

GREENLEE COUNTY, ARIZONA
Single Audit Reporting Package
June 30, 2003

**GREENLEE COUNTY, ARIZONA
Single Audit Reporting Package
June 30, 2003**

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GREENLEE COUNTY, ARIZONA
Single Audit Reporting Package
June 30, 2003

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Single Audit Section

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Independent Auditors' Report

The Auditor General of the State of Arizona

The Board of Supervisors of
Greenlee County, Arizona

We have audited the accompanying general purpose financial statements of Greenlee County, Arizona, as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Greenlee County, Arizona, as of June 30, 2003, and the results of its operations, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

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

Greenlee County, Arizona
March 26, 2004

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2004, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

CHRISTENSEN, GALE & MCLAREN, LLP

March 26, 2004

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GREENLEE COUNTY, ARIZONA
Combined Balance Sheet — All Fund Types and Account Groups
June 30, 2003

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Types</u>	<u>Account Groups</u>	
Assets	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>
Cash and cash equivalents	\$ -	\$ 38,054	\$ -	\$ -	\$ -	\$ -
Cash and investments held by treasurer	534,173	1,895,391	-	4,668,293	-	-
Cash and investments held by trustee	-	-	276,339	-	-	-
Receivables (net of allowances):						
Property taxes	10,402	11,503	-	-	-	-
Due from other governments	224,808	76,539	-	-	-	-
Fixed assets:						
Land and improvements	-	-	-	-	1,324,908	-
Buildings and improvements	-	-	-	-	5,886,216	-
Machinery and equipment	-	-	-	-	6,403,912	-
Amount available in debt service fund	-	-	-	-	-	276,339
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	2,387,029
Total assets	<u>769,383</u>	<u>2,021,487</u>	<u>276,339</u>	<u>4,668,293</u>	<u>13,615,036</u>	<u>2,663,368</u>
Liabilities and Fund Equity						
Accounts payable	103,901	43,989	-	-	-	-
Compensated absences payable	54,781	-	-	-	-	144,276
Deposits held for others	-	-	-	28,677	-	-
Obligations under capital leases	-	-	-	-	-	437,908
Landfill closure and postclosure care costs payable	-	-	-	-	-	626,184
Certificates of participation payable	-	-	-	-	-	1,455,000
Deferred revenues	242,430	8,720	-	-	-	-
Total liabilities	<u>401,112</u>	<u>52,709</u>	<u>-</u>	<u>28,677</u>	<u>-</u>	<u>2,663,368</u>
Fund equity:						
Investment in general fixed assets	-	-	-	-	13,615,036	-
Fund balances:						
Reserved for investment trust participants	-	-	-	4,639,616	-	-
Unreserved	368,271	1,968,778	-	-	-	-
Unreserved - designated for debt service	-	-	276,339	-	-	-
Total fund equity	<u>368,271</u>	<u>1,968,778</u>	<u>276,339</u>	<u>4,639,616</u>	<u>13,615,036</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 769,383</u>	<u>\$ 2,021,487</u>	<u>\$ 276,339</u>	<u>\$ 4,668,293</u>	<u>\$ 13,615,036</u>	<u>\$ 2,663,368</u>

GREENLEE COUNTY, ARIZONA
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Government Fund Types
Year Ended June 30, 2003

