

Gila County
Annual Financial Report
Year Ended June 30, 2011

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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, business-type activities, each major fund, and the aggregate remaining fund information of Gila County (the County), as of and for the year ended June 30, 2011, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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, business-type activities, each major fund, and the aggregate remaining fund information of Gila County, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011, which represents a change in accounting principle. In addition, as described in Note 10, the County reclassified the Landfill Fund, previously reported in the General Fund, as a proprietary enterprise fund, which represents an additional change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2012, 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 the 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.

The management's discussion and analysis on pages 3 through 11, the Schedule of Agent Retirement Plans' Funding Progress on pages 51 and 52, and budgetary comparison information on pages 53 through 57, are not required parts 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Mesa, Arizona
March 14, 2012

Gila County
Management's Discussion and Analysis
June 30, 2011

As management of Gila County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the current fiscal year by \$70,839,971 (net assets). Of this amount, \$22,225,011 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$40,286,990, a decrease of \$819,014 in comparison with the prior year's balance of \$41,106,004 (as restated).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$22,375,083 or 47% of total general fund expenditures.
- The County's total long-term liabilities decreased by a net of \$131,966 during the current fiscal year in comparison with the prior year's balance of \$11,924,376. The decrease was a result of regular scheduled principal and interest payments.
- The prior year financial statements were restated as a result of the implementation of GASB Statement Number 54. The restatement included moving Special Revenue Funds that did not have restricted, committed or assigned fund balances to the General Fund and moving the landfill from a governmental fund to an enterprise fund. See Note 10 in the notes to the financial statements for further disclosure related to the restatement.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 13 through 14 of this report.

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

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

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

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

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Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for landfill operations. The proprietary fund financial statements can be found on pages 19 through 21 of this report.

Fiduciary Funds are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 22 and 23 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 49 of this report.

Required supplementary information presents budgetary comparison schedules for the general and major special revenue funds. This section also includes certain information concerning the County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 51 through 57 of this report.

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, the County's assets exceeded liabilities by \$70,839,971.

Condensed Statement of Net Assets
(in thousands)
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (Restated)	2011	2010 (Restated)	2011	2010 (Restated)
Current and Other Assets	\$ 45,622	\$ 46,327	\$ 5,886	\$ 5,301	\$ 51,508	\$ 51,628
Capital Assets	31,166	25,830	3,975	4,029	35,141	29,859
Total Assets	76,788	72,157	9,861	9,330	86,649	81,487
Current Liabilities	3,954	3,995	63	55	4,017	4,050
Long-term Liabilities	9,003	9,296	2,789	2,628	11,792	11,924
Total Liabilities	12,957	13,291	2,852	2,683	15,809	15,974
Net Assets:						
Invested in Capital Assets, Net of Related Debt	24,776	23,058	3,918	4,029	28,694	27,087
Restricted	18,155	4,688	1,766	1,470	19,921	6,158
Unrestricted	20,900	31,120	1,325	1,148	22,225	32,268
Total Net Assets	\$ 63,831	\$ 58,866	\$ 7,009	\$ 6,647	\$ 70,840	\$ 65,513

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The second largest portion of Gila County's net assets is unrestricted. Unrestricted net assets of \$22,225,011 or 31% may be used to meet Gila County's ongoing obligations to citizens and creditors. The largest portion is \$28,694,268 or 41% of the total net assets that reflects its investment in capital assets (e.g. land, buildings, equipment, vehicles and infrastructure); less accumulated depreciation and any related debt and used to acquire those assets that is still outstanding.

The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets for the government as a whole.

Assets of the County increased by \$5.3 million. The most significant increase was the result of the acquisition of capital assets in the amount of \$7.6 million, net of \$2.3 million in depreciation and loss on disposal of capital assets. Capital asset additions consisted largely of the use of prior year bond proceeds to fund various County building and street projects. The increase in capital assets is discussed later in this discussion and analysis.

The County had a net change in net assets of \$5.0 million in the governmental activities. The decrease in the unrestricted net assets is largely due to the current year changes in revenues and expenses. A significant portion of the decrease was a reclassification of net assets from unrestricted to restricted based on restrictions placed on the net assets by parties outside the organization. The remaining changes in restricted and unrestricted net assets is discussed in the following section.

The 2010 statement of net assets and changes in net assets was restated to move the Landfill from a governmental fund to an enterprise fund, as described in Note 10 to the financial statements.

Statement of Activities

Already noted was the statement of activities purpose in presenting how the government's net assets changed during the current fiscal year. For the fiscal year, net assets increased by \$5,326,489. 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. The following table presents the change in net assets.

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Changes in Net Assets
(in thousands)
Years Ended June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (Restated)	2011	2010 (Restated)	2011	2010 (Restated)
Revenues						
Program Revenues						
Charges for Services	\$ 4,800	\$ 5,430	\$ 1,572	\$ 1,580	\$ 6,372	\$ 7,010
Grants and Contributions	22,535	21,998	-	-	22,535	21,998
General Revenues:						
Property Taxes	25,343	23,779	-	-	25,343	23,779
County Sales Tax	5,457	5,489	-	-	5,457	5,489
Share of State Sales Tax	4,378	4,196	-	-	4,378	4,196
Vehicle License Tax	1,559	1,579	-	-	1,559	1,579
Payments in Lieu of Taxes	3,226	3,267	-	-	3,226	3,267
Miscellaneous	1,708	1,031	71	48	1,779	1,079
Total Revenues	69,006	66,769	1,643	1,628	70,649	68,397
Expenses						
General Government	20,331	21,068	-	-	20,331	21,068
Public Safety	16,902	16,339	-	-	16,902	16,339
Highways and Streets	8,059	6,564	-	-	8,059	6,564
Health	2,556	2,609	-	-	2,556	2,609
Welfare	9,718	10,156	-	-	9,718	10,156
Sanitation	98	21	1,184	1,027	1,282	1,048
Culture and Recreation	1,443	1,343	-	-	1,443	1,343
Education	4,689	2,782	-	-	4,689	2,782
Interest on Long-term Debt	342	298	-	-	342	298
Total Expenses	64,138	61,180	1,184	1,027	65,322	62,207
Change in Net Assets Before Transfers	4,868	5,589	459	601	5,326	6,190
Transfers	97	-	(97)	-	-	-
Change in Net Assets	4,965	5,589	362	601	5,326	6,190
Net Assets, Beginning of the Year (As Restated)	58,866	53,277	6,647	6,046	65,513	59,323
Net assets, End of the Year	\$ 63,831	\$ 58,866	\$ 7,009	\$ 6,647	\$ 70,840	\$ 65,513

Revenues

Governmental activities revenues totaled \$69,006,352 for fiscal year 2011 which was an increase of over 3% from the prior year. Grants and contributions and property taxes accounted for the most significant increases in revenue. The increase in grants and contributions was largely due to the recording of \$1.9 million in grants from the U.S. Department of Agriculture that were paid to subrecipients, which was offset by decreases in various other federal funding, including a reduction in the workforce improvement grant (\$475,000) and decreases in various state funding, including grants for the sheriff's office (\$305,000) and state funded health care grants (\$333,000). The increase in property taxes was due to increased property tax rates and an increase in the current year levy.

Charges for services, county sales tax, state sales tax, state vehicle license tax, payments in lieu of taxes, and miscellaneous revenues remained relatively stable as compared to the prior year.

Business-type activities' revenues did not change significantly over the prior year. A majority of the revenue generated by the business-type activities is done through contracts with other political subdivisions for use of the landfill.

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Expenses

Governmental activities expenses totaled \$64,139,319 for fiscal year 2011, which represents an increase of 4% over the prior year's total expenses. Increases were the result of increased salaries and related costs, as well as increased costs to run the departments. In addition, as a result of increased funding through grants, expenses increased in an amount equal to the revenues for reimbursable type grants.

The most significant changes in expenses were recorded in highways and streets, welfare, and education. Highways and streets increased \$1.5 million largely due to a \$1.4 million highway planning grant and approximately \$100,000 from the department of agriculture grant for road improvements. These grants were combined and the roadway projects were completed and administered by the Arizona Department of Transportation. The roadway was on federal land and therefore was not capitalized by the County. Roadway projects included the Young Road Project, the Ice House Bridge and the Tonto Creek Bridge.

The decrease in the welfare expenses was due to a reduction in the workforce improvement grant of \$475,000 and services provided.

The increase in the education expense was due to \$1.9 million of forest fee revenues received by the County and recorded as an expense for distribution to school districts who are subrecipients of the grant.

Business-type activities' expenses slightly increased due to salary increases and salary related costs, as well as an increase in depreciation expense.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$40,286,990, a decrease of \$819,014 in comparison with the prior year's balance of \$41,106,004 (as restated).

The general fund is the chief operating fund of the County. At the end of the current fiscal year, fund balance of the general fund was \$24,610,525, a decrease of 6% over the prior year's balance of \$26,208,491 (as restated). The decrease was largely due to the use of prior year bond proceeds recorded in the General Fund for various County facilities. The County reported more than \$5.8 million in capital expenditures related to these projects and other capital purchases. The \$5.8 million in capital expenditures were offset by increased property tax revenues and other intergovernmental revenues. Expenditures of the General Fund increased over the prior year in most departments due to increased salary and related costs and increased costs in operations of the departments. A portion of the increase in expenditures was offset by grants recorded in the General Fund, causing a zero net effect on fund balance.

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The public works fund reported an increase in fund balance of approximately \$0.8 million. Overall, actual public works fund expenditures were under budget by \$6,857,689. This increase was relatively equal to the prior year increase in public works, before transfers. The public works revenues and expenditures did not significantly change from the prior year. The carryover will be used for future street and roadway capital and maintenance projects.

The Housing Fund reported an increase in fund balance of \$48,779. Generally, expenditures of the Housing Fund are funded 100 percent by grants and donations. The increase was due to unspent grant funds that will be carried forward to cover future costs.

Other Governmental Funds reported a decrease in fund balance of \$105,193. The decrease was largely due to the use of carryover grant funds that do not operate on a reimbursable basis.

Proprietary Fund

The Landfill didn't have a significant change in fund net assets for the fiscal year 2011.

General Fund Budgetary Highlights

The general fund had budgeted expenditures before other financing sources and uses of \$57,897,594. Overall, actual general fund expenditures were under budget by \$10,778,768. The County had budgeted \$9,600,000 for reserves and contingencies, none of which was spent during the current fiscal year, accounting for more than 89 percent of expenditures under budget. The Education department had budgeted expenditures of \$402,148 while actual expenditures were over budget by \$1,589,874 due to a change in recording federal grants passed through to subrecipients. Grants passed through to subrecipients were recognized as revenues and corresponding expenditure. The most significant grant affecting this line item was for the Secure Payments for State and Counties Containing Federal Lands Grant. This also accounted for much of the favorable variance in intergovernmental revenues, along with a favorable variance for auto lieu (\$50,000), state shared sales tax (\$177,000) and payments in lieu of taxes (federal grant-\$25,000). Property taxes exceeded budget by \$1,070,000 due collections of delinquent property taxes. The County had budgeted for property taxes according to the current year levy.

The significant County departments and other budgeted line items over budget are the Education-\$1,589,874, County Attorney \$292,570 and Probation-\$222,588. The County will strive to improve its budgeting procedures and control in the future.

Capital Asset and Debt Administration

Capital Assets

The County's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$31,165,650 (net of accumulated depreciation), a net increase of 20.7% from the prior year. Capital assets for the business-type activities as of June 30, 2011 amount to \$3,975,371. This investment in capital assets includes land, construction in progress, buildings, machinery and equipment and infrastructure assets (roads, highways, bridges, etc).

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Major capital asset activity during the fiscal year included:

Governmental Activities:

- \$3.4 million in additions to construction in progress for the public works complex and administrative building improvements.
- \$837,754 in additions to construction in progress for the Tonto Creek Bridge.
- \$615,514 in additions to construction in progress for the woman's jail dormitory.
- \$515,081 in additions to construction in progress for the cafeteria remodel.
- Completion of the disabled access improvements, including \$227,694 in current year costs.
- \$500,285 in the acquisition of twenty-two vehicles.

Business-type Activities:

- \$75,525 lease-purchase of a caterpillar wheel loader.

The following table provides a breakdown of the County's capital assets as of June 30, 2011 and 2010.

Capital Assets at Year-End
(Net of Accumulated Depreciation)
(in thousands)
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (Restated)	2011	2010 (Restated)	2011	2010 (Restated)
Land	\$ 1,178	\$ 1,100	\$ 3,000	\$ 3,000	\$ 4,178	\$ 4,100
Construction in Progress	8,682	3,635	-	-	8,682	3,635
Buildings	7,300	7,396	-	-	7,300	7,396
Improvements Other than Buildings	760	719	-	-	760	719
Machinery and Equipment	5,806	5,392	920	973	6,726	6,365
Infrastructure	7,440	7,588	55	56	7,495	7,644
Total Capital Assets, Net	<u>\$ 31,166</u>	<u>\$ 25,830</u>	<u>\$ 3,975</u>	<u>\$ 4,029</u>	<u>\$ 35,141</u>	<u>\$ 29,859</u>

Additional information on the County's capital assets can be found in Note 5 on pages 33 through 34 of this report.

Long-term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$7,510,000 (excluding the premium on the bonds). This outstanding balance consists of series 2009 pledged revenue refunding obligations of \$1,070,000 (bond premium of \$31,324) to refund the outstanding 1999 series certificates of participation and series 2009 pledged revenue obligations of \$6,440,000 (bond premium of \$177,047) to finance construction costs for several County buildings. The County had long-term capital leases of \$27,059 for machinery and computer equipment which were paid off during the current fiscal year.

