



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statement Audit

State of Arizona

Statement of Federal Land Payments

October 1, 2006 through September 30, 2007



Debra K. Davenport
Auditor General

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**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

State of Arizona, Department of Administration

We have audited the accompanying Statement of Federal Land Payments of the State of Arizona for the period October 1, 2006 through September 30, 2007. This statement is the responsibility of the State of Arizona. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the *Audit Guide for Bureau of Land Management Payments in Lieu of Taxes Program* prepared by the Office of the Inspector General, U.S. Department of the Interior. Those standards and the cited audit guide require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Federal Land Payments is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this Statement of Federal Land Payments was prepared on the cash basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the Statement of Federal Land Payments referred to above presents fairly, in all material respects, the payments that the State of Arizona made to qualified local governmental subdivisions under 31 United States Code (U.S.C.) 6901 et seq for the period October 1, 2006 through September 30, 2007, in accordance with the regulatory requirements and on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the addressees and for filing with the U.S. Department of the Interior, Bureau of Land Management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

December 4, 2007

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Federal Agency Making Payment and Payment Type*

Local Unit	USFS/MMS Timber and Secure Schools Title I (A.R.S.)	USFS Secure Schools Title III	USFS Bankhead- Jones	BLM/MMS Mineral Leasing (A.R.S.)	BLM Taylor Grazing		BLM Bankhead- Jones	BLM Sale of Materials (A.R.S.)	FERC Power Sales (A.R.S.)	FWS Refuge Revenue Sharing	Total Retained
	<u>\$11-497)</u>	<u>Title III</u>	<u>Jones</u>	<u>\$37-741(B))</u>	<u>\$3</u> (A.R.S.)	<u>\$15</u> (A.R.S.)	<u>Jones</u>	<u>\$\$37-521 to 525)</u>	<u>142(A))</u>		
Apache County											
Cochise County	\$ 49,320										\$ 49,320
Coconino County	1,920,319	\$743,234							\$ 9,544		2,673,097
Gila County	16,488								4,485		20,973
Graham County	39,910										39,910
Greenlee County	392,136										392,136
La Paz County					\$ 2,813						2,813
Maricopa County	148,284				6,549	\$ 288					155,121
Mohave County	624										624
Navajo County	25,000										25,000
Pima County	77,225										77,225
Pinal County	49,644				483	12,231					62,358
Santa Cruz County	60,740					1,737					62,477
Yavapai County	737,548	184,387			2,399	33,831					958,165
Yuma County											
Total	<u>\$3,517,238</u>	<u>\$927,621</u>			<u>\$12,244</u>	<u>\$48,087</u>			<u>\$14,029</u>		<u>\$4,519,219</u>

Abbreviations Used:

USFS – U.S. Forest Service
MMS – Mineral Management Service
A.R.S. – Arizona Revised Statutes
BLM – Bureau of Land Management
FERC – Federal Energy Regulatory Commission
FWS – Federal Wildlife Service

*These amounts represent the monies the county retained.

See accompanying notes to statement.

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Note 1 - Basis of Accounting

The Statement of Federal Land Payments (Statement) was prepared on the basis of cash disbursements that the State of Arizona made to qualified local governmental subdivisions during the period October 1, 2006 through September 30, 2007, under 31 U.S.C. 6901 et seq which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. This report is prepared in accordance with the provisions of the October 16, 1978, Comptroller General of the United States Decision B-167553. The amounts reported on this statement include only the monies retained by the counties.

Note 2 - Reconciliation of Federal Land Payments

The following presents a reconciliation of the amounts presented on the Statement of Federal Land Payments to the Bureau of Land Management's (BLM) Schedule of Prior Year Payments Received By State and Local Governments During the Period October 1, 2006 through September 30, 2007:

Timber and Secure Schools, Title I and Title III

The State received \$7,475,178 of Timber and Secure Schools receipts, which were disbursed to the counties. Subsequently, the counties distributed \$3,030,319 to the benefit of the school districts (including accommodation schools) and retained \$4,444,859.

Bankhead-Jones

Monies the State received from the Bankhead-Jones Act are retained by the State and are credited to the University of Arizona in compliance with the Enabling Act. The State received no amounts from this program during the period October 1, 2006 through September 30, 2007.

Mineral Leasing

The State received and retained \$111,890 of Mineral Leasing receipts during federal fiscal year 2007. In addition, the State had \$12,503 in unused receipts on hand from federal fiscal year 2006. During federal fiscal year 2007, the State used \$114,915 of these monies, with 50 percent used for secondary roads and 50 percent transferred to the permanent state school fund. The final installment received in 2007 of \$9,478 had not yet been used by the State as of September 30, 2007.