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Revenues:			
Taxes	\$ 1,965,307	\$ 1,136,190	
Intergovernmental	3,011,059	3,090,401	
Charges for services	97,789	435,581	
Fines and forfeits	57,405	18,102	
Investment income	-	19,222	1,035
Miscellaneous	84,952	47,953	-
Total revenues	<u>5,216,512</u>	<u>4,747,449</u>	<u>1,035</u>
Expenditures:			
Current:			
General government	2,983,822	353,030	
Public safety	1,697,032	890,366	
Highways and streets	-	1,074,131	
Sanitation	320,959	213,751	
Health	208,949	831,048	
Welfare	416,310	-	
Culture and recreation	25,867	108,894	
Education	153,795	161,224	
Capital outlay	177,259	178,928	
Debt service:			
Principal retirement	-	-	255,000
Interest and fiscal charges	-	-	86,285
Total expenditures	<u>5,983,993</u>	<u>3,811,372</u>	<u>341,285</u>
Excess (deficiency) of revenues over (under) expenditures	(767,481)	936,077	(340,250)
Other financing sources (uses):			
Operating transfers in	1,337,967	1,074,331	338,196
Operating transfers out	(963,884)	(1,786,610)	-
Capital lease proceeds			
Total other financing sources (uses)	<u>374,083</u>	<u>(712,279)</u>	<u>338,196</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(393,398)	223,798	(2,054)
Fund balances, July 1, 2002	<u>761,669</u>	<u>1,744,980</u>	<u>278,393</u>
Fund balances, June 30, 2003	<u>\$ 368,271</u>	<u>\$ 1,968,778</u>	<u>\$ 276,339</u>

GREENLEE COUNTY, ARIZONA
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—General and Special Revenue Fund Types
Year Ended June 30, 2003

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:						
Taxes	\$ 1,816,074	\$ 1,965,307	\$ 149,233	1,133,570	1,136,190	2,620
Intergovernmental	2,690,056	3,011,059	321,003	3,385,513	3,090,401	(295,112)
Charges for services	106,600	97,789	(8,811)	487,326	435,581	(51,745)
Fines and forfeits	46,000	57,405	11,405	1,000	18,102	17,102
Investment income	-	-	-	10,220	19,222	9,002
Miscellaneous	190,000	84,952	(105,048)	21,713	47,953	26,240
Total revenues	<u>4,848,730</u>	<u>5,216,512</u>	<u>367,782</u>	<u>5,039,342</u>	<u>4,747,449</u>	<u>(291,893)</u>
Expenditures:						
General government:						
Board of Supervisors	245,293	241,501	3,792	180,490	181,222	(732)
Airport	1,880	2,317	(437)	11,873	114	11,759
Assessor	186,402	178,348	8,054	3,684	-	3,684
Attorney	204,271	199,407	4,864	254,960	123,778	131,182
Contingency	150,780	42,973	107,807	-	-	-
Constable #1	23,564	23,097	467	-	-	-
Constable #2	17,721	17,116	605	-	-	-
County administration	169,321	150,010	19,311	-	-	-
Data processing	177,064	189,927	(12,863)	-	-	-
Elections	60,000	50,327	9,673	-	-	-
General services	745,681	721,429	24,252	-	-	-
GIS program	9,500	(21,422)	30,922	-	-	-
Ground and maintenance	167,674	194,270	(26,596)	-	-	-
Justice of the Peace No. 1	104,636	97,287	7,349	1,986	45	1,941
Justice of the Peace No. 2	102,046	99,474	2,572	3,639	155	3,484
Planning and zoning	2,000	(90)	2,090	-	-	-
Recorder	130,486	126,902	3,584	5,329	3,522	1,807
Superior court	413,670	478,487	(64,817)	59,094	44,194	14,900
Treasurer	154,430	145,772	8,658	1,187	-	1,187
Voter registration	11,200	6,887	4,313	-	-	-
Public fiduciary	38,633	39,803	(1,170)	-	-	-
Total general government	<u>3,116,252</u>	<u>2,983,822</u>	<u>132,430</u>	<u>522,242</u>	<u>353,030</u>	<u>169,212</u>

(continued)

GREENLEE COUNTY, ARIZONA
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—General and Special Revenue Fund Types
Year Ended June 30, 2003
(continued)

