



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

La Paz County

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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La Paz County
Single Audit Reporting Package
Year Ended June 30, 2003

Table of Contents	Page
Financial Section	
Independent Auditors' Report	
Required Supplementary Information—Management's Discussion and Analysis	i
Government-Wide Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	6
Proprietary Funds	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets	9
Statement of Cash Flows	10
Fiduciary Funds	
Statement of Fiduciary Net Assets	11
Statement of Changes in Fiduciary Net Assets	12
Notes to Financial Statements	13
Other Required Supplementary Information	
Schedule of Agent Retirement Plan's Funding Progress	33
Budgetary Comparison Schedule—General Fund	34
Budgetary Comparison Schedule—Road Fund	37
Budgetary Comparison Schedule—Business 95 Road Improvement Fund	38
Budgetary Comparison Schedule—Jail District Fund	39
Notes to Budgetary Comparison Schedules	40
Supplementary Information	
Schedule of Expenditures of Federal Awards	42
Notes to Schedule of Expenditures of Federal Awards	44

La Paz County
Single Audit Reporting Package
Year Ended June 30, 2003

Table of Contents	Page
Single Audit Section	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	47
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	49
Federal Award Findings and Questioned Costs	50
County Responses	
Corrective Action Plan	
Summary Schedule of Prior Audit Findings	



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
La Paz County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of La Paz County as of and for the year ended June 30, 2003, 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 did not audit the financial statements of the Jail District Fund. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Jail District Fund, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of La Paz County as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2003, to implement a new financial reporting model. Also, as described in Note 2, the County reclassified certain activities previously reported as special revenue funds to the agency funds and reclassified certain activities previously reported as an agency fund to a special revenue fund, both of which constitute a change in the reporting entity.

The Management's Discussion and Analysis on pages i through ix, the Schedule of Agent Retirement Plan's Funding Progress on page 33, and the Budgetary Comparison Schedules on pages 34 through 40 are not a required part 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 accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

October 15, 2004

Management's Discussion and Analysis

This discussion and analysis, prepared by County's management, is intended to be an easily readable analysis of La Paz County's (County) financial activities based on currently known facts, decisions or conditions during the fiscal year ended June 30, 2003. This analysis focuses on current year activities and should be read in conjunction with the County's basic financial statements following this section.

Financial Highlights

- The County's assets exceeded liabilities by \$20,255,513 (net assets). Of this amount, \$1,591,854 (unrestricted net assets) may be used to meet ongoing general obligations, \$7,383,283 is restricted for specific purposes (restricted net assets), and \$11,280,376 is invested in capital assets, net of related debt.
- The County's total net assets as reported in the Statement of Activities decreased by \$453,686. This decrease is a result of the debt refunding. On May 27, 2003, the County refunded all outstanding certificates of participation in order to take advantage of lower interest rates, thereby reducing future debt service requirements.
- At June 30, 2003, the governmental funds reported combined fund balances of \$10,054,191, a decrease of \$1,582,489 in comparison with the prior year, as restated. Reasons for this decrease include the debt refunding, less Jail District intergovernmental revenue, and expenditures from the Business 95 Road Improvement Fund. Approximately 96 percent of the combined fund balances, or \$9,696,986 is available to meet the County's current and future needs (unreserved fund balance).
- At June 30, 2003, unreserved fund balance for the general fund was \$3,207,856, or 35 percent of general fund expenditures. In accordance with Arizona Revised Statutes §42-17151, this entire amount is budgeted to be spent in the next fiscal 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 basic 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 finances, in a manner similar to private-sector businesses.

The *Statement of Net Assets* presents information on all County 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 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Management's Discussion and Analysis

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*government activities*) and from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities*). The County's governmental activities include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and education. The County has one business-type activity, the Emerald Canyon Golf Course.

Component units are included in our basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The County has one major component unit, the La Paz County Jail District, which issues separate financial statements, and several smaller component units. Refer to Note 1 A, Reporting Entity, on page 13 of this report for more information on the County's component units.

The government-wide financial statements can be found on pages 1-2 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 County funds can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

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

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 government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County reports four major 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 balance for the General, Road, Business 95 Road Improvement, and Jail District funds. Data from the other governmental funds (nonmajor) are combined into a single, aggregated presentation.

The governmental fund financial statements can be found on pages 3-7 of this report.

Proprietary funds include enterprise funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. La Paz County uses an enterprise fund to account for the Emerald Canyon Golf Course. Fund financial statements for the enterprise fund provides the same type of information as the government-wide financial statements, only in more detail.

Management's Discussion and Analysis

The enterprise fund financial statements can be found on pages 8-10 of this report.

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 the County's own programs.

The fiduciary funds financial statements can be found on pages 11-12 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 can be found on pages 13-31 of this report.

Required supplementary information presents budgetary comparison schedules for the County's General, Road, Business 95 Road Improvement, and Jail District funds. It also includes a schedule of agent retirement plan's funding progress.

Supplementary information can be found on pages 33-40 of this report.

Government-Wide Financial Analysis

This year is the first fiscal year that the County implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. The County has not restated prior periods for providing the comparative data for the Management's Discussion and Analysis because certain prior-year information is unavailable. However, next year, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Net Assets

The largest portion of the County's net assets reflects the investment in capital assets (i.e., land, buildings, machinery and equipment, and construction in progress), less accumulated depreciation and related debt used to acquire those assets still outstanding. The County uses these 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. Restricted net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to the citizens and creditors.

The following table summarizes the Statement of Net Assets at June 30, 2003:

Management's Discussion and Analysis

Statement of Net Assets June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$11,403,370	\$ (558,186)	\$10,845,184
Capital assets	<u>13,727,968</u>	<u>1,785,552</u>	<u>15,513,520</u>
Total assets	<u>25,131,338</u>	<u>1,227,366</u>	<u>26,358,704</u>
Current and other liabilities	1,121,280	60,913	1,182,193
Long-term liabilities	<u>3,183,403</u>	<u>1,737,595</u>	<u>4,920,998</u>
Total liabilities	<u>4,304,683</u>	<u>1,798,508</u>	<u>6,103,191</u>
Net assets			
Invested in capital assets, net of related debt	11,199,824	80,552	11,280,376
Restricted net assets	7,051,537	331,746	7,383,283
Unrestricted net assets (deficit)	<u>2,575,294</u>	<u>(983,440)</u>	<u>1,591,854</u>
Total net assets	<u>\$20,826,655</u>	<u>\$ (571,142)</u>	<u>\$20,255,513</u>

As noted earlier, net assets may serve over time as a useful indicator of whether the County's financial position is improving or deteriorating. In the case of the County, assets exceeded liabilities by \$20,255,513 at June 30, 2003, indicating that the County is in a strong financial position. However, net assets decreased by \$453,686 during the fiscal year 2002-03 resulting from the advance refunding of long-term debt. Also, the business-type activity reflected an unrestricted net deficit of (\$983,440) at June 30, 2003, which resulted from initial start up costs incurred in 1989.

Changes in Net Assets

The following table indicates the changes in net assets for governmental and business-type activities:

Management's Discussion and Analysis

Statement of Activities Year Ended June 30, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Revenues</u>			
Program revenues:			
Charges for services	\$ 3,803,923	\$1,491,691	\$ 5,295,614
Operating grants and contributions	3,083,846		3,083,846
Capital grants and contributions	3,489,990		3,489,990
General revenues:			
Property taxes	3,001,500		3,001,500
Share of state sales taxes	3,343,018		3,343,018
Payments in lieu of taxes	1,053,245		1,053,245
Vehicle license tax	405,952		405,952
State Lottery	550,035		550,035
Investment earnings	160,760	46,208	206,968
Miscellaneous	709,360	205	709,565
Total revenues	<u>19,601,629</u>	<u>1,538,104</u>	<u>21,139,733</u>
<u>Expenses</u>			
General government	5,674,042		5,674,042
Public safety	7,216,057		7,216,057
Highways and streets	3,686,559		3,686,559
Sanitation	86,493		86,493
Health	1,969,574		1,969,574
Welfare	339,391		339,391
Culture and recreation	706,819		706,819
Education	147,586		147,586
Interest on long-term debt	272,468		272,468
Golf course		1,494,430	1,494,430
Total expenses	<u>20,098,989</u>	<u>1,494,430</u>	<u>21,593,419</u>
Change in net assets	(497,360)	43,674	(453,686)
Beginning net assets (deficit), as restated	<u>21,324,015</u>	<u>(614,816)</u>	<u>20,709,199</u>
Ending net assets (deficit)	<u>\$20,826,655</u>	<u>\$ (571,142)</u>	<u>\$20,255,513</u>

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 of near-term inflows, outflows, and balances of useable resources. Such information is useful in assessing the County's financial 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.

Management's Discussion and Analysis

At June 30, 2003, the County's governmental funds reported combined fund balances of \$10,054,191, a decrease of \$1,582,489 in comparison with the restated prior year fund balance. The decrease is primarily the result of the advance refunding of long-term debt and a deficit in the Road, Business 95 Road Improvement, and Jail District funds. Approximately 96 percent of the combined fund balances, \$9,696,986, constitutes unreserved fund balance, which is available to meet the County's current and future needs. The remainder of fund balance is reserved, indicating that it is not available for new spending because it has been committed for prepaid items and debt service expenditures.

The General Fund is the County's primary operating fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,207,856. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved fund balance represents 35 percent of total General Fund expenditures, while total fund balance represents 36 percent of that same amount.