Business-type long term liabilities consist of the landfill closure and post-closure care costs of \$2,706,670 and an equipment lease in the amount of \$57,380.

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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 \$36,567,597. Since the County has no general obligation debt, this amount equals the debt capacity. Additional information on long-term debt can be found in Note 7 on pages 35 through 38 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Gila County was 10.9 percent at June 30, 2011 and has dropped to 10.0% in December 2011, which is a decrease from a rate of 11.1 percent a year ago. This compares unfavorably to the state's average unemployment rate of 9.5 to 9.6 percent. These economic factors were considered in preparing the County's budget for the fiscal year 2010-11. The unassigned ending fund balance in the general fund of \$22,375,083 was appropriated for spending in the fiscal year 2011-12 budget.

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 Street
Globe, Arizona 85501-1483

Basic Financial Statements

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Statement of Net Assets
June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and Cash Equivalents	\$ 15,184,057	\$ 1,273,851	\$ 16,457,908
Investments	22,281,677	-	22,281,677
Cash and Investments Held by Trustee	1,328,918	-	1,328,918
Receivables (net of allowances for uncollectibles):			
Property Taxes	1,254,094	-	1,254,094
Accounts	875,598	139,524	1,015,122
Due from Other Governments	4,413,846	-	4,413,846
Restricted Cash	-	4,472,893	4,472,893
Deferred Charges	283,493	-	283,493
Capital Assets			
Nondepreciable	9,860,144	3,000,000	12,860,144
Depreciable	21,305,506	975,371	22,280,877
Total Assets	<u>76,787,333</u>	<u>9,861,639</u>	<u>86,648,972</u>
Liabilities			
Accounts Payable	2,196,610	42,738	2,239,348
Accrued Payroll and Employee Benefits	1,195,683	19,868	1,215,551
Accrued Interest	163,925	-	163,925
Unearned Revenue	107,767	-	107,767
Matured Debt Principal Payable	290,000	-	290,000
Noncurrent Liabilities			
Due within one year	1,589,426	50,589	1,640,015
Due in more than one year	7,413,291	2,739,104	10,152,395
Total Liabilities	<u>12,956,702</u>	<u>2,852,299</u>	<u>15,809,001</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	24,776,277	3,917,991	28,694,268
Restricted for:			
Public Safety	1,570,053	-	1,570,053
Highways and Streets	8,764,587	-	8,764,587
Health	581,547	-	581,547
Welfare	761,632	-	761,632
Sanitation	77,660	-	77,660
Education	1,235,046	-	1,235,046
Housing	144,646	-	144,646
Library	648,357	-	648,357
Judicial Services	2,911,497	-	2,911,497
Capital Projects	205,739	-	205,739
Debt Service	1,146,243	-	1,146,243
Other	107,462	-	107,462
Landfill Closure and Postclosure Care Costs	-	1,766,223	1,766,223
Unrestricted	20,899,885	1,325,126	22,225,011
Total Net Assets	<u>\$ 63,830,631</u>	<u>\$ 7,009,340</u>	<u>\$ 70,839,971</u>

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

Gila County
Statement of Activities
Year Ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Functions							
Governmental Activities:							
General Government	\$ 20,331,200	\$ 2,063,895	\$ 2,041,810	\$ -	\$ (16,225,495)		\$ (16,225,495)
Public Safety	16,901,522	1,883,376	3,362,305	-	(11,655,841)		(11,655,841)
Highways and Streets	8,058,965	166,379	4,542,699	1,971,543	(1,378,344)		(1,378,344)
Health	2,556,054	232,557	1,157,040	-	(1,166,457)		(1,166,457)
Welfare	9,718,314	92,336	5,668,536	-	(3,957,442)		(3,957,442)
Sanitation	98,738	-	110,165	-	11,427		11,427
Culture and Recreation	1,442,667	16,399	118,762	-	(1,307,506)		(1,307,506)
Education	4,689,773	345,505	3,561,803	-	(782,465)		(782,465)
Interest and Fiscal Charges	342,086	-	-	-	(342,086)		(342,086)
Total Governmental Activities	<u>64,139,319</u>	<u>4,800,447</u>	<u>20,563,120</u>	<u>1,971,543</u>	<u>(36,804,209)</u>		<u>(36,804,209)</u>
Business-Type Activities							
Landfill	1,183,583	1,571,601	-	-		\$ 388,018	388,018
Total Primary Government	<u>\$ 65,322,902</u>	<u>\$ 6,372,048</u>	<u>\$ 20,563,120</u>	<u>\$ 1,971,543</u>	<u>(36,804,209)</u>	<u>388,018</u>	<u>(36,416,191)</u>
General revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					24,090,368	-	24,090,368
Property Taxes, Levied for Street Lighting Districts					59,820	-	59,820
Property Taxes, Levied for Library District					1,193,020	-	1,193,020
County General and Transportation Sales Tax					5,457,165	-	5,457,165
Share of State Sales Tax					4,377,798	-	4,377,798
Shared Revenue-State Vehicle License Tax					1,559,005	-	1,559,005
Payments in Lieu of Taxes					3,226,200	-	3,226,200
Grants and Contributions not Restricted to Specific Programs					50,000	-	50,000
Investment Income					114,135	71,438	185,573
Miscellaneous					1,543,731	-	1,543,731
Transfers					97,450	(97,450)	-
Total General Revenues and Transfers					<u>41,768,692</u>	<u>(26,012)</u>	<u>41,742,680</u>
Change in Net Assets					4,964,483	362,006	5,326,489
Net Assets, July 1, 2010, As Restated					58,866,148	6,647,334	65,513,482
Net Assets, June 30, 2011					<u>\$ 63,830,631</u>	<u>\$ 7,009,340</u>	<u>\$ 70,839,971</u>

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

**Gila County
Balance Sheet
Governmental Funds
June 30, 2011**

	<u>General Fund</u>	<u>Public Works Fund</u>	<u>Housing Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Investments	\$ 23,017,406	\$ 8,259,638	\$ 167,089	\$ 6,021,601	\$ 37,465,734
Cash and Investments Held by Trustee	1,328,918	-	-	-	1,328,918
Receivables (net of allowances for uncollectibles):					
Property taxes	1,185,731	-	-	68,363	1,254,094
Accounts	727,589	-	89,990	58,019	875,598
Due from:					
Other Funds	1,271,060	-	-	-	1,271,060
Other Governments	1,041,638	708,919	504,768	2,158,521	4,413,846
Total Assets	<u>\$ 28,572,342</u>	<u>\$ 8,968,557</u>	<u>\$ 761,847</u>	<u>\$ 8,306,504</u>	<u>\$ 46,609,250</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 1,596,345	\$ 168,111	\$ 78,227	\$ 353,927	\$ 2,196,610
Accrued Payroll and Employee Benefits	874,399	131,474	8,974	180,836	1,195,683
Accrued Interest	163,925	-	-	-	163,925
Due to Other Funds	-	2,664	530,000	738,396	1,271,060
Deferred Revenues	1,037,148	-	-	167,834	1,204,982
Matured Debt Principal Payable	290,000	-	-	-	290,000
Total liabilities	<u>3,961,817</u>	<u>302,249</u>	<u>617,201</u>	<u>1,440,993</u>	<u>6,322,260</u>
Fund balances:					
Restricted	2,235,442	8,666,308	144,646	7,108,073	18,154,469
Unassigned	22,375,083	-	-	(242,562)	22,132,521
Total Fund Balances	<u>24,610,525</u>	<u>8,666,308</u>	<u>144,646</u>	<u>6,865,511</u>	<u>40,286,990</u>
Total Liabilities and Fund Balances	<u>\$ 28,572,342</u>	<u>\$ 8,968,557</u>	<u>\$ 761,847</u>	<u>\$ 8,306,504</u>	<u>\$ 46,609,250</u>

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

Gila County
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Total Fund Balance for Governmental Funds	\$ 40,286,990
<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.	31,165,650
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	1,097,215
Deferred charges on issuance of long term liabilities are not financial resources and therefore are not reported in the governmental funds.	283,493
Some liabilities, including bonds payable, premium on the bonds and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(9,002,717)</u>
Net Assets of Governmental Activities	<u><u>\$ 63,830,631</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, 2011

	<u>General Fund</u>	<u>Public Works Fund</u>	<u>Housing Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 26,610,775	\$ 2,766,830	\$ -	\$ 1,252,840	\$ 30,630,445
Licenses and Permits	514,038	2,859	-	-	516,897
Intergovernmental	13,120,726	4,555,893	1,654,055	12,042,951	31,373,625
Charges for Services	2,806,835	163,520	-	543,731	3,514,086
Fines and Forfeitures	765,061	-	-	-	765,061
Donations and Contributions	-	-	195,022	174,919	369,941
Investment Income	65,322	26,919	-	21,894	114,135
Miscellaneous	1,000,012	20,892	-	521,661	1,542,565
Total Revenue	<u>44,882,769</u>	<u>7,536,913</u>	<u>1,849,077</u>	<u>14,557,996</u>	<u>68,826,755</u>
Expenditures					
Current:					
General Government	19,463,838	-	-	518,466	19,982,304
Public Safety	14,012,238	-	-	2,542,605	16,554,843
Highways and Streets	-	5,617,669	-	56,999	5,674,668
Health	1,373,611	-	-	1,154,600	2,528,211
Welfare	3,618,696	-	1,845,048	4,219,127	9,682,871
Sanitation	-	-	-	89,215	89,215
Culture and Recreation	220,229	-	-	1,195,103	1,415,332
Education	1,992,022	-	-	2,697,264	4,689,286
Debt Service:					
Principal Retirement	290,000	-	-	27,059	317,059
Interest and Fiscal Charges	327,850	-	-	10,058	337,908
Capital Outlay	5,820,342	422,092	35,250	2,203,507	8,481,191
Total Expenditures	<u>47,118,826</u>	<u>6,039,761</u>	<u>1,880,298</u>	<u>14,714,003</u>	<u>69,752,888</u>
Excess (Deficiency) of Revenues over Expenditures	(2,236,057)	1,497,152	(31,221)	(156,007)	(926,133)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	9,669	-	-	-	9,669
Transfers In	810,922	-	80,000	102,500	993,422
Transfers Out	(182,500)	(661,786)	-	(51,686)	(895,972)
Total Other Financing Sources (Uses)	<u>638,091</u>	<u>(661,786)</u>	<u>80,000</u>	<u>50,814</u>	<u>107,119</u>
Net Change in Fund Balances	(1,597,966)	835,366	48,779	(105,193)	(819,014)
Fund Balances, Beginning of Year, As Restated	<u>26,208,491</u>	<u>7,830,942</u>	<u>95,867</u>	<u>6,970,704</u>	<u>41,106,004</u>
Fund Balances, End of Year	<u>\$ 24,610,525</u>	<u>\$ 8,666,308</u>	<u>\$ 144,646</u>	<u>\$ 6,865,511</u>	<u>\$ 40,286,990</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 of the Governmental Funds
to the Statement of Activities
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (819,014)

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

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

Capital Outlay	\$ 7,424,530	
Depreciation Expense	(2,079,031)	
Excess Capital Expenditures over Depreciation		5,345,499

The statement of activities reports losses and gains arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (10,017)

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities. 169,928

Issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bond Premium	11,572	
Bond issue costs	(15,750)	
Principal Repaid	317,059	312,881

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

Increase in Compensated Absences		(34,794)
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Change in Net Assets of Governmental Activities		\$ 4,964,483
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The accompanying notes are an integral part of these financial statements.

Gila County
Statement of Net Assets
Proprietary Fund
June 30, 2011

	Business-Type Activities - Landfill
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,273,851
Accounts Receivable	139,524
Total Current Assets	1,413,375
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	
Capital Assets	4,472,893
Non-Depreciable	3,000,000
Depreciable (net)	975,371
Total Noncurrent Assets	8,448,264
Total Assets	9,861,639
Liabilities	
Current Liabilities:	
Accounts Payable	42,738
Accrued Wages and Benefits	19,868
Compensated Absences	25,643
Capital Leases Payable	24,946
Total Current Liabilities	113,195
Noncurrent Liabilities:	
Capital Leases Payable	32,434
Landfill Postclosure Payable	2,706,670
Total Noncurrent Liabilities	2,739,104
Total Liabilities	2,852,299
Net Assets	
Invested in Capital Assets Net of Related Debt	3,917,991
Restricted for Landfill Closure and Postclosure Care Costs	1,766,223
Unrestricted	1,325,126
Total Net Assets	\$ 7,009,340

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

Gila County
Statement of Revenues, Expenses, and Changes, in Fund Net Assets
Proprietary Fund
Year Ended June 30, 2011

	Business-Type Activities - Landfill
Operating Revenues:	
Charges for Services	\$ 1,571,601
Operating Expenses:	
Personnel Services and Employee Benefits	561,372
Professional Services	75,808
Supplies	106,589
Utilities	15,337
Repairs and Maintenance	101,920
Landfill Closure and Postclosure Care Costs	110,116
Other	6,483
Depreciation	204,186
Total Operating Expenses	1,181,811
Operating Income	389,790
Nonoperating Revenues (Expense):	
Investment Earnings	71,438
Interest Expense	(1,772)
Total Nonoperating Revenue (Expense)	69,666
Income Before Transfers	459,456
Transfers Out	(97,450)
Change in Net Assets	362,006
Net Assets	
Beginning of Year, as Restated	6,647,334
End of Year	\$ 7,009,340

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

Gila County
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2011

	Business-Type Activities - Landfill
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,539,912
Payments to Suppliers	(300,116)
Payments to Employees	(565,583)
Net Cash Provided by Operating Activities	674,213
Cash Flows from Noncapital Financing Activities:	
Transfers Out	(97,450)
Cash Flows from Capital and Related Financing Activities:	
Purchases of Capital Assets	(75,070)
Principal Paid on Capital Lease	(18,145)
Interest Paid on Capital Lease	(1,772)
Net Cash Flows Used for Capital and Related Financing Activities	(94,987)
Cash Flows from Investing Activities:	
Investment Income	71,438
Net Change in Cash and Cash Equivalents	553,214
Cash and Cash Equivalents, Beginning of Year, As Restated	5,193,530
Cash and Cash Equivalents, End of Year (\$1,273,851 + \$4,472,893)	\$ 5,746,744
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 389,790
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	204,186
Change in Assets/Liabilities:	
Accounts Receivable	(31,689)
Accounts Payable	6,021
Accrued Wages and Benefits	1,414
Compensated Absences	(5,625)
Landfill Postclosure Payable	110,116
Net Cash Provided by Operating Activities	\$ 674,213

Noncash Investing, Capital and Noncapital Financing Activities:

During the fiscal year ended June 30, 2011, the County financed the purchase of \$75,525 of assets through a capital lease.