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety:						
Bioterrorism	-	-	-	-	76,429	(76,429)
DARE program	-	-	-	-	78	(78)
Emergency services	23,636	27,732	(4,096)	1,525	-	1,525
Jail enhancement	-	-	-	-	-	-
Probation and juvenile facility	-	-	-	898,716	656,817	241,899
Sheriff	1,620,681	1,669,300	(48,619)	146,083	157,042	(10,959)
Total public safety	<u>1,644,317</u>	<u>1,697,032</u>	<u>(52,715)</u>	<u>1,046,324</u>	<u>890,366</u>	<u>155,958</u>
Highways and streets:						
Roads	-	-	-	1,156,648	1,074,131	82,517
Total highways and streets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,156,648</u>	<u>1,074,131</u>	<u>82,517</u>
Sanitation:						
Landfill	-	320,959	(320,959)	448,699	213,751	234,948
Total sanitation	<u>-</u>	<u>320,959</u>	<u>(320,959)</u>	<u>448,699</u>	<u>213,751</u>	<u>234,948</u>
Health:						
Ambulance service	113,100	146,324	(33,224)	-	-	-
Emergency food and shelter	-	-	-	63,007	-	63,007
Health services	-	-	-	954,067	61,232	892,835
Rabies control	58,200	62,625	(4,425)	-	769,816	(769,816)
Total health	<u>171,300</u>	<u>208,949</u>	<u>(37,649)</u>	<u>1,017,074</u>	<u>831,048</u>	<u>186,026</u>
Welfare:						
ALTCs payments	410,739	416,310	(5,571)	-	-	-
Total welfare	<u>410,739</u>	<u>416,310</u>	<u>(5,571)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Culture and recreation:						
Fair and racing association	-	-	-	91,702	108,894	(17,192)
Parks and recreation	23,000	25,867	(2,867)	-	-	-
Total culture and recreation	<u>23,000</u>	<u>25,867</u>	<u>(2,867)</u>	<u>91,702</u>	<u>108,894</u>	<u>(17,192)</u>
Education:						
Employment and training	-	-	-	257,586	129,970	127,616
School superintendent	142,875	135,794	7,081	45,742	24,327	21,415

(continued)

GREENLEE COUNTY, ARIZONA
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—General and Special Revenue Fund Types
Year Ended June 30, 2003
(concluded)

	General Fund			Special Revenue Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
U of A extension services	13,000	18,001	(5,001)	8,621	6,927	1,694
Total education	<u>155,875</u>	<u>153,795</u>	<u>2,080</u>	<u>311,949</u>	<u>161,224</u>	<u>150,725</u>
Economic development:						
Economic development	-	-	-	10,156	-	10,156
Total economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,156</u>	<u>-</u>	<u>10,156</u>
Capital outlay:	309,083	177,259	131,824	1,081,111	178,928	902,183
Total expenditures	<u>5,830,566</u>	<u>5,983,993</u>	<u>(153,427)</u>	<u>5,685,905</u>	<u>3,811,372</u>	<u>1,874,533</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(981,836)</u>	<u>(767,481)</u>	<u>214,355</u>	<u>(646,563)</u>	<u>936,077</u>	<u>1,582,640</u>
Other financing sources (uses)						
Operating transfers in	1,298,885	1,337,967	39,082	960,093	1,074,331	114,238
Operating transfers out	(1,067,049)	(963,884)	103,165	(1,533,033)	(1,786,610)	(253,577)
Capital lease proceeds	-	-	-	-	-	-
Total other financing sources (uses)	<u>231,836</u>	<u>374,083</u>	<u>142,247</u>	<u>(572,940)</u>	<u>(712,279)</u>	<u>(139,339)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(750,000)	(393,398)	356,602	(1,219,503)	223,798	1,443,301
Fund balances, July 1, 2002	-	761,669	761,669	-	1,744,980	1,744,980
Residual equity transfers, net	<u>750,000</u>	<u>-</u>	<u>(750,000)</u>	<u>1,219,503</u>	<u>-</u>	<u>(1,219,503)</u>
Fund balances, June 30, 2003	<u>\$ -</u>	<u>\$ 368,271</u>	<u>\$ 368,271</u>	<u>\$ -</u>	<u>\$ 1,968,778</u>	<u>\$ 1,968,778</u>

