

**GREENLEE COUNTY, ARIZONA
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006**

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ANNUAL FINANCIAL REPORT
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Independent Auditor's Report

The Auditor General of the State of Arizona

The Board of Supervisors of
Greenlee County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Greenlee 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 Greenlee 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 5 through 14, the Budgetary Comparison Schedules on pages 46 through 52, and the Schedule of Agent Retirement Plan's Funding Progress on page 53, 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 supplementary information on page 56 is presented for purposes of additional analysis and is not a required part

of the basic financial statements of Greenlee County. 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 compliance.

In accordance with *Government Auditing Standards*, we have issued our report dated April 16, 2010, 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.

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, and management 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.

Miller, Alford & Co., P.C.

April 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

As management of Greenlee County, Arizona (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. Please read it in conjunction with the County's basic financial statements, which begin on page 16.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2006 as follows:

- The County's total net assets of governmental activities increased \$2.3 million to \$9.5 million, representing a 32.8 percent increase from fiscal year 2004-05.
- General revenues from governmental activities accounted for \$8.5 million in revenue, or 56.5 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6.5 million or 43.5 percent of total governmental activities revenues.
- The County had \$12.6 million in expenses related to governmental activities; of which \$6.5 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues of \$8.5 million were adequate to provide for the remaining costs of these programs.
- Among major governmental funds, the General Fund had \$8.1 million in revenues, which primarily consisted of taxes and intergovernmental revenues. The total expenditures of the General Fund were \$7.2 million. The General Fund's fund balance increased from \$1.3 million to \$1.5 million, due primarily to an increase in shared state sales taxes. The fund balance of the PDMI Donation Fund increased by \$818,909 due primarily to donations received during the year. The HURF Fund had revenues of \$1.2 million, which consisted mainly of intergovernmental revenues. The total expenditures were \$1.7 million. The fund balance of the HURF Fund decreased by \$156,210 from the prior year due primarily to increases in street maintenance costs and capital lease payments. The fund balance of the Debt Service Fund increased by \$16,019 due to transfers in from other funds.

OVERVIEW OF 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. This report also contains other supplementary information in addition to the basic financial statements themselves.

GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006

OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)

Government-wide financial statements. The *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 the County's net assets changed during the most recent 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*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

In the government-wide financial statements the County's activities are presented in the following category:

- **Governmental activities** - Most of the County's basic services are included here, such as general government, public safety, highways and streets, culture and recreation, and economic development. Sales taxes, intergovernmental, and charges for services revenue finance most of these activities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental 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, governmental fund financial statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

Because the focus of governmental funds is narrower than that of the government-wide financial 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 County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Federal Election System (HAVA) Fund, PDMI Donation Fund, HURF Fund, and Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

Fiduciary funds. Fiduciary funds are used to account for resources held 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 Greenlee County's own programs.

Notes to the financial statements. The notes 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 immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's budget process. The County adopts an annual budget for all governmental funds. Budgetary comparison schedules have been provided for the General Fund, Federal Election System (HAVA) Fund, PDMI Donation Fund, and HURF Fund as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$9.5 million as of June 30, 2006.

**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

By far the largest portion of the County's net assets (62.2 percent) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding.

The County uses these capital assets to provide services to its 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.

The County's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

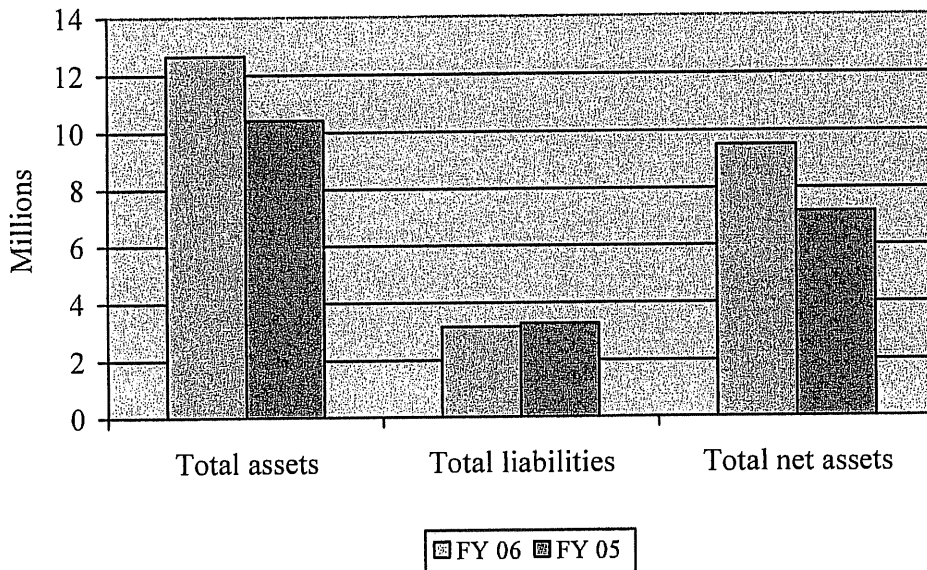
The following tables present a summary of the County's net assets as of June 30, 2006 and 2005.

	As of <u>June 30, 2006</u>	As of <u>June 30, 2005</u>
Current assets	\$ 5,121,420	\$ 4,048,673
Other assets	294,496	306,222
Capital assets, net	<u>7,250,214</u>	<u>6,063,724</u>
Total assets, net	<u>12,666,130</u>	<u>10,418,619</u>
Long-term liabilities outstanding	2,371,985	2,746,669
Other liabilities	<u>792,450</u>	<u>519,496</u>
Total liabilities	<u>3,164,435</u>	<u>3,266,165</u>
Net assets:		
Invested in capital assets, net of related debt	5,909,422	4,326,093
Restricted	864,615	1,004,806
Unrestricted	<u>2,727,658</u>	<u>1,821,555</u>
Total net assets	<u>\$ 9,501,695</u>	<u>\$ 7,152,454</u>

**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Governmental Activities



The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- An increase in current assets of \$1.1 million due primarily to an \$800,000 donation received during the year.
- The addition of \$2.1 million in capital assets through the addition of buildings, improvements, and machinery and equipment.
- Long-term liabilities outstanding decreased by \$374,684 primarily due to the paying down of the certificates of participation debt.
- Other liabilities increased by \$272,954 primarily due to increases in year-end accounts payable amounts.