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

Gila County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Investment Trust Fund	Agency Funds
Assets		
Cash and Cash Equivalents	\$ -	\$ 783,861
Investments	37,510,131	-
Total Assets	37,510,131	\$ 783,861
Liabilities		
Due to Other Governments	-	\$ 161,761
Deposits Held for Others	-	622,100
Total Liabilities	-	\$ 783,861
Net Assets		
Held in Trust for Investment Trust Participants	\$ 37,510,131	

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, 2011

	Investment Trust Fund
Additions:	
Contributions from Participants	\$ 135,755,262
Investment Earnings	221,843
Total Additions	135,977,105
Deductions:	
Distributions to Participants	141,537,464
Change in Net Assets	(5,560,359)
Net Assets, July 1, 2010	43,070,490
Net Assets, June 30, 2011	\$ 37,510,131

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

Gila County
Notes to Financial Statements
June 30, 2011

Note 1 – Summary of Significant Accounting Policies

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

For the year ended June 30, 2011, the County implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

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

The following table describes the County's component units:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Gila County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Gila County Street Lighting Districts	Operates and maintains street lighting in areas outside local city jurisdictions; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Related Organizations

The Environmental Economic Community Organization and Eastern Arizona Counties Organization are legally separate entities that were created to assist in the economic development of commercial and industrial enterprises for Gila County. Their operations are completely separate from the County and the County is not financially accountable for these organizations. Therefore, the financial activities of these organizations are not included in the accompanying financial statements.

Gila County
Notes to Financial Statements
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

Government-wide statements—provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

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

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

Gila County
Notes to Financial Statements
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

The County reports the following major governmental funds:

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

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

The *Housing Fund*, a special revenue fund, accounts for the County's affordable housing operations funded through federal grants provided by the U.S. Department of Housing and Urban Development.

The County reports the following proprietary fund:

The *Landfill Fund* accounts for the activities of the County's landfill operations.

Additionally, 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 other governmental entities.

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

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of agency funds, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. 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.

Gila County
Notes to Financial Statements
June 30, 2011

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.

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. The County's major revenue sources that are susceptible to accrual are property taxes, intergovernmental, charges for services, and investment income. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

D. Cash and Investments

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

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

Gila County
Notes to Financial Statements
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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

F. Capital Assets

Capital assets are reported at actual cost or estimated historical cost if historical records are not available. At June 30, 2011, 31 percent of the total governmental activities capital assets are stated at estimated historical cost based on price levels at time of acquisition. Donated assets are reported at estimated fair value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 5,000	N/A	N/A
Buildings	5,000	Straight-Line	7-30 years
Improvements Other Than Buildings	5,000	Straight-Line	20 years
Machinery and Equipment	5,000	Straight-Line	3-25 years
Infrastructure	50,000	Straight-Line	7-50 years

G. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

Gila County
Notes to Financial Statements
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Fund Balance Classifications (Continued)

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the County's Board of Supervisors, which is the highest level of decision-making authority within the County. The constraints placed on committed fund balances can only be removed or changed by the Board. Fund balances must be committed prior to the end of the fiscal year.

Assigned fund balances are resources constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Supervisors has not authorized any one particular County employee to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the County's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the County's policy to use committed amounts first, followed by assigned, and lastly unassigned amounts.

H. Investment Income

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

I. Compensated Absences

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

Employees may accumulate up to 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 government-wide and proprietary fund financial statements. A liability is reported in the governmental funds' financial statements only if they have matured; for example, as a result of employee resignations and retirements by fiscal year-end.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 1,000 hours of sick leave receive a \$3,000 bonus. The liability for the bonus related to the sick leave is recorded in the government-wide and proprietary fund financial statements.

Gila County
Notes to Financial Statements
June 30, 2011

Note 2 – Individual Fund Deficits

The following Special Revenue Funds had fund deficits in excess of \$1,000 as of June 30, 2011:

<u>Fund</u>	<u>Deficit</u>
Proposition 201 Smoke Free AZ Act	\$ 9,594
FTF Early Childhood Screening	11,385
Sheriff BLESF Program	102,807
Crime Victim Assistance Program	6,391
Adult Intensive Probation Supervision	15,559
State Aid Enhancement	73,794
Midland/Central Heights Streets Lighting Improvement District	8,321
Claypool/Lower Miami Streets Lighting Improvement District	10,305

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

Note 3 – Deposits and Investments

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

Credit risk - Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk - Statutes require collateral for demand deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

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

Gila County
Notes to Financial Statements
June 30, 2011

Note 3 – Deposits and Investments (Continued)

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

Foreign currency risk - Statutes do not allow foreign investments.

Deposits—At June 30, 2011, the carrying amount of the County's deposits was \$21,708,662 and the bank balance was \$22,891,941.

Investments—The County's investments at June 30, 2011, were as follows:

Investment Type	Amount
U.S. Agency Securities	\$ 59,791,808
U.S. Treasury Money Market Fund	1,328,918
	\$ 61,120,726

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

At June 30, 2011, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. Agency Securities	Aaa	Moody's	\$ 59,791,808
U.S. Treasury Money Market Fund	Aaa	Moody's	1,328,918
			\$ 61,120,726

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

At June 30, 2011, the County had \$1,328,918 of investments reported in the General Fund. The investments were held by a trustee in a U. S. Treasury money market fund and was uninsured, not registered in the County's name, and held by the counterparty.

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

Gila County
Notes to Financial Statements
June 30, 2011

Note 3 – Deposits and Investments (Continued)

Five percent or more of the County's investments at June 30, 2011, were in debt securities of various U.S. agencies as follows:

<u>U.S. Agency</u>	<u>Amount</u>	<u>Percent of County Investments</u>
Federal Home Loan Bank System	\$ 30,765,073	50.3%
Federal National Mortgage Association	7,255,404	11.9%
Federal Farm Credit Banks	4,506,981	7.4%
Federal Home Loan Mortgage System	17,264,350	28.2%
	<u>\$ 59,791,808</u>	

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
U.S. Agency Securities	\$ 59,791,808	\$ 22,797,349	\$ 36,994,459
U.S. Treasury Money Market Fund	1,328,918	1,328,918	-
	<u>\$ 61,120,726</u>	<u>\$ 24,126,267</u>	<u>\$ 36,994,459</u>

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

Cash, Deposits, and Investments:

Cash on Hand	\$ 6,000
Amount of Deposits	21,708,662
Amount of Investments	61,120,726
	<u>\$ 82,835,388</u>

	<u>Statement of Net Assets</u>		<u>Statement of Fiduciary Net Assets</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Investment Trust Fund</u>	<u>Agency Funds</u>	
Cash and Cash Equivalents	\$ 15,184,057	\$ 1,273,851	\$ -	\$ 783,861	\$ 17,241,769
Investments	22,281,677	-	37,510,131	-	59,791,808
Total Cash and Investments	37,465,734	1,273,851	37,510,131	783,861	77,033,577
Restricted Cash	-	4,472,893	-	-	4,472,893
Cash and Investments Held by Trustee	1,328,918	-	-	-	1,328,918
	<u>\$ 38,794,652</u>	<u>\$ 5,746,744</u>	<u>\$ 37,510,131</u>	<u>\$ 783,861</u>	<u>\$ 82,835,388</u>

Restricted cash represents monies set aside as part of the landfill line of credit agreement discussed further in Note 7 to the financial statements.

Gila County
Notes to Financial Statements
June 30, 2011

Note 4 – Due from Other Governments

Amounts due from other governments at June 30, 2011, in the Statement of Net Assets include \$446,747 in County excise and transportation tax, \$314,345 in Highway User Revenue, \$185,979 in state-shared sales tax, \$217,963 in auto lieu tax and license registration fees, \$169,809 in Medicaid refunds, \$392,514 in Workforce Investment Act grants, \$84,557 in federal forest service reimbursements, \$285,148 in health service grants, \$672,376 in other community service grants, \$395,203 in road related grant reimbursements, \$178,281 in other federal grants, \$142,336 in state grants, \$102,969 in education grants, \$233,257 in state school equalization, and \$592,362 in reimbursements and charges for services due from various government agencies.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance (As Restated)	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,099,652	\$ 78,292	\$ -	\$ 1,177,944
Construction in Progress (estimated cost to complete \$6,238,259)	3,635,315	5,703,170	656,285	8,682,200
Total Capital Assets, Not Being Depreciated	4,734,967	5,781,462	656,285	9,860,144
Capital Assets, Being Depreciated:				
Buildings	20,307,080	412,957	-	20,720,037
Improvements Other Than Buildings	913,352	82,519	-	995,871
Machinery and Equipment	22,024,240	1,683,670	295,414	23,412,496
Infrastructure	13,828,808	120,207	-	13,949,015
Total Capital Assets, Being Depreciated	57,073,480	2,299,353	295,414	59,077,419
Accumulated Depreciation for:				
Buildings	12,911,454	508,348	-	13,419,802
Improvements Other Than Buildings	194,201	41,653	-	235,854
Machinery and Equipment	16,631,980	1,260,144	285,397	17,606,727
Infrastructure	6,240,644	268,886	-	6,509,530
Total Accumulated Depreciation	35,978,279	2,079,031	285,397	37,771,913
Total Capital Assets, Being Depreciated, Net	21,095,201	220,322	10,017	21,305,506
Governmental Activities Capital Assets, Net	\$ 25,830,168	\$ 6,001,784	\$ 666,302	\$ 31,165,650

The beginning balances were restated due to reporting the Landfill Fund as a proprietary fund, as discussed in Note 10. As a result of the restatement, certain assets previously included in the governmental activities land, infrastructure, and machinery and equipment are now reported as business-type activities' capital assets. Those assets and related accumulated depreciation were recorded at the gross amount in the business-type activities on the next page.

Gila County
Notes to Financial Statements
June 30, 2011

Note 5 – Capital Assets (Continued)

	Beginning Balance (As Restated)	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Capital Assets, Being Depreciated:				
Machinery and Equipment	4,511,165	150,595	111,655	4,550,105
Infrastructure	169,340	-	-	169,340
Total Capital Assets, Being Depreciated	<u>4,680,505</u>	<u>150,595</u>	<u>111,655</u>	<u>4,719,445</u>
Accumulated Depreciation for:				
Machinery and Equipment	3,537,944	204,151	111,655	3,630,440
Infrastructure	113,599	35	-	113,634
Total Accumulated Depreciation	<u>3,651,543</u>	<u>204,186</u>	<u>111,655</u>	<u>3,744,074</u>
Total Capital Assets, Being Depreciated, Net	<u>1,028,962</u>	<u>(53,591)</u>	<u>-</u>	<u>975,371</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,028,962</u>	<u>\$ (53,591)</u>	<u>\$ -</u>	<u>\$ 3,975,371</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 988,805
Public Safety	318,831
Highways and Streets	664,006
Health	32,501
Welfare	33,100
Sanitation	9,837
Culture and Recreation	26,877
Education	5,074
	<u>\$ 2,079,031</u>

Business-Type Activities:

Landfill	<u>\$ 204,186</u>
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Construction Commitments

The County has active construction projects as of June 30, 2011, with estimated costs to complete of \$6,238,259 of which the more significant of these projects includes the Public Works shop/road buildings, Monroe Street Reconstruction, Pine Creek Canyon Road, Russell Road Turn Lane, and Tonto Creek bridges. Funding for the public works shop/road buildings, Monroe Street Reconstruction, Pine Creek Canyon Road, and Russell Road Turn Lane will be provided from the prior year bond issue. The Tonto Creek bridges will be funded by an intergovernmental agreement with ADOT and the use of a portion of the prior year bond proceeds.

