

Gila County
Single Audit Reporting Package
Year Ended June 30, 2005

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Single Audit Reporting Package
Year Ended June 30, 2005

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Independent Auditor's Report

The Auditor General of the State of Arizona

The Board of Supervisors of
Gila County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages 3 through 9, the Schedule of Agent Retirement Plans' Funding Progress on page 37 and the Budgetary Comparison Schedules on pages 38 through 43 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 February 29, 2008, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Miller, Allen & Co., P.C." with a stylized flourish at the end.

February 29, 2008

Gila County
Management's Discussion and Analysis
June 30, 2005

As management of Gila County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the current fiscal year by \$33,496,139 (net assets). Of this amount, \$19,413,743 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$22,436,775, an increase of \$3,757,416 in comparison with the prior year's balance of \$18,679,359.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$9,379,732 or 28% of total general fund expenditures.
- The County's total long-term liabilities increased by a net of \$278,701 during the current fiscal year in comparison with the prior year's balance of \$8,370,305. Key factors in this increase included (a) scheduled principal payments of \$1,216,008, (b) a new capital lease of \$722,377, (c) a new loan of \$600,000 from the Arizona Department of Transportation (ADOT), (d) an increase in the landfill closure and postclosure costs of \$100,805 and, (d) a net increase in compensated absences of \$71,527 during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows (full accrual accounting). Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The statement of activities distinguishes functions of the County that are principally supported

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Management's Discussion and Analysis
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by taxes and intergovernmental revenues from other functions that are intended to recover all or part of their costs through user fees and charges.

The governmental activities of the County include general government; public safety; highways and streets; health; welfare; sanitation; culture and recreation; and education.

The government-wide financial statements not only include the County itself (known as the primary government), but also the legally separate Gila County Library District, Street Lighting Districts and Municipal Property Corporation which functions for all practical purposes as departments of the County, and therefore have been included as an integral part of the County.

The government-wide financial statements can be found on pages 11 through 12 of this report.

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

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

Because the focus of governmental funds statements is narrower than the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances include a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for two funds that are considered to be major funds, General and Public Works. Data from the other governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 13 through 16 of this report.

Fiduciary Funds are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found on pages 17 and 18 of this report.

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Management's Discussion and Analysis
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Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 19 through 35 of this report.

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

Required supplementary information can be found on pages 37 through 43 of this report.

Government-wide Financial Analysis

Statement of Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, the County's assets exceeded liabilities by \$33,496,139.

Condensed Statement of Net Assets		
(in thousands)		
Governmental Activities		
June 30, 2005 and 2004		
	2005	2004
Assets:		
Current and other assets	\$ 25,827	\$ 23,878
Capital assets	19,387	18,317
Total assets	45,214	42,195
Liabilities:		
Long-term liabilities outstanding	8,649	8,370
Other liabilities	3,069	4,178
Total liabilities	11,718	12,548
Net assets:		
Invested in capital assets, net of related debt	13,757	12,794
Restricted for:		
Debt service	325	325
Unrestricted	19,414	16,528
Total net assets	\$ 33,496	\$ 29,647

By far the largest portion of Gila County's net assets is unrestricted. Unrestricted net assets of \$19,413,743 or 58% may be used to meet Gila County's ongoing obligations to citizens and creditors. The second largest portion is \$13,756,912 or 41% of the total net assets that reflects its investment in capital assets (e.g. land, buildings, equipment, vehicles and infrastructure); less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its

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Management's Discussion and Analysis
June 30, 2005

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Statement of Activities

Already noted was the statement of activities' purpose in presenting information as to how the government's net assets changed during the current fiscal year. A chart of changes in net assets follows. For the fiscal year, net assets increased \$3,849,083, all coming from governmental activities. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes that are used, in part, for the construction of those assets.

Changes in Net Assets		
(in thousands)		
Governmental Activities		
June 30, 2005 and 2004		
	<u>2005</u>	<u>2004</u>
Revenues		
<i>Program revenues:</i>		
Charges for services	\$ 5,812	\$ 5,690
Operating grants and contributions	12,107	10,712
Capital grants and contributions	4,599	4,755
<i>General revenues:</i>		
Property taxes	16,787	16,419
County sales tax	5,520	5,347
Share of state sales tax	4,791	4,179
Vehicle license tax	1,592	1,534
Payments in lieu of taxes	2,110	2,089
Miscellaneous	1,434	598
Total revenues	<u>54,752</u>	<u>51,323</u>
Expenses		
General government	15,230	15,052
Public safety	13,160	11,934
Highways and streets	6,369	5,727
Health	2,292	2,156
Welfare	9,649	8,744
Sanitation	1,388	900
Culture and recreation	1,066	1,357
Education	1,469	1,028
Interest on long-term debt	280	308
Total expenses	<u>50,903</u>	<u>47,206</u>
Increase in net assets	3,849	4,117
Net assets, beginning of year, restated	<u>29,647</u>	<u>25,530</u>
Net assets, end of year	<u>\$ 33,496</u>	<u>\$ 29,647</u>

Gila County
Management's Discussion and Analysis
June 30, 2005

Revenues

Governmental activities revenues totaled \$54,752,052 for fiscal year 2005 which was an increase of 6.7% over the prior year's total revenues. The increase was primarily in grants and contributions, property taxes, and state shared sales tax due to economic growth.

Expenses

Governmental activities expenses totaled \$50,902,969 for fiscal year 2005, which was an increase of 7.8% over the prior year's total expenses. The increase in expenses closely paralleled to inflation and growth in the demand for services. The increase in services was primarily in public safety, welfare, highways and streets, sanitation, and education.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$22,436,775, an increase of \$3,757,416 in comparison with the prior year's balance of \$18,679,359.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$9,054,248, which is consistent with prior year's balance of \$8,225,810.

General Fund Budgetary Highlights

The general fund had budgeted expenditures before transfers of \$32,443,853. Overall, actual general fund expenditures were overspent by \$145,165. Solid Waste Management had budgeted expenditures of \$2,270,882 while actual expenditures were underspent by \$1,114,163 due to the anticipated closure of its remaining two landfill sites but the sites were not closed in fiscal year 2004-2005. The County Sheriff Department overspent by \$707,731 due to increasing demands on law enforcement and extra patrols during the fire season.

Capital Asset and Debt Administration

Capital Assets

The County's capital assets for its governmental activities as of June 30, 2005, total \$19,386,851 (net of accumulated depreciation). These capital assets include land, construction in progress, buildings, equipment, vehicles and infrastructure assets (roads, highways, bridges, etc). The total net increase in the County's capital assets for the current fiscal year was 5.8% in comparison with the prior year's balance of \$18,317,415.

Gila County
Management's Discussion and Analysis
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Gila County's Capital Assets
(net of depreciation)
(in thousands)
Governmental Activities
June 30, 2005 and 2004

	2005	2004
Land	\$ 4,319	\$ 4,319
Construction in progress	622	565
Buildings	7,109	6,600
Improvements other than buildings	120	-
Equipment	3,670	3,543
Vehicles	1,456	1,308
Infrastructure	2,091	1,982
Total	\$ 19,387	\$ 18,317

Additional information on the County's capital assets can be found in Note 5 on pages 26 through 27 of this report.

Long-term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$2,235,000. This debt represents certificates of participation issued to finance renovation costs for several County buildings. The certificates are secured by a dedicated excise tax of ¼ cent. The County also had a loan payable of \$1,528,095 which is secured by the County's highway user revenue. The remainder of the County's debt is long-term capital leases of \$1,866,844 for land, vehicles, and construction and computer equipment.

The County's debt was increased by a net \$278,701 during the current fiscal year. This is primarily due to the County making scheduled debt retirement payments of \$1,216,008, net of a new \$600,000 loan from ADOT and a new \$722,377 capital lease, an increase of landfill closure and postclosure care costs of \$100,805 and a net increase in compensated absences of \$71,527.