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Taylor Grazing, Sections 3 and 15

The State received \$63,996 and \$90,974, respectively, of Taylor Grazing, Sections 3 and 15 monies from October 1, 2006 through September 30, 2007. During the period, the State disbursed \$63,996 and \$90,974 to the counties from current year's receipts of Taylor Grazing, Sections 3 and 15, respectively. The counties distributed these monies as prescribed by A.R.S. §§37-724 and 37-725, except for La Paz, Maricopa, Pinal, Santa Cruz, and Yavapai Counties. As of September 30, 2007, La Paz, Maricopa, Pinal, and Yavapai Counties had not disbursed \$2,813, \$6,549, \$483, and \$2,399, respectively, of the Taylor Grazing, Section 3 monies received since either the county did have a range improvement district or the range improvement district did not request the monies. As of September 30, 2007, Maricopa, Pinal, Santa Cruz, and Yavapai Counties had not disbursed \$288, \$12,231, \$1,737, and \$33,831, respectively, of the Taylor Grazing, Section 15 monies received. The Section 15 monies were retained for use by the county school superintendent for educational purposes.

Sale of Materials

The State received \$124,399, which was retained in the State's permanent land funds to be applied in accordance with their respective purposes.

Power Sales

During the period October 1, 2006 through September 30, 2007, Coconino and Gila Counties retained \$9,544 and \$4,485, respectively, from power sales monies. The monies retained by Coconino County were from power sale revenues received by the State during federal fiscal year 2006 and distributed to the County in federal fiscal year 2007. The monies retained by Gila County consisted of \$2,200 and \$2,285 of monies received by the State in federal fiscal years 2006 and 2007, respectively, and distributed to the County in federal fiscal year 2007.

Refuge Revenue Sharing

Federal Wildlife Service Refuge receipts are paid directly to the counties. There are no statutes governing the counties' use of these receipts. The State received no amounts from this program during the period October 1, 2006 through September 30, 2007.

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A.R.S. §11-497. Disbursement of forest reserve monies

The treasurer shall notify the clerk of the board of supervisors and the county school superintendent of the amount received from the state treasurer as the county share of pass through monies from the United States from forest reserves, as provided in §41-736, and thereafter the money shall be disbursed for the benefit of public schools and public roads of the county as the board of supervisors may direct.

A.R.S. §35-142. (A) Monies kept in funds separate from state general fund; receipt and withdrawal

- A. All monies received for and belonging to the state shall be deposited in the state treasury and credited to the state general fund except the following, which shall be placed and retained in separate funds:
1. The unexpendable principal of monies received from federal land grants shall be placed in separate funds and the account of each such separate fund shall bear a title indicating the source and the institution or purpose to which such fund belongs.
 2. The interest, rentals, and other expendable money received as income from federal land grants shall be placed in separate accounts, each account bearing a title indicating the source and the institution or purpose to which the fund belongs. Such expendable monies shall be expended only as authorized, regulated and controlled by the general appropriation act or other act of the legislature.
 3. All private or quasi-private monies authorized by law to be paid to or held by the state treasurer shall be placed in separate accounts, each account bearing a title indicating the source and purpose of such fund.
 4. All monies legally pledged to retirement of building indebtedness or bonds issued by those institutions authorized to incur such indebtedness or to issue such bonds shall be placed in separate accounts.
 5. Monies of a multi-county water conservation district authorized by law to be paid to or held by the state treasurer shall be placed in separate accounts, each account bearing a title indicating the source and purpose of such fund.
 6. All monies collected by the Arizona game and fish department shall be deposited in a special fund known as the state game and fish protection fund for the use of the Arizona game and fish commission in carrying out the provisions of title 17.

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A.R.S. §35-142. Monies kept in funds separate from state general fund; receipt and withdrawal (Concl'd)

7. All federal monies that are received by the department of economic security for family assistance benefits and medical eligibility as a result of efficiencies developed by the department of economic security and that would otherwise revert to the state general fund pursuant to §35-190 shall be retained for use by the department of economic security in accordance with the terms and conditions imposed by the federal funding source in an account or accounts established or authorized by the state treasurer.
8. Monies designated by law as special state funds shall not be considered a part of the general fund. Unless otherwise prescribed by law, the state treasurer shall be the custodian of all such funds.
9. All monies received and any accounts established and maintained by the director of the Arizona state retirement system or the fund manager of the public safety personnel retirement system, the corrections officer retirement plan and the elected officials' retirement plan.