GREENLEE COUNTY, ARIZONA
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual—Deby Service Fund Type
Year Ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Investment Income	\$ -	\$ 1,035	\$ 1,035
Total Revenues	-	1,035	1,035
Expenditures:			
Principal	341,204	255,000	86,204
Interest and fiscal charges	-	86,285	(86,285)
Total Expenditures	341,204	341,285	(81)
Excess (deficiency) of revenues over (under) expenditures	(341,204)	(340,250)	954
Other financing sources (uses):			
Operating transfers in	341,204	338,196	(3,008)
Total other financing sources (uses)	341,204	338,196	(3,008)
Excess of (deficiency) revenues and other sources over (under) expenditures and other uses	-	(2,054)	(2,054)
Fund balances, July 1, 2002	-	278,393	278,393
Fund balances, June 30, 2003	\$ -	\$ 276,339	\$ 276,339

GREENLEE COUNTY, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

Assets	Investment Trust Fund	Agency Fund
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 4,639,616	\$ 28,677
Total assets	<u>4,639,616</u>	<u>28,677</u>
Liabilities		
Deposits held for others	<u> -</u>	<u>\$ 28,677</u>
Net assets held in trust	<u>\$ 4,639,616</u>	

GREENLEE COUNTY, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2003

	Investment Trust <u>Fund</u>
Additions:	
Contributions from participants	\$ 13,774,472
Investment income	<u>66,343</u>
Total additions	<u>13,840,815</u>
Deductions:	
Distributions to participants	<u>14,394,819</u>
Total deductions	<u>14,394,819</u>
Net decrease in net assets	<u>(554,004)</u>
Net assets held in trust:	
July 1, 2002	<u>5,193,620</u>
June 30, 2003	<u><u>\$ 4,639,616</u></u>

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Greenlee County, Arizona conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, highway and street maintenance and construction, sanitation, health, welfare, culture and recreation, and education.

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. These general purpose financial statements present all the fund types and account groups of the County (a primary government) and its component units.

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

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

B. Fund Accounting

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows.

1. Governmental Funds account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types:

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

The *Special Revenue Funds* account for specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

2. Fiduciary Funds account for assets the County holds on behalf of others, and include the following fund types.

The *Investment Trust Fund* accounts for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

4. Account Groups are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all of the County's fixed assets.

The *General Long-Term Debt Account Group* accounts for all of the County's long-term obligations.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

The financial statements of the Governmental and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due.

Revenues susceptible to accrual are property taxes; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the County's behalf. Fines and forfeits, rents, contributions, and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Investment Trust Fund are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Budgeting and Budgetary Control

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

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue and Debt Service Funds.

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. With the exception of the General Fund, each fund includes only one department.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies (continued)

D. Budgeting and Budgetary Control (continued)

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

E. 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 one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

F. Inventories

Purchases of inventory items are recorded at the time of purchase as expenditures in the funds from which the purchases were made; and because the amounts on hand at June 30, 2003, were immaterial, they are not included in the balance sheet.

G. Fixed Assets

Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, drainage, and lighting systems, are not capitalized.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies (continued)

H. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered. Employees may accumulate up to 160 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

A liability of \$54,781 for vested compensated absences of the Government Funds is recorded in the General Fund since it is expected to be paid from current financial resources. The long-term balance of \$144,276 is shown as a liability in the General Long-Term Debt Account Group in the balance sheet at June 30, 2003.

I. Investment Income

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

J. Property Taxes

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end, or collected in advance of the fiscal year for which they are levied, are reported as deferred revenues.

K. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs.

Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 2 - Stewardship, Compliance and Accountability

Nine General Fund departments, three Special Revenue Funds, and the Debt Service Fund had an excess of actual expenditures over appropriations as reported on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Fund Types and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund Type. Generally, the excesses were the result of unexpected expenditures in those departments during the year.

Note 3 - Deposits and Investments

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

County Treasurer's Investment Pool—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer (see Note 13). Those monies are pooled with County monies for investment purposes.

Deposits—At June 30, 2003, the investment pool's deposits were entirely covered by federal depository insurance or by collateral held by the County's custodial bank in the County's name.

Other Deposits—The County's nonpooled deposits at June 30, 2003, were entirely covered by federal depository insurance or by collateral held by the County's custodial bank in the County's name.

Investments—At June 30, 2003, the County's nonpooled investments consisted of the following.