State statutes limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation for the County is \$22,695,000. Since the County has no general obligation debt, this amount equals the debt capacity. Additional information on long-term debt can be found in Note 7 on pages 27 through 30 of this report.

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Management's Discussion and Analysis
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Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the County is currently 5.8 percent, which is a slight decrease from a rate of 6.3 percent a year ago. This compares unfavorably to the state's average unemployment rate of 4.6 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the County's budget for the fiscal year 2005-06. The unreserved ending fund balance in the general fund of \$9,054,248 was appropriated for spending in the fiscal year 2005-06 budget. The County's primary property tax rate remained unchanged for 2005-06 fiscal year.

Requests for Information

This financial report is designed to provide a greater overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed as follows:

Finance Director
Gila County
1400 Ash Street
Globe, Arizona 85501

Basic Financial Statements

Gila County
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Cash and investments	\$ 21,527,973
Cash and investments held by trustee	325,484
Receivables (net of allowances for uncollectibles):	
Property taxes	330,814
Accounts	735,549
Due from other governments	2,867,531
Other assets	39,655
Capital assets, not being depreciated	4,941,057
Capital assets, being depreciated, net	14,445,794
Total assets	45,213,857
 Liabilities	
Accounts payable	1,574,228
Accrued payroll and employee benefits	1,296,404
Deposits held for others	198,080
Noncurrent liabilities:	
Due within one year	2,391,276
Due in more than one year	6,257,730
Total liabilities	11,717,718
 Net Assets	
Invested in capital assets, net of related debt	13,756,912
Restricted for:	
Debt service	325,484
Unrestricted	19,413,743
Total net assets	\$ 33,496,139

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

Gila County
Statement of Activities
Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental activities</i>					
General government	\$ 15,229,981	\$ 2,051,468	\$ 1,011,045	\$ -	\$ (12,167,468)
Public safety	13,160,357	1,508,579	3,185,025	478,800	(7,987,953)
Highways and streets	6,368,452	250,787	1,031,553	4,120,626	(965,486)
Health	2,292,314	442,951	1,082,948	-	(766,415)
Welfare	9,649,393	-	4,937,708	-	(4,711,685)
Sanitation	1,387,764	1,558,317	135,699	-	306,252
Culture and recreation	1,065,934	-	10,155	-	(1,055,779)
Education	1,468,762	-	712,659	-	(756,103)
Interest on long-term debt	280,012	-	-	-	(280,012)
Total governmental activities	\$ 50,902,969	\$ 5,812,102	\$ 12,106,792	\$ 4,599,426	(28,384,649)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					16,027,751
Property taxes, levied for Street Lighting Districts					5,855
Property taxes, levied for Library District					753,046
County general and transportation sales tax					5,519,600
Share of state sales tax					4,790,657
Shared revenue-state vehicle license tax					1,592,331
Payments in lieu of taxes					2,109,865
Shared revenue-state lottery					550,035
Grants and contributions not restricted to specific programs					192,080
Investment earnings					352,319
Miscellaneous					340,193
Total general revenues					32,233,732
Change in net assets					3,849,083
Net assets, July 1, 2004					29,647,056
Net assets, June 30, 2005					\$ 33,496,139

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

Gila County
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Public Works Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 8,585,631	\$ 5,763,785	\$ 7,178,557	\$ 21,527,973
Cash and investments held by trustee	325,484	-	-	325,484
Receivables (net of allowances for uncollectibles):				
Property taxes	307,178	-	23,636	330,814
Accounts	594,541	1,668	139,340	735,549
Due from:				
Other funds	775,300	-	146,502	921,802
Other governments	907,128	699,754	1,260,649	2,867,531
Other assets	36,860	-	2,795	39,655
Total assets	<u>\$ 11,532,122</u>	<u>\$ 6,465,207</u>	<u>\$ 8,751,479</u>	<u>\$ 26,748,808</u>
Liabilities and Fund Balances				
<i>Liabilities:</i>				
Accounts payable	\$ 819,684	\$ 239,059	\$ 515,485	\$ 1,574,228
Accrued payroll and employee benefits	852,282	167,542	276,580	1,296,404
Due to other funds	-	146,502	775,300	921,802
Deposits held for others	172,732	-	25,348	198,080
Deferred revenues	307,692	-	13,827	321,519
Total liabilities	<u>2,152,390</u>	<u>553,103</u>	<u>1,606,540</u>	<u>4,312,033</u>
<i>Fund balances:</i>				
Reserved for:				
Debt service	325,484	-	-	325,484
Unreserved, reported in:				
General fund	9,054,248	-	-	9,054,248
Special revenue funds	-	5,912,104	7,144,939	13,057,043
Total fund balances	<u>9,379,732</u>	<u>5,912,104</u>	<u>7,144,939</u>	<u>22,436,775</u>
Total liabilities and fund balances	<u>\$ 11,532,122</u>	<u>\$ 6,465,207</u>	<u>\$ 8,751,479</u>	<u>\$ 26,748,808</u>

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

Gila County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2005

Fund balances - total governmental funds	\$ 22,436,775
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	19,386,851
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	321,519
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(8,649,006)</u>
Net assets of governmental activities	<u>\$ 33,496,139</u>

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

Gila County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General Fund	Public Works Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 19,548,255	\$ 2,698,164	\$ 758,901	\$ 23,005,320
Licenses and permits	366,029	59,826	272,723	698,578
Intergovernmental	10,209,993	5,071,354	10,640,570	25,921,917
Charges for services	3,132,455	190,960	1,171,874	4,495,289
Fines and forfeits	588,056	-	30,179	618,235
Donations and contributions	-	-	19,269	19,269
Investment earnings	135,709	96,564	120,046	352,319
Miscellaneous	337,654	101,182	42,653	481,489
Total revenues	34,318,151	8,218,050	13,056,215	55,592,416
Expenditures:				
<i>Current:</i>				
General government	13,922,623	-	600,294	14,522,917
Public safety	8,998,421	-	3,828,098	12,826,519
Highways and streets	-	5,758,356	1,477	5,759,833
Health	-	-	2,004,310	2,004,310
Welfare	5,105,840	-	4,543,553	9,649,393
Sanitation	1,156,719	-	130,240	1,286,959
Culture and recreation	222,054	-	843,352	1,065,406
Education	558,123	-	910,082	1,468,205
<i>Debt service:</i>				
Principal retirement	876,761	339,247	-	1,216,008
Interest and fiscal charges	261,057	18,955	-	280,012
<i>Capital outlay</i>	<i>2,209,797</i>	<i>319,728</i>	<i>548,290</i>	<i>3,077,815</i>
Total expenditures	33,311,395	6,436,286	13,409,696	53,157,377
Excess (deficiency) of revenues over expenditures	1,006,756	1,781,764	(353,481)	2,435,039
Other financing sources (uses):				
Capital lease agreements	722,377	-	-	722,377
Loan proceeds from Arizona Department of Transportation (ADOT)	-	-	600,000	600,000
Transfers in	517,734	-	1,417,445	1,935,179
Transfers out	(1,417,445)	(517,734)	-	(1,935,179)
Total other financing sources (uses)	(177,334)	(517,734)	2,017,445	1,322,377
Net change in fund balances	829,422	1,264,030	1,663,964	3,757,416
Fund balances, beginning of year	8,550,310	4,648,074	5,480,975	18,679,359
Fund balances, end of year	\$ 9,379,732	\$ 5,912,104	\$ 7,144,939	\$ 22,436,775

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

Gila County
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2005

Net change in fund balances - total governmental funds		\$ 3,757,416
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	3,077,815	
Depreciation expense	<u>(1,867,083)</u>	1,210,732
The net effect of various miscellaneous transactions involving the disposal of capital assets (i.e., sales or trade-ins) is to decrease net assets in the Statement of Activities.		
		(141,296)
Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities.		
		(699,068)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt issued or incurred	(1,322,377)	
Principal repaid	<u>1,216,008</u>	(106,369)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.		
Increase in compensated absences	(71,527)	
Increase in landfill closure and postclosure costs	<u>(100,805)</u>	(172,332)
Change in net assets of governmental activities		<u>\$ 3,849,083</u>

