

Gila County
Single Audit Reporting Package
Year Ended June 30, 2008

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Year Ended June 30, 2008

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Year Ended June 30, 2008**

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Independent Auditor's Report

The Auditor General of the State of Arizona

The Board of Supervisors of
Gila County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represent changes in accounting principles.

The Management's Discussion and Analysis on pages 3 through 9, the Schedule of Agent Retirement Plans' Funding Progress on pages 41 through 42, and the Budgetary Comparison Schedules on pages 43 through 49 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such compliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2010, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Miller, Allen & Co., P.C.

February 26, 2010

Gila County
Management's Discussion and Analysis
June 30, 2008

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, 2008. 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 \$49,223,503 (net assets). Of this amount, \$25,244,430 (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 \$28,842,889, an increase of \$935,212 in comparison with the prior year's balance of \$27,907,677.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,532,783 or 30% of total general fund expenditures.
- The County's total long-term liabilities decreased by a net of \$1,350,686 during the current fiscal year in comparison with the prior year's balance of \$7,750,594. Key factors in this decrease included (a) scheduled principal payments of \$1,630,455, (b) an increase in the landfill closure and postclosure costs of \$184,531 and, (c) a net increase in compensated absences of \$95,238 during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements 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.

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.

Gila County
Management's Discussion and Analysis
June 30, 2008

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

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

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

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

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

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

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

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

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

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.

Gila County
Management's Discussion and Analysis
June 30, 2008

The notes to the financial statements can be found on pages 19 through 39 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 41 through 49 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 \$49,223,503.

Condensed Statement of Net Assets
(in thousands)
Governmental Activities
June 30, 2008 and 2007

	2008	Restated 2007
Assets:		
Current and other assets	\$ 32,941	\$ 31,265
Capital assets	26,195	25,826
Total assets	59,136	57,091
Liabilities:		
Long-term liabilities outstanding	6,400	7,751
Other liabilities	3,512	3,026
Total liabilities	9,912	10,777
Net assets:		
Invested in capital assets, net of related debt	23,654	21,655
Restricted for debt service	325	327
Unrestricted	25,245	24,332
Total net assets	\$ 49,224	\$ 46,314

By far the largest portion of Gila County's net assets is unrestricted. Unrestricted net assets of \$25,244,430 or 51% may be used to meet Gila County's ongoing obligations to citizens and creditors. The second largest portion is \$23,653,949 or 48% of the total net assets that reflects its investment in capital assets (e.g. land, buildings, equipment, vehicles and infrastructure), less accumulated depreciation, and any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Gila County
Management's Discussion and Analysis
June 30, 2008

The 2007 balances were restated to correct prior years' errors in recording certain capital assets and the related accumulated depreciation. Restated balances have been audited.

Statement of Activities

Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during the current fiscal year. A chart of changes in net assets follows. For the fiscal year, net assets increased \$2,909,699, all coming from governmental activities. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes that are used, in part, for the construction of those assets.

Changes in Net Assets
(in thousands)
Governmental Activities
Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>Restated 2007</u>
Revenues		
Program revenues:		
Charges for services	\$ 7,167	\$ 7,029
Grants and contributions	18,643	19,153
General revenues:		
Property taxes	19,825	18,699
County sales tax	6,679	6,719
Share of state sales tax	5,342	5,477
Vehicle license tax	1,852	1,850
Payments in lieu of taxes	2,079	2,104
Miscellaneous	1,691	1,561
Total revenues	<u>63,278</u>	<u>62,592</u>
Expenses		
General government	19,703	18,245
Public safety	15,999	14,097
Highways and streets	6,811	7,028
Health	2,412	2,539
Welfare	9,524	9,266
Sanitation	1,804	1,750
Culture and recreation	1,440	1,217
Education	2,520	1,931
Interest on long-term debt	155	201
Total expenses	<u>60,368</u>	<u>56,274</u>
Increase in net assets	2,910	6,318
Net assets, beginning of year	<u>46,314</u>	<u>39,996</u>
Net assets, end of year	<u>\$ 49,224</u>	<u>\$ 46,314</u>

Gila County
Management's Discussion and Analysis
June 30, 2008

The 2007 balances were restated to correct prior years' errors in recording certain capital assets and the related accumulated depreciation. Restated balances have been audited.