Gila County
Notes to Financial Statements
June 30, 2011

Note 6 – Loans Payable

The County maintains a revolving line of credit with a \$3,500,000 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 of each year. The interest rate is at the bank's prime rate less 3.55% for fiscal year 2011. The following schedule summarizes the activity for the line of credit for the fiscal year ended June 30, 2011. The County had no outstanding balance at year-end.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within 1 Year
Governmental Activities					
Line of Credit	\$ -	\$ 453,808	\$ 453,808	\$ -	\$ -

Note 7 – Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2011:

	Beginning Balance (As Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Series 2009 Pledged Revenue Refunding Obligations	\$ 1,110,000	\$ -	\$ 40,000	\$ 1,070,000	\$ 45,000
Series 2009 Pledged Revenue Obligations	6,690,000	-	250,000	6,440,000	260,000
Bond Premium	219,863	-	11,572	208,291	-
Capital Leases Payable	27,059	-	27,059	-	-
Compensated Absences Payable	1,249,632	1,551,310	1,516,516	1,284,426	1,284,426
Governmental Activities Long-Term Liabilities	\$ 9,296,554	\$ 1,551,310	\$ 1,845,147	\$ 9,002,717	\$ 1,589,426
Business-Type Activities					
Capital Leases Payable	\$ -	\$ 75,525	\$ 18,145	\$ 57,380	\$ 24,946
Landfill Closure and Postclosure Care Costs Payable	2,596,554	110,116	-	2,706,670	-
Compensated Absences Payable	31,268	29,255	34,880	25,643	25,643
Business-Type Activities Long-Term Liabilities	\$ 2,627,822	\$ 214,896	\$ 53,025	\$ 2,789,693	\$ 50,589

The beginning balances of the long-term debt for the governmental activities and the business-type activities were restated due to the County reclassifying the Landfill Fund, previously reported in the General Fund, as a proprietary enterprise fund. See Note 10 for further information related to the reclassification.

Gila County
Notes to Financial Statements
June 30, 2011

Note 7 – Long-Term Liabilities (Continued)

Series 2009 Pledged Revenue Obligations—During the year ended June 30, 2010, the County issued \$8,000,000 in pledged revenue obligations with an interest rate of 3.0-5.0 percent to finance renovation costs for a newly-acquired county administration building and several other County buildings, and to advance refund the outstanding 1999 Series A certificates of participation. The obligations are generally noncallable, with interest payable semi-annually. The County's obligation to make pledged revenue obligation payments will be payable solely from, and secured by, a pledge and lien upon the County's excise taxes through fiscal year 2029. Annual principal and interest payments on the bonds are expected to require less than 15% of pledged revenues. In the current year, total principal and interest paid, and total pledged resources were \$617,850 and \$4,377,798 respectively.

Bonds payable at June 30, 2011, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2011</u>
Series 2009	3-5%	7/1/2011-2029	\$ 8,000,000	\$ 7,510,000

The following schedule details debt service requirements to maturity for the County's pledged revenue obligation bonds at June 30, 2011:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 305,000	\$ 319,150
2013	310,000	310,000
2014	320,000	300,700
2015	325,000	291,100
2016	340,000	281,350
2017-2021	1,905,000	1,192,750
2022-2026	2,320,000	766,100
2027-2029	1,685,000	171,250
Total	<u>\$ 7,510,000</u>	<u>\$ 3,632,400</u>

In prior years, the County defeased certain certificates of participation by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old certificates. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the County's financial statements. At June 30, 2011, \$890,000 of the 1999 Series A certificates of participation remains and were considered defeased.

Gila County
Notes to Financial Statements
June 30, 2011

Note 7 – Long-Term Liabilities (Continued)

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 governmental capital assets were paid off during the fiscal year.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Machinery and Equipment	\$ 539,161	\$ 75,525
Less: Accumulated Depreciation	246,377	17,588
Carrying Value	<u>\$ 292,784</u>	<u>\$ 57,937</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2011:

<u>Year Ending June 30,</u>	Business-Type Activities
2012	\$ 26,556
2013	26,556
2014	<u>6,639</u>
Total Minimum Lease Payments	59,751
Less Amount Representing Interest	<u>2,371</u>
Present Value of Net Minimum Lease Payments	<u>\$ 57,380</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. These costs will be paid from the Landfill Fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$2,706,670 reported as landfill closure and postclosure care liability at June 30, 2011, represents the cumulative amount reported to date based on the approximate use of 60 percent of the estimated capacity of the Buckhead Mesa Landfill and 54 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,060,290 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 2011.

Gila County
Notes to Financial Statements
June 30, 2011

Note 7 – Long-Term Liabilities (Continued)

Landfill closure and postclosure care costs (Continued)—The County has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2020 and 2034. The actual costs may also be higher due to inflation, changes in technology, or changes in regulations. The County is planning for expansion of these landfills to extend their useful lives.

In order to comply with state and federal laws and regulations, the County obtained a letter of credit on July 9, 2009, 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 current balance is reported in the business-type activities statement of net assets and the proprietary fund statement of net assets as restricted cash. For fiscal year 2011, the County's annual payments to comply with this agreement total \$340,000. 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 and 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, 2011, the County paid for compensated absences as follows: 62% from the General Fund, 14% from the Public Works Fund, 1% from the Housing Fund, 2% from the Landfill Fund, and 21% from other funds. Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs.

Special Use Permit—The Buckhead Mesa Landfill was issued a special use permit from the United States Department of Agriculture Forest Service for the purpose of using and maintaining a sanitary landfill, which expires on December 31, 2019 and has annual fees of \$18,998.

Gila County
Notes to Financial Statements
June 30, 2011

Note 8 – Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2011, were as follows:

	General Fund	Public Works Fund	Housing Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:					
Restricted for:					
Public Safety	\$ 913,250	\$ -	\$ -	\$ 656,803	\$ 1,570,053
Highways and Streets	-	8,666,308	-	98,279	8,764,587
Health	21,737	-	-	559,810	581,547
Welfare	-	-	-	761,632	761,632
Sanitation	-	-	-	77,660	77,660
Education	1,084	-	-	1,233,962	1,235,046
Housing	-	-	144,646	-	144,646
Library	-	-	-	648,357	648,357
Judicial Services	153,128	-	-	2,758,369	2,911,497
Capital Projects	-	-	-	205,739	205,739
Debt Service	1,146,243	-	-	-	1,146,243
Other	-	-	-	107,462	107,462
Total Restricted	<u>2,235,442</u>	<u>8,666,308</u>	<u>144,646</u>	<u>7,108,073</u>	<u>18,154,469</u>
Unassigned	<u>22,375,083</u>	<u>-</u>	<u>-</u>	<u>(242,562)</u>	<u>22,132,521</u>
Total Fund Balance	<u><u>24,610,525</u></u>	<u><u>8,666,308</u></u>	<u><u>144,646</u></u>	<u><u>6,865,511</u></u>	<u><u>40,286,990</u></u>

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 per occurrence for property claims and \$25,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$300 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. 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.

Gila County
Notes to Financial Statements
June 30, 2011

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 every 5 years. 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 – Change in Accounting Principle

As a result of the implementation of GASB Statement No. 54, the County reclassified several of its governmental funds for financial reporting purposes.

The following summary reconciles beginning fund balance to the prior year audited financial statements:

	General Fund	Public Works Fund	Housing Fund	Other Governmental Funds	Total Governmental
Beginning Fund Balance (as previously reported)	\$ 28,363,098	\$ 7,830,942	\$ 95,867	\$ 10,062,291	\$ 46,352,198
Restatements for GASB 54: Reclassification of Special Revenue Funds to the General Fund	3,091,587	-	-	(3,091,587)	-
Landfill Transfer	(5,246,194)	-	-	-	(5,246,194)
Beginning Fund Balance (as restated)	<u>\$ 26,208,491</u>	<u>\$ 7,830,942</u>	<u>\$ 95,867</u>	<u>\$ 6,970,704</u>	<u>\$ 41,106,004</u>

The Landfill Fund was moved from the General Fund and is reported as a Proprietary Fund based on a change in accounting principle by management. Landfill Funds can be reported as either a governmental or proprietary funds; the County determined measuring net income of the Landfill, separate from other funds was necessary to monitoring the funding progress of the landfill closure and postclosure care costs.

	Governmental Activities	Landfill
Beginning Net Assets (as previously reported)	\$ 65,513,482	\$ -
Restatements due to: Landfill Transfer	<u>(6,647,334)</u>	<u>6,647,334</u>
Beginning Net Assets (as restated)	<u>\$ 58,866,148</u>	<u>\$ 6,647,334</u>

Gila County
Notes to Financial Statements
June 30, 2011

Note 11 – Pensions and Other Postemployment Benefits

Plan Descriptions—The County contributes to the four plans described below. Benefits are established by state statute and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

The Public Safety Personnel Retirement System (PSPRS) administers an agent multiple employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona and participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a seven-member board, known as The Board of Trustees, 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) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers state, county, and local correction officers; dispatchers; and probation, surveillance, and juvenile detention officers. The CORP is governed by The Board of Trustees of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The Elected Officials Retirement Plan (EORP) administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities. The EORP is governed by The Board of Trustees of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. Because the health insurance premium plan benefit of the EORP is not established as a formal trust, the EORP is reported in accordance with GASB Statement No. 45 as an agent multiple-employer defined benefit plan. Accordingly, the disclosures that follow reflect the EORP as if it were an agent multiple-employer defined benefit plan.

Gila County
Notes to Financial Statements
June 30, 2011

Note 11 – Pensions and Other Postemployment Benefits (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 North Central Avenue P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or 1-800-621-3778	PSPRS, CORP, and EORP 3010 East Camelback Road, Suite 200 Phoenix, AZ 85016-4416 (602) 255-5575
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Funding Policy—The Arizona State Legislature establishes and may amend active plan members’ and the County’s contribution rates for the ASRS, PSPRS, CORP, and EORP.

Cost-sharing plans—For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent for retirement and 0.25 percent for long-term disability) of the members’ annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members’ annual covered payroll.

The County’s contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

Arizona State Retirement System Last Three Fiscal years			
	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years Ended June 30,			
2011	\$ 1,339,305	\$ 87,701	\$ 37,162
2010	1,481,953	117,277	71,077
2009	1,349,254	162,113	84,434

Gila County
Notes to Financial Statements
June 30, 2011

Note 11 – Pensions and Other Postemployment Benefits (Continued)

Agent plans—For the year ended June 30, 2011, 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 20.48 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.59 percent of covered payroll. Active CORP members were required by statute to contribute 8.41 percent of the members' annual covered payroll and the County was required to contribute 5.03 percent for the County corrections officers and 6.00 percent for the County dispatchers. The aggregate of these members' and the County contributions are the actuarially required amounts. The health insurance premium portion of the contribution rate was actuarially set at 1.13 percent and 0.71 percent of covered payroll for the County corrections officers and dispatchers, respectively. Active EORP members were required by statute to contribute 7.00 percent of the members' annual covered payroll; and the County was required to remit a designated portion of certain court fees, plus additional contributions at the actuarially determined rate of 17.42 percent. The health insurance premium portion of the contribution rate was actuarially set at 1.77 percent of covered payroll. The health insurance contribution rates reported include both the actuarially determined rates for normal cost and for the amortization of the unfunded accrued liability for health insurance.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2011, were established by the June 30, 2009, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Gila County
Notes to Financial Statements
June 30, 2011

Note 11 – Pensions and Other Postemployment Benefits (Continued)

Projections of benefits are based on 1) the plans as understood by the County and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2011 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% – 8.50% for PSPRS and CORP; 5.00% for EORP
Includes inflation at	5.50% for PSPRS and CORP; 5.00% for EORP

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2011, and related information follows:

	PSPRS		CORP (Corrections Officers)		CORP (Dispatchers)		EORP	
	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance
Annual Pension/OPEB Cost	\$ 439,185	\$ 36,967	\$ 96,772	\$ 28,039	\$ 49,134	\$ 6,595	\$ 167,413	\$ 6,714
Contributions Made	463,867	12,285	124,166	645	55,729	-	167,413	6,714

Gila County
Notes to Financial Statements
June 30, 2011

Note 11 – Pensions and Other Postemployment Benefits (Continued)

Trend Information—Annual pension cost and OPEB information for the current and two preceding years follows for each of the agent plans.

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension/OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net Pension/OPEB Obligation</u>
PSPRS				
Pension	2011	\$ 439,185	106%	\$ 24,682
Health Insurance	2011	36,967	33%	(24,682)
Pension	2010	422,009	104%	18,669
Health Insurance	2010	35,293	47%	(18,669)
Pension	2009	469,011	106%	27,788
Health Insurance	2009	41,923	34%	(27,788)
CORP Corrections Officers				
Pension	2011	96,772	128%	27,394
Health Insurance	2011	28,039	2%	(27,394)
Pension	2010	153,574	107%	11,106
Health Insurance	2010	16,637	33%	(11,106)
Pension	2009	160,364	111%	17,293
Health Insurance	2009	17,293	0%	(17,293)
CORP Dispatchers				
Pension	2011	49,134	113%	6,595
Health Insurance	2011	6,595	0%	(6,595)
Pension	2010	42,583	110%	4,155
Health Insurance	2010	7,555	45%	(4,155)
Pension	2009	50,081	116%	8,159
Health Insurance	2009	8,159	0%	(8,159)
EORP				
Pension	2011	167,413	100%	
Health Insurance	2011	6,714	100%	
Pension	2010	165,173	100%	
Health Insurance	2010	5,531	100%	
Pension	2009	167,153	100%	
Health Insurance	2009	8,667	100%	

Funded Status – The funded status of the plans as of the most recent valuation date, June 30, 2011, along with the actuarial assumptions and methods used in those valuations follow. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Board of Trustees obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

Gila County
Notes to Financial Statements
June 30, 2011

Note 11 – Pensions and Other Postemployment Benefits (Continued)

The funded status of the plans as of the most recent valuation date, June 30, 2011, is as follows:

	(In Millions)					
	PSPRS		CORP (Corrections Officers)		CORP (Dispatchers)	
	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance
Actuarial accrued liability (a)	\$ 11.9	\$ 0.4	\$ 2.9	\$ 0.2	\$ 1.6	\$ 0.1
Actuarial value of assets (b)	7.0	-	3.0	-	1.5	-
Unfunded actuarial accrued liability (funding excess) (a)-(b)	4.9	0.4	(0.1)	0.2	0.1	0.1
Funded ratio (b) / (a)	59.0%	0.0%	104.9%	0.0%	92.9%	0.0%
Covered payroll (c)	\$ 2.0	\$ 2.0	\$ 2.3	\$ 2.3	\$ 0.6	\$ 0.6
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll(((a)-(b)) / (c))	246.9%	19.5%	N/A	7.8%	19.8%	11.4%

The actuarial methods and assumptions used are the same for all plans and related benefits, and for the most recent valuation date, are as follows:

Actuarial valuation date	June 30, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	25 years for under funded actuarial accrued liability, 20 years for excess
Asset valuation method	7-Year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% – 8.5% for PSPRS and CORP; 5.00% for EORP
Includes inflation at	5.50% for PSPRS and CORP; 5.00% for EORP

Gila County
Notes to Financial Statements
June 30, 2011

Note 12 – Interfund Balances and Activity

Interfund receivables and payables – Interfund balances at June 30, 2011, were as follows:

Payable From	Payable To General Fund
Public Works Fund	\$ 2,664
Housing Fund	530,000
Nonmajor Governmental Funds	738,396
Total	\$ 1,271,060

Interfund balances resulted from time lags between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds are made. Also, interfund balances are recorded to eliminate deficit cash balances at year-end. All interfund balances are expected to be paid in one year.