The Business 95 Road Improvement Fund is a special revenue fund that was established pursuant to an agreement with the State for the transfer of a 6.5 mile section of Business 95 to the County and to account for the monies provided by the State for road improvements as part of the agreement. At the end of the current fiscal year, the total fund balance of the Business 95 Road Improvement Fund was approximately \$3.3 million which was unreserved. This was a decrease of \$459,000, or 12 percent, from the prior fiscal year as the County received all proceeds from the State in the prior fiscal year, but is expending the funds for the improvement over the next several years.

The Road Fund is a special revenue fund that accounts for the Highway User Revenue Funds and Vehicle License Tax distributions received from the State that are restricted to highway and road construction projects. Fund balance decreased approximately \$226,000, or 9 percent from the prior fiscal year and was due to additional expenditures required for nonreimbursable road maintenance and repair.

The Jail District Fund is a special revenue fund that was established under Article 1, Chapter 25, and Title 48, of the Arizona Revised Statutes of November 20, 1989. The Board of Directors adopted a resolution that established a one-half cent excise sales tax, effective January 1, 1991, through perpetuity. The Jail District accounts for the operation of the jail facilities and also the debt service for previous constructions projects. At the end of the current fiscal year, total fund balance of the Jail District Fund was \$85,000 of which greater than 100 percent was reserved for debt service requirements resulting in an unreserved deficit. The decrease of \$472,000, or 85 percent from the prior fiscal year was due to the advance refunding of long-term debt and lower revenues than anticipated due to fewer federal prisoner housing contracts.

The following table presents the amount of governmental revenues from various sources as well as the increases or decreases from the prior year. The prior year amount has been restated for comparative purposes to correct an understatement of revenues of approximately \$0.9 million. Therefore, the fiscal year 2002 amounts were not audited.

Management's Discussion and Analysis

Governmental Funds Revenue Comparison - By Source

	FY 2001-2002		FY 2002-2003		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	\$ 4,339,321	17.03%	\$ 4,735,623	24.11%	\$ 396,302	9.13%
Licenses and permits	174,745	0.69%	208,300	1.06%	33,555	19.20%
Fines and forfeits	719,799	2.82%	728,387	3.71%	8,588	1.19%
Intergovernmental	16,470,553	64.62%	10,800,895	54.99%	(5,669,658)	-34.42%
Charges for services	2,870,964	11.26%	2,827,384	14.40%	(43,580)	-1.52%
Investment income	160,635	0.63%	160,760	0.82%	125	0.08%
Miscellaneous	752,294	2.95%	178,533	0.91%	(573,761)	-76.27%
Total revenues	<u>\$25,488,311</u>	<u>100.00%</u>	<u>\$19,639,882</u>	<u>100.00%</u>	<u>\$(5,848,429)</u>	<u>-22.95%</u>

Significant decreases in intergovernmental revenues occurred over the prior year due to the termination of Parks grants and the one-time receipt of Business 95 Road Improvement monies in the previous fiscal year.

The following table presents governmental expenditures by function compared to prior year amounts. The prior year amounts have been restated for comparative purposes to correct the overstatement of expenditures of approximately \$24,000 and to separate debt services expenditures. Therefore, the fiscal year 2002 amounts were not audited.

Governmental Funds Expenditure Comparison - By Function

	FY 2001-2002		FY 2002-2003		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	\$ 5,538,955	26.41%	\$ 5,184,745	24.32%	\$(354,210)	-6.40%
Public Safety	7,190,168	34.28%	7,042,079	33.04%	(148,089)	-2.06%
Highways and streets	4,207,503	20.06%	4,647,736	21.80%	440,233	10.46%
Sanitation	26,930	0.13%	85,918	0.40%	58,988	>100.00%
Health	1,764,074	8.41%	2,017,745	9.47%	253,671	14.38%
Welfare	335,415	1.60%	338,599	1.59%	3,184	0.95%
Culture and recreation	1,202,426	5.73%	688,489	3.23%	(513,937)	-42.74%
Education	146,726	0.70%	147,499	0.70%	773	0.53%
Debt service	561,959	2.68%	1,147,132	5.38%	585,173	>100.00%
Capital outlay	822	0.00%	14,763	0.07%	13,941	>100.00%
Total expenditures	<u>\$20,974,978</u>	<u>100.00%</u>	<u>\$21,314,705</u>	<u>100.00%</u>	<u>\$ 339,727</u>	<u>0.26%</u>

The following provides an explanation of the material expenditures by function that changed significantly over the prior year:

- Highways and streets increased due to work on the Business 95 Road Improvement project.
- Health increased due to implementation of the Bio-terrorism program and the Health Services District.

Management's Discussion and Analysis

General Fund Budgetary Highlights

The County did not amend the fiscal year 2002-03 adopted budget for the General Fund. General Fund actual expenditures were more than \$1.2 million under the adopted budget but actual revenues did not meet estimated revenues by approximately \$0.3 million. The following departments exceeded their General Fund budgets by more than ten percent:

- Superior court exceeded its budget by 46 percent due to rising indigent defense conflict attorney costs.
- General administration exceeded its budget by 19 percent due to a tax court judgment in favor of a defendant.
- Sanitary landfill exceeded its budget by 229 percent due to unforeseen attorney costs related to a bio-solids disposal contract.
- C.M.I. (chronically mental ill) exceeded its budget by 54 percent due to an unexpected need for long-term hospitalization of patients.
- Management Information Services exceeded its budget by 26 percent due to installation of a computer room cooling system and software licensing updates necessary to bring the County into compliance with applicable laws.
- Facilities management exceeded its budget by 61% due to the advance refunding of long-term debt.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2003, amounted to \$15.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, construction equipment and vehicles, construction in progress, and golf course improvements. The County's investment in capital assets increased 4.2 percent from the prior period. Major capital asset events during the current fiscal year included the following:

- Completion of a dock and seawall at the Boating Safety Center of \$90,579.
- Acquisition of roads, vehicles and equipment of \$394,134.
- Roads construction in progress of \$1.0 million.

Long-Term Debt

At June 30, 2003, the County had total long-term debt outstanding of \$4,233,144. This amount consists of certificates of participation of \$4.2 million and capital leases of \$33,144. The County refunded all existing certificates of participation to take advantage of lower interest rate. Additional information on the County's long-term debt and refunding transactions can be found in Note 7 of the Notes to the Financial Statements on page 24 of this report.

Economic Factors

- The County faces a less than favorable economic environment due to the budget deficit at the state level. The County expects cost shifts from the State to the County in the amount of \$106,400, and must remit to the State, county court revenue in excess of previous years' collections.

Management's Discussion and Analysis

- The County expects a 9 percent increase in employee health insurance premiums.
- Despite a slow economy, the County's tax revenue is relatively stable. The County's sales tax revenue has remained stable because of tourism. The Colorado River attracts visitors in the summer, and both the river and desert areas attract visitors in the winter.
- The County took advantage of lower interest rates by refunding all outstanding certificates of participation for a combined economic gain of \$406,053.
- At June 30, 2003, charges for services revenue for the Jail District dropped due to fewer federal prisoner housing contracts. District personnel have worked to renew and initiate new contracts, therefore, it is estimated that revenue for the year ended June 30, 2004, will be \$1.4 million
- For the years ended June 30, 2002, and June 30, 2003, the County has budgeted \$1 million for contingencies. This practice may enable the County to better weather the current economic climate.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the La Paz County Finance Department, 1108 Joshua Avenue, Parker, AZ 85344.

La Paz County
Statement of Net Assets
June 30, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 8,761,375	\$ 8,880	\$ 8,770,255
Cash and investments held by trustee	329,563	331,746	661,309
Property taxes receivable (net of allowances for uncollectibles)	266,296		266,296
Internal balances	899,419	(899,419)	
Due from:			
Others	117,889		117,889
Other governments	1,001,151		1,001,151
Prepaid items	27,677	607	28,284
Capital assets, not being depreciated	1,664,238		1,664,238
Capital assets, being depreciated, net	<u>12,063,730</u>	<u>1,785,552</u>	<u>13,849,282</u>
Total assets	<u>25,131,338</u>	<u>1,227,366</u>	<u>26,358,704</u>
Liabilities			
Accounts payable	446,209	29,953	476,162
Accrued payroll and employee benefits	609,684	30,960	640,644
Due to others	65,387		65,387
Noncurrent liabilities:			
Due within 1 year	514,055	104,273	618,328
Due in more than 1 year	<u>2,669,348</u>	<u>1,633,322</u>	<u>4,302,670</u>
Total liabilities	<u>4,304,683</u>	<u>1,798,508</u>	<u>6,103,191</u>
Net Assets			
Invested in capital assets, net of related debt	11,199,824	80,552	11,280,376
Restricted for:			
Public safety	260,158		260,158
Highways and streets	5,618,453		5,618,453
Sanitation	101,050		101,050
Health	191,334		191,334
Debt service	329,563	331,746	661,309
Other purposes	550,979		550,979
Unrestricted (deficit)	<u>2,575,294</u>	<u>(983,440)</u>	<u>1,591,854</u>
Total net assets	<u>\$ 20,826,655</u>	<u>\$ (571,142)</u>	<u>\$ 20,255,513</u>

See accompanying notes to financial statements.