Revenues

Governmental activities revenues totaled \$63,277,554 for fiscal year 2008 which was a slight increase of 1% over the prior year's total revenues. Property taxes and investment income were the only revenues that had significant increases over the prior year's amounts. The increase in property taxes was due to an increase in assessed valuation in 2008. The increase in investment income was due to an investment gain in market value and an increase in investment income in fiscal year 2008. Charges for services, grants and contributions, County and state-shared sales tax, and payments in lieu of taxes had a decrease over the prior year's amount. These decreases were due to an economic downturn. Lastly, the state-shared vehicle license tax and lottery revenue remained constant in comparison with the prior year's amount.

Expenses

Governmental activities expenses totaled \$60,367,855 for fiscal year 2008, which was an increase of 7% over the prior year's total expenses. This increase was largely due to salary increases and normal inflation.

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 \$28,842,889, an increase of \$935,212 in comparison with the prior year's balance of \$27,907,677.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,857,907, which was a decrease of 2% over the prior year's balance of \$12,134,364.

The public works fund accounts for road construction and maintenance of major and nonmajor regional roads. At the end of the current fiscal year, unreserved fund balance of the public works fund was \$8,746,824, which was an increase of 9% over the prior year's balance of \$8,008,486. The increase was due to the suspension of four construction projects due to right of way issues.

The housing services fund accounts for the federal grants that provide rental assistance to low income families, and ensure the housing is affordable, decent, safe and sanitary. At the end of the current fiscal year, the fund had a deficit fund balance of \$222,268. The deficit is due to reimbursements that were not received until after the 60 day encumbrance period.

Gila County
 Management's Discussion and Analysis
 June 30, 2008

General Fund Budgetary Highlight

The general fund had actual revenues \$38,682,621 which was \$563,963 in excess of budgeted revenues of \$38,118,658. Charges for services revenues were \$1,355,520 in excess of the budget due to charges for services revenues not being budgeted correctly for the current year, as actual prior year charges for services revenues were higher than the current year budget.

The general fund had budgeted expenditures before transfers of \$40,797,570. Overall, actual general fund expenditures were underspent by \$2,968,883. The Solid Waste Management department had budgeted expenditures of \$2,619,000 while actual expenditures were underspent by \$1,340,752 as the County is reserving funds for the eventual closing of the landfill. The significant County departments and other budgeted line items overspent are the Board of Supervisors-\$182,035, Economic Development-\$145,000, Elections-\$152,155, Noncapitalized Projects-\$275,788, County Sheriff-\$552,874, Capital Outlay-\$359,779, Principal Retirement-\$458,076, Interest and Fiscal Charges-\$115,645, and Transfers Out-\$574,239. 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, 2008, amounts to \$26,194,551 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, machinery and equipment and infrastructure assets (roads, highways, bridges, etc). The prior year's balance of investment in capital assets for its governmental activities was restated from \$26,047,393 to \$25,826,035. The restatement of \$221,358 consists of prior period adjustments to correct accounting errors made in the previously reported amounts of capital assets and accumulated depreciation.

The total net increase in the County's investment in capital assets for the current fiscal year was \$368,516, an increase of approximately 1% in comparison with the prior year's restated balance of \$25,826,035.

**Gila County's Capital Assets
 (net of depreciation)
 (in thousands)
 Governmental Activities
 June 30, 2008 and 2007**

	2008	Restated 2007
Land	\$ 3,974	\$ 3,974
Construction in progress	1,102	1,270
Buildings	6,532	6,491
Improvements other than buildings	772	320
Machinery and equipment	7,022	6,685
Infrastructure	6,793	7,086
Total	\$ 26,195	\$ 25,826

Gila County
Management's Discussion and Analysis
June 30, 2008

Additional information on the County's capital assets can be found in Note 6 on pages 27 through 29 of this report.

The 2007 balances were restated to correct prior years' errors in recording certain capital assets and the related accumulated depreciation. Related balances have been audited.

Long-term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$1,625,000. This debt represents certificates of participation issued to finance renovation costs for several County buildings. The County also had a loan payable of \$307,470 which is secured by the County's highway user revenue. The County had long-term capital leases of \$608,132 for vehicles, construction and computer equipment. The remainder of Gila County's debt is landfill closure and postclosure care costs of \$2,557,190 and compensated absences payable of \$1,302,116.

