

Gila County
Single Audit Reporting Package

Year Ended June 30, 2003

Gila County
Single Audit Reporting Package
Year Ended June 30, 2003

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Independent Auditors' 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, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We 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, 2003, 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 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for the year ended June 30, 2003, to implement a new financial reporting model.

The Management's Discussion and Analysis on pages 3 through 10, the Schedule of Agent Retirement Plan's Funding Progress on page 39, and the Budgetary Comparison Schedules on pages 40 through 45 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 August 25, 2005, 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.

Phoenix, Arizona
August 25, 2005

Gila County
Management's Discussion and Analysis
June 30, 2003

As management of Gila County, we offer readers of Gila County's financial statements this narrative overview and analysis of the financial activities of Gila County for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of Gila County exceeded its liabilities at the close of the most recent fiscal year by \$36,697,000 (net assets). Of this amount, \$13,409,000 (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, Gila County's governmental funds reported combined ending fund balances of \$17,737,000, an increase of \$5,359,000 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$7,652,000 or 28% of total general fund expenditures.
- Gila County's total long-term liabilities increased by \$730,000 during the current fiscal year. The key factors in this increase were a new loan from ADOT and new capital lease agreements entered into during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Gila County's basic financial statements. Gila County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net assets presents information on all of Gila 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 Gila County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused paid-time-off leave).

Gila County
Management's Discussion and Analysis - Continued
June 30, 2003

Both of the government-wide financial statements distinguish functions of Gila County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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

The government-wide financial statements not only include Gila County itself (known as the primary government), but also a legally separate nonprofit organization, Gila County Municipal Property Corporation which functions for all practical purposes as a department of Gila County, and therefore, has been included as an integral part of the primary government.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Gila 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 considered to be major funds. 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.

Gila County
Management's Discussion and Analysis - Continued
June 30, 2003

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Gila County's own programs. 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 through 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to the 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 37 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Gila County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general fund and public works fund. Other required supplementary information can be found on pages 39 through 45 of this report.

Government-wide Financial Analysis

This is the first year of implementation of GASB Statement No. 34. Therefore, the schedules provided in the financial statements do not include prior-year information for comparative analysis. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Statement of Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Gila County, assets exceeded liabilities by \$36,697,000 at the close of the most recent fiscal year.

Gila County
Management's Discussion and Analysis - Continued
June 30, 2003

Net Assets (in thousands)	<i>Governmental Activities 2003</i>
Current and other assets	\$ 22,131
Capital assets	28,446
Total assets	50,577
Long-term liabilities outstanding	9,912
Other liabilities	3,968
Total liabilities	13,880
Net assets:	
Invested in capital assets, net of related debt	23,288
Restricted for:	
Debt service	325
Unrestricted	13,084
Total net assets	\$ 36,697

By far the largest portion of Gila County's net assets (63%) reflects its investment in capital assets (e.g. land, buildings, equipment and vehicles), less any related debt and accumulated depreciation used to acquire those assets that is still outstanding. Gila County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Gila County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets (\$13,409,000) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Gila 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 in how the government's net assets changed during the most recent fiscal year. A chart of changes in net assets follows. For the fiscal year, net assets increased \$5.58 million, 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. Beginning net assets have been restated due to the implementation of GASB Statement No. 34. Additional information on this restatement can be found on page 24.

Gila County
Management's Discussion and Analysis - Continued
June 30, 2003

Changes in Net Assets	
(in thousands)	
	<i>Governmental Activities</i>
	2003
Revenues	
<i>Program revenues:</i>	
Charges for services	\$ 5,317
Grants and contributions	15,246
<i>General revenues:</i>	
Property taxes	17,590
County sales taxes	5,386
Sales taxes	4,019
Vehicle license tax	2,380
Miscellaneous	3,424
<i>Total revenues</i>	53,362
Expenses	
General government	13,106
Public safety	9,134
Highways and streets	6,475
Health, welfare and sanitation	8,426
Culture and recreation	115
Education	3,187
Judicial	6,991
Interest on long-term debt	348
<i>Total expenses</i>	47,782
Increase in net assets	5,580
Net assets, beginning, as restated	31,117
Net assets, ending	\$ 36,697

Revenues

- Governmental activities revenues totaled \$53,362,000 for fiscal year 2003. The following are highlights of County revenues:

Gila County
Management's Discussion and Analysis – Continued
June 30, 2003

- Sales taxes are comprised of state shared-sales tax, a ½ cent tax for highways and a ½ cent general sales tax rate. Overall sales tax decreased by \$238,685 in the current fiscal year due to a general decrease in sales activity. The highway sales tax decreased by \$98,191 and the state-shared sales tax, the largest component of sales tax, decreased by \$29,166
- Property taxes increased by \$696,390 (5.1%) during the year. This increase is attributable to increased property values and new construction.
- Charges for services increased by \$1,300,663 million primarily from increases in landfill fees.

Expenses

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The general government function experienced significant growth in the General Services, County Attorney, Superior Court, Public Defender and Facilities departments. Increases, over the prior year, in public safety are the result of increasing demands on law enforcement and detention within the Sheriff's office. The increase in highways and streets is the result of the completion of a major road project.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of Gila County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Gila 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, Gila County's governmental funds reported combined ending fund balances of \$17,736,000, an increase of \$5,359,000 in comparison with the prior year. This change is primarily attributable to the increase in the fund balance of the capital projects fund and the road fund. The HELP loan of \$1,237,500 was received for Fossil Creek and only \$183,418 was expended because the project did not begin until late in the fiscal year. The Public Works net change in fund balances of \$1,894,358 due to the County's five year capital improvement plan which was postponed on several projects; Six Shooter Canyon of \$600,000 until fiscal year 2005-2006 and the Ice House Bridge of \$1,000,000 until fiscal year 2006-2007. The revenue was received but not expended.

The general fund is the chief operating fund of Gila County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$7,652,000, which was \$295,000 greater than the previous fiscal year. Otherwise both revenues and expenditures for the current fiscal year closely followed estimates.

Gila County
Management's Discussion and Analysis – Continued
June 30, 2003

General Fund Budgetary Highlights

The general fund had budgeted expenditures of \$30,081,000. Actual general fund expenditures were under budget by \$3,297,000. The Community Agencies \$2,417,120 budget was overstated by \$1,300,000 due to the budget miscoding of two capital outlay projects. The projects Central Heights Facility for \$1,000,000 and Building Improvements for \$300,000 were correctly reported in Administration Building MPC fund which is included in the Other Governmental Funds capital outlay total on page 15. Also, Fair and Racing Commission expenditure of \$28,000 and Eastern Counties Organization expenditure of \$25,000 were budgeted in the Community Agencies fund. The Solid Waste fund had budgeted expenditures of \$2,144,000 while actual expenditures were under budget by \$902,040 due to anticipated closure costs of its six landfill sites. The sites were not closed in fiscal year 2002-2003.

During the year, actual revenue exceeded estimates by \$247,000 or 1%.

Capital Asset and Debt Administration

Capital Assets. Gila County's investment in capital assets for its governmental activities as of June 30, 2003, amounts to \$23,288,284 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, equipment, vehicles and infrastructure assets (roads, highways, bridges, etc). The total increase in Gila County's investment in capital assets for the current fiscal year was 3%, all of which is attributed to governmental activities.

Major capital asset events during the current fiscal year included the following:

- Construction was completed on the Central Heights Administration Building
- Construction was completed on Pine Yard Maintenance Building

Gila County's Capital Assets
(net of depreciation)
(in thousands)

	Governmental Activities 2003
Land	\$ 4,456
Construction in progress	2,016
Buildings	4,704
Equipment	2,625
Vehicles	3,217
Infrastructure	11,428
Total	\$ 28,446

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Management's Discussion and Analysis – Concluded
June 30, 2003**

Additional information on Gila County's capital assets can be found in Note 6 on pages 27 and 28 of this report.

Long-term Debt. At the end of the current fiscal year, Gila County had total bonded debt outstanding of \$2,585,000. This debt represents certificates of participation payable of the Gila County Jail District, which are secured by a dedicated excise tax of ¼ cent. Gila County also had a note payable of \$1,237,500 which is secured by the County's highway user revenue. The remainder of Gila County's debt is a long-term capital lease of \$2,502,000 for road equipment.

Gila County's debt increased by a net \$730,000 during the current fiscal year. This is primarily due to the County receiving a loan from the Arizona Department of Transportation.