La Paz County
Statement of Activities
Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (expense) revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 5,674,042	\$ 1,205,041	\$ 442,365	\$ 37,220	\$ (3,989,416)		\$ (3,989,416)
Public safety	7,216,057	1,547,710	1,337,687		(4,330,660)		(4,330,660)
Highways and streets	3,686,559		448,918	3,452,770	215,129		215,129
Sanitation	86,493	293,998	38,972		246,477		246,477
Health	1,969,574	129,472	664,113		(1,175,989)		(1,175,989)
Welfare	339,391	140,845	108,339		(90,207)		(90,207)
Culture and recreation	706,819	486,857	43,452		(176,510)		(176,510)
Education	147,586				(147,586)		(147,586)
Interest on long-term debt	272,468				(272,468)		(272,468)
Total governmental activities	<u>20,098,989</u>	<u>3,803,923</u>	<u>3,083,846</u>	<u>3,489,990</u>	<u>(9,721,230)</u>		<u>(9,721,230)</u>
Business-type activities:							
Golf course	<u>1,494,430</u>	<u>1,491,691</u>				\$ (2,739)	<u>(2,739)</u>
Total business-type activities	<u>1,494,430</u>	<u>1,491,691</u>				<u>(2,739)</u>	<u>(2,739)</u>
Total primary government	<u>\$ 21,593,419</u>	<u>\$ 5,295,614</u>	<u>\$ 3,083,846</u>	<u>\$ 3,489,990</u>	<u>(9,721,230)</u>	<u>(2,739)</u>	<u>(9,723,969)</u>
General revenues:							
Taxes:							
Property taxes					3,001,500		3,001,500
Share of state sales taxes					3,343,018		3,343,018
Payments in lieu of taxes					1,053,245		1,053,245
Vehicle license tax					405,952		405,952
Share of state lottery					550,035		550,035
Investment earnings					160,760	46,208	206,968
Miscellaneous					709,360	205	709,565
Total general revenues					<u>9,223,870</u>	<u>46,413</u>	<u>9,270,283</u>
Change in net assets					(497,360)	43,674	(453,686)
Net assets, July 1, 2002, as restated					<u>21,324,015</u>	<u>(614,816)</u>	<u>20,709,199</u>
Net assets, June 30, 2003					<u>\$ 20,826,655</u>	<u>\$ (571,142)</u>	<u>\$ 20,255,513</u>

See accompanying notes to financial statements.

La Paz County
Balance Sheet
Governmental Funds
June 30, 2003

	Major Funds					Total Governmental Funds
	General Fund	Road Fund	Business 95 Road Improvement Fund	Jail District Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$1,893,103	\$2,301,964	\$ 3,378,927	\$ 33,483	\$ 1,153,898	\$ 8,761,375
Cash and investments held by trustee	152,014			177,549		329,563
Property taxes receivable (net of allowances for uncollectibles)	264,670				1,626	266,296
Due from:						
Others	84,100				33,789	117,889
Other funds	1,952,810	37,389			399,929	2,390,128
Other governments	205,868	317,911		318,956	158,416	1,001,151
Prepaid items	25,837			35	1,805	27,677
Total assets	<u>\$4,578,402</u>	<u>\$2,657,264</u>	<u>\$ 3,378,927</u>	<u>\$ 530,023</u>	<u>\$ 1,749,463</u>	<u>\$ 12,894,079</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 148,318	\$ 53,666	\$ 23,725	\$ 46,953	\$ 173,547	\$ 446,209
Accrued payroll and employee benefits	323,962	83,382		83,922	118,418	609,684
Due to:						
Others	65,177				210	65,387
Other funds	428,699	260,644		314,215	487,151	1,490,709
Deferred revenue	226,539				1,360	227,899
Total liabilities	<u>1,192,695</u>	<u>397,692</u>	<u>23,725</u>	<u>445,090</u>	<u>780,686</u>	<u>2,839,888</u>
Fund balances:						
Reserved for:						
Certificates of participation	152,014			177,549		329,563
Prepaid items	25,837				1,805	27,642
Unreserved, reported in:						
General fund	3,207,856					3,207,856
Special revenue funds (deficit)		2,259,572	3,355,202	(92,616)	966,972	6,489,130
Total fund balances	<u>3,385,707</u>	<u>2,259,572</u>	<u>3,355,202</u>	<u>84,933</u>	<u>968,777</u>	<u>10,054,191</u>
Total liabilities and fund balances	<u>\$4,578,402</u>	<u>\$2,657,264</u>	<u>\$ 3,378,927</u>	<u>\$ 530,023</u>	<u>\$ 1,749,463</u>	<u>\$ 12,894,079</u>

See accompanying notes to financial statements.

La Paz County
 Reconciliation of the Balance Sheet to the
 Statement of Net Assets
 Governmental Funds
 June 30, 2003

Fund balances—total governmental funds	\$ 10,054,191
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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. The cost of the assets is \$23,118,000, and the accumulated depreciation is \$9,390,032.	13,727,968
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Some of the County's property taxes receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	227,899
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Obligations under capital lease	\$ (33,144)	
Compensated absences	(425,633)	
Certificates of participation	(2,495,000)	
Estimated liabilities for claims and judgments	<u>(229,626)</u>	<u>(3,183,403)</u>

Net assets of governmental activities	<u>\$ 20,826,655</u>
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See accompanying notes to financial statements.

La Paz County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2003

	Major Funds					Total Governmental Funds
	General Fund	Road Fund	Business 95 Road Improvement Fund	Jail District Fund	Other Governmental Funds	
Revenues:						
Taxes	\$3,410,930	\$ 448,917		\$ 862,282	\$ 13,494	\$ 4,735,623
Licenses and permits	200,521				7,779	208,300
Fines and forfeits	720,018				8,369	728,387
Intergovernmental	4,305,513	3,452,770		568,209	2,474,403	10,800,895
Charges for services	519,924			1,379,357	928,103	2,827,384
Investment income	86,775	29,462		33,572	10,951	160,760
Miscellaneous	88,170	31,786		29,859	28,718	178,533
Total revenues	<u>9,331,851</u>	<u>3,962,935</u>		<u>2,873,279</u>	<u>3,471,817</u>	<u>19,639,882</u>
Expenditures:						
Current:						
General government	4,263,154				921,591	5,184,745
Public safety	3,160,566			2,566,127	1,315,386	7,042,079
Highways and streets		4,188,938	\$ 458,798			4,647,736
Sanitation	32,952				52,966	85,918
Health	1,168,213				849,532	2,017,745
Welfare	89,272				249,327	338,599
Culture and recreation					688,489	688,489
Education	147,499					147,499
Debt service:						
Principal	464,460			350,000		814,460
Interest and other charges	83,393			189,075		272,468
Debt issuance costs	60,204					60,204
Capital outlay				14,763		14,763
Total expenditures	<u>9,469,713</u>	<u>4,188,938</u>	<u>458,798</u>	<u>3,119,965</u>	<u>4,077,291</u>	<u>21,314,705</u>
Excess (deficiency) of revenues over expenditures	<u>(137,862)</u>	<u>(226,003)</u>	<u>(458,798)</u>	<u>(246,686)</u>	<u>(605,474)</u>	<u>(1,674,823)</u>
Other financing sources (uses):						
Certificates of participation issued	1,165,000			1,330,000		2,495,000
Payment to escrow agent for refunding	(1,122,423)			(1,330,000)		(2,452,423)
Premium on new debt issued	15,592					15,592
Capital lease agreement					34,165	34,165
Transfers in	225,000				396,082	621,082
Transfers out	(396,082)			(225,000)		(621,082)
Total other financing sources (uses)	<u>(112,913)</u>			<u>(225,000)</u>	<u>430,247</u>	<u>92,334</u>
Net change in fund balances	<u>(250,775)</u>	<u>(226,003)</u>	<u>(458,798)</u>	<u>(471,686)</u>	<u>(175,227)</u>	<u>(1,582,489)</u>
Fund balances, July 1, 2002, as restated	<u>3,636,482</u>	<u>2,485,575</u>	<u>3,814,000</u>	<u>556,619</u>	<u>1,144,004</u>	<u>11,636,680</u>
Fund balances, June 30, 2003	<u>\$3,385,707</u>	<u>\$2,259,572</u>	<u>\$ 3,355,202</u>	<u>\$ 84,933</u>	<u>\$ 968,777</u>	<u>\$ 10,054,191</u>

See accompanying notes to financial statements.

La Paz County
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2003

Net change in fund balances—total governmental funds \$(1,582,489)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets, infrastructure, and other related capital assets	\$ 1,825,632	
Depreciation expense	<u>(1,154,536)</u>	671,096

The issuance of long-term debt is reported as other financing sources in governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. Similarly, repayment of debt principal is use of current financial resources in the governmental funds but reduces the liability in the Statement of Net Assets.

Refunding certificates of participation issued	(2,495,000)	
Premium on the refunding debt	(15,592)	
Net refunding difference	(86,291)	
Payments to escrow agent for refunding	<u>2,452,423</u>	(144,460)

Capital assets acquired by capital leases are shown as an expenditure and other financing source in the governmental funds. The other financing source must be removed from the Statement of Activities; principal payments are applied to the lease liability.

(34,165)

(Continued)

See accompanying notes to financial statements.

La Paz County
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2003
 (Concl'd)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal repayments:		
Certificates of participation	\$ 814,460	
Capital lease	<u>1,021</u>	\$ 815,481

Some expenses reported in the Statement of Activities do not require use of the current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Increase in compensated absences	(39,968)	
Increase in estimated liabilities for claims and judgments	<u>(144,602)</u>	(184,570)

Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities		<u>(38,253)</u>
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Change in net assets of governmental activities		<u>\$ (497,360)</u>
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See accompanying notes to financial statements.