The County's debt was decreased by a net \$1,350,686 during the current fiscal year. This is primarily due to the County making scheduled debt retirement payments of \$1,630,455, increased landfill closure and postclosure care costs of \$184,531 and increased compensated absences payable of \$95,238.

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 \$28,674,000. Since the County has no general obligation debt, this amount equals the debt capacity. Additional information on long-term debt can be found in Note 8 on pages 29 through 32 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Gila County is currently 6.0 percent, which is an increase from a rate of 4.3 percent a year ago. This compares unfavorably to the state's average unemployment rate of 5.5 percent. These economic factors were considered in preparing the County's budget for the fiscal year 2008-09. The unreserved ending fund balance in the general fund of \$11,532,783 was appropriated for spending in the fiscal year 2008-09 budget. The County's primary property tax rate remained unchanged for fiscal year 2008-09.

Requests for Information

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

Finance Director
Gila County
1400 Ash Street
Globe, Arizona 85501-1483

Basic Financial Statements

Gila County
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 27,891,110
Cash and investments held by trustee	325,124
Receivables (net of allowances for uncollectibles):	
Property taxes	585,971
Accounts	1,128,740
Due from other governments	3,010,454
Capital assets, not being depreciated	5,076,341
Capital assets, being depreciated, net	21,118,210
Total assets	59,135,950
 Liabilities	
Accounts payable	2,675,093
Accrued payroll and employee benefits	754,708
Deposits held for others	82,738
Noncurrent liabilities:	
Due within one year	2,223,359
Due in more than one year	4,176,549
Total liabilities	9,912,447
 Net Assets	
Invested in capital assets, net of related debt	23,653,949
Restricted for:	
Debt service	325,124
Unrestricted	25,244,430
Total net assets	\$ 49,223,503

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

Gila County
Statement of Activities
Year Ended June 30, 2008

	Program Revenues				Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Functions					Governmental Activities
Governmental activities					
General government	\$ 19,703,044	\$ 3,278,209	\$ 1,587,752	\$ 16,154	\$ (14,820,929)
Public safety	15,998,646	1,401,595	3,101,522	369,894	(11,125,635)
Highways and streets	6,811,227	114,429	-	5,387,758	(1,309,040)
Health	2,412,391	266,512	1,332,273	17,078	(796,528)
Welfare	9,523,520	43,179	4,334,153	99,477	(5,046,711)
Sanitation	1,804,305	1,897,100	-	112,443	205,238
Culture and recreation	1,440,332	31,153	113,919	9,677	(1,285,583)
Education	2,519,987	134,494	2,161,244	-	(224,249)
Interest on long-term debt	154,403	-	-	-	(154,403)
	<u>\$ 60,367,855</u>	<u>\$ 7,166,671</u>	<u>\$ 12,630,863</u>	<u>\$ 6,012,481</u>	<u>\$ (34,557,840)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					18,876,335
Property taxes, levied for Street Lighting Districts					10,483
Property taxes, levied for Library District					937,685
County general and transportation sales tax					6,679,181
Share of state sales tax					5,342,160
Shared revenue-state vehicle license tax					1,852,470
Payments in lieu of taxes					2,079,055
Shared revenue-state lottery					550,035
Gain on sales of capital assets					56,615
Grants and contributions not restricted to specific programs					16,455
Investment income					978,658
Miscellaneous					88,407
					<u>37,467,539</u>
Total general revenues					<u>37,467,539</u>
Change in net assets					2,909,699
Net assets, July 1, 2007, as restated					<u>46,313,804</u>
Net assets, June 30, 2008					<u>\$ 49,223,503</u>