Interfund transfers – Interfund transfers for the year ended June 30, 2011, were as follows:

Transfer From	Transfer To			Total
	General Fund	Housing Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 80,000	\$ 102,500	\$ 182,500
Public Works Fund	661,786	-	-	661,786
Nonmajor Governmental Funds	51,686	-	-	51,686
Landfill Fund	97,450	-	-	97,450
Total	\$ 810,922	\$ 80,000	\$ 102,500	\$ 993,422

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) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) transfer indirect cost reimbursements to the general fund.

Gila County
Notes to Financial Statements
June 30, 2011

Note 13 – Condensed Financial Statements of County Treasurer’s Investment Pool

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

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

A majority of all deposits and investments of the County’s primary government are included in the County Treasurer’s investment pool, except for \$190,428 of deposits, \$4,472,893 of U.S. Agency Securities and \$1,328,918 of U.S. Treasury money market funds. Therefore, the deposit and investment risks of the Treasurer’s investment pool are substantially the same as the County’s deposit and investment risks disclosed in Note 3.

Details of each investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Agency Securities	\$ 55,329,073	0.54-1.125%	7/8/11-10/29/14	\$ 55,318,915

Gila County
Notes to Financial Statements
June 30, 2011

**Note 13 – 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	<u>\$ 76,058,887</u>
Net assets Held in Trust for:	
Internal participants	38,548,756
External participants	<u>37,510,131</u>
Total Net Assets Held in Trust	<u><u>\$ 76,058,887</u></u>

Statement of Changes in Net Assets

Total Additions	\$ 241,333,427
Total Deductions	<u>243,895,327</u>
Net Decrease	(2,561,900)
Net Assets Held in Trust, July 1, 2010	<u>78,620,787</u>
Net Assets Held in Trust, June 30, 2011	<u><u>\$ 76,058,887</u></u>

Other Required Supplementary Information

Gila County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2011

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
Public Safety Personnel Retirement System						
Pension						
2011	\$ 7,008,504	\$ 11,881,450	\$ 4,872,946	59.0%	\$ 1,973,829	246.9%
Health Insurance						
2011	-	384,716	384,716	0.0%	1,973,829	19.5%
Pension						
2010	6,691,802	10,700,853	4,009,051	62.5%	2,135,860	187.7%
Health Insurance						
2010	-	335,302	335,302	0.0%	2,135,860	15.7%
Pension						
2009	6,618,791	10,325,612	3,706,821	64.1%	2,088,865	177.5%
Health Insurance						
2009	-	334,525	334,525	0.0%	2,088,865	16.0%
Corrections Officers Retirement Plan - Corrections Officers						
Pension						
2011	\$ 3,029,836	\$ 2,889,016	\$ (140,820)	104.9%	\$ 2,269,235	N/A
Health Insurance						
2011	-	177,833	177,833	0.0%	2,269,235	7.8%
Pension						
2010	2,610,037	2,367,964	(242,073)	110.2%	2,268,346	N/A
Health Insurance						
2010	-	139,794	139,794	0.0%	2,268,346	6.2%
Pension						
2009	2,335,601	1,927,732	(407,869)	121.2%	2,229,365	N/A
Health Insurance						
2009	-	116,325	116,325	0.0%	2,229,365	5.2%
Corrections Officers Retirement Plan - Dispatchers						
Pension						
2011	\$ 1,506,794	\$ 1,622,056	\$ 115,262	92.9%	\$ 581,593	19.8%
Health Insurance						
2011	-	66,135	66,135	0.0%	581,593	11.4%
Pension						
2010	1,358,329	1,440,064	81,735	94.3%	726,419	11.3%
Health Insurance						
2010	-	52,936	52,936	0.0%	726,419	7.3%
Pension						
2009	1,283,714	1,431,610	147,896	89.7%	834,498	17.7%
Health Insurance						
2009	-	55,078	55,078	0.0%	834,498	6.6%

See accompanying notes to this Schedule.

Gila County
Required Supplementary Information
Agent Retirement Plans'
Note to Schedule of Funding Progress
June 30, 2011

Note 1 – Actuarial Information Available

The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Board of Trustees obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund (Budgetary Basis)
Year Ended June 30, 2011

	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Taxes	\$ 25,338,845	\$ 26,610,775	\$ 1,271,930
Licenses and Permits	582,500	514,038	(68,462)
Intergovernmental	10,647,886	13,120,726	2,472,840
Charges for Services	1,825,851	2,806,835	980,984
Fines and Forfeitures	658,850	765,061	106,211
Investment Income	60,000	65,322	5,322
Miscellaneous	961,912	1,000,012	38,100
Total Revenues	40,075,844	44,882,769	4,806,925
Expenditures:			
Current:			
General government			
Administrative Services	127,898	105,508	22,390
Assessor	1,030,699	1,024,358	6,341
Board of Supervisors	1,136,817	1,198,029	(61,212)
Community Development	1,489,430	1,244,430	245,000
Computer Services	780,100	571,594	208,506
Constituent Services	300,000	267,118	32,882
Elections	691,170	525,799	165,371
Facilities Management	1,884,857	1,775,638	109,219
Finance	677,050	606,545	70,505
General Administration	1,059,722	880,978	178,744
Personnel	254,310	252,748	1,562
Professional Services	629,000	671,832	(42,832)
Purchasing	89,489	82,841	6,648
Recorder	735,846	608,464	127,382
Rural Addressing	121,087	81,587	39,500
Treasurer	694,638	576,399	118,239
Contingency Reserve	9,600,000	-	9,600,000
Judicial Services			
County Attorney	2,264,504	2,557,074	(292,570)
County Attorney - Child Support	959,034	742,430	216,604
Constable - Globe	114,549	110,070	4,479
Constable - Payson	170,744	214,894	(44,150)
Justice Court - Globe	734,677	656,187	78,490
Justice Court - Payson	667,898	559,176	108,722
Indigent Legal Defense	1,196,278	1,108,958	87,320
Clerk of the Superior Court	1,329,148	1,216,789	112,359
Superior Court - Division I	260,412	250,162	10,250
Superior Court - Division II	237,569	237,976	(407)
Superior Court - General	1,011,941	812,423	199,518
Court System Multi-information Systems	385,971	359,231	26,740
Law Library	99,806	95,425	4,381
Conciliation Court Fund	80,410	69,175	11,235
Total General Government	30,815,054	19,463,838	11,351,216

The Notes to the Budgetary Comparison Schedules are an integral part of this schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund (Budgetary Basis) (Continued)
Year Ended June 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Public Safety			
County Sheriff	\$ 10,682,073	\$ 10,506,572	\$ 175,501
County Sheriff - Facilities Management	310,512	282,631	27,881
Emergency Services	529,092	608,473	(79,381)
Flood Plain Management	198,925	171,092	27,833
Juvenile Detention	1,347,982	1,149,613	198,369
Probation	1,071,269	1,293,857	(222,588)
Total Public Safety	<u>14,139,853</u>	<u>14,012,238</u>	<u>127,615</u>
Health	1,401,686	1,373,611	28,075
Welfare			
AHCCCS Contributions	3,504,800	2,971,018	533,782
Indigent Health	25,000	17,529	7,471
Community Agencies	264,500	200,884	63,616
Public Fiduciary	440,102	429,265	10,837
Total Welfare	<u>4,234,402</u>	<u>3,618,696</u>	<u>615,706</u>
Culture and Recreation			
Fairgrounds	275,060	220,229	54,831
Education	402,148	1,992,022	(1,589,874)
Capital Outlay	6,007,541	5,820,342	187,199
Debt Service:			
Principal Retirement	290,000	290,000	-
Interest and Fiscal Charges	331,850	327,850	4,000
Total Debt Service	<u>621,850</u>	<u>617,850</u>	<u>4,000</u>
Total Expenditures	<u>57,897,594</u>	<u>47,118,826</u>	<u>10,778,768</u>
Excess of Revenues over Expenditures	(17,821,750)	(2,236,057)	15,585,693
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	-	9,669	9,669
Transfers In	1,800,000	810,922	(989,078)
Transfers Out	(4,167,909)	(182,500)	3,985,409
Net Other Financing Sources (Uses)	<u>(2,367,909)</u>	<u>638,091</u>	<u>3,006,000</u>
Net Change in Fund Balances	(20,189,659)	(1,597,966)	18,591,693
Fund Balances, Beginning of Year (As Restated)	20,189,659	26,208,491	6,018,832
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 24,610,525</u>	<u>\$ 24,610,525</u>

The Notes to the Budgetary Comparison Schedules are an integral part of this schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works Fund
Year Ended June 30, 2011

	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Taxes	\$ 3,379,536	\$ 2,766,830	\$ (612,706)
Licenses and Permits	3,600	2,859	(741)
Intergovernmental	3,705,278	4,555,893	850,615
Charges for Services	100,000	163,520	63,520
Investment Income	38,000	26,919	(11,081)
Miscellaneous	392,350	20,892	(371,458)
Total Revenues	7,618,764	7,536,913	(81,851)
Expenditures:			
Current:			
Highways and Streets			
Administrative Services	654,975	620,104	34,871
Engineering Services	6,283,953	1,102,014	5,181,939
Survey Department	216,608	230,958	(14,350)
Road Maintenance and Repair	2,599,775	2,581,376	18,399
Maintenance Shops	1,079,426	1,083,217	(3,791)
Total Highways and Streets	10,834,737	5,617,669	5,217,068
Capital Outlay	1,930,000	422,092	1,507,908
Debt Service			
Principal Retirement	132,713	-	132,713
Total Expenditures	12,897,450	6,039,761	6,857,689
Excess of Revenues Over (Under) Expenditures	(5,278,686)	1,497,152	6,775,838
Other Financing Sources (Uses):			
Transfers Out	-	(661,786)	(661,786)
Net Change in Fund Balances	(5,278,686)	835,366	6,114,052
Fund Balances, Beginning of Year	5,278,686	7,830,942	2,552,256
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 8,666,308</u>	<u>\$ 8,666,308</u>

The Notes to the Budgetary Comparison Schedules are an integral part of this schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
Housing Fund
Year Ended June 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 1,839,149	\$ 1,654,055	\$ (185,094)
Donations and Contributions	75,816	195,022	119,206
Total Revenues	<u>1,914,965</u>	<u>1,849,077</u>	<u>(65,888)</u>
Expenditures:			
<i>Current:</i>			
Welfare	1,993,965	1,845,048	148,917
Capital Outlay	<u>1,000</u>	<u>35,250</u>	<u>(34,250)</u>
Total Expenditures	<u>1,994,965</u>	<u>1,880,298</u>	<u>114,667</u>
Excess of Revenues Over (Under) Expenditures	(80,000)	(31,221)	48,779
Other Financing Sources (Uses):			
Transfers In	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Net Change in Fund Balances	-	48,779	48,779
Fund balances, Beginning of Year	<u>-</u>	<u>95,867</u>	<u>95,867</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ 144,646</u>	<u>\$ 144,646</u>

The Notes to the Budgetary Comparison Schedules are an integral part of this schedule.

Gila County
Required Supplementary Information
Notes to the Budgetary Comparison Schedules
June 30, 2011

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 – Expenditures in Excess of Appropriations

For the year ended June 30, 2011, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund:	
Board of Supervisors	\$ 61,212
Professional Services	42,832
County Attorney	292,570
Constable - Payson	44,150
Superior Court - Division II	407
Emergency Services	79,381
Probation	222,588
Education	1,589,874
Public Works Fund:	
Survey Department	14,350
Maintenance Shops	3,791
Housing Fund	
Capital Outlay	34,250

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.

GILA COUNTY, ARIZONA
SINGLE AUDIT
YEAR ENDED JUNE 30, 2011

**GILA COUNTY, ARIZONA
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YEAR ENDED JUNE 30, 2011**

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Report Issued Separately:
Annual Financial Report



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Auditor General of the State of Arizona

Board of Supervisors of
Gila County
Globe, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gila County (the County), as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 14, 2012. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54 and for reporting the Landfill Fund as a proprietary fund instead of in the General Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

The County's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Gila County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gila County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gila County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-01 through 2011-15 to be material weaknesses.

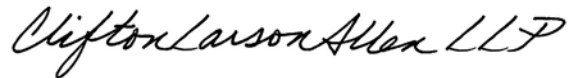
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gila 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*.