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 \$21,429,681. Since the County has no general obligation debt, this amount equals the debt capacity. Additional information on long-term debt can be found in the Notes to the Financial Statements on pages 28 through 32 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Gila County is currently 7.8 percent, which is a slight decrease from a rate of 8.0 percent a year ago. This compares unfavorably to the state's average unemployment rate of 5.6 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Gila County's budget for the 2003/04 fiscal year. The unreserved ending fund balance in the general fund of \$7,652,043 was appropriated for spending in the 2003/04 fiscal year budget. The County's primary property tax rate remained unchanged for 2003/04 fiscal year.

Requests for Information

This financial report is designed to provide a greater overview of Gila 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 85501-1483

Gila County
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and investments	\$ 17,245,475
Cash and investments held by trustee	853,125
Receivables (net of allowances for uncollectibles):	
Property taxes	515,611
Accounts	673,113
Due from other governments	2,843,029
Capital assets, not being depreciated	6,471,305
Capital assets, being depreciated, net	21,974,924
Total assets	50,576,582
 Liabilities	
Accounts payable	2,721,293
Accrued payroll and employee benefits	876,730
Due to other governments	12,116
Deposits held for others	357,971
Noncurrent liabilities:	
Due within one year	949,813
Due in more than one year	8,961,869
Total liabilities	13,879,792
 Net Assets	
Invested in capital assets, net of related debt	23,288,284
Restricted for:	
Debt service	324,903
Unrestricted	13,083,603
Total net assets	\$ 36,696,790

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

Gila County
Statement of Activities
Year Ended June 30, 2003

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenues and Changes in Net Assets</u>
Functions				Governmental Activities
<i>Governmental activities</i>				
General government	\$ 20,097,080	\$ 1,372,482	\$ 9,340,561	\$ (9,384,037)
Public safety	9,134,311	712,766	1,695,343	(6,726,202)
Highways and streets	6,474,581	602,864	3,275,102	(2,596,615)
Health, welfare, and sanitation	8,426,028	2,604,732	787,419	(5,033,877)
Culture and recreation	115,293	6,450	-	(108,843)
Education	3,186,613	17,714	147,958	(3,020,941)
Interest on long-term debt	348,199	-	-	(348,199)
Total governmental activities	<u>\$ 47,782,105</u>	<u>\$ 5,317,008</u>	<u>\$ 15,246,383</u>	<u>(27,218,714)</u>
General revenues:				
Taxes:				
				17,589,726
				5,386,285
				4,018,630
				2,379,881
				443,969
				1,071,335
				1,908,763
				<u>32,798,589</u>
				5,579,875
				<u>31,116,915</u>
				<u>\$ 36,696,790</u>

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

**Gila County
Balance Sheet
Governmental Funds
June 30, 2003**

	General Fund	Public Works Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 7,095,603	\$ 2,898,971	\$ 7,250,901	\$ 17,245,475
Cash and investments held by trustee	528,473	-	324,652	853,125
Receivables (net of allowances for uncollectibles):				
Property taxes	491,064	-	24,547	515,611
Accounts	297,364	282,608	93,141	673,113
Due from:				
Other funds	1,320,746	439,171	1,180,998	2,940,915
Other governments	963,232	611,425	1,268,372	2,843,029
Total assets	<u>\$ 10,696,482</u>	<u>\$ 4,232,175</u>	<u>\$ 10,142,611</u>	<u>\$ 25,071,268</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,387,487	\$ 282,989	\$ 1,050,817	\$ 2,721,293
Accrued payroll and employee benefits	568,566	113,526	194,638	876,730
Due to:				
Other funds	343,902	-	2,597,013	2,940,915
Other governments	-	-	12,116	12,116
Deposits held for others	338,110	-	19,861	357,971
Deferred revenues	406,374	-	18,927	425,301
Total liabilities	3,044,439	396,515	3,893,372	7,334,326
Fund balances:				
Unreserved, reported in:				
General fund	7,652,043	-	-	7,652,043
Special revenue funds	-	3,835,660	5,924,336	9,759,996
Debt service funds	-	-	324,903	324,903
Total fund balances	<u>7,652,043</u>	<u>3,835,660</u>	<u>6,249,239</u>	<u>17,736,942</u>
Total liabilities and fund balances	<u>\$ 10,696,482</u>	<u>\$ 4,232,175</u>	<u>\$ 10,142,611</u>	<u>\$ 25,071,268</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, 2003

Fund balances - total governmental funds	\$ 17,736,942
<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.	28,446,229
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	425,301
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(9,911,682)</u>
Net assets of governmental activities	<u><u>\$ 36,696,790</u></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, 2003

	<u>General Fund</u>	<u>Public Works Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 21,856,009	\$ 3,777,856	\$ 3,687,253	\$ 29,321,118
Licenses and permits	419,847	10,222	348,667	778,736
Intergovernmental	3,253,547	3,275,018	8,717,818	15,246,383
Charges for services	3,362,571	114,503	1,061,198	4,538,272
Fines and forfeits	706,385	-	364,950	1,071,335
Investment earnings	197,943	67,299	178,727	443,969
Miscellaneous	880,946	274,299	753,518	1,908,763
Total revenues	<u>30,677,248</u>	<u>7,519,197</u>	<u>15,112,131</u>	<u>53,308,576</u>
Expenditures:				
<i>Current:</i>				
General government	11,425,443	-	8,027,287	19,452,730
Public safety	7,508,709	-	1,283,889	8,792,598
Highways and streets	-	4,805,634	249,082	5,054,716
Health, welfare, and sanitation	6,399,857	-	1,472,646	7,872,503
Culture and recreation	114,753	-	-	114,753
Education	213,238	-	2,972,805	3,186,043
<i>Debt service:</i>				
Principal retirement	617,321	207,848	249,049	1,074,218
Interest and fiscal charges	153,229	16,607	178,363	348,199
<i>Capital outlay</i>	<u>651,761</u>	<u>609,627</u>	<u>2,345,007</u>	<u>3,606,395</u>
Total expenditures	<u>27,084,311</u>	<u>5,639,716</u>	<u>16,778,128</u>	<u>49,502,155</u>
Excess (deficiency) of revenues over expenditures	3,592,937	1,879,481	(1,665,997)	3,806,421
Other financing sources (uses):				
Capital lease agreements	299,931	14,877	-	314,808
Loan from Arizona Department of of Transportation (ADOT)	-	-	1,237,500	1,237,500
Transfers in	2,111	-	3,886,208	3,888,319
Transfers out	<u>(3,600,421)</u>	<u>-</u>	<u>(287,898)</u>	<u>(3,888,319)</u>
Total other financing sources (uses)	<u>(3,298,379)</u>	<u>14,877</u>	<u>4,835,810</u>	<u>1,552,308</u>
Net change in fund balances	294,558	1,894,358	3,169,813	5,358,729
Fund balances, beginning of year	<u>7,357,485</u>	<u>1,941,302</u>	<u>3,079,426</u>	<u>12,378,213</u>
Fund balances, end of year	<u>\$ 7,652,043</u>	<u>\$ 3,835,660</u>	<u>\$ 6,249,239</u>	<u>\$ 17,736,942</u>

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, 2003

Net change in fund balances - total governmental funds		\$ 5,358,729
<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	\$ 3,302,652	
Depreciation expense	<u>(2,404,272)</u>	898,380
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
		53,404
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 repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt issued or incurred	(1,552,308)	
Principal repaid	<u>1,074,218</u>	(478,090)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This amount represents a reduction in compensated absences.		
Reduction in compensated absences payable from the prior year	6,179	
Increase in landfill closure and postclosure liabilities	<u>(258,727)</u>	<u>(252,548)</u>
Change in net assets of governmental activities		\$ <u>5,579,875</u>

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

Gila County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	<u>Investment Trust</u> <u>Fund</u>	<u>Agency</u> <u>Fund</u>
Assets		
Cash and investments	\$ 50,770,450	\$ 132,227
Total assets	50,770,450	132,227
Liabilities		
Due to other governments	-	82,551
Deposits held for others	-	49,676
Total liabilities	-	132,227
Net Assets		
Held in trust for investment trust participants	\$ 50,770,450	\$ -

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, 2003

	Investment Trust Fund
Additions:	
Contributions from participants	\$ 88,115,188
Net investment earnings	1,726,350
Total additions	89,841,538
Deductions:	
Distributions to participants	89,780,623
Change in net assets	60,915
Net assets, July 1, 2002	50,709,535
Net assets, June 30, 2003	\$ 50,770,450

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

Gila County
Notes to Financial Statements
June 30, 2003

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Blended Component Unit – The Gila County Municipal Property Corporation is a nonprofit organization established under Arizona law for the purpose of acquiring property and building improvements for the County. The County Board of Supervisors appoints the Corporation's Board of Directors and, therefore, the Corporation's transactions have been accounted for within the County's governmental fund types and account groups.