La Paz County
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Business-Type Activities— <u>Enterprise Fund</u> <u>Golf Course Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 8,880
Cash and investments held by trustee	331,746
Prepaid items	<u>607</u>
Total current assets	<u>341,233</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,785,552</u>
Total noncurrent assets	<u>1,785,552</u>
Total assets	<u>2,126,785</u>
Liabilities	
Current liabilities:	
Accounts payable	29,953
Accrued payroll and employee benefits	30,960
Due to other funds	899,419
Certificates of participation payable, current portion	95,000
Compensated absences payable, current portion	<u>9,273</u>
Total current liabilities	<u>1,064,605</u>
Noncurrent liabilities:	
Certificates of participation payable	1,610,000
Compensated absences payable	<u>23,322</u>
Total noncurrent liabilities	<u>1,633,322</u>
Total liabilities	<u>2,697,927</u>
Net Assets	
Invested in capital assets, net of related debt	80,552
Restricted for debt service	331,746
Unrestricted (deficit)	<u>(983,440)</u>
Total net assets	<u>\$ (571,142)</u>

See accompanying notes to financial statements.

La Paz County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2003

	Business-Type Activities— Enterprise Fund Golf Course Fund
Operating revenues:	
Golf course fees	\$ 1,491,691
Miscellaneous	205
Total operating revenues	<u>1,491,896</u>
Operating expenses:	
Personnel services	561,675
Professional services	31,053
Supplies	294,113
Communication	6,758
Utilities	62,747
Repairs and maintenance	84,890
Depreciation	154,555
Other	17,076
Leases and rents	7,113
Total operating expenses	<u>1,219,980</u>
Operating income	<u>271,916</u>
Nonoperating revenues (expenses):	
Investment income	46,208
Interest expense	(192,725)
Certificates of participation issuance costs	(79,163)
Loss on disposal of capital assets	(2,562)
Total nonoperating revenues (expenses)	<u>(228,242)</u>
Increase in net assets	43,674
Total net assets, July 1, 2002	<u>(614,816)</u>
Total net assets, June 30, 2003	<u>\$ (571,142)</u>

See accompanying notes to financial statements.

La Paz County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2003

	<u>Business-Type Activities — Enterprise Fund Golf Course Fund</u>
Cash flows from operating activities:	
Receipts from customers	\$ 1,491,896
Payments to suppliers and providers of goods and services	(490,768)
Payments to employees	<u>(543,283)</u>
Net cash provided by operating activities	<u>457,845</u>
Cash flows from noncapital financing activities:	
Negative cash balance implicitly financed	804,976
Negative cash balance implicitly repaid	<u>(712,078)</u>
Net cash provided by noncapital financing activities	<u>92,898</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(107,034)
Principal paid on certificates of participation	(210,000)
Interest paid on certificates of participation	(163,525)
Payments to escrow agent	<u>(81,200)</u>
Net cash used for capital and related financing activities	<u>(561,759)</u>
Net decrease in cash and cash equivalents	<u>(11,016)</u>
Cash and cash equivalents, July 1, 2002	<u>19,896</u>
Cash and cash equivalents, June 30, 2003	<u>\$ 8,880</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 271,916
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	154,555
Changes in assets and liabilities:	
Increase in:	
Prepaid items	(607)
Accrued payroll and employee benefits	6,307
Compensated absences payable	12,085
Due to other funds	59,004
Decrease in:	
Accounts payable	<u>(45,415)</u>
Net cash provided by operating activities	<u>\$ 457,845</u>
Noncash investing, capital, and noncapital financing activities:	
Elimination of accumulated depreciation related to disposal of capital assets	\$ 24,642
Loss on disposal of capital assets	2,562
Disposal of capital assets	27,204
Refunding of long-term debt	1,705,000

See accompanying notes to financial statements.

La Paz County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Investment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 15,392,959	\$ 1,252,053
Interest receivable	39,143	
Total assets	15,432,102	\$ 1,252,053
Liabilities		
Due to other governments		\$ 1,252,053
Net Assets		
Held in trust for investment trust participants	\$ 15,432,102	

See accompanying notes to financial statements.

La Paz County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2003

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 30,069,150
Investment income	<u>203,891</u>
Total additions	<u>30,273,041</u>
 Deductions:	
Distributions to participants	<u>31,585,272</u>
Total deductions	<u>31,585,272</u>
 Change in net assets	 (1,312,231)
 Net assets, July 1, 2002	 <u>16,744,333</u>
 Net assets, June 30, 2003	 <u>\$ 15,432,102</u>

See accompanying notes to financial statements.

La Paz County
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies

The accounting policies of La Paz County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2003, the County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

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:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
La Paz County Jail District	A tax-levying public improvement district that acquires, constructs, operates, maintains, and finances county jails and jail systems pursuant to Arizona Revised Statutes; County board of supervisors serves as board of directors	Blended	La Paz County Finance Department 1108 S. Joshua Ave. Parker, AZ 85344
La Paz County Municipal Property Corporation	A nonprofit corporation created by the County to assist in the acquisition of real and personal property for the County; County board of supervisors serves as board of directors	Blended	Not available
Various Street Lighting Districts	Operates and maintains street lighting in areas outside local city jurisdictions; County board of supervisors serves as board of directors	Blended	Not available
La Paz County Health Services District	A tax-levying public improvement district that provides or finances health services; County board of supervisors serves as board of directors	Blended	Not available

La Paz County
Notes to Financial Statements
June 30, 2003

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. They also distinguish between the governmental and business-type activities of the County. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. 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, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

La Paz County
Notes to Financial Statements
June 30, 2003

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

The County reports the following major governmental funds:

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

The Road Fund accounts for monies from specific revenue sources that are restricted for road maintenance and operations, pavement preservation, and fleet services.

The Business 95 Road Improvement Fund accounts for monies from the Arizona Department of Transportation that is restricted for roadway realignment, shoulder improvements, and drainage improvements to state road Business 95. The State of Arizona transferred ownership jurisdiction and maintenance responsibilities to the County during fiscal year 2002.

The Jail District Fund was established by La Paz County resolution §89-5845 under the authority of Article 1, Chapter 25, and Title 48, of the Arizona Revised Statutes on November 20, 1989. On June 18, 1990, the Jail District Board of Directors adopted Resolution JD90-12, under the authority of Arizona Revised Statutes §48-4022, establishing a one-half cent excise sales tax effective January 1, 1991, through perpetuity. The Jail District Fund accounts for the receipt of tax revenue, maintenance of effort, intergovernmental revenue, debt service, and operating expenditures of the County's jail.

The County reports the following major enterprise fund:

The Golf Course Fund accounts for the activities and related operations and maintenance of a 18 hole golf course and pro-shop.

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 County departments and other governmental entities.

La Paz County
Notes to Financial Statements
June 30, 2003

The agency funds account for assets held by the County as an agent for the State and various local governments, 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, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus 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 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, and compensated absences, 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.

The County's enterprise fund follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The County has chosen the option not to follow FASB Statements and Interpretation issued after November 30, 1989.

D. Cash and Investments

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

La Paz County
Notes to Financial Statements
June 30, 2003

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. Inventories

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made, and because the amounts on hand at June 30, 2003, were immaterial, they are not included in the Statements of Net Assets or the Balance Sheet.

F. Property Tax Calendar

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

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

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

G. Capital Assets

Capital assets are reported at actual cost. 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 and enterprise fund are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	N/A	N/A
Buildings and improvements	\$5,000	Straight-line	25-50 years
Improvements other than buildings	1,000	Straight-line	7-30 years
Machinery and equipment	1,000	Straight-line	5-20 years
Golf course and improvements	1,000	Straight-line	30 years

La Paz County
Notes to Financial Statements
June 30, 2003

H. Investment Income

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

I. 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 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 financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. However, employees who accumulate unused sick leave in excess of 384 hours are paid a percentage of the excess unused sick leave based on the number of years of consecutive service with the County; therefore, the excess sick leave is accrued.

Note 2 - Beginning Balances Restated

As a result of implementing GASB Statement No. 34, the County's governmental fund-type fund balances as of June 30, 2002, have been restated as net assets as of July 1, 2002, on the government-wide Statement of Activities and its Enterprise Fund's fund equity have been relabeled net assets as of July 1, 2002, on the Proprietary Fund's Statement of Revenues, Expenses, and Changes in Fund Net Assets. Additionally, the County reclassified certain activities previously reported as special revenue funds to the agency funds and reclassified certain activities previously reported as an agency fund to a special revenue fund and made the following prior period error corrections: General Fund's fund balance was restated to correct an understatement of \$879,288 in revenues during the year ended June 30, 2002; Other Governmental Fund's fund balance was restated to correct an understatement of tax revenue accruals for previous fiscal years of \$2,311; and the Jail District's fund balance was restated to correct an understatement of \$23,891 in expenditures for previous fiscal years.

The reconciliation below summarizes the differences between governmental fund-type fund balances as of June 30, 2002, as previously reported, to net assets as of July 1, 2002, reported on the government-wide Statement of Activities.

