirements.

**Item: 06-22**

*CFDA Number:* 17.258, 17.259, 17.260, 93.563

*Program:* Workforce Investment Act Cluster and Child Support Enforcement

*Subject:* The County's audit was not completed within nine months of June 30, 2006.

*Contact Person:* Richard Gaona, Finance Director

*Anticipated Completion Date:* December 31, 2008

*Corrective Action:* Additional resources have been assigned to audits. Continued emphasis on audit completion will ensure that fiscal year 2007 audit will be completed by December 31, 2009.

Gila County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2006

**Status of Prior Year Federal Award Findings and Questioned Costs**

**Item: 03-102, 04-18, 05-18**

*CFDA Number:* 16.579, 93.283, 93.563

*Program:* Byrne Formula Grant Program, Centers for Disease Control and Prevention – Investigations and Technical Assistance, Child Support Enforcement

*Status:* Corrected for Child Support Enforcement during the fiscal year ended June 30, 2005, not corrected for Byrne Formula Grant Program and Centers for Disease Control and Prevention - Investigations and Technical Assistance

*Corrective Action:* The County will implement the use of timeline reports.

**Item: 03-104, 04-19, 05-19**

*CFDA Number:* 16.579, 17.255, 17.258, 17.259, 17.260, 93-283, 93.563

*Program:* Byrne Formula Grant Program, Workforce Investment Act Cluster, Centers for Disease Control and Prevention – Investigations and Technical Assistance, Child Support Enforcement

*Status:* Corrected for Workforce Investment Act Cluster, not corrected for Byrne Formula Grant Program and Child Support Enforcement

*Corrective Action:* Grant administrators have been notified of the requirement to reconcile subsidiary grant accounting ledgers to the County's general ledger. In addition, a new accounting software system was installed July 1, 2007 that will enable the grant administrators to use the County system for grant accounting and eliminate the need for separate subsidiary grant accounting systems.

**Item: 05-20**

*CFDA Number:* 17.258, 17.259, 17.260

*Program:* Workforce Investment Act Cluster

*Status:* Corrected

**Item: 03-101, 04-21, 05-21**

*CFDA Number:* 93.563

*Program:* Child Support Enforcement

**Gila County**  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2006

*Status:* Not corrected

*Corrective Action:* The County will record grants in a separate fund.

***Item: 04-22, 05-22***

*CFDA Number:* 17.255, 17.258, 17.259, 17.260

*Program:* Workforce Investment Act Cluster

*Status:* Not corrected

*Corrective Action:* The County will ensure that programs are in compliance with program requirements.

***Item: 04-23, 05-23***

*CFDA Number:* 17.255, 17.258, 17.259, 17.260

*Program:* Workforce Investment Act Cluster

*Status:* Corrected

***Item: 04-24, 05-24***

*CFDA Number:* 10.665, 15.226, 16.579, 17.255, 17.258, 17.259, 17.260, 39.011, 93.283, 93.563, 16,007, 97.004, 97.042

*Program:* Schools and Roads – Grants to States, Payments in Lieu of Taxes, Byrne Formula Grant Program, Workforce Investment Act Cluster, Election Reform Payments, Centers for Disease Control and Prevention – Investigations and Technical Assistance, Child Support Enforcement and Homeland Security Grant Program Cluster

*Status:* Not corrected

*Corrective Action:* Additional resources have been assigned to audits. Continued emphasis on audit completion will ensure that the fiscal year 2007 audit will be completed by December 31, 2009.