	Fair Value
Money Market Mutual Fund	\$ 276,339
Total	\$ 276,339

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 3 - Deposits and Investments (continued)

The nonpooled investments at June 30, 2003, are categorized below to give an indication of the level of risk the County assumed at year-end.

Category 1 - - insured or registered in the County's name, or securities held by the County or its agent in the County's name.

Category 2 - - uninsured or unregistered with securities held by the counterparty's trust department or agent in the County's name.

Category 3 - - uninsured or unregistered with securities held by the counterparty, or by its trust department or agent but not in the County's name.

	Category			Fair Value
	1	2	3	
Money Market Mutual Fund	-	-	\$ 276,339	\$ 276,339
Total	-	-	\$ 276,339	\$ 276,339

A reconciliation of cash and investments to amounts shown on the Combined Balance Sheet follows.

Cash and investments:

	County Treasurer's <u>Investment Pool</u>	<u>Other</u>	<u>Total</u>
Cash on hand	\$ 7,750	\$ -	\$ 7,750
Carrying amount of deposits	7,090,107	38,054	7,128,161
Reported amount of investments	<u>0</u>	<u>276,339</u>	<u>276,339</u>
Total	<u>\$ 7,097,857</u>	<u>\$ 314,393</u>	<u>\$ 7,412,250</u>

Combined Balance Sheet:

Cash and cash equivalents	\$ 38,054
Cash and investments held by County Treasurer	7,097,857
Cash and investments held by trustee	<u>276,339</u>
Total	<u>\$ 7,412,250</u>

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 4 - Property Taxes Receivable

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

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.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office. At June 30, 2003, the uncollected property taxes and related allowances for uncollectibles were as follows:

Fiscal Year	General Fund	Special Revenue Funds
2003	\$ 10,221	\$ 11,110
Prior	2,888	3,618
	13,109	14,728
Less allowances for uncollectibles	2,707	3,225
Net total	\$ 10,402	\$ 11,503

That portion of property taxes receivable not collected within 60 days after June 30, 2003, has been deferred and, consequently, is not included in current-year revenues.

Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2003, consisted of the following:

<u>Due From:</u>	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Arizona State Treasurer:		
State Sales Tax	\$ 147,964	\$ -
Auto Lieu Tax	18,584	-
County Excise Tax	58,260	-
Highway User Revenues	-	76,539
Total	\$ 224,808	\$ 76,539

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 6 - Changes in General Fixed Assets

A summary of the changes in general fixed assets follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land and improvements	\$ 1,324,908	\$ -	\$ -	\$ 1,324,908
Buildings and improvements	5,816,671	69,545		5,886,216
Machinery and equipment	6,115,415	360,951	72,454	6,403,912
Construction in progress	69,545		69,545	0
Total	<u>\$ 13,326,539</u>	<u>\$ 430,496</u>	<u>\$ 141,999</u>	<u>\$ 13,615,036</u>

Note 7 - Certificates of Participation Payable

The County issued \$2,700,000 in certificates of participation with an interest rate of 4.60% - 5.40% to renovate its old courthouse. The certificates of participation are generally callable with interest payable semiannually.

Principal and interest requirements at June 30, 2003, were as follows:

Description	Interest Rates	Maturities	Outstanding Principal July 1, 2002	Retirements	Outstanding Principal June 30, 2003
Greenlee County Property Corporation	4.85% 5.40%	2003-2007	\$ 1,710,000	\$ 255,000	\$ 1,455,000
Total			<u>\$ 1,710,000</u>	<u>\$ 255,000</u>	<u>\$ 1,455,000</u>

Certificates of participation debt service requirements to maturity, are as follows:

Year ending June 30,	Principal	Interest	Total
2004	\$ 265,000	\$ 73,328	\$ 338,328
2005	285,000	59,555	344,555
2006	305,000	44,473	349,473
2007	600,000	28,040	628,040
Total	<u>\$ 1,455,000</u>	<u>\$ 205,396</u>	<u>\$ 1,660,396</u>

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 8 - Obligations Under Leases