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

**Gila County
Balance Sheet
Governmental Funds
June 30, 2008**

	<u>General Fund</u>	<u>Public Works Fund</u>	<u>Housing Services Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and investments	\$ 10,473,574	\$ 8,856,717	\$ 231	\$ 8,560,588	\$ 27,891,110
Cash and investments held by trustee	325,124				325,124
Receivables (net of allowances for uncollectibles):					
Property taxes	556,764			29,207	585,971
Accounts	930,496	106,889		91,355	1,128,740
Due from:					
Other funds	1,153,424			262,236	1,415,660
Other governments	<u>856,559</u>	<u>671,726</u>	<u>353,631</u>	<u>1,128,538</u>	<u>3,010,454</u>
Total assets	<u>\$ 14,295,941</u>	<u>\$ 9,635,332</u>	<u>\$ 353,862</u>	<u>\$ 10,071,924</u>	<u>\$ 34,357,059</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,357,374	\$ 506,463	\$ 50,213	\$ 761,043	\$ 2,675,093
Accrued payroll and employee benefits	516,996	83,812	6,917	146,983	754,708
Due to other funds	1,368	298,233	519,000	597,059	1,415,660
Deposits held for others	5,532			77,206	82,738
Deferred revenues	<u>556,764</u>			<u>29,207</u>	<u>585,971</u>
Total liabilities	<u>2,438,034</u>	<u>888,508</u>	<u>576,130</u>	<u>1,611,498</u>	<u>5,514,170</u>
Fund balances:					
Unreserved, reported in:					
General fund	11,532,783				11,532,783
Special revenue funds		8,746,824	(222,268)	8,460,426	16,984,982
Reserved for debt service	<u>325,124</u>				<u>325,124</u>
Total fund balances	<u>11,857,907</u>	<u>8,746,824</u>	<u>(222,268)</u>	<u>8,460,426</u>	<u>28,842,889</u>
Total liabilities and fund balances	<u>\$ 14,295,941</u>	<u>\$ 9,635,332</u>	<u>\$ 353,862</u>	<u>\$ 10,071,924</u>	<u>\$ 34,357,059</u>

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

Gila County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2008

Fund balances - total governmental funds	\$ 28,842,889
<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.	26,194,551
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	585,971
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(6,399,908)</u>
Net assets of governmental activities	<u><u>\$ 49,223,503</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, 2008

	<u>General</u> <u>Fund</u>	<u>Public</u> <u>Works</u> <u>Fund</u>	<u>Housing</u> <u>Services</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:					
Taxes	\$ 21,908,587	\$ 3,391,644		\$ 948,168	\$ 26,248,399
Licenses and permits	671,029	8,471		123,926	803,426
Intergovernmental	10,805,105	5,377,650	\$ 722,595	11,320,594	28,225,944
Charges for services	4,390,520	99,915		1,266,248	5,756,683
Fines and forfeits	514,827			91,735	606,562
Donations and contributions			16,959	240,616	257,575
Investment income	348,806	328,196	25	301,631	978,658
Miscellaneous	43,747			44,660	88,407
Total revenues	<u>38,682,621</u>	<u>9,205,876</u>	<u>739,579</u>	<u>14,337,578</u>	<u>62,965,654</u>
Expenditures:					
Current:					
General government	17,536,011			1,260,600	18,796,611
Public safety	11,909,658			3,678,252	15,587,910
Highways and streets		5,883,435		25,139	5,908,574
Health				2,398,258	2,398,258
Welfare	4,432,556		935,669	4,136,451	9,504,676
Sanitation	1,278,248			108,100	1,386,348
Culture and recreation	243,638			1,192,151	1,435,789
Education	379,076			2,132,230	2,511,306
Debt service:					
Principal retirement	783,076	810,985		36,394	1,630,455
Interest and fiscal charges	115,645	30,612		8,146	154,403
Capital outlay	<u>1,150,779</u>	<u>1,209,490</u>		<u>412,458</u>	<u>2,772,727</u>
Total expenditures	<u>37,828,687</u>	<u>7,934,522</u>	<u>935,669</u>	<u>15,388,179</u>	<u>62,087,057</u>
Excess (deficiency) of revenues over expenditures	<u>853,934</u>	<u>1,271,354</u>	<u>(196,090)</u>	<u>(1,050,601)</u>	<u>878,597</u>
Other financing sources (uses):					
Proceeds from sale of capital assets	24,321	10,604		21,690	56,615
Transfers in	760,321		80,000	1,835,033	2,675,354
Transfers out	(1,915,033)	(543,620)		(216,701)	(2,675,354)
Total other financing sources (uses)	<u>(1,130,391)</u>	<u>(533,016)</u>	<u>80,000</u>	<u>1,640,022</u>	<u>56,615</u>
Net change in fund balances	(276,457)	738,338	(116,090)	589,421	935,212
Fund balances, July 1, 2007	<u>12,134,364</u>	<u>8,008,486</u>	<u>(106,178)</u>	<u>7,871,005</u>	<u>27,907,677</u>
Fund balances, June 30, 2008	<u>\$ 11,857,907</u>	<u>\$ 8,746,824</u>	<u>\$ (222,268)</u>	<u>\$ 8,460,426</u>	<u>\$ 28,842,889</u>