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

Gila County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Investment Trust Funds	Agency Funds
Assets		
Cash and investments	\$ 39,730,790	\$ 1,441,591
Total assets	39,730,790	\$ 1,441,591
Liabilities		
Due to other governments	-	\$ 383,248
Deposits held for others	-	1,058,343
Total liabilities	-	\$ 1,441,591
Net Assets		
Held in trust for investment trust participants	\$ 39,730,790	

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

Gila County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 111,174,757
Investment earnings	<u>(673,702)</u>
Total additions	<u>110,501,055</u>
Deductions:	
Distributions to participants	<u>111,416,114</u>
Change in net assets	(915,059)
Net assets, July 1, 2004	<u>40,645,849</u>
Net assets, June 30, 2005	<u>\$ 39,730,790</u>

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

Gila County
Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

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

During the year ended June 30, 2005, the County implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the County's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. Each blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

The following table describes the County's component units:

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

Related Organizations

The Industrial Development Authority, Environmental Economic Community Organization, Eastern Arizona Counties Organization and Northern Gila County Economic Development are legally separate entities that were created to assist in

Gila County
Notes to Financial Statements
June 30, 2005

the economic development of commercial and industrial enterprises for Gila County. Their operations are completely separate from the County and the County is not financially accountable for these organizations. Therefore, the financial activities of these organizations are not included in the accompanying financial statements.

B. Basis of Presentation

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

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

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

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

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements - provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

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.

Gila County
Notes to Financial Statements
June 30, 2005

The *Public Works Fund* accounts for road construction and maintenance of major and nonmajor regional roads, and is funded by a ½ cent County sales tax, impact fees, and by highway user revenue.

The County reports the following fund types:

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

The *Agency Funds* account for assets held by the County as an agent for the State and various local governments, and for property taxes collected and distributed to state and local governments.

C. Basis of Accounting

The government-wide 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, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

D. Cash and Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

Gila County
Notes to Financial Statements
June 30, 2005

E. 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.

F. Capital Assets

Capital assets are reported at actual cost or estimated historical cost if historical records are not available. At June 30, 2005, 25 percent of the total governmental activities capital assets are stated at estimated historical cost based on price levels at time of acquisition. Donated assets are reported at estimated fair value at the time received.

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

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

G. Investment Earnings

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

H. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited

Gila County
Notes to Financial Statements
June 30, 2005

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. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 1,000 hours of sick leave receive a \$3,000 bonus. The liability for vested sick leave is recorded in the Statement of Net Assets.

Note 2 – Individual Fund Deficits

The following Special Revenue Funds had fund deficits in excess of \$1,000 as of June 30, 2005:

<u>Fund Number</u>	<u>Fund Name</u>	<u>Deficit</u>
111	Globe-Miami Household Hazardous	\$ 2,400
185	Drug enforcement - Superior Court	3,198
249	Adult Intensive Probation Services	4,338
276	Health Start Program	28,454
330	Summer Youth Employment	3,777
368	State of Arizona Department of Commerce Energy	20,000
371	Family Law Commissioner	1,525
383	Emergency Services Supplemental	119,749
389	Arizona State Park RV	18,496
394	Gila County Education Service	1,413
408	Folic Acid	3,957
421	Nutrition	5,381
456	Narcotics Task Force / Sheriff	225,393
465	Central Heights Street Lighting Improvement District	3,302
475	Sheriff BLESF Program	28,467

These fund deficits resulted either from operations or a carryover deficit from prior years, but are expected to be corrected through normal operations or through General Fund transfers in future years.

Note 3 – Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Gila County
Notes to Financial Statements
June 30, 2005

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

Deposits - At June 30, 2005, the carrying amount of the County's deposits was \$3,686,436, and the bank balance was \$5,168,142. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2005, \$455,429 of the County's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments - The County's investments at June 30, 2005, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 57,607,926
Repurchase agreement (implicitly guaranteed)	1,398,260
U.S. Treasury money market fund	325,484
	<u>\$ 59,331,670</u>

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

Gila County
Notes to Financial Statements
June 30, 2005

At June 30, 2005, credit risk for the County's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
U.S. agency securities	Aaa	Moody's	\$ 57,607,926
Repurchase agreement (implicitly guaranteed)	Aaa	Moody's	1,398,260
U.S. Treasury money market fund	Unrated	Not applicable	325,484
			<u>\$ 59,331,670</u>

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

At June 30, 2005, the County had a \$325,484 investment reported in the General Fund. The investment was held by a trustee in a U. S. Treasury money market fund and was uninsured, not registered in the County's name, and held by the counterparty.

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

More than 5 percent of the County's investments at June 30, 2005, were in debt securities of various U.S. agencies as follows:

<u>U.S. Agency</u>	<u>Amount</u>	<u>Percent of County Investments</u>
Federal Home Loan Bank System	\$ 24,536,744	41.4
Federal Home Loan Mortgage Corporation	21,333,828	36.0
Federal National Mortgage Association	7,842,354	13.2
Federal Farm Credit Banks	3,895,000	6.6
	<u>\$ 57,607,926</u>	

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
U.S. agency securities	\$ 57,607,926	\$ 26,135,724	\$ 31,472,202
Repurchase agreement (implicitly guaranteed)	1,398,260	1,398,260	-
U.S. Treasury money market fund	325,484	325,484	-
	<u>\$ 59,331,670</u>	<u>\$ 27,859,468</u>	<u>\$ 31,472,202</u>

Gila County
Notes to Financial Statements
June 30, 2005

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

Cash, deposits, and investments:	
Cash on hand	\$ 7,732
Amount of deposits	3,686,436
Amount of investments	59,331,670
Total	<u>\$ 63,025,838</u>

	Statement of Net Assets	Statement of Fiduciary Net Assets		Total
	Governmental Activities	Investment Trust Funds	Agency Funds	
Statement of Net Assets:				
Cash and investments	\$ 21,527,973	\$ 39,730,790	\$ 1,441,591	\$ 62,700,354
Cash and investments held by trustee	325,484	-	-	325,484
Total	<u>\$ 21,853,457</u>	<u>\$ 39,730,790</u>	<u>\$ 1,441,591</u>	<u>\$ 63,025,838</u>

Note 4 – Due from Other Governments

Amounts due from other governments at June 30, 2005, in the Statement of Net Assets include \$271,263 in property taxes due from school districts in Gila County representing property tax allocations made to those school districts in error; \$422,734 in Highway User Revenues, \$272,840 in auto lieu taxes, \$160,309 in Gila County Transportation tax, \$149,819 in County excise tax and \$124,373 in sales taxes due from the State of Arizona; \$416,212 in Workforce Investment Act grant revenues, \$123,446 in Centers for Diseases Control and Prevention grant revenues, \$110,226 in Homeland Security grant revenues and \$89,381 in Child Support Enforcement grant revenues due from the State of Arizona; and \$726,928 in other grants and reimbursements and charges for services due from various government agencies.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,318,631	\$ -	\$ -	\$ 4,318,631
Construction in progress (estimated cost to complete \$3,391,850)	565,284	840,386	783,244	622,426
<i>Total capital assets not being depreciated</i>	<u>4,883,915</u>	<u>840,386</u>	<u>783,244</u>	<u>4,941,057</u>
Capital assets being depreciated:				
Buildings	17,607,441	857,468	-	18,464,909
Improvements other than buildings	-	122,482	-	122,482
Equipment	11,954,043	1,187,208	188,395	12,952,856
Vehicles	7,065,557	703,942	-	7,769,499
Infrastructure	2,052,339	149,573	-	2,201,912
Total	<u>38,679,380</u>	<u>3,020,673</u>	<u>188,395</u>	<u>41,511,658</u>