Capital Leases—The County has acquired machinery and equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term. Accordingly, the assets have been capitalized and a summary of assets leased under capital leases as of June 30, 2003, as follows:

	<u>General Fixed Assets</u>
Machinery and equipment	\$ 1,208,229

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2003, were as follows:

	<u>General Long-Term Debt Account Group</u>
Year ending June 30,	
2004	\$ 189,582
2005	130,864
2006	108,080
2007	45,034
Total minimum lease payments	473,560
Less amount representing interest	35,652
Present value of net minimum lease payments	\$ 437,908

Note 9 - Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its two remaining landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although, closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an addition to the General Long-Term Debt Account Group in each period based on landfill capacity used as of each balance sheet date.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 9 - Landfill Closure and Postclosure Care Costs (continued)

The \$626,184 reported as landfill closure and postclosure care liability at June 30, 2003, represents the cumulative amount reported to date based on the use of approximately 83 percent of the estimated capacity of the landfills. The County will recognize the remaining estimated cost of closure and postclosure care of \$129,404 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2003. The County expects to close the Loma Linda Landfill in the year 2010 and the Blue Landfill in the year 2018, and the actual cost may be higher due to inflation, changes in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

Note 10 - 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, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust, which are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$7,500 per occurrence for property claims and \$1,500 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. 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.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 10 - Risk Management (continued)

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.

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 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.

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

Note 11 - Changes in Long-Term Liabilities

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group were as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
Compensated balances	\$ 212,370	\$ 250,352	\$ 318,446	\$ 144,276
Obligations under capital				
Leases	680,952		243,044	437,908
Landfill closure and postclosure care costs payable	560,833	65,351		626,184
Certificates of participation payable	1,710,000		255,000	1,455,000
Total	<u>\$ 3,164,155</u>	<u>\$ 315,703</u>	<u>\$ 816,490</u>	<u>\$ 2,663,368</u>

Note 12 - Retirement Plans

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

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 12 - Retirement Plans (continued)

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. 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 one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910

(602) 240-2000 or (800) 621-3778

PSPRS

1020 E. Missouri Ave.
Phoenix, AZ 85014

(602) 255-5575

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

Cost-sharing plan—For the year ended June 30, 2003, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2003, 2002, and 2001 were \$56,642, \$50,897 and \$68,885, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2003, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 4.79 percent.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 12 - Retirement Plans (continued)

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

	<u>PSPRS</u>
Contribution rates:	
County	4.79%
Plan members	7.65%
Annual pension cost	\$ 41,061
Contributions made	\$ 41,061

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

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

<u>Plan</u>	<u>Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>Pension</u> <u>Cost</u>	<u>Percentage of</u> <u>APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
PSPRS	2003	\$ 41,061	100%	\$ 0
	2002	28,339	100	0
	2001	34,073	100	0

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 12 - Retirement Plans (continued)

Analysis of Funding Progress—The following information was obtained from the three most recent actuarial valuations of the agent plans.

PSPRS

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll (a-b)/c
6/30/03	\$ 2,124,391	\$ 1,675,274	\$ 449,117	126.8%	\$ 432,413	-
6/30/02	2,051,947	1,584,623	467,324	129.5	412,645	-
6/30/01	2,063,588	1,346,809	716,779	153.2	419,931	-

Note 13 - 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 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.

Throughout the fiscal year the County Treasurer invests idle monies in mortgage backed government agency securities in thirty day intervals with interest rates approximately 1.66%. At June 30, 2003 there were no investments outstanding.

GREENLEE COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2003

Note 13 - County Treasurer's Investment Pool (continued)

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

Statement of Net Assets

Assets	\$ <u>7,097,857</u>
Net assets	\$ <u>7,097,857</u>
Net assets held in trust for:	
Internal participants	\$ 2,458,241
External participants	<u>4,639,616</u>
Total net assets held in trust	<u>\$ 7,097,857</u>

Statement of Changes in Net Assets

Total additions	\$ 23,587,183
Total deductions	<u>23,791,135</u>
Net increase	(203,952)
Net assets held in trust:	
July 1, 2002	<u>7,301,809</u>
June 30, 2003	<u>\$ 7,097,857</u>

Note 14 – Contingent Liabilities

Litigation Claims – At June 30, 2003, there were several claims and lawsuits pending against the County, the ultimate outcome of which is unpredictable. Consequently, no provision for any liability has been made.