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

Gila County
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ 935,212**

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	\$ 2,772,727	
Depreciation expense	<u>(2,404,211)</u>	368,516

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	255,285
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,630,455
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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	(95,238)
Increase in landfill closure and postclosure costs	<u>(184,531)</u>
	<u>(279,769)</u>

Change in net assets of governmental activities **\$ 2,909,699**

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

Gila County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and investments	\$ 60,744,608	\$ 861,395
Total assets	<u>60,744,608</u>	<u>\$ 861,395</u>
Liabilities		
Due to other governments		\$ 151,448
Deposits held for others		<u>709,947</u>
Total liabilities		<u>\$ 861,395</u>
Net Assets		
Held in trust for investment trust participants	<u>\$ 60,744,608</u>	

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, 2008

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 119,088,517
Investment income	<u>55,134</u>
Total additions	<u>119,143,651</u>
 Deductions:	
Distributions to participants	<u>106,689,856</u>
Change in net assets	12,453,795
Net assets, July 1, 2007	<u>48,290,813</u>
Net assets, June 30, 2008	<u><u>\$ 60,744,608</u></u>

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

Gila County
Notes to Financial Statements
June 30, 2008

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, 2008, the County implemented the provisions of GASB Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; and 50, *Pension Disclosure (an amendment of GASB Statements No. 25 and No. 27)*. GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 to require governmental employers to present certain additional pension disclosures in the notes and additional required supplementary information.

A. Reporting Entity

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

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

The following table describes the County's component units:

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

Gila County
Notes to Financial Statements
June 30, 2008

Related Organizations

The Industrial Development Authority, Environmental Economic Community Organization, Eastern Arizona Counties Organization, Northern Gila County Economic Development, and Southern Gila County Economic Development 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.

B. Basis of Presentation

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

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

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

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

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

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

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

Gila County
Notes to Financial Statements
June 30, 2008

remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

The County reports the following major governmental funds:

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

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

The Housing Services Fund accounts for federal grants that provide rental assistance to low income families, and ensure the housing is affordable, decent, safe and sanitary. It also accounts for state, local and private revenue sources that provide assistance to County residents to rehabilitate their homes and bring them up to minimum State standards and improve the health, safety and energy efficiency of their homes.

The County reports the following fund types:

The Investment Trust Funds accounts for pooled assets held and invested by the County Treasurer on behalf of 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 federal, state and local governments.

C. Basis of Accounting

The government-wide 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.

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 they become both 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, special assessments, intergovernmental, charges for services, and

Gila County
Notes to Financial Statements
June 30, 2008

investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

D. Cash and Investments

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

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, 2008, 33 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:

Gila County
Notes to Financial Statements
June 30, 2008

	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	20-40 years
Machinery and equipment	5,000	Straight-line	3-25 years
Infrastructure	50,000	Straight-line	7-50 years

G. Investment Income

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

H. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts 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 vested sick leave is recorded in the Statement of Net Assets.

Note 2 – Beginning Balances Restated

Net assets on the governmental-wide Statement of Activities as of July 1, 2007, has been restated to correct for prior years' errors in the recording of certain capital assets and the related accumulated depreciation for those assets.