Gila County
Notes to Financial Statements
June 30, 2005

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Less accumulated depreciation for:				
Buildings	11,006,952	348,723	-	11,355,675
Improvements other than buildings	-	3,062	-	3,062
Equipment	8,410,548	919,143	47,099	9,282,592
Vehicles	5,757,837	555,517	-	6,313,354
Infrastructure	70,543	40,638	-	111,181
<i>Total</i>	<u>25,245,880</u>	<u>1,867,083</u>	<u>47,099</u>	<u>27,065,864</u>
<i>Total capital assets being depreciated, net</i>	<u>13,433,500</u>	<u>1,153,590</u>	<u>141,296</u>	<u>14,445,794</u>
Governmental activities capital assets, net	<u>\$ 18,317,415</u>	<u>\$ 1,993,976</u>	<u>\$ 924,540</u>	<u>\$ 19,386,851</u>

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 635,537
Public safety	333,838
Highways and streets	608,619
Health	288,004
Culture and recreation	528
Education	557
Total governmental activities depreciation expense	<u>\$ 1,867,083</u>

Construction Commitments

The County has active construction projects as of June 30, 2005, with estimated costs to complete of \$3,391,850 of which the more significant of these projects includes the Ice House bridge and Six Shooter road.

Note 6 – Line of Credit

The County maintains a revolving line of credit with a \$5,000,000 limit and interest payable at the same time as principal, which is contingent on the County's receipt of "nonrestricted operating revenues" as defined by A.R.S. §11-604.01. The credit line is secured by "nonrestricted" operating revenues received by the County Treasurer. Any unpaid principal and interest becomes due on the maturity date of June 30, 2005. The interest rate is at the bank's prime rate less 3.55% for fiscal year 2005. As of June 30, 2005, the County had no outstanding balance on this credit line.

Note 7 – Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Due within 1 year</u>
Governmental activities:					
Certificates of participation payable	\$ 2,415,000	\$ -	\$ 180,000	\$ 2,235,000	\$ 190,000
ADOT loans payable	1,175,625	600,000	247,530	1,528,095	447,500
Capital leases payable	1,932,945	722,377	788,478	1,866,844	611,685

Gila County
Notes to Financial Statements
June 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Due within 1 year</u>
Landfill closure and postclosure care costs payable	1,743,558	100,805	-	1,844,363	-
Compensated absences payable	<u>1,103,177</u>	<u>1,152,352</u>	<u>1,080,825</u>	<u>1,174,704</u>	<u>1,142,091</u>
Governmental activities long-term liabilities	<u>\$ 8,370,305</u>	<u>\$ 2,575,534</u>	<u>\$ 2,296,833</u>	<u>\$ 8,649,006</u>	<u>\$ 2,391,276</u>

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

Certificates outstanding at June 30, 2005, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2004</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2005</u>
Series 1999	6.4%	11/24/05-5/24/14	\$ 2,415,000	\$ -	\$ 180,000	\$ 2,235,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2005:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 190,000	\$ 140,000
2007	205,000	127,520
2008	215,000	114,400
2009	230,000	100,320
2010	245,000	85,440
2011-2014	<u>1,150,000</u>	<u>171,520</u>
Total	<u>\$ 2,235,000</u>	<u>\$ 739,200</u>

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

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

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

Gila County
Notes to Financial Statements
June 30, 2005

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 447,500	\$ 29,677
2007	447,500	14,259
2008	447,500	7,115
2009	185,595	1,325
Total	<u>\$1,528,095</u>	<u>\$ 52,376</u>

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

The assets acquired through capital leases are as follows:

Land	\$ 3,000,000
Equipment	1,201,253
Less: accumulated depreciation	<u>(146,602)</u>
Carrying value	<u>\$ 4,054,651</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2005:

<u>Year Ending June 30</u>	
2006	\$ 693,217
2007	607,652
2008	564,393
2009	<u>164,548</u>
Total minimum lease payments	2,029,810
Less amount representing interest	<u>162,966</u>
Present value of net minimum lease payments	<u>\$ 1,866,844</u>

Landfill closure and postclosure care costs - State and federal laws and regulations require the County to place a final cover on its six landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs in each operating period even though actual payouts will not occur until the landfill is closed. These costs will be paid from the General Fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$1,844,363 reported as landfill closure and postclosure care liability at June 30, 2005, represents the cumulative amount reported to date based on the approximate use of 47 percent of the estimated capacity of the Buckhead Mesa Landfill and 38 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,545,424 as the

Gila County
Notes to Financial Statements
June 30, 2005

remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2005.

The County has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2010 and 2017. The actual costs may also be higher due to inflation, changes in technology, or changes in regulations.

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

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

Compensated Absences – Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During the year ended June 30, 2005, the County paid for compensated absences as follows: 61% from the General Fund, 17% from the Public Works Fund, and 22% from other funds.

Note 8 – Risk Management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 for each occurrence. The County is also responsible for any payments in

Gila County
Notes to Financial Statements
June 30, 2005

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 three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

Note 9 – Retirement Plans

Plan Descriptions

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

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

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

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

Gila County
Notes to Financial Statements
June 30, 2005

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

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

ASRS	PSPRS, CORP and EORP
3300 N. Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910	3010 E. Camelback Rd, Suite 200 Phoenix, AZ 85016-4416
(602) 240-2000 or (800) 621-3778	(602) 255-5575

Funding Policy

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

Cost-sharing plans - For the year ended June 30, 2005, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2005, 2004, and 2003 were \$871,221, \$842,910, and \$371,057, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of certain court fees plus additional contributions of 24.27 percent of the member's annual covered payroll, as determined by actuarial valuation. The County's contributions to EORP for the years ended June 30, 2005, 2004, and 2003 were \$57,105, \$56,502, and \$219, respectively, which were equal to the required contributions for the year.

Agent plans - For the year ended June 30, 2005, 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 17.07 percent. Active CORP members were required by statute to contribute 8.50 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 6.6 percent for its corrections officers and 7.41 percent for its dispatchers.

Annual Pension Cost – The County's pension cost for the two agent plans for the year ended June 30, 2005 and related information follow.

Gila County
Notes to Financial Statements
June 30, 2005

	PSPRS	CORP
Contribution rates:		
County	17.07%	6.6% and 7.41%
Plan members	7.65%	8.50%
Annual pension cost	\$ 192,362	\$ 95,406
Contributions made	\$ 192,362	\$ 95,406

The current-year annual required contributions for the PSPRS and CORP were determined as a part of their June 30, 2003, 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 four year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2003, was 20 years.

Trend Information – Annual pension cost information for the current and two preceding years follows for the PSPRS plan, and the current and one preceding years for the CORP plan as the fiscal year ended June 30, 2004 was the County's initial year in the 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	2005	\$ 192,362	100%	\$ -
	2004	163,838	100%	-
	2003	69,888	100%	-
CORP	2005	95,406	100%	-
	2004	35,339	100%	-

Note 10 – Interfund Balances and Activity

Interfund receivables and payables – Interfund balances at June 30, 2005, were as follows:

<u>Payable From</u>	<u>Payable To</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	
Public Works Fund	\$ -	\$ 146,502	\$ 146,502
Nonmajor Governmental Funds	775,300	-	775,300
Total	<u>\$ 775,300</u>	<u>\$ 146,502</u>	<u>\$ 921,802</u>

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

Gila County
Notes to Financial Statements
June 30, 2005

Interfund transfers – Interfund transfers for the year ended June 30, 2005, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 1,417,445	\$ 1,417,445
Public Works Fund	517,734	-	517,734
Total	<u>\$ 517,734</u>	<u>\$ 1,417,445</u>	<u>\$ 1,935,179</u>

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

Note 11 – Condensed Financial Statements of County Treasurer’s Investment Pool

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

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

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

A majority of all deposits and investments of the County’s primary government are included in the County Treasurer's investment pool, except for \$184,763 of deposits and \$325,484 of cash and investments held by trustee. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County’s deposit and investment risks disclosed in Note 3.