We also noted certain matters that we reported to management of Gila County in a separate letter dated March 14, 2012.

Gila County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Gila County's responses and, accordingly, we express no opinion on them.

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, management, the Board of Supervisors, others within the County, and 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.



CliftonLarsonAllen LLP

Mesa, Arizona
March 14, 2012



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Auditor General of the State of Arizona

Board of Supervisors of
Gila County
Globe, Arizona

Compliance

We have audited Gila County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gila County's major federal programs for the year ended June 30, 2011. Gila 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 Gila County's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gila 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 Gila County's compliance with those requirements.

As described in item 2011-16 in the schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the County's compliance with the procurement, suspension and debarment provisions applicable to its Secure Payments for States and Counties Containing Federal Lands Grant (CFDA No. 10.665) and the procurement, suspension and debarment and Davis-Bacon Act provisions applicable to its Highway Planning and Construction Cluster (CFDA No. 20.205), nor were we able to satisfy ourselves as to Gila County's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding Gila County's compliance with the requirements of Secure Payments for States and Counties Containing Federal Lands, procurement, suspension and debarment provisions, and the procurement, suspension and debarment and Davis-Bacon Act provisions applicable to its Highway Planning and Construction Cluster, Gila County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which 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 2011-17, 2011-18, and 2011-20 to 2011-21.

Internal Control over Compliance

Management of Gila County 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 Gila County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gila County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-16 and 2011-19 to be material weaknesses.

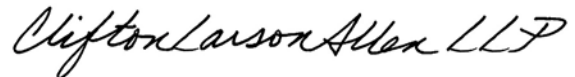
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-17, 2011-18 and 2011-20 through 2011-22 to be significant deficiencies.

Gila County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Gila County's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gila County as of and for the year ended June 30, 2011, and have issued our report thereon dated March 14, 2012. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54 and for reporting the Landfill Fund as a proprietary fund instead of in the General Fund. Our audit was performed 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 is presented for purposes of additional analysis as required by OMB Circular A-133 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.

This report is intended solely for the information and use of the members of the Arizona State Legislator, the Auditor General of the State of Arizona, management, the Board of Supervisors, others within the County, 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.



CliftonLarsonAllen LLP

Mesa, Arizona
March 14, 2012

GILA COUNTY, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG861141, HG050277	\$ 354,876
Commodity Supplemental Food Program	10.555	HG861159-2, HG861159-3	5,003
Secure Payments for States and Counties Containing Federal Lands	10.665	N/A - Direct	\$ 1,899,870
Passed through the U.S. Forest Service, Apache-Sitgreaves National Forest			
Secure Payments for States and Counties Containing Federal Lands	10.665	10-DG11030121018	33,980
Secure Payments for States and Counties Containing Federal Lands	10.665	11-DG-11030121-005	493,298
Total Secure Payments for States and Counties Containing Federal Lands Cluster			<u>2,427,148</u>
Passed through the U.S. Forest Service, Tonto National Forest			
Forest Service Pavement Maintenance Project	10.Unknown	None	163,409
Total U.S. Department of Agriculture			<u>2,950,436</u>
U.S. Department of Commerce			
Passed through the Arizona State Libraries Archives and Public Records			
Broadband Technology Opportunities Program	11.557	BTop111052010	2,750
U.S. Department of Housing and Urban Development			
Section 8 Housing Choice Vouchers			
	14.871	N/A - Direct	320,635
Passed through the Arizona Department of Economic Security			
Emergency Shelter Grants Program	14.231	DE111073001	6,582
Passed through the Arizona Department of Housing			
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.262	506-10	144,412
Community Development Block Grant Cluster			
Community Development Block Grant	14.228	150-09	38,767
Community Development Block Grant	14.228	174-10	48,302
ARRA - Community Development Block Grant	14.255	112-10R	87,704
Passed through the City of Globe			
Community Development Block Grant	14.228	146.09	9,483
Total Community Development Block Grant Cluster			<u>184,256</u>
Total U.S. Department of Housing and Urban Development			<u>655,885</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes			
	15.226	N/A - Direct	3,023,345
Passed through the the U.S. Forest Service, Tonto National Forest			
Challenge Cost Share	15.238	09-CS-110301200-015	124,504
Total U.S. Department of the Interior			<u>3,147,849</u>
U.S. Department of Justice			
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-11-052	9,495
Justice Assistance Grant Program Cluster			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	VA-11-020	17,600
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	DC10-027, DC-10-036	371,520
Total Justice Assistance Grant Program Cluster			<u>389,120</u>
Total U.S. Department of Justice			<u>398,615</u>
U.S. Department of Labor			
Passed through the Arizona Department of Economic Security			
Workforce Investment Act Cluster:			
WIA Adult Program	17.258	DE091206001, DE111006001, DE101045001	505,844
WIA Youth Activities	17.259	DE091206001, DE111006001, DE101045001	618,732
WIA Dislocated Workers	17.260	DE091206001, DE111006001, DE101045001	1,168,182
ARRA WIA Adult Program	17.258	DE091206001, DE111006001, DE101045001	101,467
ARRA WIA Youth Activities	17.259	DE091206001, DE111006001, DE101045001	51,136
ARRA WIA Dislocated Workers	17.260	DE091206001, DE111006001, DE101045001	234,564
Total Workforce Investment Act Cluster			<u>2,679,925</u>
Incentive Grants - WIA Section 503	17.267	DE070295001, DE091206001, DE081297001, E5706004	37,721
Total U.S. Department of Labor			<u>2,717,646</u>

(Continued)

See accompanying notes to schedule of expenditures of federal awards.

GILA COUNTY, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Passed through the Arizona Department of Transportation			
Highway Planning and Construction	20.205	IGA/JPA 08-1321, IGA/JPA 10-161	\$ 1,416,023
ARRA Highway Planning and Construction	20.205	IGA/JPA 09-128	36,806
Total U.S. Department of Transportation			<u>1,452,829</u>
Federal Library Services Technology Act			
Passed through the Arizona State Library, Archives and Public Records			
Library Services and Technology Grant	45.310	2010-300098-01, 2010-39046-4, 11-A-4	68,000
U.S. Department of Energy			
Passed through the Arizona Department of Commerce			
Weatherization Assistance for Low Income Persons	81.042	C052-09-02, G043-10-02	241,164
ARRA - Weatherization Assistance for Low Income Persons	81.042	C037-09-02	840,399
Total U.S. Department of Energy			<u>1,081,563</u>
U.S. Department of Education			
Impact Aid	84.041	N/A - Direct	134,738
Passed through the Arizona Governor's Office of Economic Recovery			
ARRA - State Fiscal Stabilization Fund	84.394	GOER-FY2010-506-E	\$ 16,034
ARRA - State Fiscal Stabilization Fund	84.394	OER-11-IGA-GS-30	230,769
ARRA - State Fiscal Stabilization Fund	84.394	OER-11-IGA-GS-143	50,000
Total ARRA - State Fiscal Stabilization Fund Cluster			<u>296,803</u>
ARRA - Education Jobs Fund	84.410	ISA OER-11 ISA-EJ-001	28,327
Passed through the Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A090003	36,752
English Language Acquisition Grants	84.365	S365A090003	12,366
Mathematics and Science Partnerships	84.366	S366B080003, S366B090003	428,514
Adult Education--Basic Grants to States	84.002	V002A100003	71,595
Rural Education	84.358	S358B090003	1,614
Passed through the Arizona Department of Education			
Special Education Cluster:			
Special Education - Grants to State	84.027	H027A100007	14,739
ARRA Special Education	84.391	H391A090007	134
Passed through the Arizona Supreme Court			
Special Education - Grants to State	84.027	IGA	31,077
ARRA Special Education	84.391	IGA	7,820
Total Special Education Cluster			<u>53,770</u>
Passed through the Arizona Department of Education			
Education Technology State Grant Cluster:			
Education Technology State Grants	84.318	S318X090003	172
ARRA - Education Technology State Grants	84.386	S386A090003	484
Passed through Pima County			
Enhancing Education Through Technology	84.318	11FETSTP-160950-02A	72,093
Total Education Technology State Grant Cluster:			<u>72,749</u>
Passed through the Arizona Supreme Court			
Title I Program for Neglected and Delinquent Children	84.013	29823	20,246
Improving Teacher Quality State Grants	84.367	S367A090049	
Improving Teacher Quality State Grants	84.367	29823	6,718
Passed through the Arizona Department of Education			
Improving Teacher Quality State Grants	84.367	S367A00049	83,135
Total Improving Teacher Quality State Grants			<u>89,853</u>
Total U.S. Department of Education			<u>1,247,327</u>
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Health Services			
Public Health Preparedness & Response for Bioterrorism	93.069	HG754195	248,052
Affordable Care Act Abstinence Education Program	93.235	E1H38059	1,000
Immunization Grants Cluster:			
Immunization Grants	93.268	HG8525428-0	25,000
ARRA Immunizations	93.712	HG854284	23
Total Immunization Grants Cluster			<u>25,023</u>
HIV Prevention Activities -- Health Department Based	93.940	HG852277-1	4,858
Maternal and Child Health Services Block Grant, Special Needs	93.994	HG854246-2, HG854246-3, HP961245-003	21,856

(Continued)

See accompanying notes to schedule of expenditures of federal awards.

GILA COUNTY, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services (Continued)			
Passed through the Arizona Department of Economic Security			
Temporary Assistance for Needy Families	93.558	DE111073001	\$ 139,297
Child Support Enforcement	93.563	DES06726-1, DE111165001	1,109,027
Low-Income Home Energy Assistance	93.568	DE111073001	303,197
Community Services Block Grant Cluster:			
Community Services Block Grant	93.569	DE111073001	\$ 93,298
ARRA - Community Services Block Grant	93.710	DE111073001	<u>21,375</u>
Total Community Services Block Grant Cluster			114,673
Social Services Block Grant	93.667	DE111073001	19,172
HIV Care Formula Grants	93.917	HP652141-001-0	<u>66,479</u>
Total U.S. Department of Health and Human Services			<u>2,052,634</u>
U.S. Department of Homeland Security:			
Passed through the Arizona Department of Homeland Security			
Homeland Security Grant Program	97.067	777305-01, 777305-02, 444307-02	162,799
Passed through the Arizona Department of Emergency Services and Military Affairs			
		EMW-2011-EP-APP-00006	
Emergency Management Performance Grant	97.042	EMP-2011 RC-001-ADEM RFC-09 AZ- 2010	<u>192,127</u>
Total U.S. Department of Homeland Security			<u>354,926</u>
Total Expenditures of Federal Awards			<u>\$ 16,130,460</u>

See accompanying notes to schedule of expenditures of federal awards.

**GILA COUNTY, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

NOTE 1 BASIS OF ACCOUNTING

The 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 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 THE REPORTING ENTITY

Gila County, Arizona, for purposes of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government as defined by Government Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*.

Gila County, Arizona, administers certain federal financial assistance programs through sub-recipients. Those sub-recipients are not considered part of the Gila County, reporting entity.

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 & 17.267	\$ 1,073,286
Secure Payments for States and Counties Containing Federal Lands	10.665	1,599,002

NOTE 4 RECOVERY ACT

ARRA denotes the program has received funding provided by the American Recovery and Reinvestment Act of 2009.

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified for all major programs, except for the Secure Payments for States and Counties Containing Federal Lands (CFDA No. 10.665) and the ARRA Highway Planning and Construction Cluster (CFDA No. 20.205), which were qualified.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X yes no

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITORS’ RESULTS (CONTINUED)

Federal Awards (Continued)

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.665	Secure Payments for States and Counties Containing Federal Lands
15.226	Payments in Lieu of Taxes
16.738	Justice Assistance Grant Program Cluster: Edward Byrne Memorial Justice Assistance Grant
16.803	ARRA Edward Byrne Memorial Justice Assistance Grant
17.258, 17.259 & 17.260	Workforce Investment Act Cluster
20.205	ARRA Highway Planning and Construction Cluster
81.042	ARRA Weatherization Assistance for Low- Income Persons
93.563	Child Support Enforcement

Dollar threshold used to distinguish between
Type A and Type B programs:

\$483,914

Auditee qualified as low-risk auditee?

_____ yes X no

Other Matters

Auditee Summary Schedule of Prior Audit
Findings required to be reported in accordance
with Circular A-133 (Section .315(b))

 X yes _____ no

GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-01: Oversight of the Financial Reporting Process

Condition: The County does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management contracted with the auditors to draft the financial statements and related disclosures.

The audit firm proposed entries to properly state cash, receivables, revenues and inter-fund activity at June 30, 2011. The audit firm also proposed the government-wide adjustments to convert the fund financial statements to the government-wide financial statements. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the County's internal control processes.

Criteria: The County should have controls in place to prevent and detect a material misstatement in the financial statements, including adequately reviewing the year-end financial statements to ensure account balances are properly stated and for ensuring the financial statements include all required disclosures.

Effect: Significant audit adjustments were proposed and subsequently approved by management to properly state year-end balances in the fund and government-wide financial statements.

Cause: The County has not established controls to ensure accounts are adjusted to their appropriate year-end balances in accordance with GAAP. The County relies on contracted professionals to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Recommendation: We recommend the County continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure accounts are properly stated at year-end in accordance with GAAP. Additionally, we recommend that the County review these adjustments and modify year-end reconciling procedures in an effort to avoid similar adjustments next year.

Lastly, should the County elect to establish the "full oversight" of the financial statement preparation, we suggest management establish effective review policies and procedures, including, but not limited to, the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approve schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management, including a recalculation of major funds.