Separate financial statements of the Gila County Municipal Property Corporation are not prepared.

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund-based financial statements. The government-wide statements focus on the County as a whole, while the fund-based 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.

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

B. Basis of Presentation – Continued

The County reports the following major governmental funds:

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

The Public Works Fund is used to account 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 Fund accounts for pooled assets held and invested by the County Treasurer on behalf of the County's departments and other governmental entities.

The Agency Fund accounts for assets held by the County as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, community college districts, and special districts.

C. Basis of Accounting

The government-wide 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.

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

C. Basis of Accounting - Continued

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

E. Property Taxes Calendar

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

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 actual cost is not available. At June 30, 2003, 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.

Notes to Financial Statements – Continued

Note– 1 - Summary of Significant Accounting Policies – Continued

F. Capital Assets - Continued

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
Machinery and 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 are 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 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. Benefits payments vary based on the number of hours accumulated, but cannot exceed \$3,000. The liability for vested sick leave is recorded in the Statement of Net Assets.

Notes to Financial Statements – Continued

Note 2 – Beginning Balances Restated

As a result of implementing GASB Statement No. 34, the County’s governmental fund-type fund balances as of June 30, 2002, have been restated as net assets as of July 1, 2002, on the government-wide Statement of Activities. The reconciliation below summarizes differences between governmental fund-type fund balances as of June 30, 2002, as previously reported, to net assets as of July 1, 2002, reported on the government-wide Statement of Activities:

Aggregate fund balances of governmental fund types as of June 30, 2002	\$ 12,378,213
Add: Capital assets, net of accumulated depreciation	27,547,849
Revenues earned but not yet available	371,897
Less: Long-term liabilities	<u>(9,181,044)</u>
Net assets of governmental activities as of July 1, 2002	<u>\$ 31,116,915</u>

Note 3 – Individual Fund Deficits

The following Special Revenue Funds had fund deficits in excess of \$1,000 as of June 30, 2003:

Fund	Deficit
Drug Enforcement – Superior Court	\$ 10,801
Case Processing Fund	3,611
Criminal History Improvement	10,508
Central Purchasing	24,434
Risk Management	7,385
Video Conference	295,018
Administration Building	17,654
CPAF Drug Court	3,990
Health Services Fund	351,323
Adult Intensive Probation Services	17,899
Community Punishment Program	1,175
Diversion – Consequences	5,737
Juvenile Drug Court	6,381
State Aid Enhancement	37,361
Detention Health Services	132,506
Rabies Control	5,562
Summer Youth Employment 01 / 02	1,370
Preventive Maintenance District 3	1,867
District 2 - Equipment	4,759
Major Maintenance District 3	33,511
U.S. Department of Justice – Equipment	15,200

Notes to Financial Statements – Continued

Note 3 – Individual Fund Deficits - Continued

Fund	Deficit
BIO Terrorism Program	14,339
Folic Acid	3,204
Nutrition	8,581
Play	2,110
Commodity Supplemental Food Program	13,342
Narcotics Task Force/Sheriff	25,891
Central Heights SLID	1,843
Juvenile Victim's Rights	7,688
Adult Probation	111,743
Crime Victim Compensation Fund	22,077
Juvenile Probation	5,112

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 4 – Deposits and Investments

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

County Treasurer's Investment Pool – A.R.S. require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. Those monies are pooled with County monies for investment purposes.

Deposits – At June 30, 2003, the investment pool had cash on hand of \$6,000. The carrying amount of the investment pool's total cash in bank was \$3,227,598, and the bank balance was \$3,238,142. Of the bank balance, \$163,802 was covered by federal depository insurance and \$3,074,340 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Notes to Financial Statements – Continued

Note 4 – Deposits and Investments - Continued

Investments – At June 30, 2003, the investments in the County Treasurer’s investment pool consisted of U.S. government securities with a fair value of \$55,440,884 and money market funds invested in U.S. government securities with a fair value of \$8,741,719. The County’s investments in U.S. government securities were uninsured and unregistered with the securities held by counterparty, but not in the County’s name. The County’s investment in the money market funds represents a proportionate interest in the fund’s portfolio; however, the County’s portion is not identified with specific investments and, therefore, not subject to custodial credit risk.

Other Deposits - At June 30, 2003, the total nonpooled cash on hand was \$1,675. The carrying amount of the County's total nonpooled cash in bank was \$598,048, and the bank balance was \$790,794. Of the bank balance, \$305,388 was covered by federal depository insurance; \$419,548 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name; and \$65,858 was uninsured and uncollateralized.

Investments held by trustee – The \$853,125 of investments held by the trustee, consisting of U.S. government securities, were uninsured and unregistered with the securities held by the counterparty, but not in the County’s name.

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

	County Treasurer’s Investment Pool	Other	Total
<i>Cash and investments:</i>			
Cash on hand	\$ 6,000	\$ 1,675	\$ 7,675
Carrying amount of deposits	3,227,598	598,048	3,825,646
Reported amount of investments	64,182,603	853,125	65,035,728
Total cash and investments	\$ 67,416,201	\$ 1,452,848	\$ 68,869,049
	Total Primary Government	Total Fiduciary Funds	Total
<i>Statement of Net Assets:</i>			
Cash and investments	\$ 17,245,474	\$ 50,770,450	\$ 68,015,924
Cash and investments held by trustee	853,125	-	853,125
Total	\$ 18,098,599	\$ 50,770,450	\$ 68,869,049

Notes to Financial Statements – Continued

Note 5 – Due from Other Governments

Amounts due from other governments at June 30, 2003, in the Statement of Net Assets include \$441,997 in sales taxes from the State of Arizona; \$43,740 in vehicle license taxes from the State of Arizona; \$125,366 in auto lieu taxes from the State of Arizona; \$302,607 in Highway User Revenues from the State of Arizona; \$258,722 in WIA grant revenues from the State of Arizona; \$174,844 from the U.S. Drug Enforcement Agency; \$297,768 due from school districts in Gila County representing property tax allocations made to those school districts in error during the year ended June 30, 2002; and \$1,197,985 from various other grants and reimbursements due from various governmental agencies.

Note 6 – Capital Assets

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

	<u>Balance July 1, 2002, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance July 30, 2003</u>
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,419,696	\$ 35,922	\$ -	\$ 4,455,618
Construction in progress (estimated cost to complete \$5,221,226)	61,798	1,953,889	-	2,015,687
<i>Total capital assets not being depreciated</i>	<u>4,481,494</u>	<u>1,989,811</u>	<u>-</u>	<u>6,471,305</u>
<i>Capital assets being depreciated:</i>				
Buildings	15,284,018	-	-	15,284,018
Equipment	8,746,216	372,634	-	9,118,850
Vehicles	8,482,587	840,464	-	9,323,051
Infrastructure	12,193,652	99,743	-	12,293,395
<i>Total capital assets being depreciated</i>	<u>44,706,473</u>	<u>1,312,841</u>	<u>-</u>	<u>46,019,314</u>
Less accumulated depreciation for:				
Buildings	10,089,032	490,576	-	10,579,608
Equipment	5,871,948	621,896	-	6,493,844
Vehicles	5,243,827	862,127	-	6,105,954
Infrastructure	435,311	429,673	-	864,984
<i>Total accumulated depreciation</i>	<u>21,640,118</u>	<u>2,404,272</u>	<u>-</u>	<u>24,044,390</u>
<i>Total capital assets being depreciated, net</i>	<u>23,066,355</u>	<u>(1,091,431)</u>	<u>-</u>	<u>21,974,924</u>
Governmental activities capital assets, net	<u>\$ 27,547,849</u>	<u>\$ 898,380</u>	<u>\$ -</u>	<u>\$ 28,446,229</u>

To comply with the reporting requirements of GASB Statement No. 34, the beginning capital assets have been restated to reflect the recording of \$12,193,652 in infrastructure assets. In addition, as of June 30, 2002, the County did not have a complete capital asset listing. During 2003, the County compiled a complete listing of capital assets. Accordingly, the beginning capital

Notes to Financial Statements – Continued

Note 6 – Capital Assets - Continued

assets have been restated resulting in (a) an increase of \$9,808,955 in the cost of buildings and equipment, (b) an increase in of \$3,766,319 in the cost of land, and (c) a decrease of \$1,206,620 in construction in progress. In addition, the County has not reported depreciation in prior years. Accordingly, the capital assets as of June 30, 2002 were restated to report accumulated depreciation of \$21,640,118.