Changes in net assets. The County's total revenues for the fiscal year ended June 30, 2006, were \$15.0 million. The total cost of all programs and services was \$12.6 million. The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2006 and 2005.

**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

	Fiscal Year Ended <u>June 30, 2006</u>	Fiscal Year Ended <u>June 30, 2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 600,137	\$ 588,508
Operating grants and contributions	4,554,469	3,922,286
Capital grants and contributions	1,344,348	1,499,525
General revenues:		
Property taxes, levied for general purposes	1,284,588	2,992,949
County sales taxes for general purposes	1,062,010	803,692
Share of state sales taxes	3,918,655	2,511,679
Share of state vehicle license tax	274,918	224,906
Grants and contributions not restricted to specific programs	1,619,174	917,785
Investment earnings	132,212	53,297
Miscellaneous	161,411	214,530
Total revenues	<u>14,951,922</u>	<u>13,729,157</u>
Expenses:		
General government	4,259,548	4,064,005
Public safety	3,733,402	3,329,201
Highway and streets	1,619,645	1,364,221
Sanitation	370,756	454,486
Health and welfare	1,479,280	1,440,233
Culture and recreation	508,433	489,889
Education	524,014	499,698
Economic development	3,408	3,270
Interest on long-term debt	104,195	115,360
Total expenses	<u>12,602,681</u>	<u>11,760,363</u>
Increase in net assets	<u>\$ 2,349,241</u>	<u>\$ 1,968,794</u>

The following are significant current year transactions that have had an impact on the Statement of Activities:

- Operating grants and contributions increased by \$632,183 primarily due to receipt of a federal grant for an election system, increased federal grant funding for bio-terrorism, and increased revenues from state shared gas tax revenues designated for highways and streets.
- Property taxes decreased by \$1.7 million due to the expiration of the County property tax override.

**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

- County and state shared taxes increased as a result of increased copper prices and the associated severance tax collected and distributed to the County.
- Grants and contributions not restricted to specific programs increased by \$701,389 primarily due to an \$800,000 donation received during the year.
- Public safety expenses increased by \$404,201 primarily due to an increased inmate count in the jail system, the hiring of a jail enhancement coordinator, use of part-time detention officers to cover shifts of full-time officers, additional overtime, increased expenses related to a federal grant for bio-terrorism, and increases in depreciation expenses.
- Highways and streets expenses increased by \$255,424 primarily due to increases in professional services costs related to underground storage tank investigations and a small area transportation study, incurred losses on the disposal of capital assets, and increases in depreciation expenses.

Governmental activities. The following table presents the cost of the nine major County functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State's and County's taxpayers by each of these functions.

	<u>Year Ended June 30, 2006</u>		<u>Year Ended June 30, 2005</u>	
	<u>Total Expenses</u>	<u>Net (Expense)/ Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense)/ Revenue</u>
Governmental Activities				
General government	\$ 4,259,548	\$ (3,336,662)	\$ 4,064,005	\$ (2,741,620)
Public safety	3,733,402	(1,428,955)	3,329,201	(1,711,048)
Highway and streets	1,619,645	(213,262)	1,364,221	(117,106)
Sanitation	370,756	(61,195)	454,486	(135,628)
Health and welfare	1,479,280	(720,084)	1,440,233	(681,280)
Culture and recreation	508,433	(214,817)	489,889	(232,662)
Education	524,014	(21,149)	499,698	(12,070)
Economic development	3,408	(3,408)	3,270	(3,270)
Interest on long-term debt	104,195	(104,195)	115,360	(115,360)
Total	<u>\$12,602,681</u>	<u>\$ (6,103,727)</u>	<u>\$11,760,363</u>	<u>\$ (5,750,044)</u>

- The cost of all governmental activities this year was \$12.6 million.
- The net cost of governmental activities of \$6.1 million was financed by general revenues, which are made up of primarily taxes and shared state revenues.

**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental funds. 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 the County's net resources available for spending at the end of the fiscal year.

The financial performance of the County as a whole is reflected in its governmental funds. As the County completed the year, its governmental funds reported a combined fund balance of \$4.6 million, an increase of \$814,459. Total fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the County's discretion.

The General Fund is the principal operating fund of the County. The increase in fund balance in the General Fund for the fiscal year was \$136,365 due primarily to an increase in shared state sales taxes. The increase in the PDMI Donation Fund of \$818,909 was due primarily to receipt of an \$800,000 donation. The fund balance of the HURF Fund showed a decrease of \$156,210 as a result of increases in street maintenance costs and capital lease payments. The fund balance of the Debt Service Fund increased by \$16,019 as a result of transfers in from other funds.

BUDGETARY HIGHLIGHTS

A schedule showing the budget amounts compared to the County's actual financial activity for the General Fund, Federal Election System (HAVA) Fund, PDMI Donation Fund, and HURF Fund is provided in this report as required supplementary information. The significant variances between budget and actual for the General Fund are as follows:

- Shared state sales tax revenues in the General Fund exceeded estimates by \$1,518,655.
- A budgeted operating transfer from the PDMI Donation Fund to the General Fund for \$1,200,000 was not made. The transfer will be re-appropriated in future years when additional funding is needed for the General Fund.
- Information Systems expenditures exceeded estimates by \$29,865 due to purchases of computer equipment that were budgeted in Superior Court and General Services.

**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

BUDGETARY HIGHLIGHTS (Concl'd)

- Sheriff expenditures exceeded estimates by \$226,204 due to several factors. Part-time detention officers were used to cover shifts in the absence of full-time officers. Overtime pay exceeded budgeted amounts due to the loss of officers and needed coverage. Prisoner meals exceeded estimates due to increased inmate count. Fuel, oil and lubricants were over budgeted amounts due to new patrol practices and higher fuel costs. Buildings and grounds expenditures exceeded budgeted amounts due to usage of inmate labor to begin repairs on the 27-year old facility. Inmate medical costs exceeded estimates due to transports of inmates to hospitals outside of Greenlee County and increased inmate count. Other professional services exceeded budgeted amounts due to a new contract for counseling services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the County had invested \$7.3 million in capital assets, including buildings, facilities, vehicles, computers, and equipment. Total depreciation expense for the year was \$888,944.