Corrective Action: The County concurs with this recommendation and will reconcile all year-end account balances in the future. The County will also consider the recommendation in order to take "full oversight" of the financial statement preparation and will consult with its auditors to remedy this finding.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-02: Accounts Payable and Receivable Ledgers

Condition: The accounts payable and receivable subsidiary ledgers were not reconciled to the general ledger.

Criteria: The County should have controls in place to reconcile general ledger activity to the subsidiary accounts payable and accounts receivable ledger to prevent and detect material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements, including reconciling accounts payable and accounts receivable to the subsidiary ledger and investigating any variances from the general ledger.

Effect: Opportunity for errors in financial reporting.

Cause: The County has not established controls to reconcile the accounts payable and accounts receivable subsidiary ledgers to the general ledger.

Recommendation: We recommend the County continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure subsidiary ledgers are reconciled to the general ledger.

Corrective Action: The County concurs with this recommendation and will review its current procedures and will develop internal controls to ensure compliance in the upcoming fiscal year.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-03: Departmental Bank Accounts

Condition: County departments receiving checks have established separate checking accounts to be used as a clearing account. On a monthly basis, the cash from these checking accounts is deposited with the Treasurer's office. The June collections deposited in July were not always indicated as such and therefore not recorded in the proper fiscal year. Cash retained in the department bank accounts is tracked, however not reported as cash in the County's financial statements.

Criteria: The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions. Departmental cash balances should be reported to finance at year end to ensure they are properly included in ending cash.

Effect: Opportunity for errors in financial reporting.

Cause: The County has operated in this manner for the past several years without changed its accounting practice.

Recommendation: We recommend County management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions and develop internal control policies to ensure all cash balances and transactions are included in the financial activity at the end of the year.

Corrective Action: The County concurs with this recommendation and will review its current procedures and will develop internal controls to ensure compliance in the upcoming fiscal year.

Contact Person: Joseph Heatherly, Finance Director

GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-04: Physical Inventory of Supplies

Condition: Public works maintains an ongoing inventory of supplies; however, a count is not performed at or near fiscal year end and the department is not able to generate an inventory report at fiscal year end.

Criteria: The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions. Proper asset accountability requires that detailed records of inventory be maintained. Physical counts of inventory contribute to accurate and reliable inventory records.

Effect: Opportunity for errors in financial reporting.

Cause: The County did not have internal controls established to ensure a physical inventory of public works supplies was conducted at fiscal year end.

Recommendation: We recommend County management conduct a physical inventory of capital supplies inventory annually at or near fiscal year end and investigate and resolve any variances.

Corrective Action: The County concurs with this recommendation and will conduct a physical inventory of supplies inventory annually.

Contact Person: Joseph Heatherly, Finance Director

2011-05: Rural School District – Segregation of Duties

Condition: The County does not have adequate segregation of duties at the Rural School District. The recordkeeping and custody of assets functions are performed by one individual.

Criteria: County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few number of individuals is not desirable from an internal control perspective.

Effect: A lack of segregation of duties may result in the County's inability to prevent or detect material misappropriation of County assets.

Cause: Limited number of personnel.

Recommendation: We recommend County management be aware of the lack of segregation of duties and assess whether additional segregation of duties is cost beneficial. If additional segregation is not feasible, we recommend County management implement oversight procedures to ensure the internal control policies and procedures are being followed by County staff.

Corrective Action: The County concurs with this recommendation and will review its current procedures and will develop internal controls to ensure compliance in the upcoming fiscal year.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-06: County and Rural School District– Internal Controls over Payroll Transactions

Condition: The County was unable to provide payroll authorization forms indicating the account code employees are assigned for 13 of 20 Rural School District personnel files tested. Timesheets were not approved by management for 3 of 60 County payroll transactions tested.

Criteria: County management should have procedures designed that require employees to document the completion of key internal controls, including signing documents indicating supervisor review.

Effect: Documentation was not available to determine designed controls were being performed by employees.

Cause: Unknown.

Recommendation: We recommend County management review the internal controls over the payroll process and develop procedures to strengthen the current process. Payroll authorization forms should indicate the general ledger account code for the program being charged and should indicate approval by management. Timesheets should be reviewed for accuracy by management.

Corrective Action: The County concurs with this recommendation and implemented controls over the payroll account coding during the fiscal year. The current process will be reviewed to ensure compliance in the upcoming year.

Contact Person: Joseph Heatherly, Finance Director

2011-07: Education Service Agency (ESA) and Rural School District– Internal Controls over Disbursements

Condition: The County was unable to provide documentation of management review and approval for 2 of 40 ESA and 25 of 40 Rural School District purchase requisitions tested.

Criteria: The County's management is responsible for establishing and maintaining internal controls to ensure all purchases are adequately reviewed and approved prior to purchase.

Effect: Documentation was not available to determine designed controls were being performed by management.

Cause: Unknown.

Recommendation: In order to strengthen internal controls, all requisitions should be reviewed and approved by management prior to purchasing goods and/or services.

Corrective Action: The County concurs with this recommendation and will review requisitions in order to strengthen internal controls.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-08: Rural School District– Internal Controls over Disbursements

Condition: The County was unable to provide an approved receiving report for 2 of 20 Rural School District disbursements tested. Without a receiving report the County is unable to provide documentation of the verification of goods received.

Criteria: The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions.

Effect: Documentation was not available to determine designed controls were being performed by employees.

Cause: Unknown.

Recommendation: In order to strengthen internal controls, a receiving report should be prepared to indicate the receipt of goods in satisfactory condition.

Corrective Action: The County concurs with this recommendation and will work with receiving personnel to ensure a receiving report is prepared.

Contact Person: Joseph Heatherly, Finance Director

2011-09: Internal Controls over Credit Card Disbursements

Condition: The County was unable to provide an invoice supporting credit card purchases for 5 of 50 credit card disbursements tested. Without an invoice the County is unable to provide documentation that the purchase was allowable and reasonable. For 1 of 50 credit card disbursements tested, the purchase was not approved.

Criteria: The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions.

Effect: Documentation was not available to determine designed controls were being performed by employees.

Cause: Unknown.

Recommendation: In order to strengthen internal controls, invoices should be obtained for all credit card purchases to ensure that purchases are allowable and reasonable. Credit card receipts should be reconciled to credit card statements and approved.

Corrective Action: The County concurs with this recommendation and will work with personnel to ensure credit card receipts are obtained and reconciled to credit card statements.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-10: County, ESA and Rural School District– Journal Entries

Condition: The County was unable to provide evidence that journal entries were reviewed and approved by an employee independent of the journal entry preparation prior to system input for 2 of 6 County, 1 of 5 ESA and 2 of 5 Rural School District journal entries tested. In addition, documentation was not maintained to support the Rural School District journal entries.

Criteria: The duties of journal entry preparation and journal entry review and approval should be segregated. In addition, documentation should be maintained to support the purpose of the journal entry.

Effect: Internal control weakness. Fraudulent or erroneous journal entries could be entered into the accounting system and go undetected and uncorrected.

Cause: Unknown.

Recommendation: We recommend that County management take the proper steps to ensure the duties of journal entry preparation and approval are segregated. In addition, the County should implement procedures to ensure that all journal entries are supported by adequate documentation.

Corrective Action: The County concurs with this recommendation and will develop policies and procedures over the journal entry process.

Contact Person: Joseph Heatherly, Finance Director

2011-11: County–Policies

Condition: The County does not have written journal entry policies or procedures.

Criteria: Internal control procedures would dictate that policies and procedures over journal entries are necessary to prevent and detect a material misstatement.

Effect: Policies and procedures provide a framework in which internal controls should be designed and implemented. The lack of such policies and procedures weakens internal controls over journal entries due to the County not addressing key controls over financial statement assertions.

Cause: Past practice.

Recommendation: We recommend that County management write a policies and procedures manual to cover journal entry functions.

Corrective Action: The County concurs with this recommendation and has developed policies and procedures over journal entries.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-12: ESA-Policies

Condition: The ESA does not have written payroll and accounts payable disbursements policies or procedures. Personnel manuals and accounting manuals were not maintained.

Criteria: Internal control procedures would dictate that policies and procedures over payroll and general disbursements are necessary to prevent and detect a material misstatement.

Effect: Policies and procedures provide a framework in which internal controls should be designed and implemented. The lack of such policies and procedures weakens internal controls over payroll and accounts payable processing due to the County not addressing key controls over financial statement assertions.

Cause: Past practice.

Recommendation: We recommend that County management write a policies and procedures manual to cover payroll and accounting functions.

Corrective Action: The County concurs with this recommendation and will formalize an accounting policy that addresses key financial statement assertions. The ESA is in the process of drafting policies.

Contact Person: Joseph Heatherly, Finance Director

2011-13: Disaster Recovery Plan

Condition: The County does not have a written disaster recovery plan.

Criteria: Internal control frameworks recommend that organizations have plans and procedures in place to address information technology needs in the event of a disaster, including: location of, and access to, off-site data storage; a list of all data files that would have to be obtained from the off-site storage location; identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing, responsibilities of various personnel in an emergency, and priority of critical applications and reporting requirements during an emergency period.

Effect: In case of a disaster the County may be at an increased risk of losing critical financial data or other data critical to operations. The County may also have difficulty establishing minimum operations if a disaster were to occur.

Cause: Past practice.

Recommendation: We recommend the County update and expand its plans and procedures relating to business resumption in the event of a disaster.

Corrective Action: The County concurs with this recommendation and will review its current policy and develop a policy and action plan in the event of a disaster.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-14: Internal Controls over Revenues

Condition: The County does not have adequate controls over revenues to ensure that all material revenues are properly accrued in the financial statements.

Criteria: The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions.

Effect: Significant audit adjustments were proposed and subsequently approved by management to properly state year-end balances in the fund and government-wide financial statements.

Cause: The County has not established controls to ensure accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

Recommendation: We recommend the County review revenue cutoff procedures to ensure that revenues are recorded in the proper fiscal year.

Corrective Action: The County concurs with this recommendation and will review cutoff procedures and develop internal controls as appropriate.

Contact Person: Joseph Heatherly, Finance Director

2011-15: Internal Controls over Capital Assets

Condition: The County does not have adequate controls over capital assets to ensure capital assets are properly reconciled to the prior year audited financial statements. In addition, capital expenditures were not always capitalized and disposals were not always removed from the listing when sold.

Criteria: The County's management is responsible for establishing and maintaining internal controls for the proper recording of all the County's accounting transactions.

Effect: Significant audit adjustments were proposed and subsequently approved by management to properly state capital asset balances in the government-wide and proprietary fund financial statements.

Cause: The County has not established controls over capital assets to ensure the capital assets listing is updated for acquisitions and disposals at least annually.

Recommendation: We recommend the County review capital asset procedures to ensure that the capital assets listing is updated for acquisitions and disposals at least annually and reconciled to the prior year ending balances.

Corrective Action: The County concurs with this recommendation and will review the capital assets procedures and develop internal controls as appropriate.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF AGRICULTURE

SECURE PAYMENTS FOR STATES AND COUNTIES CONTAINING FEDERAL LANDS

CFDA No. 10.665

DIRECT GRANT AND PASSED THROUGH THE U.S. FOREST SERVICE, APACHE-SITGREAVES NATIONAL FOREST

PASS THROUGH NUMBER 10-DG11030121018 AND 11-DG-11030121-005

U.S. DEPARTMENT OF TRANSPORTATION

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER

CFDA No. 20.205

PASSED THROUGH THE ARIZONA DEPARTMENT OF TRANSPORTATION

PASS THROUGH NUMBER IGA/JPA 08-1321, IGA/JPA 10-161, IGA/JPA 09-128

2011-16

Condition/Context: The County did not retain grant documentation to support compliance with provisions of the grant agreements.

Criteria: Grant documentation shall be retained to demonstrate compliance with provisions of grant agreements.

Effect: For the Secure Payments for States and Counties Containing Federal Lands, compliance with procurement, suspension and debarment could not be determined. In addition, although the compliance supplement did not require adherence to the Davis-Bacon Act, the grant agreement required adherence to the Davis-Bacon Act and documentation was not maintained to determine compliance with the grant agreement.

For the Highway Planning and Construction Cluster, compliance with procurement, suspension and debarment and the Davis-Bacon Act could not be determined.

Questioned Cost: Undeterminable.

Cause: The County was the grantee and used both grants to pay the Arizona Department of Transportation (ADOT) to perform all work related to a roadway project. The County did not request documentation from ADOT to determine adherence to the provisions of the grant agreement.

Recommendation: We recommend County management review the internal controls over grant management and implement procedures to ensure grant documentation is retained.

Corrective Action: The County concurs with this recommendation and will implement controls over grant management to ensure that the appropriate documentation is retained. The County is in the process of obtaining information from ADOT to support adherence to the provisions of the grant agreement.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF JUSTICE
JUSTICE ASSISTANCE GRANT PROGRAM CLUSTER
CFDA No. 16.738 & 16.803
PASSED THROUGH THE ARIZONA CRIMINAL JUSTICE COMMISSION
PASS THROUGH NUMBER DC 10-027, DC-10-036, AND VA-11-020**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
CHILD SUPPORT ENFORCEMENT
CFDA No. 93.563
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DES06725-1, DE111165001 AND DES06726-1**

2011-17

Condition: Federal financial and performance reports were not completed and submitted to the Arizona Criminal Justice Commission. Federal financial and performance reports were not reviewed by supervisory personnel prior to submission to the Arizona Department of Economic Security.