Details of each investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. government securities	\$ 58,281,628	1.5-6.875%	7/1/05-3/10/09	\$ 57,607,926
Repurchase agreement	\$ 1,398,260	Unknown	7/1/05	\$ 1,398,260

Gila County
Notes to Financial Statements
June 30, 2005

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

Statement of Net Assets	
Assets	\$ 61,072,267
Liabilities	<u>-</u>
Net assets	<u>\$ 61,072,267</u>
Net assets held in trust for:	
Internal participants	\$ 21,341,477
External participants	<u>39,730,790</u>
Total net assets held in trust	<u>\$ 61,072,267</u>
Statement of Changes in Net Assets	
Total additions	\$ 192,188,586
Total deductions	<u>189,935,256</u>
Net increase	2,253,330
Net assets held in trust	
July 1, 2004	<u>58,818,937</u>
June 30, 2005	<u>\$ 61,072,267</u>

Other Required Supplementary Information

Gila County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2005

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Public Safety Personnel Retirement System						
6/30/2005	\$ 6,118,732	\$ 7,818,097	\$ (1,699,365)	78.3%	\$ 1,599,123	106.3%
6/30/2004	5,960,067	6,541,881	(581,814)	91.1%	1,606,149	36.2%
6/30/2003	5,976,762	5,757,851	218,911	103.8%	1,457,818	N/A
Corrections Officer Retirement Plan						
Corrections Officers						
6/30/2005	957,988	893,247	64,741	107.2%	1,466,915	N/A
6/30/2004	70,617	709,363	(638,746)	10.0%	1,290,104	49.5%
Dispatchers						
6/30/2005	776,004	879,529	(103,525)	88.2%	639,899	16.2%
6/30/2004	32,804	686,994	(654,190)	4.8%	482,740	135.5%

Note: The fiscal year ended June 30, 2004, was the County's initial year in the Corrections Officer Retirement Plan.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Taxes	\$ 18,605,078	\$ 19,548,255	\$ 943,177
Licenses and permits	360,000	366,029	6,029
Intergovernmental	9,521,451	10,209,993	688,542
Charges for services	2,396,500	3,132,455	735,955
Fines and forfeits	575,000	588,056	13,056
Investment earnings	100,000	135,709	35,709
Miscellaneous	<u>1,074,890</u>	<u>337,654</u>	<u>(737,236)</u>
Total revenues	<u>32,632,919</u>	<u>34,318,151</u>	<u>1,685,232</u>
Expenditures:			
<i>Current:</i>			
General government			
Administrative Services	109,264	105,727	3,537
Assessor	756,920	705,625	51,295
Auctions	-	24,181	(24,181)
Board of Supervisors	630,180	740,317	(110,137)
Community Development	627,297	621,907	5,390
Computer Services	616,989	732,300	(115,311)
Constituent Services	300,000	340,152	(40,152)
Elections	196,041	362,252	(166,211)
Facilities Management	664,075	695,843	(31,768)
Finance	474,771	404,136	70,635
General Administration	614,961	654,380	(39,419)
Industrial Development Authority	-	90,000	(90,000)
Payroll Costs	260,000	265,969	(5,969)
Personnel	176,157	175,199	958
Professional Services	325,000	326,860	(1,860)
Purchasing	90,955	76,391	14,564
Recorder	551,890	545,455	6,435
Rural Addressing	65,559	98,147	(32,588)
Treasurer	406,507	460,383	(53,876)
Video Conference	-	20,000	(20,000)
Water Supply Development	-	33,098	(33,098)
Judicial Services			
County Attorney	1,430,021	1,585,588	(155,567)

(continued)

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
General government - continued			
County Attorney - Child Support	\$ 510,628	\$ 583,934	\$ (73,306)
Constable - Globe	88,174	77,520	10,654
Constable - Payson	102,774	107,632	(4,858)
Justice Court - Globe	484,029	444,950	39,079
Justice Court - Payson	395,682	376,876	18,806
Indigent Legal Defense	1,025,551	1,014,881	10,670
Clerk of the Superior Court	977,144	988,653	(11,509)
Superior Court - Division I	203,846	194,989	8,857
Superior Court - Division II	188,507	181,568	6,939
Superior Court - General	721,748	617,674	104,074
Superior Court - Multi-Information Systems	<u>283,802</u>	<u>270,036</u>	<u>13,766</u>
Total general government	<u>13,278,472</u>	<u>13,922,623</u>	<u>(644,151)</u>
Public safety			
County Sheriff	4,912,154	5,619,885	(707,731)
County Sheriff - Detention Health Services	533,504	471,314	62,190
County Sheriff - Facilities Management	299,969	248,138	51,831
Emergency Services	283,564	293,533	(9,969)
Flood Plain Management	174,456	157,867	16,589
Juvenile Detention	1,062,337	1,036,433	25,904
Probation	774,070	770,157	3,913
9-1-1	<u>338,599</u>	<u>401,094</u>	<u>(62,495)</u>
Total public safety	<u>8,378,653</u>	<u>8,998,421</u>	<u>(619,768)</u>
Welfare			
AHCCCS Contributions	4,465,051	4,576,441	(111,390)
Indigent Health	25,000	20,800	4,200
Community agencies	201,650	224,506	(22,856)
Public Fiduciary	<u>293,028</u>	<u>284,093</u>	<u>8,935</u>
Total welfare	<u>4,984,729</u>	<u>5,105,840</u>	<u>(121,111)</u>
Sanitation			
Solid Waste Management	<u>2,270,882</u>	<u>1,156,719</u>	<u>1,114,163</u>

(continued)

Gila County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2005

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Culture and recreation			
Fairgrounds	\$ 202,730	\$ 222,054	\$ (19,324)
Education			
School Superintendent	282,504	291,292	(8,788)
Special School Reserve	15,000	15,229	(229)
Gila County Community College	250,000	251,602	(1,602)
Total education	<u>547,504</u>	<u>558,123</u>	<u>(10,619)</u>
Contingency	<u>968,030</u>	<u>-</u>	<u>968,030</u>
<i>Capital outlay</i>	<u>1,812,853</u>	<u>1,487,420</u>	<u>325,433</u>
<i>Debt service:</i>			
Principal retirement	-	876,761	(876,761)
Interest and fiscal charges	-	261,057	(261,057)
Total debt service	<u>-</u>	<u>1,137,818</u>	<u>(1,137,818)</u>
Total expenditures	<u>32,443,853</u>	<u>32,589,018</u>	<u>(145,165)</u>
Excess of revenues over expenditures	189,066	1,729,133	1,540,067
Other financing sources (uses)			
Transfers in	517,734	517,734	-
Transfers out	<u>(1,417,445)</u>	<u>(1,417,445)</u>	<u>-</u>
Total other financing sources and uses	<u>(899,711)</u>	<u>(899,711)</u>	<u>-</u>
Net change in fund balances	(710,645)	829,422	1,540,067
Fund balances, beginning of year	<u>710,645</u>	<u>8,550,310</u>	<u>7,839,665</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 9,379,732</u>	<u>\$ 9,379,732</u>

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works Fund
Year Ended June 30, 2005