- Significant capital asset activity during the year included the following: Construction projects completed during the year were for an airport taxiway totaling \$1.1 million and a multi-purpose jockey room totaling \$120,000. A modular dispatch center was purchased through capital lease in the amount of \$271,349 and included in capital assets. Improvements were also made to the dispatch center in the amount of \$876,953 during the year. Touch screen voting machines were purchased totaling \$75,224, an emergency generator for \$46,805 along with numerous vehicle acquisitions. Vehicles purchases totaled \$85,197 while vehicles acquired through capital leases totaled \$103,157.

The following schedule presents capital asset balances and accumulated depreciation as of June 30, 2006 and 2005.

	As of <u>June 30, 2006</u>	As of <u>June 30, 2005</u>
Land	\$ 233,654	\$ 233,654
Construction in progress		1,029,667
Land improvements	3,840,810	2,502,232
Buildings and improvements	6,899,157	5,554,110
Machinery and equipment	6,557,556	6,281,127
Accumulated depreciation	<u>(10,280,963)</u>	<u>(9,537,066)</u>
Total	<u>\$ 7,250,214</u>	<u>\$ 6,063,724</u>

Additional information on the County's capital assets can be found in Note 4.

**GREENLEE COUNTY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2006**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)

Debt Administration. At June 30, 2006, the County had certificates of participation and capital lease long-term liabilities outstanding of \$1,354,187 as compared to \$1,765,638 in the prior year. This amount is comprised of \$600,000 of certificates of participation and \$754,187 in capital leases.

Additional information on the County's long-term debt can be found in Note 5 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The County's overall fiscal year 2006-07 budget decreased by 0.6 percent while the General Fund increased 6.5 percent due mainly to the implementation of a three percent cost of living adjustment for employee salaries. The plan to reinstate the merit plan was not approved. The County's assessed value increased by almost \$36 million which only allowed for an increase in primary property taxes of \$9,392. The County will be forming the Public Health Services District as a method of raising revenues through property taxes for the purpose of funding public health services for the next fiscal year. Phelps Dodge Morenci, Inc. made a donation \$800,000 to the County. The funds were placed in a donation fund for future use as needed. Copper prices have begun to climb providing an increase in sales/severance tax.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Greenlee County Government, Board of Supervisor's Office, 253 Fifth Street, Clifton, Arizona 85533.

BASIC FINANCIAL STATEMENTS

**GREENLEE COUNTY, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 4,274,239
Property taxes receivable	10,411
Due from other governments	836,770
Total current assets	5,121,420
Noncurrent assets:	
Investments held by trustee - restricted	281,101
Capital assets, not being depreciated	233,654
Capital assets, being depreciated, net	7,016,560
Deferred bond issuance costs	13,395
Total noncurrent assets	7,544,710
Total assets	12,666,130
 <u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	565,145
Accrued payroll and employee benefits	113,544
Deferred revenues	113,761
Current portion of long-term obligations	1,022,310
Total current liabilities	1,814,760
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	1,349,675
Total noncurrent liabilities	1,349,675
Total liabilities	3,164,435
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,909,422
Restricted for:	
HURF	217,038
Debt service	647,577
Unrestricted	2,727,658
Total net assets	\$ 9,501,695

The notes to the financial statements are an integral part of this statement.

**GREENLEE COUNTY, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
General government	\$ 4,259,548	\$ 139,742	\$ 426,829	\$ 356,315	\$ (3,336,662)
Public safety	3,733,402	125,132	1,205,097	974,218	(1,428,955)
Highway and streets	1,619,645		1,406,383		(213,262)
Sanitation	370,756	291,326	18,235		(61,195)
Health and welfare	1,479,280	9,883	749,313		(720,084)
Culture and recreation	508,433	34,054	245,747	13,815	(214,817)
Education	524,014		502,865		(21,149)
Economic development	3,408				(3,408)
Interest on long-term debt	104,195				(104,195)
Total governmental activities	\$ 12,602,681	\$ 600,137	\$ 4,554,469	\$ 1,344,348	(6,103,727)
General revenues:					
Taxes:					
					1,284,588
					1,062,010
					3,918,655
					274,918
					1,619,174
					132,212
					161,411
					<u>8,452,968</u>
					2,349,241
					<u>7,152,454</u>
					<u>\$ 9,501,695</u>

The notes to the financial statements are an integral part of this statement.

GREENLEE COUNTY, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Federal Election System (HAVA) Fund	PDMI Donation Fund
<u>ASSETS</u>			
Cash and cash equivalents	\$ 972,227	\$ 122,861	\$ 818,910
Investments held by trustee - restricted			
Property taxes receivable	10,411		
Due from other governments	746,185		
Due from other funds	74,213		
Total assets	\$ 1,803,036	\$ 122,861	\$ 818,910
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 279,013	\$ 122,839	\$
Accrued payroll and employee benefits	64,544		
Due to other funds			
Deferred revenues	9,309		
Total liabilities	352,866	122,839	
Fund balances:			
Unreserved reported in:			
General fund	1,450,170		
Special revenue funds		22	818,910
Debt service fund			
Total fund balances	1,450,170	22	818,910
Total liabilities and fund balances	\$ 1,803,036	\$ 122,861	\$ 818,910

The notes to the financial statements are an integral part of this statement.