Depreciation expense was charged to functions as follows:

<i>Governmental activities:</i>	
General government	\$ 650,529
Public safety	341,713
Highways and streets	1,116,122
Health, welfare, and sanitation	294,798
Culture and recreation	540
Education	<u>570</u>
Total governmental activities depreciation expense	<u><u>\$ 2,404,272</u></u>

Note 7 - Revolving Line of Credit

The County maintains a revolving line of credit with a \$1,500,000 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 3.35% for fiscal year 2003. As of June 30, 2003, the County did not have an outstanding balance on this credit line.

Note 8 – Long-Term Liabilities

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

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>July 30, 2003</u>	<u>Due</u> <u>within</u> <u>1 year</u>
<i>Governmental activities:</i>					
Certificates of participation payable	\$ 2,740,000	\$ -	\$ 155,000	\$ 2,585,000	\$ 170,000
ADOT loan payable	-	1,237,500	-	1,237,500	61,875
Capital leases payable	3,106,463	314,808	919,218	2,502,053	717,938
Landfill closure and postclosure care costs payable	2,476,298	258,727	-	2,735,025	-
Compensated absences payable	<u>858,283</u>	<u>905,321</u>	<u>911,500</u>	<u>852,104</u>	<u>-</u>
Governmental activities long-term liabilities	<u><u>\$ 9,181,044</u></u>	<u><u>\$ 2,716,356</u></u>	<u><u>\$ 1,985,718</u></u>	<u><u>\$ 9,911,682</u></u>	<u><u>\$ 949,813</u></u>

Notes to Financial Statements – Continued

Note 8 – Long-Term Liabilities - Continued

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 at June 30, 2003, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2002</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2003</u>
Series 1999	6.4%	11/24/03-5/24/14	\$ 2,740,000	\$ -	\$ 155,000	\$ 2,585,000

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 170,000	\$ 162,720
2005	180,000	151,680
2006	190,000	140,000
2007	205,000	127,520
2008	215,000	114,400
2009-13	1,310,000	342,080
2014	315,000	15,200
Total	\$ 2,585,000	\$ 1,053,600

ADOT Loan – 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 a road construction project. The loan calls for quarterly payments of principal and interest at 1.428%, beginning on June 15, 2004, and ending on March 15, 2009.

Notes to Financial Statements – Continued

Note 8 – Long-Term Liabilities - Continued

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

<u>Year Ending June 30</u>	<i>Governmental Activities</i>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 61,875	\$ 18,555
2005	247,500	15,463
2006	247,500	11,928
2007	247,500	8,394
2008	247,500	4,860
2009	185,625	1,325
Total	\$ 1,237,500	\$ 60,525

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.

The assets acquired through capital leases are as follows:

Land	\$ 3,340,000
Buildings	218,578
Equipment	467,239
Vehicles	2,537,283
Less: accumulated depreciation	<u>1,399,463</u>
Carrying value	<u><u>\$ 5,163,637</u></u>

Notes to Financial Statements – Continued

Note 8 – Long-Term Liabilities - Continued

The following schedule details debt service requirements to maturity for the County's capital leases payable as June 30, 2003:

Year Ending June 30	
2004	\$ 839,922
2005	523,925
2006	474,536
2007	435,422
2008	396,306
2009-13	198,233
Total minimum lease payments	2,868,344
Less amount representing interest	366,291
Present value of net minimum lease payments	<u>\$ 2,502,053</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 \$2,735,025 reported as landfill closure and postclosure care liability at June 30, 2003, represents the cumulative amount reported to date based on the approximate use of 57 percent of the estimated capacity of the Buckhead Mesa Landfill and 43 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,184,414 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 has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2010 and 2017. In July 2002, one of the County's landfills was significantly expanded which will result in a greater future closure and postclosure care liability. The actual costs may also be higher due to inflation, changes in technology, or changes in regulations.

Notes to Financial Statements – Continued

Note 8 – Long-Term Liabilities - Continued

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's annual payments to comply with this agreement total \$313,556. 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 - During the year ended June 30, 2003, the County paid for compensated absences as follows: 53% from the General Fund, 19% from the Public Works Fund, and 28% from other funds.

Note 9 – 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 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.

Notes to Financial Statements – Continued

Note 9 – Risk Management – Continued

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 10 – Retirement Plans

Plan Descriptions

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

Plan Descriptions – 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 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, 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 participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan that covers 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.

Notes to Financial Statements – Continued

Note 10 – Retirement Plans – Continued

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

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

PSPRS and EORP
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, 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 \$371,057, \$367,478, and \$356,392, 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 0 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, 2003, 2002, and 2001 were \$219, \$0, and \$6,013 respectively, which were equal to the required contributions for the year.

Agent plan–For the year ended June 30, 2003, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 5.34 percent.

Annual Pension Cost – The County's pension cost for the PSPRS for the year ended June 30, 2003 and related information follow.

	<u>PSPRS</u>
Contribution rates:	
County	5.34%
Plan members	7.65%
Annual pension costs	\$ 69,888
Contributions made	\$ 69,888

Notes to Financial Statements – Continued

Note 10 – Retirement Plans - Continued

The current-year annual required contribution for the PSPRS was determined as a 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 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, 2001, was 20 years.

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

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2003	\$ 69,888	100%	\$ -
	2002	103,449	100	-
	2001	112,694	100	-

Note 11 – Interfund Balances and Activity

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

<u>Payable from</u>	<u>Payable to</u>			<u>Total</u>
	<u>General Fund</u>	<u>Public Works Fund</u>	<u>Other Governmental Funds</u>	
General Fund	\$ -	\$ 343,902	\$ -	\$ 343,902
Nonmajor Governmental Funds	1,320,746	95,269	1,180,998	2,597,013
Total	\$ 1,320,746	\$ 439,171	\$ 1,180,998	\$ 2,940,915

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.

Notes to Financial Statements – Continued

Note 11 – Interfund Balances and Activity – Continued

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

<u>Transfer from</u>	<u>Transfer to</u>			<u>Total</u>
	<u>General Fund</u>	<u>Public Works Fund</u>	<u>Other Governmental Funds</u>	
General Fund	\$ -	\$ -	\$ 3,600,421	\$ 3,600,421
Nonmajor Governmental Funds	2,111	-	285,787	287,898
Total	<u>\$ 2,111</u>	<u>\$ -</u>	<u>\$ 3,886,208</u>	<u>\$ 3,888,319</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 12 – 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 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.

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	\$ 54,890,000	1.99-7.09%	12/8/03-6/3/08	\$ 55,440,884
U.S. government securities money market	8,741,719	None stated	None stated	8,741,719

Notes to Financial Statements – Continued

**Note 12 – Condensed Financial Statements of 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	\$ 67,416,201
Liabilities	-
	<hr/>
Net assets	<u>\$ 67,416,201</u>
Net assets held in trust for:	
Internal participants	\$ 16,645,751
External participants	<u>50,770,450</u>
	<hr/>
Total net assets held in trust	<u>\$ 67,416,201</u>
Statement of Changes in Net Assets	
Total additions	\$ 150,602,773
Total deductions	<u>144,391,566</u>
	<hr/>
Net increase	6,211,207
Net assets held in trust	
July 1, 2002	<u>61,204,994</u>
	<hr/>
June 30, 2003	<u>\$ 67,416,201</u>

Other Required Supplementary Information

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

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
6/30/2003	\$ 5,976,762	\$ 5,757,851	\$ 218,911	103.8%	\$ 1,457,818	N/A
6/30/2002	5,702,845	5,244,701	458,144	108.7%	1,364,567	N/A
6/30/2001	5,588,847	4,612,648	976,199	121.2%	1,128,987	N/A