La Paz County
Notes to Financial Statements
June 30, 2003

Aggregate fund balances of governmental fund types as of June 30, 2002	\$10,808,673
Reclassification of Other Governmental Funds to Agency Fund	(29,409)
Reclassification of Agency Fund to Other Governmental Funds	(292)
Correction of errors from prior years	<u>857,708</u>
Aggregate fund balances of governmental fund types as of June 30, 2002, as restated	11,636,680
Add: Capital assets, net of accumulated depreciation	13,056,872
Revenues earned but not yet available	266,152
Less: Long-term liabilities	<u>(3,635,689)</u>
 Net assets of governmental activities as of July 1, 2002, as restated	 <u>\$21,324,015</u>

Note 3 - Stewardship, Compliance, and Accountability

Deficit fund balances or net assets—At June 30, 2003, the following funds reported significant deficits greater than \$5,000 in fund balances or net assets:

Fund	Deficit
Governmental funds:	
Emergency services	\$ 8,020
Wenden flood	12,627
Health department	58,347
Growing smarter planning grant	7,775
La Paz County park	40,140
Parks grant	36,216
WIA (Workforce Investment Act)—year 3	26,049
WIA (Workforce Investment Act)—year 1	38,752
AORCC boat patrol grant	17,542
Task force prosecutor	23,598
Criminal justice enhancement	36,909
CJEF contract sheriff	14,041
DES child support program	82,472
SLIF project boats	14,989
Victim's rights	15,705
Bill Williams recreation angling development	66,965
Juvenile victim's rights fund	8,638
OHV grant	10,151
 Enterprise fund:	
La Paz County golf course	571,142

The above fund deficits resulted from the operations during the year or carryovers from prior years and are expected to be corrected through normal operations in the future.

La Paz County
Notes to Financial Statements
June 30, 2003

Note 4 - Deposits and Investments

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

County Treasurer's Investment Pool—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. Those monies are pooled with County monies for investment purposes.

Deposits—At June 30, 2003, the carrying amount of the investment pool's total cash in bank was \$863,980, and the bank balance was \$965,083. Of the bank balance, \$100,000 was covered by federal depository insurance and \$865,083 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Investments—At June 30, 2003, the investments in the County Treasurer's investment pool consisted of the following:

	Fair Value
Investment in State Treasurer's investment pool	\$23,839,368

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Other deposits—At June 30, 2003, the total nonpooled cash on hand was \$66,008. The carrying amount of the County's total nonpooled cash in bank was \$645,911, and the bank balance was \$829,472. Of the bank balance, \$409,333 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name and \$420,139 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Other investments—At June 30, 2003, the County's nonpooled investments consisted of the following:

La Paz County
Notes to Financial Statements
June 30, 2003

	Fair Value
U.S. government securities	\$581,685
Money market investments	<u>79,624</u>
Total	<u>\$661,309</u>

These investments were uninsured and unregistered with securities held by the counterparty or by its trust department or agent, but not in the County's name.

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

Cash and investments:

	County Treasurer's Investment Pool	Other	Total
Cash on hand		\$ 66,008	\$ 66,008
Carrying amount of deposits	\$ 863,980	645,911	1,509,891
Reported amount of investments	<u>23,839,368</u>	<u>661,309</u>	<u>24,500,677</u>
Total	<u>\$24,703,348</u>	<u>\$1,373,228</u>	<u>\$26,076,576</u>

Statement of Net Assets:

	Total Primary Government	Total Fiduciary Funds	Total
Cash and cash equivalents	\$8,770,255	\$16,645,012	\$25,415,267
Cash and investments held by trustee	<u>661,309</u>	<u> </u>	<u>661,309</u>
Total	<u>\$9,431,564</u>	<u>\$16,645,012</u>	<u>\$26,076,576</u>

Note 5 - Condensed Financial Statements of County Treasurer's Investment Pool

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

La Paz County
Notes to Financial Statements
June 30, 2003

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

Details of each major investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rate(s)</u>	<u>Maturities</u>	<u>Fair Value</u>
State Treasurer's Investment Pool	\$23,839,368	No stated interest rate	No stated maturity	\$23,839,368

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

Statement of Net Assets

Assets	<u>\$24,742,240</u>
Net assets	<u>\$24,742,240</u>

Net assets held in trust for:

Internal participants	\$ 9,367,796
External participants	<u>15,374,444</u>
Total net assets held in trust	<u>\$24,742,240</u>

Statement of Changes in Net Assets

Total additions	\$58,260,489
Total deductions	<u>56,689,261</u>
Net increase	<u>1,571,228</u>
Net assets held in trust:	
July 1, 2002	<u>23,171,012</u>
June 30, 2003	<u>\$24,742,240</u>

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

La Paz County
Notes to Financial Statements
June 30, 2003

	<u>Primary Government</u>			<u>Balance June 30, 2003</u>
	<u>Balance July 1, 2002, as restated</u>	<u>Increases</u>	<u>Decreases</u>	
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 628,370	\$ 1,700		\$ 630,070
Construction in progress (estimated cost to complete \$6,054,322)	<u> </u>	<u>1,034,168</u>		<u>1,034,168</u>
Total capital assets, not being depreciated	<u>628,370</u>	<u>1,035,868</u>		<u>1,664,238</u>
Capital assets being depreciated:				
Land improvements	49,302			49,302
Buildings and improvements	9,303,990	109,460		9,413,450
Improvements other than buildings	338,110	2,965		341,075
Machinery and equipment	<u>11,303,731</u>	<u>677,339</u>	<u>\$331,135</u>	<u>11,649,935</u>
Total	<u>20,995,133</u>	<u>789,764</u>	<u>331,135</u>	<u>21,453,762</u>
Less accumulated depreciation for:				
Land improvements	16,133	1,697		17,830
Buildings and improvements	1,646,134	257,369		1,903,503
Improvements other than buildings	138,061	21,013		159,074
Machinery and equipment	<u>6,766,303</u>	<u>874,457</u>	<u>331,135</u>	<u>7,309,625</u>
Total	<u>8,566,631</u>	<u>1,154,536</u>	<u>331,135</u>	<u>9,390,032</u>
Total capital assets being depreciated, net	<u>12,428,502</u>	<u>(364,772)</u>		<u>12,063,730</u>
Governmental activities capital assets, net	<u>\$13,056,872</u>	<u>\$ 671,096</u>	<u>\$ -</u>	<u>\$13,727,968</u>

For the capital assets of the governmental activities reclassification adjustments have been made to the beginning balances for Land Improvement and Improvements Other Than Buildings in order to correct a presentation error reflected on the prior year published financial statements.

	<u>Primary Government</u>			<u>Balance June 30, 2003</u>
	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	
Business-type activities:				
Capital assets being depreciated:				
Golf course and improvements	\$2,834,763	\$ 18,869		\$2,853,632
Machinery and equipment	<u>777,007</u>	<u>88,165</u>	<u>\$27,204</u>	<u>837,968</u>
Total	<u>3,611,770</u>	<u>107,034</u>	<u>27,204</u>	<u>3,691,600</u>
Less accumulated depreciation for:				
Golf course and improvements	1,189,425	91,713		1,281,138
Machinery and equipment	<u>586,710</u>	<u>62,842</u>	<u>24,642</u>	<u>624,910</u>
Total	<u>1,776,135</u>	<u>154,555</u>	<u>24,642</u>	<u>1,906,048</u>
Business-type activities capital assets, net	<u>\$1,835,635</u>	<u>\$ (47,521)</u>	<u>\$ 2,562</u>	<u>\$1,785,552</u>

Depreciation expense was charged to functions as follows:

La Paz County
Notes to Financial Statements
June 30, 2003

Governmental activities:	
General government	\$ 271,562
Public safety	376,404
Highways and streets	433,862
Sanitation	575
Health	18,846
Culture and recreation	52,294
Education	<u>993</u>
Total governmental activities depreciation expense	<u>\$1,154,536</u>
Business-type activities:	
Golf course	<u>\$ 154,555</u>
Total business-type activities depreciation expense	<u>\$ 154,555</u>

Note 7 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2003:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Due within</u> <u>1 year</u>
Governmental activities					
Certificates of participation payable	\$3,165,000	\$2,495,000	\$3,165,000	\$2,495,000	\$305,000
Obligations under capital lease		34,165	1,021	33,144	10,814
Compensated absences payable	385,665	605,165	565,197	425,633	142,241
Estimated liabilities for claims and judgments	<u>85,024</u>	<u>173,626</u>	<u>29,024</u>	<u>229,626</u>	<u>56,000</u>
Governmental activities long-term liabilities	<u>\$3,635,689</u>	<u>\$3,307,956</u>	<u>\$3,760,242</u>	<u>\$3,183,403</u>	<u>\$514,055</u>
Business-type activities					
Certificates of participation payable	\$2,240,000	\$1,705,000	\$2,240,000	\$1,705,000	\$ 95,000
Compensated absences payable	<u>20,510</u>	<u>44,023</u>	<u>31,938</u>	<u>32,595</u>	<u>9,273</u>
Business-type activities long-term liabilities	<u>\$2,260,510</u>	<u>\$1,749,023</u>	<u>\$2,271,938</u>	<u>\$1,737,595</u>	<u>\$104,273</u>

Certificates of participation—The County has issued certificates of participation that are generally callable with interest payable semiannually to finance construction of the courthouse and government center complex, the jail facility, and the Emerald Canyon golf course.