HURF Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 213,242	\$ 366,476 281,101	\$ 1,780,523	\$ 4,274,239 281,101 10,411 836,770 74,213
86,452		4,133	
<u>\$ 299,694</u>	<u>\$ 647,577</u>	<u>\$ 1,784,656</u>	<u>\$ 5,476,734</u>
\$ 67,430 15,226	\$	\$ 95,863 33,774 74,213 113,761	\$ 565,145 113,544 74,213 123,070 875,972
<u>82,656</u>		<u>317,611</u>	<u>875,972</u>
217,038	647,577	1,467,045	1,450,170 2,503,015 647,577
<u>217,038</u>	<u>647,577</u>	<u>1,467,045</u>	<u>4,600,762</u>
<u>\$ 299,694</u>	<u>\$ 647,577</u>	<u>\$ 1,784,656</u>	<u>\$ 5,476,734</u>

GREENLEE COUNTY, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2006

Total governmental funds fund balances **\$ 4,600,762**

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 17,531,177	
Less accumulated depreciation	<u>(10,280,963)</u>	7,250,214

Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. 9,309

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. 13,395

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Certificates of participation payable	(600,000)	
Capital leases payable	(754,187)	
Landfill closure and postclosure care costs payable	(695,200)	
Compensated absences payable	<u>(322,598)</u>	<u>(2,371,985)</u>

Net assets of governmental activities **\$ 9,501,695**

The notes to the financial statements are an integral part of this statement.

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GREENLEE COUNTY, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Federal Election System (HAVA) Fund</u>	<u>PDMI Donation Fund</u>
Revenues:			
Taxes	\$ 2,358,378	\$	\$
Intergovernmental	5,357,489	122,839	
Charges for services	157,453		
Fines and forfeits	45,010		
Investment income	27,923	1	18,909
Contributions	350		800,000
Miscellaneous	117,524		
Total revenues	<u>8,064,127</u>	<u>122,840</u>	<u>818,909</u>
Expenditures:			
Current -			
General government	3,644,168		
Public safety	2,103,577		
Highway and streets			
Sanitation	44		
Health and welfare	547,052		
Culture and recreation	66,683		
Education	185,210		
Economic development			
Capital outlay	479,753	122,839	
Debt service -			
Principal retirement	164,625		
Interest and fiscal charges	12,117		
Total expenditures	<u>7,203,229</u>	<u>122,839</u>	<u></u>
Excess (deficiency) of revenues over expenditures	<u>860,898</u>	<u>1</u>	<u>818,909</u>
Other financing sources (uses):			
Capital lease agreements	322,100		
Transfers in	289,778		
Transfers out	(1,336,411)		
Total other financing sources (uses)	<u>(724,533)</u>	<u></u>	<u></u>
Net changes in fund balances	<u>136,365</u>	<u>1</u>	<u>818,909</u>
Fund balances, beginning of year	1,313,805	21	1
Fund balances, end of year	<u>\$ 1,450,170</u>	<u>\$ 22</u>	<u>\$ 818,910</u>

The notes to the financial statements are an integral part of this statement.

HURF Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,177,359	\$	\$ 4,230,227	\$ 2,358,378
		385,621	10,887,914
		12,053	543,074
8,303	17,519	59,557	57,063
		3,300	132,212
8,938		34,949	803,650
<u>1,194,600</u>	<u>17,519</u>	<u>4,725,707</u>	<u>161,411</u>
			<u>14,943,702</u>
		225,645	3,869,813
		1,097,190	3,200,767
1,425,107			1,425,107
47		358,865	358,956
		852,227	1,399,279
		373,607	440,290
		324,867	510,077
		3,408	3,408
60,324		1,757,596	2,420,512
212,826	305,000	102,679	785,130
26,092	45,973	5,401	89,583
<u>1,724,396</u>	<u>350,973</u>	<u>5,101,485</u>	<u>14,502,922</u>
<u>(529,796)</u>	<u>(333,454)</u>	<u>(375,778)</u>	<u>440,780</u>
51,579			373,679
322,145	349,473	1,028,671	1,990,067
(138)		(653,518)	(1,990,067)
<u>373,586</u>	<u>349,473</u>	<u>375,153</u>	<u>373,679</u>
<u>(156,210)</u>	<u>16,019</u>	<u>(625)</u>	<u>814,459</u>
373,248	631,558	1,467,670	3,786,303
<u>\$ 217,038</u>	<u>\$ 647,577</u>	<u>\$ 1,467,045</u>	<u>\$ 4,600,762</u>

**GREENLEE COUNTY, ARIZONA
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 changes in fund balances - total governmental funds **\$ 814,459**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 2,115,805	
Less current year depreciation	<u>(888,944)</u>	1,226,861

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.

Donations	20,000	
Losses on disposals of assets	<u>(60,371)</u>	(40,371)

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities. (11,780)

The issuance of long-term debt (e.g., bonds, leases, loans, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued or incurred	(373,679)	
Principal repaid	785,130	
Amortization of bond issuance costs	<u>(14,612)</u>	396,839

The reduction in sanitation expenses for landfill closure and postclosure care costs reflected the Statement of Activities does not provide or use current financial resources in the governmental funds. 32,046

Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (68,813)

Change in net assets in governmental activities **\$ 2,349,241**

The notes to the financial statements are an integral part of this statement.

**GREENLEE COUNTY, ARIZONA
STATEMENT OF FIDUCIARY FUNDS' NET ASSETS
JUNE 30, 2006**

	Investment Trust	Agency
<u>ASSETS</u>		
Cash and cash equivalents	\$ 5,032,179	\$ 57,517
Total assets	5,032,179	\$ 57,517
 <u>LIABILITIES</u>		
Deposits held for others		\$ 57,517
Total liabilities		\$ 57,517
 <u>NET ASSETS</u>		
Held in trust	\$ 5,032,179	

The notes to the financial statements are an integral part of this statement.

GREENLEE COUNTY, ARIZONA
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2006

	<u>Investment Trust</u>
Additions:	
Investment income	\$ 161,725
Contributions from participants	14,758,868
Total additions	14,920,593
Deductions:	
Distributions to participants	16,350,694
Total deductions	16,350,694
Changes in net assets	(1,430,101)
Net assets, beginning of year	6,462,280
Net assets, end of year	\$ 5,032,179

The notes to the financial statements are an integral part of this statement.

GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Greenlee 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 government-wide financial statements to emphasize they are legally separate from the County. The blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

Blended Component Unit – The Greenlee County Municipal Property Corporation was formed to finance the renovation, reconstruction, construction and equipping of the County's old courthouse building. The corporation issued certificates of participation that evidence undivided proportionate interests in rent payments to be made under a lease agreement, with an option to purchase, between Greenlee County and the corporation. Although the corporation is a legally separate entity from the County, the Board of Supervisors of the County serves as the Board of Directors of the corporation. Consequently, the financial data for the corporation are blended with the data of the primary government. Separate financial statements of the blended component unit are not prepared.