Context: For 4 of 4 Byrne Grant Section 1512 reports tested, reports were not completed and submitted; 4 of 4 Byrne Grant Cycle 23 reports tested were not completed and submitted; and 2 of 3 Child Support Enforcement financial statistical reports tested were not reviewed by supervisory personnel prior to submission.

Criteria: The grant agreement and entities receiving federal awards are required to establish and maintain internal controls designed to ensure compliance with federal laws, regulations, and program compliance

Effect: Noncompliance with the grant agreement and as a result of a lack of review of financial and performance reports, there is an increased risk that financial and performance reports will be submitted to a third party with errors.

Questioned Cost: None.

Cause: County oversight.

Recommendation: We recommend the County establish and maintain internal controls over grant financial and performance reports. Reports submitted to a third party should be reviewed by supervisory personnel with knowledge of grant operations.

Corrective Action: The County concurs with this recommendation and will establish and maintain internal controls over grant reporting; those controls will be immediately implemented to ensure compliance for the fiscal year 2011-12.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF JUSTICE
JUSTICE ASSISTANCE GRANT PROGRAM CLUSTER
CFDA No. 16.738 & 16.803
PASSED THROUGH THE ARIZONA CRIMINAL JUSTICE COMMISSION
PASS THROUGH NUMBER DC 10-027, DC-10-036, AND VA-11-020**

**U.S. DEPARTMENT OF TRANSPORTATION
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER
CFDA No. 20.205
PASSED THROUGH THE ARIZONA DEPARTMENT OF TRANSPORTATION
PASS THROUGH NUMBER IGA/JPA 08-1321, IGA/JPA 10-161, IGA/JPA 09-128**

**U.S. DEPARTMENT OF ENERGY
WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS
CFDA No. 81.042
PASSED THROUGH THE ARIZONA DEPARTMENT OF COMMERCE
PASS THROUGH NUMBER C037-09-02, C052-09-02 AND G043-10-02**

2011-18

Condition: Cash management reports were not submitted timely and were not reviewed by supervisory personnel prior to submission.

Context: Cash management reports were not submitted timely for 7 of 12 cash management reports for the DC-10-036 Justice Assistance Grant Program Cluster. Cash management reports were not reviewed by supervisory personnel prior to submission for 12 of 12 cash management reports for the DC-10-027 Justice Assistance Grant Program Cluster, 2 of 12 cash management reports for the DC-10-036 Justice Assistance Grant Program Cluster, 3 of 12 Highway Planning and Construction Cluster, and 6 of 36 reimbursement requests tested for the Weatherization Assistance for Low-Income Persons grant.

Criteria: The grant agreement and entities receiving federal awards are required to establish and maintain internal controls designed to ensure compliance with federal laws, regulations and program compliance.

Effect: Noncompliance with the grant agreement and as a result of the lack of review of cash management reports and submission of those reports timely, there is an increased risk that reports could be submitted to a third party with errors or could be rejected as a result of reports not being submitted timely.

Questioned Cost: None.

Cause: The County does not have internal controls in place to ensure that cash management reports are completely accurately and submitted on a timely basis.

Recommendation: We recommend a reporting deadline monitoring system be considered in order to minimize the risk of missed deadlines and potential loss of funds. Cash management reports should be supported by accounting records and reviewed by supervisory personnel prior to submission to a third party.

Corrective Action: The County concurs with this recommendation and will immediately implement internal control procedures to ensure timely and accurate reporting to avoid similar findings in the 2011-12 fiscal year.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF LABOR
WORKFORCE INVESTMENT ACT CLUSTER
CFDA No. 17.258, 17.259, & 17.260
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DE091206001, DE101045001 AND DE111006001**

2011-19

Condition/Context: Grant reimbursements were not reconciled to the expenditures. Expenditures were not accurately reported by CFDA number on the schedule of expenditures of federal awards.

Criteria: The County should maintain accounting records in sufficient detail to properly report expenditures by CFDA number on the schedule of expenditures of federal awards.

Effect: Internal control weakness, as well as significant audit adjustments were necessary to correct the allocation of federal expenditures between CFDA numbers.

Questioned Cost: None.

Cause: Inconsistencies in account coding.

Recommendation: We recommend the County review the control procedures and processes involved in recording cash receipts and develop internal control policies to ensure proper recording. Reimbursements should be reconciled to grant expenditures to ensure completeness. In addition, the grant revenues and expenditures should be reconciled by CFDA number to ensure grants are properly reported on the schedule of federal expenditures by CFDA number.

Corrective Action: The County concurs with this recommendation and will immediately implement internal control procedures to ensure proper reconciling and accurate reporting of the schedule of federal expenditures for the fiscal year ended June 30, 2012.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

CHILD SUPPORT ENFORCEMENT

CFDA No. 93.563

PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY

PASS THROUGH NUMBER DES06725-1, DE111165001 AND DES06726-1

2011-20

Condition/Context: The August 2010 through October 2010 Certified Public Expenditure Reports were filed with the Arizona Department of Economic Security using the prior year approved indirect cost rate (fiscal year 2009).

Criteria: The grant agreement requires the County to use the approved indirect cost rate received for each fiscal year to calculate the allowable indirect costs charged to the grant. That approved indirect cost rate should be applied to the appropriate fiscal year.

Effect: The current year approved cost rate exceeded the indirect rate actually charged to the grant; therefore the County did not request reimbursement for all eligible expenditures.

Questioned Cost: None.

Cause: Court Clerk personnel were unaware that indirect cost rates changed annually.

Recommendation: We recommend the County review expenditures charged to the program to ensure they are properly supported. The Cost Allocation Plan should be provided to all departments charging indirect costs to the grant.

Corrective Action: The County concurs with this recommendation and will review the internal controls over expenditures to ensure a process is in place for accurate reporting. In addition, the County will review the indirect cost rate used for the 2011-12 fiscal. The County had updated the indirect cost rate for the remainder of the 2012 year.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

CHILD SUPPORT ENFORCEMENT

CFDA No. 93.563

PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY

PASS THROUGH NUMBER DES06725-1, DE111165001 AND DES06726-1

2011-21

Condition/Context: Child Support Enforcement expenditures from the Court Clerk's office are unidentifiable within the County ledger system. The child support expenditures are commingled with other Court Clerk department expenditures.

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

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

Questioned Cost: None.

Cause: Inadequate account code structure.

Recommendation: We recommend the County restructure its chart of accounts to better segregate and track expenditures reimbursed by a third party.

Corrective Action: The County concurs with this recommendation and will immediately review the account structure and modify the account structure, as necessary, to ensure compliance with the Code of Federal Regulations. The account structure modification was not completed by June 30, 2011. New account code structures have been established for the 2012 fiscal year.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

**U.S. DEPARTMENT OF LABOR
ARRA WORKFORCE INVESTMENT ACT CLUSTER
CFDA No. 17.258, 17.259, & 17.260
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DE091206001, DE101045001 AND DE111006001**

**U.S. DEPARTMENT OF ENERGY
WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS
CFDA No. 81.042
PASSED THROUGH THE ARIZONA DEPARTMENT OF COMMERCE
PASS THROUGH NUMBER C037-09-02, C052-09-02 AND G043-10-02**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
CHILD SUPPORT ENFORCEMENT
CFDA No. 93.563
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DES06725-1, DE111165001 AND DES06726-1**

2011-22

Condition/Context: For 3 of 60 payroll disbursements tested for Gila County, determined employee timesheets were not properly reviewed and approved by management.

Criteria: The County should design internal controls to ensure timesheets of hourly employees are properly reviewed and approved by management.

Effect: Internal control weakness.

Questioned Cost: None.

Cause: Unknown

Recommendation: We recommend County management review the internal controls over the payroll process and develop procedures to strengthen the current process. Timesheets should be reviewed and approved by management.

Corrective Action: The County concurs with this recommendation and implemented controls over the payroll account coding during the 2012 fiscal year. The current process will be reviewed to ensure compliance in the upcoming year.

Contact Person: Joseph Heatherly, Finance Director

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR YEAR REFERENCE NUMBER: 2010-17, 2009-17, 08-21, 07-23, 06-22, 05-24, 04-24

Condition: The financial and compliance audit was not completed within nine months of the end of the fiscal year.

Status: Fully corrected during the current fiscal year.

**U.S. DEPARTMENT OF JUSTICE
JUSTICE ASSISTANCE GRANT PROGRAM CLUSTER
CFDA No. 16.738 & 16.803
PASSED THROUGH THE ARIZONA CRIMINAL JUSTICE COMMISSION
PASS THROUGH NUMBER DC 10-027, DC-10-036, DC-09-026 AND DC-09-029**

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
CHILD SUPPORT ENFORCEMENT
CFDA No. 93.563
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DES06725-1 AND DES06726-1
PRIOR REFERENCE NUMBER: 2010-18**

Condition: Federal financial and performance reports were not reviewed by supervisory personnel prior to submission to a third party.

Status: Not corrected. Similar condition and corrective action noted as item 2011-17.

**U.S. DEPARTMENT OF LABOR
WORKFORCE INVESTMENT ACT CLUSTER
CFDA No. 17.258, 17.259, & 17.260
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DE070295001, DE091206001, DE081297001 AND E5706004**

**U.S. DEPARTMENT OF ENERGY
WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS
CFDA No. 81.042
PASSED THROUGH THE ARIZONA DEPARTMENT OF COMMERCE
PASS THROUGH NUMBER C037-09-02, C051-09-02 AND C052-09-02
PRIOR REFERENCE NUMBER: 2010-19**

Condition: The schedule of expenditures of federal awards did not identify expenditures of Recovery Act awards as required by OMB Circular A-133. The schedule of expenditures of federal awards required significant adjustments to report actual expenditures.

Status: Fully corrected during the current fiscal year. No similar instances were brought to our attention in the current fiscal year.

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

**U.S. DEPARTMENT OF JUSTICE
JUSTICE ASSISTANCE GRANT PROGRAM CLUSTER
CFDA No. 16.738 & 16.803
PASSED THROUGH THE ARIZONA CRIMINAL JUSTICE COMMISSION
PASS THROUGH NUMBER DC 10-027, DC-10-036, DC-09-026 AND DC-09-029
PRIOR REFERENCE NUMBER: 2010-20**

Condition: Cash management reports were not submitted timely, were not supported by County accounting records, and were not reviewed by supervisory personnel prior to submission.

Status: Partially corrected. Similar condition and corrective action noted as item 2011-18.

**U.S. DEPARTMENT OF LABOR
WORKFORCE INVESTMENT ACT CLUSTER
CFDA No. 17.258, 17.259, & 17.260
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DE070295001, DE091206001, DE081297001 AND E5706004
PRIOR REFERENCE NUMBER: 2010-21**

Condition: Grant reimbursements were not reconciled to the expenditures. Expenditures were not accurately reported by CFDA number on the schedule of expenditures of federal awards.

Status: Not corrected. Similar condition and corrective action noted as item 2011-19.

**U.S. DEPARTMENT OF ENERGY
WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS
CFDA No. 81.042
PASSED THROUGH THE ARIZONA DEPARTMENT OF COMMERCE
PASS THROUGH NUMBER C037-09-02, C051-09-02 AND C052-09-02
PRIOR REFERENCE NUMBER: 2010-22**

Condition: The County has not performed a physical inventory of equipment acquired under federal awards within the last two years. Capital assets purchased under federal awards were not always added to the capital asset listing.

Status: Fully corrected during the current fiscal year. No similar instances were brought to our attention in the current fiscal year.

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
CHILD SUPPORT ENFORCEMENT
CFDA No. 93.563
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DES06725-1 AND DES06726-1
PRIOR REFERENCE NUMBER: 2010-23**

Condition: The October 2009 through June 2010 Certified Public Expenditure Reports were filed with the Arizona Department of Economic Security using the prior year approved indirect cost rate (fiscal year 2009).

Status: Not corrected. Similar condition and corrective action noted as item 2011-20.

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
CHILD SUPPORT ENFORCEMENT
CFDA No. 93.563
PASSED THROUGH THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY
PASS THROUGH NUMBER DES06725-1 AND DES06726-1
PRIOR REFERENCE NUMBER: 2010-24, 2009-16, 08-19, 07-21, 06-20, 05-21, 04-21, 03-101**

Condition: Child Support Enforcement expenditures from the Court Clerk's office are unidentifiable within the County ledger system. The child support expenditures are commingled with other Court Clerk department expenditures.

Status: Not corrected. Similar condition and corrective action noted as item 2011-21.

**U.S. DEPARTMENT OF EDUCATION
MATHEMATICS AND SCIENCE PARTNERSHIPS
CFDA No. 84.366
PRIOR REFERENCE NUMBER: 2009-19**

Condition: Time certifications were not prepared to document employee's time charged to multiple activities.

Status: Fully corrected during the current fiscal year. No similar instances were brought to our attention in the current fiscal year.

**GILA COUNTY, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONCLUDED)

**U.S. DEPARTMENT OF EDUCATION
MATHEMATICS AND SCIENCE PARTNERSHIPS
CFDA No. 84.366
PRIOR REFERENCE NUMBER: 2009-20**

Condition: Personnel files for 2 employees that worked for the grant did not have the current employment contracts or payroll authorization forms.

Status: Fully corrected during the current fiscal year. No similar instances were brought to our attention in the current fiscal year.

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH EMERGENCY PREPAREDNESS
CFDA No. 93.069
PRIOR REFERENCE NUMBER: 08-20, 07-22, 05-18, 04-18, 03-102**

Condition: Eight out of nineteen expenditure reports were not submitted timely. The reports were 5 to 65 days late.

Status: Condition was not corrected in fiscal year 2011. Six of sixteen reports tested were not submitted timely.