La Paz County
Notes to Financial Statements
June 30, 2003

Certificates outstanding at June 30, 2003, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Courthouse and government center complex – 2003 refunding	\$1,165,000	2004 - 2009	2.00 – 3.00%	\$1,165,000
Jail facility – series 2003 refunding	1,330,000	2004 - 2009	2.00 – 3.00%	1,330,000
Emerald Canyon Golf Course – series 2003 refunding	1,705,000	2004 – 2009	2.00 – 3.00%	<u>1,705,000</u>
				<u>\$4,200,000</u>

During the year ended June 30, 2003, the County issued a combined certificate of participation, with an average interest rate of 2.50 percent, to advance-refund older, higher-rate issues, with average interest rates of 5.71 percent and 7.69 percent for the courthouse and government center complex and Emerald Canyon Golf Course, respectively. The County realized net proceeds of \$2,757,089, after payment of \$148,324 in underwriting fees, insurance, and other issuance costs, plus \$700,979 of Series 2003 sinking fund monies. These proceeds were used to purchase securities that were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and related liabilities are not included in the County's financial statements. At June 30, 2003, \$3,335,000 of Certificates of Participation were considered defeased. Details of the refunding transactions are as follows:

	<u>Series 2003 (Courthouse & Golf Course)</u>
Amount of refunding certificates of participation issued	\$2,870,000
Amount of certificates of participation refunded	3,335,000
Cash flow requirements to service old debt	4,201,214
Less: Cash flow requirements for new debt	3,112,579
Sinking fund payments	<u>700,979</u>
Reduction in debt service payments	<u>\$ 387,656</u>
Economic gain	<u>\$ 357,076</u>

In addition, during the year ended June 30, 2003, the County issued certificates of participation, with an average interest rate of 2.51 percent, to advance-refund an older, higher-rate issue, with an average interest rate of 5.70 percent for the jail facility. The County realized net proceeds of \$1,266,147, after payment of \$79,638 in underwriting fees, insurance, and other issuance costs, plus \$295,136 of Series 2003 sinking fund monies.

La Paz County
Notes to Financial Statements
June 30, 2003

These proceeds were used to purchase securities that were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and related liabilities are not included in the County's financial statements. At June 30, 2003, \$1,475,000 of Certificates of Participation were considered defeased. Details of the refunding transactions are as follows:

	Series 2003 (Jail District)
Amount of refunding certificates of participation issued	\$1,330,000
Amount of certificates of participation refunded	1,475,000
Cash flow requirements to service old debt	1,781,933
Less: Cash flow requirements for new debt	1,430,792
Sinking fund payments	295,136
Reduction in debt service payments	<u>\$ 56,005</u>
Economic gain	<u>\$ 48,977</u>

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2003:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 305,000	\$ 38,092	\$ 95,000	\$ 25,542
2005	415,000	50,238	270,000	35,138
2006	425,000	41,887	275,000	29,687
2007	430,000	32,562	280,000	23,788
2008	440,000	22,830	290,000	17,375
2009	480,000	13,175	495,000	13,056
Total	<u>\$2,495,000</u>	<u>\$198,784</u>	<u>\$1,705,000</u>	<u>\$144,586</u>

Landfill closure and postclosure care costs—The County has contracted with an outside agency to provide operations for its solid waste facilities. The contract requires the outside agency to reserve funds in accordance with the closure plan for closure and post-closure care costs. In the event of termination of the contract, the required reserve funds are to be remitted to the County. Consequently, no liability for landfill closure and post-closure care costs has been recorded on the Statement of Net Assets.

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

La Paz County
Notes to Financial Statements
June 30, 2003

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 and claims and judgments—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2003, the County paid for compensated absences as follows: 41.7 percent from the General Fund, 19.6 percent from the Road Fund, 11.6 percent from the Jail District Fund, 5.5 percent from the Enterprise Fund, and 21.6 percent from the other funds. The County paid for claims and judgments from the General Fund.

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.

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 \$5,000 per occurrence for property claims and \$5,000 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 \$10 million per occurrence for liability claims. A County must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. 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.

La Paz County
Notes to Financial Statements
June 30, 2003

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

Note 9 - Retirement Plans

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

The *Employee Security Plan* (ESP) is a defined contribution plan administered by Massachusetts Mutual Life Insurance Company that covers all permanent full-time employees of the County except for participants in the Public Safety Personnel Retirement System and the Elected Officials Retirement Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 181 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

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

ESP
1295 State Street
Springfield, MA 01111
(413) 788-8411

PSPRS and EORP
1020 E. Missouri Ave.
Phoenix, AZ 85014
(602) 255-5575

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates for the PSPRS and EORP plans.

La Paz County
Notes to Financial Statements
June 30, 2003

ESP—All employees under this plan were allowed to select a contribution rate of 6 to 10 percent. The plan also requires that the County contribute an amount equal to 6 percent of the employees' compensation for employees with service of 4 years or less, 8 percent for employees with service of at least 4 years but less than 7 years, and 10 percent for employees with service greater than 7 years.

Both the County and covered employees made the required contributions of 6 to 10 percent amounting to contributions of \$530,054 by the County and \$695,360 by covered employees.

Agent plan—For the year ended June 30, 2003, 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 4.39 percent.

Annual Pension Cost—The County's pension cost for the agent plan for the year ended June 30, 2003, and related information follows:

	<u>PSPRS</u>
Contribution rates:	
County	4.39%
Plan members	7.65%
Annual pension cost	\$99,177
Contributions made	\$99,177

The current-year annual required contributions for the PSPRS was determined as part of their June 30, 2001, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001, was 20 years.

Trend Information—Annual pension cost information for the current and two preceding years follows for the agent plan:

<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	2003	\$ 99,177	100%	\$0
	2002	116,995	100%	0
	2001	132,008	100%	0

La Paz County
Notes to Financial Statements
June 30, 2003

Cost-sharing plan—For the year ended June 30, 2003, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was not required to make contributions to EORP for the years ended June 30, 2003 and June 30, 2002. However, the County's contributions to EORP for the year ended June 30, 2001, was \$5,448, which was equal to the required contributions for the year.

Note 10 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2003, were as follows:

	Payable To			Total
	General Fund	Road Fund	Nonmajor Governmental Funds	
Payable from				
General fund		\$28,770	\$399,929	\$ 428,699
Road fund	\$ 260,644			260,644
Jail district	311,865	2,350		314,215
Nonmajor Governmental funds	480,882	6,269		487,151
Enterprise fund	899,419			899,419
Total	<u>\$1,952,810</u>	<u>\$37,389</u>	<u>\$399,929</u>	<u>\$2,390,128</u>

Interfund balances resulted from the time lag 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.

All interfund balances are expected to be repaid within 1 year from the date of the financial statements.

Interfund transfers—Interfund transfers for the year ended June 30, 2003, were as follows:

	Transfer To		Total
	General Fund	Nonmajor Governmental Funds	
Transfer from			
General fund		\$396,082	\$396,082
Jail district	\$225,000		225,000
Total	<u>\$225,000</u>	<u>\$396,082</u>	<u>\$621,082</u>

Transfers were 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, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

La Paz County
Notes to Financial Statements
June 30, 2003

Note 11 - Expansion of the County Judicial Complex

On July 21, 2003, the County entered into a contract to construct a building to house the Public Defender and the Public Fiduciary, and to remodel the Superior Court Clerk's office and the Probation office. The contract was for \$423,000, with total project cost estimated at \$500,000. The Board has committed \$159,000 from the General Fund for the project, with the remaining funding coming from Fill-the-gap and indigent defense special revenue funds.

Other Required Supplementary Information

La Paz County
 Required Supplementary Information
 Schedule of Agent Retirement Plan's Funding Progress
 June 30, 2003

Public Safety Personnel Retirement System

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</u>
6/30/03	\$5,145,450	\$5,765,572	\$(620,122)	89.2%	\$1,398,063	44.4%
6/30/02	5,250,603	5,391,985	(141,382)	97.4%	1,290,428	11.0%
6/30/01	5,211,418	4,653,857	557,561	112.0%	1,357,608	N/A

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2003

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes	\$ 3,132,000	\$ 3,410,930	\$ 278,930
Licenses and permits	190,000	200,521	10,521
Fines and forfeits	728,000	720,018	(7,982)
Intergovernmental	4,158,288	4,305,513	147,225
Charges for services	476,000	519,924	43,924
Investment income	75,000	86,775	11,775
Miscellaneous	<u>889,086</u>	<u>88,170</u>	<u>(800,916)</u>
Total revenues	<u>9,648,374</u>	<u>9,331,851</u>	<u>(316,523)</u>
Expenditures:			
Current:			
General government			
Assessor	351,062	349,853	1,209
County attorney	484,588	420,436	64,152
Board of supervisors	451,571	239,494	212,077
Clerk superior court	301,733	270,517	31,216
Constable	1,648	972	676
Elections	79,606	75,627	3,979
Justice Peace #4	328,665	317,595	11,070
Justice Peace #5	163,747	159,133	4,614
Justice Peace #6	250,021	252,821	(2,800)
Planning zoning	391,259	300,458	90,801
Recorder	167,813	159,361	8,452
Superior court	317,366	462,391	(145,025)
Treasurer	218,443	177,181	41,262
Contingency	1,000,000	6,115	993,885
Management information services	84,828	106,724	(21,896)
Law library	6,000	3,767	2,233
Public defender	372,118	345,996	26,122
General administration	249,192	297,396	(48,204)
Finance personnel	197,731	135,323	62,408
GIS/Master planning	24,262	21,070	3,192
Facilities management	<u>477,218</u>	<u>768,981</u>	<u>(291,763)</u>
Total general government	<u>5,918,871</u>	<u>4,871,211</u>	<u>1,047,660</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2003
(Continued)