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.

GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 non-major funds. Fiduciary funds are aggregated and reported by fund type.

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 *Federal Election System (HAVA) Fund* accounts for the receipt and expenditure of the federal election system grant for voting machines.

The *PDMI Donation Fund* accounts for the receipt and expenditure of the donations received from Phelps Dodge Morenci, Inc.

The *HURF Fund* accounts for the receipt and expenditure of the state-shared Highway User Reserve Fund for maintenance and construction of roadways.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The County reports the following fund types:

GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The *Investment Trust Fund* accounts for pooled assets held and invested by the County Treasurer on behalf of other governmental entities.

The *Agency Funds* account for assets held by the County as an agent for other parties.

C. Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of Agency Funds, and the accrual basis of accounting. The Agency Funds are custodial in nature and do not have a measurement focus. 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 revenues 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. The County's major revenue sources that are susceptible to accrual are property taxes, intergovernmental, charges for services, and investment income. 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 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 except where matching requirements exist.

D. Cash and Investments

Money market investments are stated at amortized cost. All other investments are stated at cost, which approximates fair value.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. Inventories

Inventories of the governmental funds and governmental activities consist of expendable supplies held for consumption and are recorded as expenditures or expenses at the time of purchase; and because the amounts on hand at June 30, 2006 were immaterial, they are not included on the balance sheet or the statement of net assets.

F. Property Tax Calendar

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

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

G. Capital Assets

Capital assets are recorded at actual cost, or estimated historical cost if historical records are not available. Donated assets are recorded at estimated fair market value at the date of the donation.

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 5,000		
Construction in progress	\$ 5,000		
Buildings and improvements	\$ 5,000	Straight Line	20-50 years
Machinery and equipment	\$ 5,000	Straight Line	3-15 years
Land improvements	\$ 5,000	Straight Line	10-40 years

H. Investment Earnings

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

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

I. Compensated Absences

Compensated absences consist of vacation leave and accrued compensatory time earned by employees based on services already rendered.

Employees may accumulate up to 160 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental fund's 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.

J. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances – At June 30, 2006, the following funds reported deficit fund balances:

<u>Fund</u>	<u>Deficit</u>
Non-Major Governmental Funds:	
Governor's Anti-Meth Program	\$ 3,693
Ambulance	14
Marijuana Eradication	1,335
Sheriff's Block Grant	494
Court Improvement Program	8,326
Probation – County	60,775
JCEF Juvenile Standard	90

These deficits resulted from operations during the year, but are expected to be corrected through normal operations or transfers from the General Fund in fiscal year 2007.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Cont'd)

Expenditures in Excess of Appropriations – For the year ended June 30, 2006, expenditures exceeded final budget amounts at the department level for the General Fund and the fund level for all other funds (the level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Board of Supervisors	\$5,712
Information Systems	29,865
Planning and Zoning	547
Sheriff	226,204
Landfill	44
Ambulance Service	16,220
Animal Control	6,239
County Library	911
Parks and Recreation	380
U of A Extension Services	600
Other Funds:	
Federal Election System (HAVA)	122,839
HURF	56,858
Gates Grant	14,233
Indigent Defense	2,700
Governor's Anti-Meth Program	8,496
Casa Special Advocate Program	1,537
ACJC	1,808
Victim's Rights and Assistance	12
Ambulance	15
Sheriff's ACJC	17,261
Sheriff's Block Grant	351
Visitation Monitoring	1,338
Court Improvement Program	7,679
SCAAP Program	751
HHS Grant	11,520
Federal Voter Registration	15,353
DOJ/Homeland Security	26,023
CERT Grant	5,996
Landfill Operations	48,505
Health Services	201
Bioterrorism	110,020
Airport Improvement	33,895
County Fair	25,839
Race	29,164
Emergency Food and Shelter	526
JAIBG Program	68
Debt Service	1,500

GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Concl'd)

The excesses were primarily the result of unexpected expenditures and expenditures made as a result of unanticipated revenues or both. The County uses conservative budgeting practices and encourages departments to stay within their adopted budget amounts. Each year, the County bases the adopted budget amounts on these conservative current and budget year projections and past historical trends. Any excesses of appropriations are discussed with department heads to determine whether or not adjustments will be made in future budgets. In addition, the County requires all budgeted capital expenditures to be brought back to the Board for approval regardless of whether they were included in the budget or not. This allows the County to continually review the availability of funds for all purchases throughout the year.

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; 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 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.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 - DEPOSITS AND INVESTMENTS (Cont'd)

Interest Rate Risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of five years and that public operating fund monies invested in securities and deposits have a maximum maturity of three 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 carrying amount of the County’s deposits was \$9,292,365, and the bank balance was \$9,104,935. The County does not have a formal policy regarding custodial credit risk. At June 30, 2006, the County’s deposits were entirely covered by federal depository insurance or by collateral held by the pledging financial institution.

Investments – The County’s investments at June 30, 2006 were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>
		Less than 1
Money market mutual fund	\$ 281,101	\$ 281,101
Total	<u>\$ 281,101</u>	<u>\$ 281,101</u>

Credit Risk – The County has no investment policy that would further limit its investment choices.

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>
Money market mutual fund	Unrated	Not Applicable	\$ 281,101
Total			<u>\$ 281,101</u>

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 regarding custodial credit risk. At June 30, 2006, the County had \$281,101 of money market mutual funds that were uninsured and held by the counterparty’s trust department or agent not in the County’s name.