Note 15– Implementation of GASB Statement No. 34

Beginning with fiscal year 2004, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Implementing this standard will significantly change the accounting principles and reporting format the County uses in future financial reports.

Supplementary Information

GREENLEE COUNTY, ARIZONA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass- Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct program:			
Forest Service Drug Eradication	10.UNKNOWN	N/A	9,264
Passed through the Arizona Department of Health Services			
Special Supplemental Food Program for Women, Infants and Children	10.557	76-1093	41,561
Passed through Arizona State Governor's Office			
Schools and Roads - Grants to States	10.666	NONE	531,178
Total U.S. Department of Agriculture			<u>582,003</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Direct program:			
Payments in Lieu of Taxes	15.226	N/A	530,056
Passed through the Arizona State Treasurer			
Taylor Grazing Act	15.UNKNOWN	N/A	25,000
Total U.S. Department of Interior			<u>555,056</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed through the Arizona Criminal Justice Commission			
Byrne Formula Grant Program	16.579	AC-040-01	3,000
Passed through the State of Arizona Department of Emergency and Military Affairs			
Equipment Grant Program	16.007	NONE	7,000
Total U.S. Department of Justice			<u>10,000</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed through the Arizona Department of Economic Security			
Workforce Investment Act - Adult	17.255	E5701009	131,928
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct program:			
Airport Improvement Program	20.106	N/A	3,691
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>			
Passed through the United Way of Arizona			
Emergency Management-State and Local Assistance	83.534	NONE	7,088
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through the Arizona Department of Health Services			
Preparedness & Response for Bio-Terrorism	93.283	N/A	123,679
Wellwoman Healthcheck Program	93.919	23-3013	69,580
Preventive Health and Health Services			
Block Grant	93.991	30-4062	9,999
Total U.S. Department of Health and Human Services			<u>203,258</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,493,024</u>

GREENLEE COUNTY, ARIZONA
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Greenlee 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 federal or pass-through grantor or the 2003 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" was used.

Note 3 - Subrecipients

In fiscal year 2003, the County did not pass-through any federal domestic assistance received to any subrecipients.

SINGLE AUDIT SECTION

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Greenlee County, Arizona

We have audited the general purpose financial statements of Greenlee County, Arizona as of and for the year ended June 30, 2003, and have issued our report thereon dated March 26, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 that are required to be reported under *Government Auditing Standards*.

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 opinion on the general purpose financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be material weaknesses.

Greenlee County, Arizona
Page Two
March 26, 2004

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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 County's Board of Supervisors, federal awarding agencies, and pass-through entities. It 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.

CHRISTENSEN, GALE & MCLAREN, LLP

March 26, 2004

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Greenlee County, Arizona

Compliance

We have audited the compliance of Greenlee County, Arizona with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Greenlee County, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, Auditor General of the State of Arizona, the County's Board of Supervisors, federal awarding agencies, and pass-through entities. It 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.

CHRISTENSEN, GALE & MCLAREN, LLP

March 26, 2004

GREENLEE COUNTY, ARIZONA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>Unqualified</u>	
	Yes	No
Material weakness identified in internal control over financial reporting?	_____	<u>X</u>
Reportable conditions identified not considered to be material weaknesses?	_____	<u>X</u>
Noncompliance material to the financial statements noted?	_____	<u>X</u>

Federal Awards

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes

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

Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	_____	<u>X</u>
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GREENLEE COUNTY, ARIZONA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Financial Statement Findings

We noted no reportable conditions, material weaknesses, or instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Federal Award Findings and Questioned Costs

We noted no reportable conditions, material weaknesses, or instances of noncompliance related to the audit of major programs that are required to be reported by *OMB Circular A-133*.