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Public safety			
Regional dispatch	\$ 490,753	\$ 498,476	\$ (7,723)
Sheriff	1,878,277	1,899,517	(21,240)
Probation	96,585	96,143	442
Aircraft	19,450	16,317	3,133
Maintenance of effort	568,209	568,209	
Juvenile probation	84,365	81,904	2,461
Total public safety	<u>3,137,639</u>	<u>3,160,566</u>	<u>(22,927)</u>
Sanitation			
Sanitary landfill	<u>10,000</u>	<u>32,952</u>	<u>(22,952)</u>
Total sanitation	<u>10,000</u>	<u>32,952</u>	<u>(22,952)</u>
Health			
Indigent health	404,670	374,157	30,513
County long-term care ALTCS	717,259	610,683	106,576
C.M.I. (chronically mental ill)	57,950	89,410	(31,460)
Health department transit	<u>98,660</u>	<u>93,963</u>	<u>4,697</u>
Total health	<u>1,278,539</u>	<u>1,168,213</u>	<u>110,326</u>
Welfare			
Public fiduciary	<u>93,241</u>	<u>89,272</u>	<u>3,969</u>
Total welfare	<u>93,241</u>	<u>89,272</u>	<u>3,969</u>
Education			
School superintendent	<u>149,637</u>	<u>147,499</u>	<u>2,138</u>
Total education	<u>149,637</u>	<u>147,499</u>	<u>2,138</u>
Total expenditures	<u>10,587,927</u>	<u>9,469,713</u>	<u>1,118,214</u>
Excess (deficiency) of revenues over expenditures	(939,553)	(137,862)	801,691

(Continued)

See accompanying notes to budgetary comparison schedule.

La Paz County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2003
 (Concl'd)

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Other financing sources (uses):			
Certificates of participation issued		\$ 1,165,000	\$ 1,165,000
Payment to escrow agent for refunding		(1,122,423)	(1,122,423)
Premium on new debt issued		15,592	15,592
Transfers in		225,000	225,000
Transfers out	<u>\$ (550,222)</u>	<u>(396,082)</u>	<u>154,140</u>
Total other financing sources (uses)	<u>(550,222)</u>	<u>(112,913)</u>	<u>437,309</u>
Net change in fund balance	(1,489,775)	(250,775)	1,239,000
Fund balance, July 1, 2002, as restated	<u>1,489,775</u>	<u>3,636,482</u>	<u>2,146,707</u>
Fund balance, June 30, 2003	<u>\$ -</u>	<u>\$ 3,385,707</u>	<u>\$ 3,385,707</u>

See accompanying notes to budgetary comparison schedule.

La Paz County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Road Fund
 Year Ended June 30, 2003

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes	\$ 555,000	\$ 448,917	\$ (106,083)
Intergovernmental	3,750,472	3,452,770	(297,702)
Investment income	75,000	29,462	(45,538)
Miscellaneous	<u>475,000</u>	<u>31,786</u>	<u>(443,214)</u>
Total revenues	<u>4,855,472</u>	<u>3,962,935</u>	<u>(892,537)</u>
Expenditures:			
Current:			
Highways and streets	<u>4,774,472</u>	<u>4,188,938</u>	<u>585,534</u>
Total expenditures	<u>4,774,472</u>	<u>4,188,938</u>	<u>585,534</u>
Excess (deficiency) of revenues over expenditures	81,000	(226,003)	(307,003)
Fund balance, July 1, 2002	<u>(81,000)</u>	<u>2,485,575</u>	<u>2,566,575</u>
Fund balance, June 30, 2003	<u>\$ -</u>	<u>\$ 2,259,572</u>	<u>\$ 2,259,572</u>

See accompanying notes to budgetary comparison schedule.

La Paz County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Business 95 Road Improvement Fund
 Year Ended June 30, 2003

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 3,814,000	\$ 3,814,000		\$ (3,814,000)
Total revenues	<u>3,814,000</u>	<u>3,814,000</u>		<u>(3,814,000)</u>
Expenditures:				
Current				
Highways and streets	<u>185,000</u>	<u>485,000</u>	\$ 458,798	<u>26,202</u>
Total expenditures	<u>185,000</u>	<u>485,000</u>	<u>458,798</u>	<u>26,202</u>
Excess (deficiency) of revenues over expenditures	3,629,000	3,329,000	(458,798)	(3,787,798)
Fund balance, July 1, 2002	<u>(3,629,000)</u>	<u>(3,329,000)</u>	<u>3,814,000</u>	<u>7,143,000</u>
Fund balance, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,355,202</u>	<u>\$ 3,355,202</u>

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
Jail District Fund
Year Ended June 30, 2003

	Original/ Final Budgeted Amounts	Actual	Variance with Final Budget
Revenues:			
Taxes	\$ 890,000	\$ 862,282	\$ (27,718)
Intergovernmental	568,209	568,209	
Charges for services	1,800,000	1,379,357	(420,643)
Investment income	30,000	33,572	3,572
Miscellaneous	<u> </u>	<u>29,859</u>	<u>29,859</u>
Total revenues	<u>3,288,209</u>	<u>2,873,279</u>	<u>(414,930)</u>
Expenditures:			
Current:			
Public safety	2,426,237	2,566,127	(139,890)
Capital outlay	15,000	14,763	237
Principal retirement	205,000	350,000	(145,000)
Interest and fiscal charges	<u>95,565</u>	<u>189,075</u>	<u>(93,510)</u>
Total expenditures	<u>2,741,802</u>	<u>3,119,965</u>	<u>(378,163)</u>
Excess (deficiency) of revenues over expenditures	546,407	(246,686)	(793,093)
Other financing sources (uses):			
Certificates of participation issued		1,330,000	1,330,000
Payment to escrow agent for refunding		(1,330,000)	(1,330,000)
Transfers out		<u>(225,000)</u>	<u>(225,000)</u>
Total other financing sources (uses)	<u> </u>	<u>(225,000)</u>	<u>(225,000)</u>
Net change in fund balance	546,407	(471,686)	(1,018,093)
Fund balance July 1, 2002, as restated	<u>556,619</u>	<u>556,619</u>	<u> </u>
Fund balance, June 30, 2003	<u>\$ 1,103,026</u>	<u>\$ 84,933</u>	<u>\$ (1,018,093)</u>

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2003

Note 1 - Budgeting and Budgetary Control

A.R.S. require 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. prohibit expenditures or liabilities in excess of the amounts budgeted.

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is not employed by the County during the year. However, the County must encumber amounts necessary and available to pay liabilities outstanding for goods or services received but unpaid at June 30, after which warrants may be drawn against the encumbered amounts for 60 days immediately following the close of the fiscal year. After 60 days, the remaining encumbered balance lapse.

Note 2 - Budgetary Basis of Accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles, except for the unbudgeted item debt issuance transactions.

Note 3 - Expenditures in Excess of Appropriations

For the year ended June 30, 2003, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund:	
Justice Peace #6	\$ 2,800
Superior Court	145,025
Management information services	21,896
General administration	48,204
Facilities management	291,763
Regional dispatch	7,723
Sheriff	21,240
Sanitary landfill	22,952
C.M.I (chronically mental ill)	31,460

The excesses were primarily the result of unexpected expenditures and expenditures made as a result of unanticipated revenues, or both.

Supplementary Information

La Paz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing Community Development Block Grants/State's Program	14.228	010-02H, 164-02	\$ <u>27,891</u>
U.S. Department of Interior			
Payments in Lieu of Taxes	15.226		<u>1,008,984</u>
U.S. Department of Justice			
Passed through the Arizona Criminal Justice Commission Byrne Formula Grant Program	16.579	PC-160-03 AC-120-03	<u>146,279</u>
U.S. Department of Labor			
Passed through the Mohave County Board of Supervisors Welfare-to-Work Grants to States and Localities WIA Cluster	17.253	E5709051	457
WIA Adult Program	17.258	E5702008, E5703008, E5704008	62,882
WIA Youth Activities	17.259	E5702008, E5703008, E5704008	58,928
WIA Dislocated Workers	17.260	E5702008, E5703008, E5704008	<u>15,625</u>
Total WIA Cluster			<u>137,435</u>
Total U.S. Department of Labor			<u>137,892</u>
U.S. Department of Education			
Passed through the Arizona Department of Education Adult Education—State Grant Program	84.002	V002A010003	30,415
Passed through the Arizona Supreme Court, Administrative Office of the Courts Title I Program for Neglected and Delinquent Children	84.013	25116	<u>9,164</u>
Total U.S. Department of Education			<u>39,579</u>
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Health Services Immunization Grants	93.268	152050, 352191	80,323
Centers for Disease Control and Prevention— Investigations and Technical Assistance	93.283	252040	174,450

(Continued)

See accompanying notes to schedule.

La Paz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003
(Concl'd)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Maternal and Child Health Services Block Grant to the States	93.994	761110, HG361139	\$ 7,698
Passed through the Arizona Department of Economic Security			
Child Support Enforcement	93.563	E7201012	<u>173,564</u>
Total U.S. Department of Health and Human Services			<u>436,035</u>
 U.S. Department of Homeland Security			
Passed through the Arizona Division of Emergency Management			
State Domestic Preparedness Equipment Support Program	97.004	2002-TE-CX-0142	8,339
Public Assistance Grants	97.036	1347-DR-AZ-012-99012-00	111,563
Emergency Management Performance Grants	97.042	None	51,192
Emergency Operations Centers	97.052	None	1,569
Citizen Corps	97.053	None	23
Community Emergency Response Teams	97.054	None	<u>5,043</u>
Total U.S. Department of Homeland Security			<u>177,729</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 1,974,389</u></u>

See accompanying notes to schedule.