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Taxes	\$ 2,721,446	\$ 2,698,164	\$ (23,282)
Licenses and permits	12,000	59,826	47,826
Intergovernmental	5,673,503	5,071,354	(602,149)
Charges for services	-	190,960	190,960
Investment earnings	50,000	96,564	46,564
Miscellaneous	56,756	101,182	44,426
Total revenues	<u>8,513,705</u>	<u>8,218,050</u>	<u>(295,655)</u>
Expenditures:			
<i>Current:</i>			
Highways and streets			
Administrative services	548,593	539,766	8,827
Engineering services	842,708	686,321	156,387
Road maintenance and repair	325,775	248,788	76,987
Maintenance shops	3,539,271	3,366,707	172,564
Emergency Reserve	885,700	916,774	(31,074)
Total highways and streets	<u>6,142,047</u>	<u>5,758,356</u>	<u>383,691</u>
<i>Capital outlay</i>	5,000,413	319,728	4,680,685
<i>Debt service</i>			
Principal retirement	-	339,247	(339,247)
Interest and fiscal charges	-	18,955	(18,955)
Total debt service	<u>-</u>	<u>358,202</u>	<u>(358,202)</u>
Total expenditures	<u>11,142,460</u>	<u>6,436,286</u>	<u>4,706,174</u>
Excess (deficiencies) of revenues over expenditures	<u>(2,628,755)</u>	<u>1,781,764</u>	<u>4,410,519</u>
Other financing uses:			
Transfers out	(517,734)	(517,734)	-
Total other financing uses	<u>(517,734)</u>	<u>(517,734)</u>	<u>-</u>
Net change in fund balances	(3,146,489)	1,264,030	4,410,519
Fund balances, beginning of year	3,146,489	4,648,074	1,501,585
Fund balances, end of year	<u>\$ -</u>	<u>\$ 5,912,104</u>	<u>\$ 5,912,104</u>

See accompanying notes to budgetary comparison schedule.

Gila County
 Required Supplementary Information
 Notes to Budgetary Comparison Schedules
 Year Ended June 30, 2005

Note 1 - Budgeting and Budgetary Control

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

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon approval of the Board of Supervisors.

Note 2 – Budgetary Basis of Accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles, with the following exception. The County does not budget for either the other financing source or the capital outlay associated with the acquisition of assets under capital lease agreements. Consequently, the following adjustments are necessary to present actual expenditures and other financing sources on a budgetary basis for the year ended June 30, 2005, in order to provide a meaningful comparison.

	General Fund	
	Total Expenditures	Total Other Financing Sources (Uses)
Amounts from the Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 33,311,395	\$ (177,334)
Capital outlay and other financing source for assets acquired by capital lease agreements, not budgeted	(722,377)	(722,377)
Amounts from the budgetary comparison schedules	\$ 32,589,018	\$ (899,711)

Gila County
 Required Supplementary Information
 Notes to Budgetary Comparison Schedules
 Year Ended June 30, 2005

Note 3 – Expenditures in Excess of Appropriations

For the year ended June 30, 2005, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Auctions	\$ 24,181
Board of Supervisors	110,137
Computer Services	115,311
Constituent Services	40,152
Elections	166,211
Facilities Management	31,768
General administration	39,419
Industrial development authority	90,000
Payroll Costs	5,969
Professional Services	1,860
Rural Addressing	32,588
Treasurer	53,876
Video Conference	20,000
Water Supply Development	33,098
County Attorney	155,567
County Attorney – Child Support	73,306
Constable - Payson	4,858
Clerk of the Superior Court	11,509
County sheriff	707,731
Emergency services	9,969
9-1-1	62,495
AHCCCS Contributions	111,390
Community Agencies	22,856
Fairgrounds	19,324
School superintendent	8,788
Special School Reserve	229
Gila County Community College	1,602
Principal retirement	876,761
Interest and fiscal charges	261,057
Public Works Fund:	
Emergency reserve	31,074
Principal retirement	339,247
Interest and fiscal charges	18,955

These amounts are due to unanticipated expenditures and departments exceeding the budget. The Finance Department will continue to work with departments to improve the accuracy of the budget and improve budget control. Material unbudgeted expenditures will be referred to the board of supervisors for approval of a budget transfer from contingency or other appropriate funds.

Supplementary Information

Gila County
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG361075	\$ 96,687
Commodity Supplemental Food Program	10.565	HG361101	2,754
Passed through the Arizona State Treasurer			
Schools and Roads – Grants to States	10.665	None	311,520
Collaborative Forest Restoration	10.679	None	3,365
Total U.S. Department of Agriculture			<u>414,326</u>
U.S. Department of Housing and Urban Development			
Section 8 Housing Choice Vouchers	14.871		278,551
Passed through the Arizona Department of Commerce			
Community Development Block Grants/State's Program	14.228	105-04,131-03,126-05	200,300
Passed through the Arizona Department of Economic Security			
Emergency Shelter Grants Program	14.231	E6305994	19,080
Passed through the Arizona Department of Housing			
Home Investment Partnerships Program	14.239	313-04	50,059
Total U.S. Department of Housing and Urban Development			<u>547,990</u>
U.S. Department of the Interior			
National Spatial Data Infrastructure Cooperative Agreements Program	15.809		1,046
Total U.S. Department of the Interior			<u>1,046</u>
U.S. Department of Justice			
Community Prosecution and Project Safe Neighborhoods	16.609		17,272
Passed through the Arizona Office of the Governor			
Juvenile Accountability Incentive Block Grants	16.523	JB-GRA-02-4182-04	3,545
Passed through the Arizona Supreme Court			
Juvenile Accountability Incentive Block Grants	16.523	JB-GRA-03-5273-04	15,781
Total Juvenile Accountability Incentive Block Grants			<u>19,326</u>
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-04-052	12,916
Byrne Formula Grant Program	16.579	AC-110-05/PC-080-04	310,017
Total U.S. Department of Justice			<u>359,531</u>

(Continued)

See accompanying notes to schedule.

Gila County
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Labor			
Passed through the Arizona Department of Economic Security			
Workforce Investment Act Cluster:			
WIA Adult Program	17.258	E5703004, E5704004, E5705004	646,200
WIA Youth Activities	17.259	E5703004, E5704004, E5705004	581,882
WIA Dislocated Workers	17.260	E5703004, E7504004, E5705004	1,570,806
Total Workforce Investment Act Cluster			<u>2,798,888</u>
Total U.S. Department of Labor			<u>2,798,888</u>
U.S. Department of Transportation			
Passed through the Arizona Department of Emergency Services and Military Affairs			
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	None	<u>2,777</u>
Total U.S. Department of Transportation			<u>2,777</u>
U.S. General Services Administration			
Passed through the Arizona State Library, Archives and Public Records			
Grants to States	45.310	251-7-1-(01)	<u>12,000</u>
Total U.S. Office of Library Services			<u>12,000</u>
U.S. Department of Energy			
Passed through the Arizona Department of Commerce			
Weatherization Assistance for Low-Income Persons	81.042	064-03, 048-04	<u>86,898</u>
Total U.S. Department of Energy			<u>86,898</u>
U.S. Federal Emergency Management Agency			
Passed through the Arizona Department of Emergency Services and Military Affairs			
Emergency Food and Shelter National Board Program	83.523	22-0248-00, 21-0248-00	<u>5,430</u>
Total U.S. Federal Emergency Management Agency			<u>5,430</u>

(Continued)

See accompanying notes to schedule.

Gila County
 Supplementary Information
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Education			
Passed through the Arizona Department of Education			
Special Education – Grants to States	84.027	H027A020007	5,633
State Grants for Innovative Programs	84.298	S298A020003	9,033
Reading First State Grants	84.357	S357A020003	27,983
Passed through the Arizona Department of Education			
Improving Teacher Quality State Grants	84.367	S367A30049	52,219
Passed through the Arizona Supreme Court			
Improving Teacher Quality State Grants	84.367	IGA-28206	7,090
Total Improving Teacher Quality State Grants			59,309
Passed through the Arizona Supreme Court			
Title I Program for Neglected and Delinquent Children	84.013	IGA-28206	18,963
Passed through the Arizona Department of Economic Security			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	E5344530	127,532
Supported Employment Services for Individuals with Severe Disabilities	84.187	E5311526, E5314513, E5313521, E5345511	43,315
Total U.S. Department of Education			<u>291,768</u>
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Health Services			
Immunization Grants	93.268	HG35219	37,179
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	252042	369,727
HIV Prevention Activities – Health Department Based	93.940	HG352240	6,166
Preventive Health and Health Services Block Grant	93.991	HG354179	47,924
Maternal and Child Health Services Block Grant to the States	93.994	861123	1,600
Passed through the Arizona Department of Economic Security			
Temporary Assistance for Needy Families	93.558	E6305991	121,143
Child Support Enforcement	93.563	E7203007, E7204007	688,211
Low-Income Home Energy Assistance	93.568	E6305992	75,314
Community Services Block Grant	93.569	E6305992	105,562
Developmental Disabilities Basic Support and Advocacy Grants	93.630	E5318042	73,140
Social Services Block Grant	93.667	E6305992	12,183
HIV Care Formula Grants	93.917	E6301005	25,506
Total U.S. Department of Health and Human Services			<u>1,563,655</u>

(Continued)

See accompanying notes to schedule.