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

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes	\$ 21,397,087	\$ 21,856,009	\$ 458,922
Licenses and permits	373,500	419,847	46,347
Intergovernmental	3,431,914	3,253,547	(178,367)
Charges for services	3,349,480	3,362,571	13,091
Fines and forfeits	675,000	706,385	31,385
Investment earnings	100,000	197,943	97,943
Miscellaneous	1,103,000	880,946	(222,054)
Total revenues	30,429,981	30,677,248	247,267
Expenditures:			
<i>Current:</i>			
General government			
Administrative services	92,675	223,966	(131,291)
Assessor	632,309	629,051	3,258
Auctions	-	1,072	(1,072)
Board of Supervisors	455,131	521,707	(66,576)
Community agencies	2,417,120	910,709	1,506,411
Elections	274,189	267,361	6,828
Finance	459,354	438,753	20,601
General administration	5,081,183	5,148,676	(67,493)
Payroll costs	260,000	229,464	30,536
Personnel	145,281	148,172	(2,891)
Professional services	426,000	371,424	54,576
Purchasing	55,149	51,326	3,823
Recorder	384,641	391,786	(7,145)
Treasurer	369,111	385,534	(16,423)
Computer services	515,967	400,040	115,927
Facilities management	912,598	754,685	157,913
Multi-information systems	225,000	150,393	74,607
Judicial services			
Clerk of the Superior Court	807,020	807,576	(556)
Indigent legal	979,507	912,753	66,754
Justice Court - Globe	452,123	441,541	10,582
Justice Court - Payson	379,053	336,043	43,010
Juvenile detention	896,752	765,110	131,642

(continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule - Continued
General Fund
Year Ended June 30, 2003

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
General government - continued			
Probation	\$ 713,455	\$ 710,158	\$ 3,297
Superior Court - division I	176,221	184,791	(8,570)
Superior Court - division II	167,119	164,289	2,830
Superior Court - general	<u>584,116</u>	<u>542,686</u>	<u>41,430</u>
Total general government	17,861,074	15,889,066	1,972,008
Public safety			
County attorney	1,881,180	1,752,426	128,754
County attorney - child support	524,413	514,792	9,621
Constable - Globe	55,987	46,951	9,036
Constable - Payson	83,902	82,792	1,110
County sheriff	4,509,140	4,834,562	(325,422)
County sheriff - jail maintenance	<u>274,794</u>	<u>277,186</u>	<u>(2,392)</u>
Total public safety	7,329,416	7,508,709	(179,293)
Health, welfare, and sanitation			
9-1-1 installation	288,231	262,128	26,103
Emergency services	160,591	165,816	(5,225)
Flood plain management	26,304	7,905	18,399
Indigent health	297,673	12,659	285,014
Public fiduciary	196,671	201,186	(4,515)
Rural addressing/GIS	61,246	44,580	16,666
Solid waste	<u>2,144,000</u>	<u>1,241,960</u>	<u>902,040</u>
Total health, welfare, and sanitation	3,174,716	1,936,234	1,238,482
Culture and recreation			
Fairgrounds	101,476	114,753	(13,277)
Education and recreation			
School superintendent	216,050	213,238	2,812

(continued)

Gila County
Required Supplementary Information
Budgetary Comparison Schedule - Concluded
General Fund
Year Ended June 30, 2003

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Contingency	\$ 900,000	\$ -	\$ 900,000
<i>Capital outlay</i>	498,587	351,830	146,757
<i>Debt service:</i>			
Principal retirement	-	617,321	(617,321)
Interest and fiscal charges	-	153,229	(153,229)
Total debt service	-	770,550	(770,550)
Total expenditures	<u>30,081,319</u>	<u>26,784,380</u>	<u>3,296,939</u>
Excess of revenues over expenditures	348,662	3,892,868	3,544,206
Other financing sources (uses)			
Transfers in	2,424,129	2,111	(2,422,018)
Transfers out	<u>(3,908,263)</u>	<u>(3,600,421)</u>	<u>307,842</u>
Net other financing sources (uses)	<u>(1,484,134)</u>	<u>(3,598,310)</u>	<u>(2,114,176)</u>
Net change in fund balances	(1,135,472)	294,558	1,430,030
Fund balances, beginning of year	<u>1,135,472</u>	<u>7,357,485</u>	<u>6,222,013</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 7,652,043</u>	<u>\$ 7,652,043</u>

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works Fund
Year Ended June 30, 2003

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes	\$ 2,730,497	\$ 3,777,856	\$ 1,047,359
Licenses and permits	4,000	10,222	6,222
Intergovernmental	7,545,537	3,275,018	(4,270,519)
Charges for services	-	114,503	114,503
Investment earnings	35,000	67,299	32,299
Miscellaneous	15,000	274,299	259,299
Total revenues	10,330,034	7,519,197	(2,810,837)
Expenditures:			
<i>Current:</i>			
Highways and streets			
Administrative services	1,141,095	957,367	183,728
Engineering services	975,194	812,615	162,579
Road maintenance and repair	2,814,957	2,270,044	544,913
Maintenance shops	799,470	765,608	33,862
Total highways and streets	5,730,716	4,805,634	925,082
<i>Capital outlay</i>	5,565,301	594,750	4,970,551
<i>Debt service</i>			
Principal retirement	-	207,848	(207,848)
Interest and fiscal charges	-	16,607	(16,607)
Total debt service	-	224,455	(224,455)
Total expenditures	11,296,017	5,624,839	5,671,178
Net change in fund balances	(965,983)	1,894,358	2,860,341
Fund balances, beginning of year	965,983	1,941,302	975,319
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,835,660</u>	<u>\$ 3,835,660</u>

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
Year Ended June 30, 2003

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 adopted 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 sources or the capital outlays 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, 2003, in order to provide a meaningful comparison.

	General Fund		Public Works Fund	
	Total	Total Other	Total	Total Other
	Expenditures	Financing	Expenditures	Financing
		Sources		Sources
		(Uses)		(Uses)
Amounts from the Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 27,999,850	\$(3,298,379)	\$ 5,639,716	\$ 14,877
Capital outlays and financing sources for assets acquired by capital lease agreements, not budgeted	(299,931)	(299,931)	(14,877)	(14,877)
Amounts from the budgetary comparison schedules	\$ 27,699,919	\$(3,598,310)	\$ 5,624,839	\$ -

The County budgeted long-term and acute health care contributions to the Arizona Health Care Cost Containment System as general administration expenditures under general government that for financial statement presentation are reported as health, welfare and sanitation expenditures.

Gila County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
Year Ended June 30, 2003

Note 3 – Expenditures in Excess of Appropriations

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

Fund/Department	Excess
<i>General Fund:</i>	
Administrative services	\$ 131,291
Auctions	1,072
Board of Supervisors	66,576
General administration	67,493
Personnel	2,891
Recorder	7,145
Treasurer	16,423
County sheriff	325,422
County sheriff – jail maintenance	2,392
Clerk of the Superior Court	556
Superior Court – division I	8,570
Emergency services	5,225
Public fiduciary	4,515
Fairgrounds	13,277
Principal retirement	617,321
Interest and fiscal charges	153,229
<i>Public Works Fund:</i>	
Principal retirement	207,848
Interest and fiscal charges	16,607

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, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	261055	\$ 118,948
Commodity Supplemental Food Program	10.565	261068	1,857
Passed through the Arizona State Treasurer			
Schools and Roads-Grants to States	10.665	None	<u>72,045</u>
<i>Total U.S. Department of Agriculture</i>			192,850
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Arizona Department of Commerce			
Community Development Block Grants/Special Purpose Grants/Insular Areas	14.225	03002H13103	34,549
Community Development Block Grants/State's Program	14.228	114-00, 032-01, 030-02H	200,080
Passed through the Arizona Department of Economic Security			
Community Shelters Grant Program	14.231	E6301005	<u>29,631</u>
<i>Total U.S. Department of Housing and Urban Development</i>			264,260
<u>U.S. Department of the Interior</u>			
Payments in Lieu of Taxes	15.226		1,798,227
<u>U.S. Department of Justice</u>			
Drug Court Discretionary Grant Program	16.585		15,000
Passed through the Arizona Criminal Justice Commission			
Drug Prosecution Program	16.573	PC-080-05	3,603
Crime Victim Compensation Program	16.576	VC-02-052	1,654
Byrne Formula Grant Program	16.579	AC-110-03	401,058
Community Prosecution and Project Safe Neighborhoods	16.609	2001-F0597-AZ-GP	<u>32,125</u>
<i>Total U.S. Department of Justice</i>			453,440

See the accompanying notes to schedule.