A.R.S. §37-521. Permanent state school fund; composition; use

A. The permanent state school fund shall consist of:

1. The proceeds of all lands granted to the state by the United States for the support of common schools.
2. All property which accrues to the state by escheat or forfeiture.
3. All property donated for the benefit of the common schools, unless the terms of the donation otherwise provide.
4. All unclaimed shares and dividends of any corporation incorporated under the laws of this state.
5. The proceeds of sale of timber, mineral, gravel or other natural products or property from school lands and state lands other than those granted for specific purposes.
6. The residue of the lands granted for payment of the bonds and accrued interest issued by Maricopa, Pima, Yavapai and Coconino counties, after the purpose of the grant has been satisfied, and the 5 percent of the proceeds of sales of public lands lying within this state sold by the United States subsequent to admission of this state into the union, as granted by the enabling act.

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A.R.S. §37-521. Permanent state school fund; composition; use (Concl'd)

- B. The fund shall be and remain a perpetual fund and distributions from the fund pursuant to article X, section 7, Constitution of Arizona, plus monies derived from the rental of the lands and property, interest and accrued rent for that year credited pursuant to §37-295 and interest paid on installment sales, shall be used as follows:
1. If there are outstanding state school facilities revenue bonds pursuant to title 15, chapter 16, article 6, outstanding qualified zone academy bonds pursuant to title 15, chapter 16, article 7 or outstanding state school trust revenue bonds issued to correct existing deficiencies prescribed by §15-2021, the state treasurer and the state land department shall annually transfer to the state school facilities revenue bond debt service fund established in §15-2054, the state school improvement revenue bond debt service fund established in §15-2084 and the state school trust revenue bond debt service fund the amount that is necessary to pay that fiscal year's debt service on outstanding state school facilities revenue bonds, qualified zone academy bonds and state school trust revenue bonds, before transferring amounts for any other uses.
 2. If there are no outstanding state school facilities revenue bonds pursuant to title 15, chapter 16, article 6 or if the amount of monies available under this subsection exceeds the amount required under paragraph 1 of this subsection, the monies are subject to legislative appropriation to the new school facilities fund established by §15-2041.
 3. If the amount of monies available under this subsection exceeds the amount required under paragraphs 1 and 2 of this subsection, the legislature may annually appropriate an amount to be used as provided in §15-971, subsection H, except that the amount appropriated may not exceed the amount appropriated from the permanent state school fund and from the rent and interest paid on installment sales for this purpose in fiscal year 2000-2001.
 4. Notwithstanding paragraphs 1, 2 and 3 of this subsection, from and after June 30, 2001, any expendable earnings under this subsection that exceed the fiscal year 2000-2001 expendable earnings shall be deposited in the classroom site fund established by §15-977.

A.R.S. §37-522. Universities land fund; composition; use

- A. The universities land fund shall consist of:
1. The proceeds of all lands granted to the state by the United States for university purposes.
 2. All property donated by individuals for university purposes, unless the terms of the donation otherwise provide.
 3. The sale of timber, mineral, gravel or other natural products or property from lands granted or given for university purposes.

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A.R.S. §37-522. Universities land fund; composition; use (Concl'd)

- B. The fund is and shall remain a perpetual fund for the benefit and support of the universities of this state and distributions from the fund pursuant to article X, section 7, Constitution of Arizona together with the monies derived from the sales of timber or timber products and the rental of the lands and property, including interest and accrued rent for that year credited pursuant to §37-295, shall be used.

A.R.S. §37-523. Normal schools land fund; composition; use

- A. The normal schools land fund shall consist of:

1. The proceeds of all lands granted to the state by the United States for normal schools for the purpose of training teachers.
2. All property donated for normal schools, teacher colleges or colleges of education for the purpose of training teachers, unless the terms of the donation otherwise provide.
3. The sale of timber, mineral, gravel or other natural products of property granted or donated for such purposes.

- B. The fund shall be and remain a perpetual fund for the benefit and support equally of the universities for the purpose of training teachers and distributions from the fund pursuant to article X, section 7, Constitution of Arizona together with the monies derived from the rental of the lands and property, including interest and accrued rent for that year credited pursuant to §37-295, shall be used.

A.R.S. §37-524. Agricultural and mechanical colleges land fund and school of mines land fund; composition; use

- A. The agricultural and mechanical colleges land fund, and the school of mines land fund, shall separately consist of the proceeds of:

1. All lands granted to the state by the United States for the respective purposes named.
2. All property donated by individuals for like purposes, unless the terms of the donation otherwise provide.
3. The sale of timber, mineral, gravel or other natural products or property from lands granted or donated for such purposes.