Concentration of Credit Risk – The County places no limit on the amount the County may invest in any one issuer. As of June 30, 2006, the County’s investments were 100% invested in money market mutual funds.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concl'd)

Interest Rate Risk— The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Cash, deposits, and investments:	
Cash on hand	\$ 71,570
Amount of deposits	9,292,365
Amount of investments	<u>281,101</u>
Total	<u>\$ 9,645,036</u>

Statement of Net Assets:	Governmental Activities	Investment Trust Fund	Agency Funds	Total
Cash and cash equivalents	\$ 4,274,239	\$5,032,179	\$ 57,517	\$9,363,935
Investments held by trustee	281,101			281,101
Total	<u>\$ 4,555,340</u>	<u>\$5,032,179</u>	<u>\$ 57,517</u>	<u>\$9,645,036</u>

GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 233,654	\$	\$	\$ 233,654
Construction in progress	<u>1,029,667</u>	<u>234,210</u>	<u>1,263,877</u>	<u></u>
Total capital assets not being depreciated	<u>1,263,321</u>	<u>234,210</u>	<u>1,263,877</u>	<u>233,654</u>
Capital assets being depreciated:				
Land improvements	2,502,232	1,338,578		3,840,810
Buildings and improvements	5,554,110	1,345,047		6,899,157
Machinery and equipment	<u>6,281,127</u>	<u>481,847</u>	<u>205,418</u>	<u>6,557,556</u>
Total	<u>14,337,469</u>	<u>3,165,472</u>	<u>205,418</u>	<u>17,297,523</u>
Less accumulated depreciation for:				
Land improvements	(1,494,386)	(151,480)		(1,645,866)
Buildings and improvements	(4,193,378)	(149,417)		(4,342,795)
Machinery and equipment	<u>(3,849,302)</u>	<u>(588,047)</u>	<u>(145,047)</u>	<u>(4,292,302)</u>
Total	<u>(9,537,066)</u>	<u>(888,944)</u>	<u>(145,047)</u>	<u>(10,280,963)</u>
 Total capital assets being depreciated, net	 <u>4,800,403</u>	 <u>2,276,528</u>	 <u>60,371</u>	 <u>7,016,560</u>
 Governmental activities capital assets, net	 <u>\$ 6,063,724</u>	 <u>\$2,510,738</u>	 <u>\$1,324,248</u>	 <u>\$ 7,250,214</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 293,709
Public safety	323,254
Highway and streets	138,954
Sanitation	41,340
Health and welfare	58,941
Culture and recreation	<u>32,746</u>
Total governmental activities depreciation expense	<u>\$ 888,944</u>

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 5 - 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 One Year
Governmental activities:					
Compensated absences payable	\$ 253,785	\$344,018	\$ 275,205	\$ 322,598	\$ 80,650
Capital leases payable	860,638	373,679	480,130	754,187	318,071
Landfill closure and postclosure care costs payable	727,246		32,046	695,200	23,589
Certificates of participation payable	905,000		305,000	600,000	600,000
Total	<u>\$2,746,669</u>	<u>\$717,697</u>	<u>\$1,092,381</u>	<u>\$2,371,985</u>	<u>\$1,022,310</u>

Certificates of participation – The County has issued certificates of participation that are generally callable with interest payable semiannually to renovate its old courthouse building. The original amount of the certificates issued in prior years was \$2,750,000.

Certificates outstanding at June 30, 2006, were as follows:

Description	Interest Rates	Maturity	Outstanding Principal
Greenlee County Municipal Property Corporation	5.35-5.40%	2006-2007	\$ 600,000
Total			<u>\$ 600,000</u>

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

Year ending June 30:	Governmental Activities		
	Principal	Interest	Total
2007	\$600,000	\$28,040	\$628,040

Capital leases – The County has acquired dispatch center improvements and machinery and equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 5 - LONG-TERM LIABILITIES (Cont'd)

The assets acquired through capital leases are as follows:

	Governmental Activities
Buildings and Improvements	\$ 271,349
Machinery and Equipment	1,472,705
Less: Accumulated Depreciation	411,389
Carrying Value	\$ 1,332,665

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

	Governmental Activities
Year ending June 30:	
2007	\$ 348,298
2008	234,454
2009	146,181
2010	85,926
Total minimum lease payments	814,859
Less amount representing interest	60,672
Present value of net minimum lease payments	\$ 754,187

Landfill closure and postclosure care costs – State and federal laws and regulations require the County to place a final cover on its three 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 period that the County operates the landfill. These costs will be paid from the Landfill Closure/Development Fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$695,200 reported as landfill closure and postclosure care liability at June 30, 2006, represents the cumulative amount reported to date based on the use of 55 percent of the estimated capacity of the landfills. The County will recognize the remaining estimated cost of closure and postclosure care of \$568,064 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 expects to close the Loma Linda Landfill in the year 2013 and the Loma Linda Construction and Demolition Landfill in the year 2024, and the actual cost may be higher due to inflation, changes in technology, or changes in regulations. The Blue Landfill was closed in November 2005.

GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 - LONG-TERM LIABILITIES (Concl'd)

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that ensure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these 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 may require its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

Compensated absences – Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2006, the County paid for compensated absences as follows: 61 percent from the General Fund, 11 percent from major funds, and 28 percent from other funds.

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

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

		Payable to General Fund
Payable from	Non-Major Governmental Funds	\$ 74,213
	Total	\$ 74,213

At June 30, 2006, six funds had negative cash balances in the Treasurer’s pooled cash accounts. Negative cash on deposit with the County Treasurer was eliminated by interfund borrowing with other funds.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 - INTERFUND BALANCES AND ACTIVITY (Concl'd)

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

		Transfer to				Total
		General Fund	HURF Fund	Debt Service Fund	Non-Major Governmental Funds	
Transfer from	General Fund	\$	\$	\$349,473	\$ 986,938	\$ 1,336,411
	HURF Fund				138	138
	Non-Major Governmental Funds	289,778	322,145		41,595	653,518
	Total	<u>\$289,778</u>	<u>\$322,145</u>	<u>\$349,473</u>	<u>\$1,028,671</u>	<u>\$ 1,990,067</u>

The majority of interfund transfers result from interfund billing for services, products, or shared expenses. The General Fund also does transfers to other funds to provide support for such items as matching funds for grants or to make up the shortfall of grant funded programs that the County feels are important.

NOTE 7 - 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 in Note 5.

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 \$7,500 per occurrence for property claims and \$1,500 per occurrence for liability claims. 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.

GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - RISK MANAGEMENT (Concl'd)

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 five 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.

The County purchases commercial insurance for other miscellaneous risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - RETIREMENT PLANS

Plan Descriptions – The County contributes to three plans, two of which are described below. The Elected Officials Retirement Plan and the Attorney Investigators' participation in the Public Safety Personnel Retirement System are not described due to their relative insignificance to the County's financial statements. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the 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 Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 8 - RETIREMENT PLANS (Cont'd)

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

ASRS
3300 North Central Avenue
P.O. Box 33910
Phoenix, AZ 85012
(602) 240-2000 or (800) 621-3778

PSPRS
3010 East Camelback Road, 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 Plan – 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 \$221,744, \$159,630, and \$155,709, respectively, which were equal to the required contributions for the year.

Agent Plan – 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 8.45 percent.

Annual Pension Cost – The County’s pension cost for the agent plan for the year ended June 30, 2006, and related information follows.

	<u>PSPRS</u>
Contribution rates:	
County	8.45%
Plan members	7.65%
Annual pension cost	\$43,921
Contributions made	\$43,921

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 8 - RETIREMENT PLANS (Concl'd)

The current-year annual required contributions for the PSPRS were determined as 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 7-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payroll 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 for the agent plan follows.

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 43,921	100%	\$ - -
2005	23,354	100%	- 0 -
2004	23,985	100%	- 0 -

NOTE 9 - COUNTY TREASURER'S INVESTMENT POOL

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

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

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

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$121,964 of deposits and \$281,101 of investments in the money market mutual fund. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks; see Note 3 for disclosure of the County's deposit and investment risks.

**GREENLEE COUNTY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 - COUNTY TREASURER'S INVESTMENT POOL (Concl'd)

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

Statement of Net Assets

Assets	\$ 9,241,971
Liabilities	
Net assets	<u>\$ 9,241,971</u>

Net assets held in trust for	
Internal participants	\$ 4,209,792
External participants	<u>5,032,179</u>
Total net assets held in trust	<u>\$ 9,241,971</u>

Statement of Changes in Net Assets

Total additions	\$29,044,120
Total deductions	<u>29,569,179</u>
Net decrease	(525,059)
Net assets held in trust:	
July 1, 2005	<u>9,767,030</u>
June 30, 2006	<u>\$ 9,241,971</u>

REQUIRED SUPPLEMENTARY INFORMATION

GREENLEE COUNTY, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>	<u>Non-GAAP Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original & Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:			
Taxes	\$ 2,092,020	\$ 2,358,378	\$ 266,358
Intergovernmental	3,846,738	5,357,489	1,510,751
Charges for services	119,000	157,453	38,453
Fines and forfeits	50,000	45,010	(4,990)
Investment income	5,000	27,923	22,923
Contributions		350	350
Miscellaneous	54,250	117,524	63,274
Total revenues	<u>6,167,008</u>	<u>8,064,127</u>	<u>1,897,119</u>
Expenditures:			
General government			
Board of Supervisors	329,852	335,564	(5,712)
Airport	53,385	3,207	50,178
Assessor	258,093	254,562	3,531
Attorney	287,532	242,151	45,381
Contingency	260,000	93,510	166,490
Constable No. 1	21,185	18,145	3,040
Constable No. 2	19,181	18,402	779
County administration	224,498	214,312	10,186
Elections	43,125	22,380	20,745
General services	859,374	831,542	27,832
Grounds and maintenance	425,642	411,126	14,516
Information systems	253,878	283,743	(29,865)
Justice of the Peace No. 1	127,129	118,484	8,645
Justice of the Peace No. 2	114,221	111,008	3,213
Planning and zoning	2,000	2,547	(547)
Public fiduciary	43,782	42,415	1,367
Recorder	153,443	153,235	208
Superior court	546,119	528,480	17,639
Treasurer	163,200	156,513	6,687
Voter registration	14,950	7,474	7,476
Total general government	<u>4,200,589</u>	<u>3,848,800</u>	<u>351,789</u>
Public safety			
County flood control	780	312	468
Emergency services	67,026	33,412	33,614
Sheriff	1,928,849	2,155,053	(226,204)
Total public safety	<u>1,996,655</u>	<u>2,188,777</u>	<u>(192,122)</u>
Sanitation - Landfill		44	(44)
Health and welfare			
Ambulance service	139,288	155,508	(16,220)
Animal control	75,685	81,924	(6,239)
AHCCCS/ALTCS Payments	340,231	340,195	36
Total health and welfare	<u>555,204</u>	<u>577,627</u>	<u>(22,423)</u>

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Non-GAAP Actual	
Culture and recreation			
County library	28,000	28,911	(911)
Parks and recreation	51,380	51,760	(380)
Total culture and recreation	<u>79,380</u>	<u>80,671</u>	<u>(1,291)</u>
Education			
School superintendent	168,041	166,610	1,431
U of A extension services	18,000	18,600	(600)
Total education	<u>186,041</u>	<u>185,210</u>	<u>831</u>
Total expenditures	<u>7,017,869</u>	<u>6,881,129</u>	<u>136,740</u>
Excess (deficiency) of revenues over expenditures	<u>(850,861)</u>	<u>1,182,998</u>	<u>2,033,859</u>
Other financing sources (uses):			
Transfers in	1,418,666	289,778	(1,128,888)
Transfers out	(1,317,805)	(1,336,411)	(18,606)
Total other financing sources (uses)	<u>100,861</u>	<u>(1,046,633)</u>	<u>(1,147,494)</u>
Net change in fund balances	<u>(750,000)</u>	<u>136,365</u>	<u>886,365</u>
Fund balances, July 1, 2005	<u>750,000</u>	<u>1,313,805</u>	<u>563,805</u>
Fund balances, June 30, 2006	<u>\$ -</u>	<u>\$ 1,450,170</u>	<u>\$ 1,450,170</u>

**GREENLEE COUNTY, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - FEDERAL ELECTION SYSTEM (HAVA) FUND
YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Intergovernmental	\$	\$ 122,839	\$ 122,839
Investment income		1	1
Total revenues		<u>122,840</u>	<u>122,840</u>
Expenditures:			
Capital outlay		122,839	(122,839)
Total expenditures		<u>122,839</u>	<u>(122,839)</u>
Net change in fund balances		<u>1</u>	<u>1</u>
Fund balances, July 1, 2005		21	21
Fund balances, June 30, 2006	<u>\$</u>	<u>\$ 22</u>	<u>\$ 22</u>

See accompanying notes to this schedule.