Gila County
 Supplementary Information
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Homeland Security			
Passed through the Arizona Department of Emergency Services and Military Affairs			
Hazard Mitigation Grant	97.039	1422-13-13	200,751
Total U.S. Department of Homeland Security			<u>200,751</u>
Homeland Security Grant Program Cluster:			
U.S. Department of Justice:			
Passed through the Arizona Department of Emergency Services and Military Affairs			
State Domestic Preparedness Equipment Support Program	16.007	2002-TE-CX-0142, 2003-TE-CX-0196, 2003-MU-T3-0034	878,183
U.S. Department of Homeland Security:			
Passed through the Arizona Department of Emergency Services and Military Affairs			
State Domestic Preparedness Equipment Support Program:			
Citizens Corps	97.004	2004-GE-T4-0051	3,118
Emergency Management Performance Grants	97.042	None	54,601
Total U.S. Department of Homeland Security			<u>935,902</u>
Total Homeland Security Grant Program Cluster			<u>1,136,653</u>
Total Expenditures of Federal Awards			<u>\$ 7,220,962</u>

See accompanying notes to schedule.

Gila County
Supplementary Information
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the *2005 Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Paid to Subrecipient</u>
Workforce Investment Act Cluster	17.258, 17.259 & 17.260	\$ 1,046,019

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Gila County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 29, 2008. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **05-1** through **05-17**.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the

reportable conditions described above, we consider items **05-14** through **05-17** to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Miller, Allen & Co., P.C." with a stylized flourish at the end.

February 29, 2008

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Gila County, Arizona

Compliance

We have audited the compliance of Gila County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Gila County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items **05-18** through **05-24**.

Internal Control over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **05-18** through **05-24**.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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



February 29, 2008

Gila County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2005

Summary of Auditor's Results

Financial Statements

	Unqualified	
	YES	NO
Type of auditor's report issued:	X	_____
Material weaknesses identified in internal control over financing reporting?	X	_____
Reportable conditions identified not considered to be material weaknesses?	X	_____
Noncompliance material to the financial statements noted?	_____	X

Federal Awards

Material weakness identified in internal control over major programs?	_____	X
Reportable conditions identified not considered to be material weaknesses?	X	_____

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

Identification of major programs:

10.665	Schools and Roads – Grants to States
16.579	Byrne Formula Grant Program
Workforce Investment Act Cluster	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.563	Child Support Enforcement
Homeland Security Grant Program Cluster	
16.007	State Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program – Citizens Corps
97.042	Emergency Management Performance Grants

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

Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (Section .315[b])?	X	_____
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Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Financial Statement Findings

Item: 05-1 (Repeat Finding)

Subject: Segregation of Duties -Payroll

Criteria: The payroll and personnel functions should be separate.

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

Cause: Personnel changes to payroll records are not reviewed.

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

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

Item: 05-2 (Repeat Finding)

Subject: Segregation of Duties - Payroll

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

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

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

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

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

Item: 05-3 (Repeat Finding)

Subject: Cash

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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

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

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

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

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

Item: 05-4

Subject: Cash Disbursements - Finance

Criteria: Documentation supporting credit card payments should be maintained in a manner that allows subsequent review.

Condition: One monthly County-wide and 3 of 12 individual credit card statements could not be located.

Cause: The County's policies and procedures for maintenance of documentation supporting cash disbursements were not followed.

Effect: Documentation for cash disbursements was not available for review.

Recommendation: Greater care should be taken to ensure that the County's policies and procedures for maintaining cash disbursement supporting documentation are followed.

Item: 05-5 (Repeat Finding)

Subject: Cash Disbursements - Finance

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

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

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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

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

Item: 05-6 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

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

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

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

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

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

Item: 05-7 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

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

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

Cause: Policies and procedures have not been established.

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

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

Item: 05-8 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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

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

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

Effect: Invoices could be resubmitted for duplicate payment.

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

Item: 05-9 (Repeat Finding)

Subject: Procurement

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

1. For purchases costing at least \$5,000 but less than \$15,000, at least three oral price quotations should be obtained.
2. For purchases costing at least \$15,000 but less than \$25,000, at least three written quotations should be obtained.
3. For purchases in excess of \$25,000, invitations for bids must be issued.

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

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

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

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

Item: 05-10 (Repeat Finding)

Subject: Capital Assets

Criteria: The County's capitalization policy requires that long-lived assets with value in excess of \$5,000 or more should be included on the County's capital assets listing.

Condition: Computer equipment and software were not included in the County's capital assets list.

Cause: County departments are not following the County capitalization policy and a proper review of invoices by department supervisors and accounts payable is not being performed.

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Effect: The County's assets are not being properly safeguarded.

Recommendation: The County should review their capitalization policies with all departments and establish procedures that enforce the County's policies.

Item: 05-11 (Repeat Finding)

Subject: Capital Assets

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

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

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

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

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

Item: 05-12 (Repeat Finding)

Subject: Capital Assets

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

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

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

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

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

Item: 05-13 (Repeat Finding)

Subject: Capital Assets

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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

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

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

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

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

Item: 05-14 (Repeat Finding)

Subject: General Ledger

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

Condition: Interfund payables and receivables are not reconciled.

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

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

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

Item: 05-15 (Repeat Finding)

Subject: General Ledger

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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

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

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

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

Item: 05-16 (Repeat Finding)

Subject: General Ledger

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

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

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

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

Recommendation: The County should restructure their chart of accounts.

Item: 05-17 (Repeat Finding)

Subject: Financial and Accounting Reporting

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

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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

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

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

Item: 05-18

CFDA Number: 16.579, 93.283

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

Agency: U.S. Department of Justice, U.S. Department of Health and Human Services

Award Year: 7/1/04-6/30/05, 8/31/04-8/30/05

Award Number: AC-110-05/PC-080-04, 252042

Questioned Costs: N/A

Criteria: Required reports must be submitted within time period specified in the grant or contract.

Condition: Controls are not in place to ensure that all required financial reports are submitted to the grantor by their required due date.

Cause: Supporting documentation for preparation of reports were not provided by other departments on a timely basis.

Effect: The County or grant administrator is not in compliance with the requirements of the grant.

Recommendation: To comply with grant reporting requirements, a system to track reporting data should be established to ensure that expenditure reports are submitted by the required due dates.

Item: 05-19

CFDA Number: 16.579, 17.258, 17.259, 17.260, 93.283, 93.563

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

Agency: U.S. Department of Justice, U. S. Department of Labor, U.S. Department of Health and Human Services

Award Year: 7/1/04-6/30/05, 7/1/04-6/30/05, 8/31/04-8/30/05, 10/1/04-9/30/05

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Award Number: AC-110-05/PC-080-04, various, 252042, E7203007, E7204007

Questioned Costs: Unknown

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

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

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

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

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

Item: 05-20

CFDA Number: 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

Agency: U.S. Department of Labor

Award Year: 7/1/04-6/30/05

Award Number: Various

Questioned Costs: N/A

Criteria: The County's capitalization policy requires that long-lived assets with a value in excess of \$5,000 or more should be included on the County's capital assets listing.

Condition: Equipment purchased for the program was not included in the County's capital assets list.