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A.R.S. §37-524. Agricultural and mechanical colleges land fund and school of mines land fund; composition; use (Concl'd)

- B. The funds provided for in this section shall be and remain perpetual funds for the benefit and support of the agricultural and mechanical colleges and the schools of mines at the universities and distributions from the funds pursuant to article X, section 7, Constitution of Arizona together with the money derived from the rental of the lands and property, including interest and accrued rent for that year credited pursuant to §37-295, shall be used.

A.R.S. §37-525. Other land funds; composition; use

- A. The legislative, executive and judicial public buildings land fund, the penitentiary land fund, the Arizona state hospital land fund, the state charitable, penal and reformatory institutions land fund, the schools and asylum for the deaf, dumb and blind land fund, the miners' hospital for disabled miners land fund and the military institutes land fund shall separately consist of:

1. The proceeds of all lands granted to this state by the United States for the respective purposes named.
2. All property donated by individuals for like purposes, unless the terms of the donation otherwise provide.
3. The sale of timber, mineral, gravel, or other natural products or property from lands granted or donated for such purposes.

- B. The funds shall be and remain perpetual funds for the benefit and support of institutions corresponding to the purposes for which the funds are established, except as otherwise provided in the enabling act and §37-295 and distributions from the funds pursuant to article X, section 7, Constitution of Arizona together with the monies derived from the rental of the lands and property, shall be used. Monies in the state charitable, penal and reformatory institutions land fund are subject to legislative appropriation.

A.R.S. §37-723. Distribution of money received from United States; appropriations to counties

- A. All monies received by the state as its distributive shares of the amounts collected by the United States government under the provisions of the act of Congress of June 28, 1934 known as the Taylor grazing act, and acts amendatory thereof, shall be deposited with the state treasurer. The treasurer shall distribute the funds to the several counties of the state in which the public lands are located.

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A.R.S. §37-723. Distribution of money received from United States; appropriations to counties (Concl'd)

- B. The state treasurer shall ascertain from the proper United States officers having the records of receipts from grazing permits and leased public lands the amount of receipts from sources in this state for each year for which money is received by the state. A separate account shall be kept of the amount received from each grazing district and lease of public lands, and the state treasurer shall pay the county in which the grazing district or leased public land is located. If the grazing district or leased land lies in more than one county, each county shall receive the proportional part of the amount as the area of the grazing district or leased public land included within the boundary of the county bears to the total area of the grazing district or lease.
- C. For purposes of this section the monies deposited with the state treasurer as provided by subsection A are appropriated to the several counties of the state in the proportions in which the counties are entitled thereto, as shown by the records of the United States officers and transmitted to the state treasurer.

A.R.S. §37-724. Receipts from lease of public lands

All monies received from leases of public lands within any county shall be placed to the credit of the school district within the county in which the land lies. If the lands do not lie within a school district, the monies shall be placed to the credit of the general school fund of the county.

A.R.S. §37-725. Receipts from grazing district fees; district treasurer; duties

- A. All monies received from grazing fees of a grazing district regularly established and including public lands within the county shall be placed to the credit of a special fund designated the range improvement fund of the grazing district which shall be given a number.
- B. The county treasurer of the county in which such public lands are located shall be the exofficio district treasurer of any federal grazing district located wholly or in part within the county, and shall be liable upon his official bond for the proper care and distribution of the monies. He shall collect, receive, receipt and account for all monies from such source, and shall pay it upon the warrant of the grazing district signed by the chairman of the board of district advisors and countersigned by the vice-chairman thereof and the regional grazier in administrative charge of the district.

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A.R.S. §37-741. Public roads and public education fund; purposes; approval of expenditures by legislature; distribution

- A. There is created a special fund known as the state public roads and public education fund. There shall be deposited in the fund all monies received by the state as its distributive shares of the amounts collected by the United States government under the provisions of the act of Congress of February 25, 1920, chapter 85 (41 Stat. 437) and acts amendatory thereof, entitled, “an act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain.”
- B. No monies shall be expended from the fund created by subsection A of this section without prior approval therefore by an act of the legislature. The legislature may authorize expenditures from the fund for any of the following purposes:
 - 1. The construction and maintenance of public roads.
 - 2. The support of public schools or other public educational institutions.
- C. At the beginning of each fiscal year, one-half of the balance in the state public roads and public education fund shall be transferred to the state highway fund to be expended for secondary roads and one-half shall be transferred to the permanent state school fund and shall be administered as provided by §37-521.