**GREENLEE COUNTY, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - PDMI DONATION FUND
YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Investment income	\$	\$ 18,909	\$ 18,909
Contributions	1,200,000	800,000	(400,000)
Total revenues	<u>1,200,000</u>	<u>818,909</u>	<u>(381,091)</u>
Other financing uses:			
Transfers out	(1,200,000)		1,200,000
Total other financing uses	<u>(1,200,000)</u>		<u>1,200,000</u>
Net change in fund balances		<u>818,909</u>	<u>818,909</u>
Fund balances, July 1, 2005		1	1
Fund balances, June 30, 2006	<u>\$</u>	<u>\$ 818,910</u>	<u>\$ 818,910</u>

See accompanying notes to this schedule.

**GREENLEE COUNTY, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - HURF FUND
YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original & Final</u>	<u>Non-GAAP Actual</u>	
Revenues:			
Intergovernmental	\$ 945,000	\$ 1,177,359	\$ 232,359
Investment income	5,000	8,303	3,303
Miscellaneous		8,938	8,938
Total revenues	<u>950,000</u>	<u>1,194,600</u>	<u>244,600</u>
Expenditures:			
Current -			
Highway and streets	1,184,510	1,425,107	(240,597)
Sanitation		47	(47)
Capital outlay	202,000	8,745	193,255
Debt service -			
Principal retirement	205,282	212,826	(7,544)
Interest and fiscal charges	24,167	26,092	(1,925)
Total expenditures	<u>1,615,959</u>	<u>1,672,817</u>	<u>(56,858)</u>
Deficiency of revenues over expenditures	<u>(665,959)</u>	<u>(478,217)</u>	<u>187,742</u>
Other financing sources (uses):			
Transfers in	215,959	322,145	106,186
Transfers out	(50,625)	(138)	50,487
Total other financing sources (uses)	<u>165,334</u>	<u>322,007</u>	<u>156,673</u>
Net change in fund balances	<u>(500,625)</u>	<u>(156,210)</u>	<u>344,415</u>
Fund balances, July 1, 2005	500,625	373,248	(127,377)
Fund balances, June 30, 2006	<u>\$</u>	<u>\$ 217,038</u>	<u>\$ 217,038</u>

See accompanying notes to this schedule.

GREENLEE COUNTY, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2006

NOTE 1 - BUDGETING AND BUDGETARY CONTROL

A.R.S. requires the County to prepare and adopt a balanced budget annually for each governmental fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level for the General Fund and the fund level for all other funds. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

The County's budget is prepared on a basis consistent with generally accepted accounting principles, except for the following unbudgeted item: 1) present value of net minimum capital lease payments. The following schedule reconciles the excess (deficiency) of revenues over expenditures from the Statement of Revenues, Expenditures and Changes in Fund Balances to the budgetary comparison schedules:

	<u>General Fund</u>	<u>HURF Fund</u>
Excess (deficiency) of revenues over expenditures from the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 860,898	\$(529,796)
Present value of net minimum capital lease payments	322,100	51,579
Excess (deficiency) of revenues over expenditures from the budgetary comparison schedules	<u>\$1,182,998</u>	<u>\$(478,217)</u>

**GREENLEE COUNTY, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2006**

NOTE 3 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2006, expenditures exceeded final budget amounts at the department level for the General Fund and the fund level for all other funds (the legal level of budgetary control) as follows.

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Board of Supervisors	\$ 5,712
Information Systems	29,865
Planning and Zoning	547
Sheriff	226,204
Landfill	44
Ambulance Service	16,220
Animal Control	6,239
County Library	911
Parks and Recreation	380
U of A Extension Services	600
Other Funds:	
Federal Election System (HAVA)	122,839
HURF	56,858

The excesses were primarily the result of unexpected expenditures and expenditures made as a result of unanticipated revenue, or both. The County uses conservative budgeting practices and encourages departments to stay within their adopted budget amounts. Each year, the County bases the adopted budget amounts on these conservative current and budget year projections and past historical trends. Any excesses of appropriations are discussed with department heads to determine whether or not adjustments will be made in future budgets. In addition, the County requires all budgeted capital expenditures to be brought back to the Board for approval regardless of whether they were included in the budget or not. This allows the County to continually review the availability of funds for all purchases throughout the year.

**GREENLEE COUNTY, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AGENT RETIREMENT PLAN'S FUNDING PROGRESS
 JUNE 30, 2006**

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

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)
6/30/2006	\$2,264,015	\$2,286,851	\$(22,836)	99.0%	\$515,742	4.4%
6/30/2005	2,241,606	2,389,810	(148,204)	93.8%	447,113	33.1%
6/30/2004	2,170,111	1,965,856	204,255	110.4%	514,307	-

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OTHER SUPPLEMENTARY INFORMATION

GREENLEE COUNTY, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2006

	<u>Budgeted</u> <u>Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Investment income	\$	\$ 17,519	\$ 17,519
Total revenues		<u>17,519</u>	<u>17,519</u>
Expenditures:			
Debt service -			
Principal retirement	305,000	305,000	
Interest and fiscal charges	44,473	45,973	(1,500)
Total expenditures	<u>349,473</u>	<u>350,973</u>	<u>(1,500)</u>
Deficiency of revenues over expenditures	<u>(349,473)</u>	<u>(333,454)</u>	<u>16,019</u>
Other financing sources:			
Transfers in	349,473	349,473	
Total other financing sources	<u>349,473</u>	<u>349,473</u>	
Net change in fund balances		<u>16,019</u>	<u>16,019</u>
Fund balances, July 1, 2005		631,558	631,558
Fund balances, June 30, 2006	<u>\$</u>	<u>\$ 647,577</u>	<u>\$ 647,577</u>