Cause: County departments are not following the County capitalization policy and a proper review of invoices by department supervisors and accounts payable is not being performed.

Effect: The County might dispose of capital assets purchased with federal monies without requesting disposition instructions from the grantor in violation of 29 CFR §97.23.

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Recommendation: The County should review their capitalization policies with all departments and establish procedures that enforce the County's policies.

Item: 05-21

CFDA Number: 93.563

Program: Child Support Enforcement

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

Award Year: 10/1/04-9/30/05

Award Number: E7203007, E7204007

Questioned Costs: N/A

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

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

Cause: Inadequate account code structure.

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

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

Item: 05-22

CFDA Number: 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

Agency: U. S. Department of Labor

Award Year: 7/1/04-6/30/05

Award Number: Various

Questioned Costs: N/A

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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

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

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

Effect: Ineligible participants might receive training.

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

Item: 05-23

CFDA Number: 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

Agency: U. S. Department of Labor

Award Year: 7/1/04-6/30/05

Award Number: various

Questioned Costs: N/A

Criteria: Subrecipients that expend \$500,000 or more in federal awards are required to have a single audit in accordance with OMB Circular A-133.

Condition: The County's subrecipient did not have a single audit performed.

Cause: The County did not question why a financial but not a single audit was performed.

Effect: The County is not in compliance with OMB Circular A-133.

Recommendation: The County should implement procedures that require proper monitoring of their subrecipients to ensure that all compliance requirements are met.

Item: 05-24

CFDA Number: 10.665, 16.579, 17.258, 17.259, 17.260, 93.283, 93.563, 16.007, 97.004, 97.042

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Program: Schools and Roads – Grants to States, Byrne Formula Grant Program, Workforce Investment Act Cluster, Centers for Disease Control and Prevention – Investigations and Technical Assistance, Child Support Enforcement and Homeland Security Grant Program Cluster

Agency: U. S. Department of Agriculture, U. S. Department of Justice, U. S. Department of Labor, U.S. Department of Health and Human Services, U.S. Department of Justice, U.S. Department of Homeland Security

Award Year: various

Award Number: various

Questioned Costs: N/A

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

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

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

Effect: The County could lose federal funding.

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

County Responses

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Financial Statement Findings

Item: 05-1 (Repeat Finding)

Subject: Segregation of Duties -Payroll

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2008

Corrective Action: The County is currently reviewing payroll and personnel procedures to determine the best way to implement the recommendation.

Item: 05-2 (Repeat Finding)

Subject: Segregation of Duties - Payroll

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2008

Corrective Action: The County is currently reviewing payroll procedures to determine the best way to implement the recommendation.

Item: 05-3 (Repeat Finding)

Subject: Cash

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: August 1, 2005

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

Item: 05-4

Subject: Cash Disbursements - Finance

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2008

Corrective Action: The County concurs with the recommendation and greater care will be taken to ensure that supporting documents for cash disbursements are properly maintained.

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Item: 05-5 (Repeat Finding)

Subject: Cash Disbursements - Finance

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2007

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

Item: 05-6 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: September 30, 2007

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

Item: 05-7 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: September 30, 2007

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

Item: 05-8 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: September 30, 2007

Corrective Action: Invoices are now properly cancelled.

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Item: 05-9 (Repeat Finding)

Subject: Procurement

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2008

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

Item: 05-10 (Repeat Finding)

Subject: Capital Assets

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2008

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

Item: 05-11 (Repeat Finding)

Subject: Capital Assets

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2008

Corrective Action: Inventories will be performed as required.

Item: 05-12 (Repeat Finding)

Subject: Capital Assets

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2008

Corrective Action: The capital assets lists will be combined.

Item: 05-13 (Repeat Finding)

Subject: Capital Assets

Contact Person: Richard Gaona, Finance Director

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Anticipated Completion Date: July 1, 2008

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

Item: 05-14 (Repeat Finding)

Subject: General Ledger

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 31, 2008

Corrective Action: The County agrees with the recommendation and is in the process of determining the best way to properly implement.

Item: 05-15 (Repeat Finding)

Subject: General Ledger

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 31, 2008

Corrective Action: The County agrees with the recommendation and is in the process of determining the best way to properly implement.

Item: 05-16 (Repeat Finding)

Subject: General Ledger

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 31, 2008

Corrective Action: The County agrees with the recommendation and is in the process of determining the best way to properly implement.

Item: 05-17 (Repeat Finding)

Subject: Financial and Accounting Reporting

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2008

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Corrective Action: The County agrees with the recommendation and is in the process of determining the best way to properly implement.

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

Item: 05-18

CFDA Number: 16.579, 93.283

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

Subject: Controls are not in place to ensure that all required financial reports are submitted to the grantor by their required due date.

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: December 1, 2007

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

Item: 05-19

CFDA Number: 16.579, 17.258, 17.259, 17.260, 93.283, 93.563

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

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

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 31, 2008

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

Item: 05-20

CFDA Number: 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Subject: Equipment purchased for the program was not included in the County's capital assets list.

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2007

Corrective Action: The County now requires all departments to follow the County's capitalization policies.

Item: 05-21

CFDA Number: 93.563

Program: Child Support Enforcement

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

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: July 1, 2007

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

Item: 05-22

CFDA Number: 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

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

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: December 1, 2007

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

Item: 05-23

CFDA Number: 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

Gila County
Corrective Action Plan
Year Ended June 30, 2005

Subject: The County's subrecipient did not have a single audit performed.

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: December 1, 2007

Corrective Action: The County will verify that subrecipients are in compliance with OMB Circular A-133.

Item: 05-24

CFDA Number: 10.665, 16.579, 17.258, 17.259, 17.260, 93.283, 93.563, 16.007, 97.004, 97.042

Program: School and Roads – Grants to States, Byrne Formula Grant Program, Workforce Investment Act Cluster, Centers for Disease Control and Prevention – Investigations and Technical Assistance, Child Support Enforcement and Homeland Security Grant Program Cluster

Subject: The County's audit was not completed within nine months of June 30, 2005.

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: December 31, 2008

Corrective Action: Additional resources have been assigned to audits. Fiscal year 2006 audit report is expected to be issued by May 31, 2008. Continued emphasis on audit completion will ensure that fiscal year 2007 audit will be completed by December 31, 2008.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Status of Prior Year Federal Award Findings and Questioned Costs

Item: 03-102, 04-18

CFDA Number: 16.579, 93.563

Program: Byrne Formula Grant Program, Child Support Enforcement

Status: Not corrected

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

Item: 03-104, 04-19

CFDA Number: 16.579, 17.255, 17.258, 17.259, 17.260, 93.563

Program: Byrne Formula Grant Program, Workforce Investment Act Cluster, Child Support Enforcement

Status: Not corrected

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

Item: 04-20

CFDA Number: 39.011

Program: Election Reform Payments

Status: No longer valid

Corrective Action: The program ended in fiscal year ended June 30, 2004.

Item: 03-101, 04-21

CFDA Number: 93.563

Program: Child Support Enforcement

Status: Not corrected

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

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Item: 04-22

CFDA Number: 17.255, 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

Status: Not corrected

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

Item: 04-23

CFDA Number: 17.255, 17.258, 17.259, 17.260

Program: Workforce Investment Act Cluster

Status: Not corrected

Corrective Action: The County will verify that subrecipients are in compliance with OMB Circular A-133.

Item: 04-24

CFDA Number: 15.226, 16.579, 17.255, 17.258, 17.259, 17.260, 39.011, 93.563

Program: Payments in Lieu of Taxes, Byrne Formula Grant Program, Workforce Investment Act Cluster, Election Reform Payments, and Child Support Enforcement

Status: Not corrected

Corrective Action: Additional resources have been assigned to audits. Fiscal year 2006 audit report is expected to be issued by May 31, 2008. Continued emphasis on audit completion will ensure that fiscal year 2007 audit will be completed by December 31, 2008.