La Paz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of La Paz 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) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2003 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The County did not award federal monies to subrecipients for the fiscal year ended June 30, 2003.



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
La Paz County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of La Paz County as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 15, 2004, which was modified due to our reliance on the reports of other auditors as described therein. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of 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 and the reports of the other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we will report to the County's management in a separate letter.

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 assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. 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 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. We and the reports of the other auditors noted no matters involving internal control over financial reporting and its operation that we and the other auditors consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter.

This report is intended solely for the information and use of the members of the Arizona State Legislature, 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.

Debbie Davenport
Auditor General

October 15, 2004



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
La Paz County, Arizona

Compliance

We have audited the compliance of La Paz 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, 2003. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

As described in items 03-101, 03-102, and 03-103 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding allowable costs/cost principles, reporting, and procurement and suspension and debarment that are applicable to its Centers for Disease Control and Prevention—Investigations and Technical Assistance program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, La Paz 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, 2003.

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 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 internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as 03-101, 03-102, and 03-103.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in 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 03-101 and 03-102 to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, 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.

Debbie Davenport
Auditor General

October 15, 2004

La Paz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2003

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified
	Yes	No
Material weakness identified in internal control over financial reporting?	___	___ <u>X</u>
Reportable condition identified not considered to be a material weakness?	___	___ <u>X</u> (None reported)
Noncompliance material to the financial statements noted?	___	___ <u>X</u>

Federal Awards

Material weaknesses identified in internal control over major programs?	___ <u>X</u>	___
Reportable condition identified not considered to be material weakness?	___ <u>X</u>	___
Type of auditors' report issued on compliance for major programs:		Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___ <u>X</u>	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes
93.283	Centers for Disease Control and Prevention— Investigations and Technical Assistance

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000
Auditee qualified as low-risk auditee?	___	___ <u>X</u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	___ <u>X</u>	___
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La Paz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Federal Award Findings and Questioned Costs

03-101

CFDA No: 93.283 **Centers for Disease Control and Prevention—Investigations and Technical Assistance**

U.S. Department of Health and Human Services passed through Arizona Department of Health Services

Award Year: April 1, 2002 through August 30, 2003

Award Number: 252040

Allowable Costs/Cost Principles and Reporting

Questioned Cost: \$30,532

The Intergovernmental Agreement between the County and the Arizona Department of Health Services authorized the County to receive cash advances during the first couple of months of the Contract, based on a schedule of monthly cash requirements. However, the County did not adjust its Contractor Expenditure Reports submitted to the Arizona Department of Health Services for the advances received or perform a reconciliation between the Contractor's Expenditure Reports and the revenue received from the grantor, resulting in the County receiving \$30,532 of reimbursement in excess of expenditures incurred for the program. The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Section C.1(J) states that to be allowable under a Federal award, costs must be adequately documented. Additionally, the County's policies and procedures require that the general ledger be the basis for the reports and that supervisory personnel review reports for accuracy and completeness of data and information included in the reports.

We consider this finding to be a material weakness in internal control and material noncompliance with the allowable costs/cost principles and reporting requirements.

To ensure compliance with the OMB Circular A-87, the County should follow established policies and procedures to ensure that all costs charged to the federal program and requests for reimbursement submitted to grantors are properly supported by appropriate accounting records. Also, to help ensure that financial reports are accurate, the County should follow established internal control policies and procedures that include having supervisory personnel review financial reports for accuracy and completeness before submission. Additionally, an employee should perform a reconciliation between the Contractor Expenditure Reports and the revenue received from the grantor and investigate any differences noted.

La Paz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

03-102

CFDA No: 93.283 **Centers for Disease Control and Prevention—Investigations and Technical Assistance**
U.S. Department of Health and Human Services passed through Arizona Department of Health Services
Award Year: April 1, 2002 through August 30, 2003
Award Number: 252040
Allowable Costs/Cost Principles

Questioned Cost: \$22,270

The County did not require its Health Department to provide periodic certifications or monthly personnel activity distribution reports for the time spent on the Centers for Disease Control and Prevention—Investigations and Technical Assistance program. The OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 8h (3-4) requires that when employees work solely on a single Federal award, charges for their salaries and wages must be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. Further, these certifications must be prepared at least semiannually and signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Additionally, where employees work on multiple activities, their salaries or wages must be supported by personnel activity reports or equivalent documentation that is an after-the-fact distribution of actual activity, which includes the total activity for which the employee was compensated and must be signed by the employee.

During our review of payroll charges, we noted that none of the employees had the required periodic certifications or the monthly personnel activity distribution reports. However, for two employees who worked solely on the Centers for Disease Control and Prevention—Investigations and Technical Assistance program who did not prepare certifications, we were able to review alternative evidence that supported their effort. In addition, we found that the remaining employees who charged to the program also worked on multiple activities; therefore, we were unable to determine the amount of time spent on the program. As a result, we are questioning \$22,270 charged to the program.

We consider this finding to be a material weakness in internal control and material noncompliance with the allowable costs/cost principles requirements.

To comply with OMB Circular A-87, the County should require appropriate Departments to prepare periodic certifications of time spent on Federal programs and monthly personnel activity reports for employees who work on more than one activity. These reports should be signed by the employee and reviewed and approved by the employee's supervisor.

La Paz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

03-103

CFDA No: 93.283 **Centers for Disease Control and Prevention—Investigations and Technical Assistance**

U.S. Department of Health and Human Services passed through Arizona Department of Health Services

Award Year: April 1, 2002 through August 30, 2003

Award Number: 252040

Procurement and Suspension and Debarment

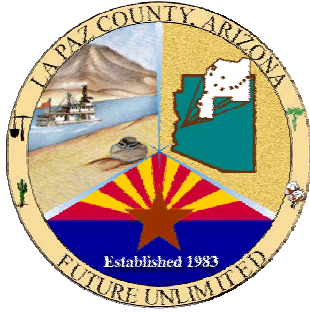
Questioned Cost: \$24,907

The U.S. Department of Health and Human Services, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, 45 CFR §92.36 (b)(1), requires that subgrantees use their own procurement procedures that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this section. During our audit, we found that the County did not use competitive sealed bids or ensure that a vendor was on state contract prior to procuring a vehicle costing \$24,907.

According to Arizona Revised Statute §41-2632 and the *Uniform Accounting Manual for Arizona Counties* page VI-F-1, counties may enter into a cooperative purchasing agreement with the State Procurement Office, which allows them to purchase from a state contract. In addition, the County's policies and procedures require that the County use sealed, competitive bidding procedures for goods costing more than \$10,000, unless the purchase is made from a vendor on the state contract.

We consider this finding to be a reportable condition and material noncompliance with the procurement and suspension and debarment requirement.

To comply with 45 CFR §92.36 (b)(1), the County should ensure that vendors are on state contract or follow its established policies and procedures when procuring goods or services.



La Paz County Finance

1108 S. Joshua Avenue Office (928) 669-2247
Parker, Arizona 85344 Facsimile (928) 669-9709

October 15, 2004

Debra K. Davenport, CPA
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Re: Corrective Action Plan – Fiscal Year Ended June 30, 2003

Dear Ms Davenport:

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

Sincerely,

Ava Alcaida
Finance Director

**La Paz County, Arizona
Corrective Action Plan
Year Ended June 30, 2003**

Federal Award Findings and Questioned Costs

03-101 - Allowable Costs/Cost Principles and Reporting

03-102 – Allowable Costs/Cost Principles

CFDA No: 93.283 Centers for Disease Control and Prevention - Investigations and
Technical Assistance

Name of Contact Person: Ava Alcaida

Anticipated completion date: April 30, 2005

Currently, County departments are responsible for grants management and financial reporting. The Finance Director will develop a County wide grants management policy and procedure manual and present it to the Board of Supervisors for approval. The manual will provide for a form of centralized financial reporting review and control, and address training for those departments who expend federal funds.

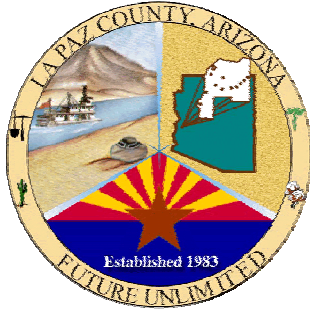
03-103 – Procurement and Suspension and Debarment

CFDA No: 93.283 Centers for Disease Control and Prevention - Investigations and
Technical Assistance

Name of Contact Person: Ava Alcaida

Anticipated completion date: Completed

The County made a purchase from a vendor that it thought to be proper and in compliance with Arizona Revised Statutes and the Uniform Accounting Manual for Arizona Counties. The purchase in question resulted from misinterpretation of how to purchase under State contracts, rather than a variance from established policies and procedures. Upon discovery of this error, the Finance Director immediately informed fellow staff members so as to prevent further like purchases.



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October 15, 2004

Debra K. Davenport, CPA
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms Davenport:

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

Sincerely,

Ava Alcaida
Finance Director

La Paz County, Arizona
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003

Status of Federal Award Findings and Questioned Costs

CFDA No. : 97.036 Public Assistance Grants

Finding No. : 02-101 (June 30, 2002) and 01-101 (June 30, 2001)

Status : The County was unable to correct the problem. However, for all future federal public assistance programs, the Finance Director will review and approve Public Works job costing sheets and supporting documentation to ensure compliance with the Public Assistance Guide and OMB A-87 prior to billing.