Gila County
 Supplementary Information
 Schedule of Expenditures of Federal Awards - Continued
 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 Labor</u>			
Passed through the Arizona Department of Economic Security			
<i>Workforce Investment Act Cluster:</i>			
Workforce Investment Act	17.255	E5701001 E5702004 E5703004	\$ 741,494
Workforce Investment Act-Adult	17.258	E5703004	426,500
Workforce Investment Act-Youth	17.259	E5703004	417,331
Workforce Investment Act-Dislocated Worker	17.260	E5703004	<u>1,469,225</u>
<i>Total U.S. Department of Labor</i>			3,054,550
<u>U.S. Institute of Museum and Library Services</u>			
Passed through the Arizona Department of Library, Archives, and Public Records			
State Library Program	45.310	2001-CIP 0400	20,150
<u>U.S. Federal Emergency Management Agency</u>			
Emergency Food and Shelter National Board Program	83.523		1,857
Community Emergency Response Teams	83.564		<u>9,547</u>
<i>Total U.S. Federal Emergency Management Agency</i>			11,404
<u>U.S. Department of Education</u>			
Passed through the Arizona Department of Economic Security			
Supported Employment Services for Individuals with Severe Disabilities	84.187	E2509006	102,568
Vocational Rehabilitation Grant	84.216	A5311526E B5319040E B5318042E	<u>63,755</u>
<i>Total U.S. Department of Education</i>			166,323

See the accompanying notes to schedule.

Gila County
 Supplementary Information
 Schedule of Expenditures of Federal Awards - Concluded
 Year Ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Immunization Grants	93.268	152040	\$ 27,445
Passed through the Arizona Dept of Health Services, Bureau of Epidemiology & Disease Control			
Preparedness and Response for Bio-Terrorism	93.283	252042	145,961
Passed through the Arizona Department of Health Services			
HIV Prevention Activities - Health Department Based	93.940	152012	3,866
Health Start Grant	93.unknown	61037	4,770
Passed through the Arizona Department of Economic Security			
Temporary Assistance for Needy Families	93.558	E5900009	219,847
Child Support Enforcement	93.563	E7203007	461,388
Low-Income Home Energy Assistance	93.568	E6309031 E6301005	146,078
Community Services Block Grant	93.569	E6301005	97,566
Youth Council Grant	93.623	E4370232	213
Social Services Block Grant	93.667	E6301005	9,526
<i>Total U.S. Department of Health and Human Services</i>			<u>1,116,660</u>
Total Expenditures of Federal Awards			<u>\$ 7,077,864</u>

See the accompanying notes to schedule.

**Gila County
Supplementary Information
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 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 2003 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

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 - Adult and Youth Programs	17.258 & 17.259 & 17.260	\$ 941,709

Single Audit Reports



**Independent Auditors' 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***

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, Arizona as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 25, 2005. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 34. 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.

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 03-01, 03-02, 03-03, 03-04, 03-05 and 03-06.

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 internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-01, 03-02, 03-04 and 03-06 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter at a future date.

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*. However, we noted certain immaterial instances of noncompliance or other matters that we will report to the County's management in a separate letter at a future date.

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.

Phoenix, Arizona
August 25, 2005



**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
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, 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 of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. 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 03-101, 03-102, 03-103, and 03-104.

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.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-101, 03-102, 03-103, and 03-104.

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 the 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 internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that 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.

Phoenix, Arizona
August 25, 2005

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

Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
15.226	Payments in Lieu of taxes
16.579	Byrne Formula Grant Program
17.255, 17.258 17.259, & 17.260	Workforce Investment Act - Cluster
93.563	Child Support Enforcement

Dollar threshold to distinguish between Type A and Type B programs:	\$	300,000
Auditee qualified as a low risk auditee?	_____	X
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	_____

Gila County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2003

Financial Statement Findings

03-01 Interfund Receivables and Payables

The County is unable reconcile interfund receivables and payables between individual funds. As a result, the County is unable to monitor the activities of the interfund accounts. *This comment has been made previously.*

The County should research the interfund balances being carried forward from the prior years and funds with outstanding payables should reimburse those with the related receivables. The County should also continue enforcing its procedures of recording interfund activity necessary to keep the interfund accounts in balance. The County's finance department should also monitor and reconcile these accounts at least on a quarterly basis.

03-02 Internal Controls over Cash Receipts and Account Receivables

As reported in prior years, the County finance department has changed the control procedures over cash receipts, although the County has not prepared written policies and procedures. Various departments outside of the finance department have yet to ensure effective control over and accountability for cash receipts and accounts receivable.

Cash Receipt Procedures — County departments were not provided with guidelines to properly safeguard and account for cash receipts, which increased the susceptibility of these monies to potential abuse. The County needs to improve controls over the consistent preparation of cash receipt forms and the restrictive endorsement immediately upon receipt of checks received. Furthermore, detailed accounting records should be maintained for cash receipts. In addition, cash receipts need to be adequately safeguarded prior to deposit and deposited in a timely manner. Some cash receipts are not transferred from the departments' bank accounts to the County Treasurer's Office in a timely manner and many departments still maintain significant balances after the transfers are made. Such deficiencies were noted in following departments: Assessor's Office, Community Development, Globe Constable's Office, Sheriffs Office, and Solid Waste.

In addition, we noted during our 2003 audit, that the employees in the finance department that are responsible for depositing incoming receipts with the County Treasurer, failed to make the deposits timely. We noted a check written payable to the County board of supervisors, received by the finance department that was not deposited when received. That check was found after hours on an employee's desk and the employee had left for the day. The County's finance department is located in the Superior Court building, and there are limited physical barriers for individuals to access the finance offices. This practice indicates a failure to properly safeguard the receipts of the County.

Gila County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2003

Financial Statement Findings - Continued

03-02 Internal Controls over Cash Receipts and Account Receivables - Continued

Accounting for Receivables — The finance department has not prepared policies and procedures to request accounts receivable information from the various departments, as recommended in the prior years. Also, there are no guidelines to help ensure that receivables are analyzed and adjusted for uncollectible accounts at year-end. *This comment has been made previously.*

In order to properly account for and safeguard cash, County management should establish policies and procedures to control cash receipts, record accounts receivable, and adjust accounts receivable for uncollectible accounts. Furthermore, County management should enforce and monitor department compliance with the policies and procedures established.

03-03 Chart of Account Structure

The County's current chart of account structure is inadequate for its current operating environment. The chart of accounts contains many object codes (natural account classifications) that are not necessary and is missing many object codes that it should use. Also, the fund structure is not logically organized in a manner that allows for the efficient preparation of budgets or financial reports. As a result, there were numerous account miscodings during the year requiring many year-end adjustments to the accounting records. Furthermore, because of the weaknesses in the County's accounting system, many County departments maintain their own accounting systems resulting in duplication of efforts and inefficiencies. This also results in internal financial reports that are not useful to management, the board of supervisors and grantor agencies and significantly impedes the audit process resulting in audited financial statements that are not submitted timely. *This comment has been made previously.*

We recommend that the County restructure its chart of accounts in a manner that allows for timely and accurate financial reporting. This requires cooperation from all departments involved and may require additional County resources. However, doing so will result in the proper reporting of transaction activity and account balances, provide greater efficiencies and potentially, lower future costs. Restructuring the chart of accounts will assist the County in the preparation of financial reports and provide information that will assist County management with fiscal decisions and monitoring of the County's financial position.

Gila County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2003

Financial Statement Findings - Continued

03-04 Account Analysis and Reconciliation

The County's account analysis and reconciliation procedures do not include the analysis of many balance sheet accounts such as cash held by other departments, investments, receivables, accrued liabilities, capital assets, long-term debt and fund balance. As a result, a significant number of audit adjustments were necessary in order to correct these balance sheet accounts based upon the County's underlying documentation. *This comment has been made previously.*

We recommend that the County develop and implement policies and procedures for the timely reconciliation of all balance sheet accounts. These policies and procedures should specify the responsible personnel and timing of the reconciliations. Furthermore, additional qualified accounting personnel may be necessary to accomplish this objective. Developing and enforcing these procedures will provide more useful, accurate and timely information to users of the County's financial data, may reduce the risk of errors and fraud that may be material to the financial statements and otherwise be undetected, and will allow for more timely completion and issuance of the audited financial statements.

03-05 Safeguarding of Financial and Sensitive Documents

During our audit we noted that there is an area near the Clerk of the Court's offices in the County Courthouse which is accessible to the general public that has been designated as "surplus". In this area there are several piles of documents and records that are sensitive in nature such as accounting records and personnel records.

We recommend that the County designate a secure storage area for the retention of "surplus" information that is confidential or sensitive in nature.

03-06 Miscellaneous Revenues

During our audit we noted that the County recorded numerous and significant cash receipts to accounts described as miscellaneous revenues or other reimbursements. These receipts included items such as grant receipts, charges for services and the receipt of a loan from the Arizona Department of Transportation. Since revenues are not being recorded in the appropriate general ledger account, management is unable to monitor the actual results in comparison to the budget in a timely manner nor is management able to identify and act upon significant fluctuations in account activity.

Gila County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2003

Financial Statement Findings - Continued

03-06 Miscellaneous Revenues - Continued

Accordingly, significant reconciliation procedures were necessary resulting in several audit adjustments. Additionally, the County management was not aware of a significant liability of the County that was recorded as miscellaneous revenue.

We recommend that the County provide all departments with an updated chart of accounts which will identify the appropriate coding of all cash receipts. We also recommend that the County implement internal control procedures to review all transactions that are recorded to “miscellaneous” or “other” accounts, to determine that they are truly miscellaneous in nature.

Federal Award Findings

03-101 U.S. Department of Health and Human Services

*Passed through the Arizona Department of
Economic Security*

Child Support Enforcement Grant

CFDA No. 93.563

Questioned Costs: None

Contract Number E7203007

Grant Period: July 1, 2001 –
June 30, 2003

Condition: Transactions of this program are not recorded within a single fund designated specifically for this program. This creates a control environment that makes it difficult for the County to monitor the revenues, expenditures and matching requirements under the provisions of the grant. *This finding was also issued in the previous year.*

Criteria, Cause and Effect: The OMB Common Rule requires grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities. This requirement includes developing a fund structure necessary to adequately segregate restricted grant funding from other forms of funding, recording all transactions related to the program and excluding expenditures not related to the program. The cause is an inadequate chart of account structure.

The effect is the increased risk that transactions and account balances not relating to the program are commingled with that of the program and submission of expenditure reports to the funding agency that did not agree to the underlying accounting records.

Recommendation: We recommend that the County restructure its chart of accounts and as part of this restructuring, identify programs that are externally funded and record transactions of those programs in their own separate funds. We also recommend that the program's management and finance department improve their communication sufficient to correct any noted errors.

Gila County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2003

Federal Award Findings – Continued

03-102 U.S. Department of Justice
Passed through the Arizona Criminal
Justice Commission
Byrne Formula Grant Program
Contract No. AC-110-03
CFDA No. 16.579
Grant Period: July 1, 2001 - June 30, 2003
Questioned Costs: None

Condition: Financial reports were not submitted by the required deadlines for 8 of the 12 months during the fiscal year. Also, amounts expended in excess of the total award amount and other reimbursements were not offset by transfers in from the general fund, that is contributing to the deficit fund balance in the Byrne Formula Grant's fund. *This finding was also issued in the previous year.*

Criteria, Cause and Effect: The grant terms require submission of the reports within twenty-days following the end of each month. Also, to properly monitor the financial status of the program, grantees should record (1) transfers for amounts expended in excess of the amount received from funding agencies and (2) receivables for expenditures incurred that have not yet been drawn down. The cause of the noncompliance is unknown. The effect is lack of timely reporting to the grantor agency and inaccurate reporting of program activity and account balances.

Recommendation: We recommend preparation and submission of the reports to the funding agency in a timely manner. We also recommend maintaining the program's accounting on a current basis to include all receivables, payables and applicable transfers. The program's director should work closely with the finance department to determine that all necessary accounting entries are being made.

Gila County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2003

Federal Award Findings – Continued

03-103	U.S. Department of Justice <i>Passed through the Arizona Criminal Justice Commission</i> Byrne Formula Grant Program Contract No. AC-110-03 CFDA No. 16.579 Grant Period: July 1, 2001 - June 30, 2003 Questioned Costs: None	U.S. Department of Justice <i>Passed through the Arizona Department of Economic Security</i> Workforce Investment Act Contract No. Various CFDA No. 17.555, 17.258, 17.259 and 17.260 Grant Period: Various Questioned Costs: None
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U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Child Support Enforcement Grant
Contract Number E7203007
CFDA No. 93.563
Grant Period: July 1, 2001 – June 30, 2003
Questioned Costs: None

Condition: While testing controls over salaries transactions, we noted that 12 of 25 transactions tested were missing employee's signatures on timesheets to provide verification hours worked and the correct account coding. *This finding was also issued in the previous year.*

Criteria, Cause and Effect: The OMB Common Rule requires that grantees and subgrantees maintain effective internal controls to adequately account for and safeguard the expenditures of federal awards. Such safeguards include the use of timecards that are signed by both the employee and supervisor. The cause is a lack of proper review and enforcement of the County's timekeeping policy. The effect is increased risk of improper time reporting and lack of accountability for time incurred by County employees.

Recommendation: We recommend that all employees and their immediate supervisor sign timesheets to signify that both have reviewed and agree with the number and type of hours worked by an employee.

Gila County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2003

Federal Award Findings – Continued

03-104	U.S. Department of Justice <i>Passed through the Arizona Criminal Justice Commission</i> Byrne Formula Grant Program Contract No. AC-110-03 CFDA No. 16.579 Grant Period: July 1, 2001 - June 30, 2003 Questioned Costs: None	U.S. Department of Justice <i>Passed through the Arizona Department of Economic Security</i> Workforce Investment Act Contract No. Various CFDA No. 17.555, 17.258, 17.259 and 17.260 Grant Period: Various Questioned Costs: None
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U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Child Support Enforcement Grant
Contract Number E7203007
CFDA No. 93.563
Grant Period: July 1, 2001 – June 30, 2003
Questioned Costs: None

Condition: While testing controls over expenditure transactions, we noted that 4 of 25 transactions tested were posted to incorrect object codes in the County's accounting system. Although the County's expenditure reports were not used as a basis for reporting to grantor agencies, significant additional time is necessary to prepare these reports from separate accounting systems resulting in an increase risk of error or duplication of efforts. *This finding was also issued in the previous year.*

Criteria, Cause and Effect: The accounting records of grantees and subgrantees must be sufficient to prepare complete and accurate reports that are submitted to funding agencies. For the sake of accuracy and efficiency, one accounting system should be used that provides support for the reports submitted to funding agencies. The cause is a chart of account structure that is inadequate to meet the requirements necessary for the proper administration of federal and state grants and contracts and a lack of training and follow-up by program personnel regarding proper account coding. The effect is an accounting system that cannot produce accurate and timely financial information necessary for the preparation of financial reports for submission to funding agencies.

Recommendation: We recommend that the County restructure its chart of accounts in a manner that allows for accurate and timely reporting of expenditures and financial status of its federal and state programs using data that is generated from one accounting system. We also recommend that program personnel review the general ledger account coding as recorded by the County's finance department and inform the finance department of necessary corrections. We also recommend that the County provide training to the finance and program personnel to clarify the requirements of financial reporting under federal and state programs.

County Responses

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GILA COUNTY
BOARD OF SUPERVISORS
1400 E. Ash
Globe, Arizona 85501

August 25, 2005

Debbie Davenport
Arizona Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan for the year ended June 30, 2003, has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for the corrective action, the corrective action planned and the anticipated completion date for each of the federal award audit findings included in the current year's schedule of findings and questioned costs.

Respectfully, /

Steven L. Besich, County Manager/
Clerk of the Board of Supervisors

**Gila County
Corrective Action Plan
Year Ended June 30, 2003**

Financial Statement Findings

Finding No. 03-01

Interfund Receivables and Payables

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: December 7, 2004

Concur. All interfund receivables and payables were reconciled as of December 2004. Currently interfund receivables and payables are reconciled monthly. The County will continue enforcing its procedures of recording interfund activity with various checks and balances to help ensure that transactions are recorded accurately and that subsequent accounts are in balance.

Finding No. 03-02

Internal Controls over Cash Receipts and Account Receivables

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: January 31, 2005

Cash Receipt Procedures – Concur. Gila County is developing a uniform Cash Receipts Procedure. All County departments will be required to implement the Cash Receipts Policy. The deficiency noted in the Finance Department during the 2003 audit has been corrected.

Accounting for Receivables — Gila County uses the modified accrual basis of accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Gila County uses an accrual process whereby revenues received within 60 days after June 30 are recorded as a receivable in the year just ended. Since the recording of a receivable is after monies have been received, receivables do not need to be analyzed and adjusted for uncollectible amounts at year-end. Procedures will be reviewed and modification will be made if necessary to fully comply. The Uniform Cash Receipts Procedure being developed will address proper recording of receivables at year end for departments that generate revenue.

Finding No. 03-03

Chart of Account Structure

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: July 1, 2006

Concur. Changing the Chart of Account structure is a priority. Currently, we are analyzing our chart of accounts, and a revised chart of accounts will be implemented simultaneously with a new accounting system which we anticipate launching on 7/1/06.

**Gila County
Corrective Action Plan
Year Ended June 30, 2003**

We do not concur that the inadequate Chart of Account structure results in many County departments maintaining their own accounting systems, or that this results in internal financial reports that are not useful to management.

Finding No. 03-04

Account Analysis and Reconciliation

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: January 31, 2005

Concur. We have been performing account analysis and reconciliations on a monthly basis for the following balance sheet accounts: Cash on Deposit with Treasurer, Outstanding Expense Warrants, and Outstanding Payroll Warrants.

Gila County is in process of implementing Internal Controls analysis for the timely reconciliation of all balance sheet accounts. New policies and procedures will be developed and strengthened to maintain supporting documentation for achieving these objectives. Further, County Administration will be recommending that additional accounting staff is hired to help with the workload.

Finding No. 03-05

Safeguarding of Financial and Sensitive Documents

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: August 1, 2005

We were unable to determine if the documents in the "surplus" area were confidential or "public documents" waiting for disposal. However, the finding will be presented to all County departments using that area for temporary storage.

Finding No. 03-06

Miscellaneous Revenues

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: July 1, 2005

Revenues are budgeted and monitored on Department/Function basis, and not a revenue chart of account basis. Therefore, the use of miscellaneous revenue does not impair management's ability to monitor actual results in comparison with budget. County management was aware of all major liabilities and was properly repaid as forecasted. Management monitors all revenue and expense budget comparison to actual on departmental bases, not on an account code bases. The County has various checks and balances to help ensure that transactions are recorded accurately and that subsequently incorporates sophisticated protection.

**Gila County
Corrective Action Plan
Year Ended June 30, 2003**

We do concur that proper use of Miscellaneous and Other Revenue would be beneficial, and have implemented a review coding to Miscellaneous and Other Revenue and have instructed departments in proper coding for revenues.

Federal Award Findings

Finding No. 03-101

Federal Award: U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Child Support Enforcement Grant

Transactions of this program are not recorded within a single fund

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: July 1, 2005

Concur. *Restructure Chart of Accounts* — see response to Finding No. 03-03 Chart of Account Structure.

The Finance Department staff will continue to work with County Attorney's staff to insure that the County Attorney's Office is complying with grant requirements. We have recently revised the chart of accounts as requested by the County Attorney.

Finding No. 03-102

Federal Award: U.S. Department of Justice
Passed through the Arizona Criminal Justice Commission
Byrne Formula Grant Program

Financial reports were not submitted timely to funding agency

Contact Person: Richard Gaona, Finance Director

Phone Number: 928-402-8743

Anticipated Completion Date: July 1, 2005

Concur. We will continue to provide guidance, instructions and support to the Sheriff's Department grant program personnel on using financial information from the County's accounting system to complete monthly reports to the funding agency in a timely manner.

Finding No. 03-103

Federal Awards:

U.S. Department of Justice
*Passed through the Arizona Criminal
Justice Commission*
Byrne Formula Grant Program

U.S. Department of Justice
*Passed through the Arizona Department
of Economic Security*
Workforce Investment Act

**Gila County
Corrective Action Plan
Year Ended June 30, 2003**

U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Child Support Enforcement Grant

Salaries transactions missing employee's signatures on timesheets
Contact Person: Richard Gaona, Finance Director
Phone Number: 928-402-8743
Anticipated Completion Date: July 1, 2005

Concur. We will inform all Gila County employees and their immediate supervisors of the continued need to consistently sign timesheets. The Finance Department will develop a system to insure signatures are obtained, including confirming e-mail from employees in remote locations.

Finding No. 03-104

Federal Awards:

U.S. Department of Justice
Passed through the Arizona Criminal
Justice Commission
Byrne Formula Grant Program

U.S. Department of Justice
Passed through the Arizona Department
of Economic Security
Workforce Investment Act

U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Child Support Enforcement Grant

Properly coding of Chart of Accounts and use of one accounting system
Contact Person: Richard Gaona, Finance Director
Phone Number: 928-402-8743
Anticipated Completion Date: July 1, 2006

Concur. Gila County is currently in the process of implementing a new real time accounting system. The expected initial implementation will be 7/1/06. Upon successful implementation of the new accounting system, the subsidiary accounting systems will be eliminated.

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August 25, 2005

Debbie Davenport
Arizona Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings for the year ended June 30, 2003, has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards.

Respectfully,

Steven L. Besich, County Manager/
Clerk of the Board of Supervisors

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003

Status of Federal Award Findings and Questioned Costs

Federal Award Findings

- I. U.S. Department of Justice**
Passed through the Arizona Criminal Justice Commission
Byrne Formula Grant Program
Contract No. AC-110-02
CFDA No. 16.579
Grant Period: July 1, 2001 – June 30, 2002
Questioned Costs: None

- II. U.S. Department of Labor**
Passed through the Arizona Department of Economic Security
Workforce Investment Act
Contract No. Various
CFDA No. 17.258, 17.259 and 17.260
Grant Period: Various
Questioned Costs: None

- III. U.S. Department of Labor**
Passed through the Arizona Department of Economic Security
Child Support Enforcement
Contract No. E7203007
CFDA No. 16.710
Grant Period: July 1, 2001 – June 30, 2002
Questioned Costs: None

Finding No. 02-06

Federal Awards:

- I. Byrne Formula Grant Program**
- II. Workforce Investment Act**
- III. Child Support Enforcement**

Condition: Timesheets not being Verified by Signature for Hours Worked

Status for I, II, III: Not corrected.

We will inform all Gila County employees and their immediate supervisors of the continued need to consistently sign timesheets. The Finance Department will develop a system to insure signatures are obtained, including confirming e-mail from employees in remote locations.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003

Finding No. 02-07

Federal Awards:

- I. Byrne Formula Grant Program**
- II. Workforce Investment Act**
- III. Child Support Enforcement**

Condition: Properly Coding of Chart of Accounts and use of one Accounting System

Status for I, II, III: Not corrected.

Purchasing and implementing a state of the art accounting system that could provide real-time access for all departments' financial information. We will continue to provide guidance, instructions and support to grant program personnel on using financial information from the County's accounting system to complete monthly reports to funding agencies. Upon successful implementation of a new accounting system, the subsidiary accounting systems will be eliminated.

Finding No. 02-08

Federal Award:

- III. Child Support Enforcement**

Condition: Restructure Chart of Accounts and Improved Communications

Status III: Partially corrected.

The finance Department staff will continue to work with County Attorney's staff to insure that the County Attorney's office is complying with grant requirements. We have recently revised the chart of accounts as requested by the County Attorney. Personnel will continue to foster an atmosphere of cooperation and keep open the lines of communication with the respective program's management.

Finding No. 02-09

Federal Award:

- III. Child Support Enforcement**

Condition: Internal Control Procedures to Determine Adequate Health Insurance Coverage

Status III: Fully corrected.

Finding No. 02-10

Federal Award:

- I. Byrne Formula Grant Program**

Condition: Management Review and Approval of All Expenditures Prior to Incurrence

Status I: Fully Corrected.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003

Finding No. 02-11

Federal Award:

I. Byrne Formula Grant Program

Condition: Submit Timely Reports to Funding Agency

Status I: Not corrected.

We will continue to provide guidance, instructions and support to grant program personnel on using financial information from the County's accounting system to complete monthly reports to the funding agency in a timely manner.