	Governmental Activities
Net assets as of June 30, 2007, as previously reported	\$ 46,535,162
Correction of prior years' errors in capital assets	(221,358)
Net assets as of July 1, 2007, as restated	<u>\$ 46,313,804</u>

Gila County
Notes to Financial Statements
June 30, 2008

Note 3 – Individual Fund Deficits

The following Special Revenue Funds had fund deficits in excess of \$1,000 as of June 30, 2008:

Fund	Fund Name	Deficit
2000	Housing Services	\$ 222,268
2013	Work Investment Act	187,180
3013	Sheriff Seized Equity Recapture	3,944
3056	Methamphetamine Initiative Intergovernmental Agreement	11,097
3569	Victim of Crime Act—Victim Compensation	2,599
4059	State Aid Enhancement	22,051
4187	Globe Safe Schools	7,153
4195	Diversion Intake	36,204
4555	Drug Enforcement—Superior Court	19,244
4847	Family Law Commissioner	2,000
5510	Gila County Education Service	7,111
6010	Library Assistance	30,000
6590	Arizona State RV Park	9,793
6591	Transportation Enhancement	3,052
7147	Computer System Recorder	7,145
7515	Midland / Central Heights Streets Lighting Improvement District	5,514
7516	Claypool / Lower Miami Streets Lighting Improvement District	8,933
Z148	Math and Science Continuation	1,869
Z187	Professional Development	2,172
Z425	Adult Basic Education	9,134
Z443	Delinquent Program	1,800
Z444	Rim Guidance Center	5,680
A110	ESEA Title I—Helping Disadvantaged Children	5,327
A115	ESEA Title I—Neglected and Delinquent	5,717

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

Note 4 – Deposits and Investments

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

Gila County
Notes to Financial Statements
June 30, 2008

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

Deposits - At June 30, 2008, the carry amount of the County's deposits was \$510,099 and the bank balance was \$2,569,370. The County does not have a formal policy with respect to custodial credit risk.

Investments - The County's investments at June 30, 2008, were as follows:

<u>Investment Type</u>	<u>Amount</u>
U.S. agency securities	\$ 84,625,796
Repurchase agreement (collateralized by Federal Agency Securities)	4,355,218
U.S. Treasury money market fund	325,124
	<u>\$ 89,306,138</u>

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

Gila County
Notes to Financial Statements
June 30, 2008

At June 30, 2008, credit risk for the County's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
U.S. agency securities	Aaa	Moody's	\$ 84,625,796
Repurchase agreement (collateralized by Federal Agency Securities)	Aaa	Moody's	4,355,218
U.S. Treasury money market fund	Not rated	Not applicable	325,124
			<u>\$ 89,306,138</u>

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

At June 30, 2008, the County had a \$325,124 investment reported in the General Fund. The investment was held by a trustee in a U. S. Treasury money market fund and was uninsured, not registered in the County's name, and held by the counterparty.

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

Five percent or more of the County's investments at June 30, 2008, 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 Mortgage Corporation	\$ 28,977,309	32.4
Federal Home Loan Bank System	42,900,519	48.0
Federal National Mortgage Association	6,748,608	7.6
Federal Farm Credit Banks	5,999,360	6.7
	<u>\$ 84,625,796</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.

At June 30, 2008, the County had the following investments in debt securities:

<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	\$ 84,625,796	\$ 63,974,484	\$ 20,651,312
Repurchase agreement (collateralized by Federal Agency Securities)	4,355,218	4,355,218	-
U.S. Treasury money market fund	325,124	325,124	-
	<u>\$ 89,306,138</u>	<u>\$ 68,654,826</u>	<u>\$ 20,651,312</u>

Gila County
Notes to Financial Statements
June 30, 2008

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	510,099
Amount of investments	<u>89,306,138</u>
Total	<u>\$ 89,822,237</u>

	Statement of Net Assets	Statement of Fiduciary Net Assets		Total
	Governmental Activities	Investment Trust Funds	Agency Funds	
Cash and investments	\$ -	\$ 60,744,608	\$ 861,395	\$ 61,606,003
Cash and cash equivalents	27,891,110	-		27,891,110
Cash and investments held by trustee	325,124	-	-	325,124
Total	\$ 28,216,234	\$ 60,744,608	\$ 861,395	\$ 89,822,237

Note 5 – Due from Other Governments

Amounts due from other governments at June 30, 2008, in the Statement of Net Assets include \$351,657 in Highway User Revenues, \$585,937 in County excise tax, \$157,205 in auto lieu taxes, \$252,899 in sales tax, \$220,052 in health service grants, \$353,631 in Community Development Block Grants, \$102,782 in Workforce Investment Act grant, \$287,411 in other community service grants, \$184,083 in the Homeland Security Grant, \$243,265 in other federal grants, \$203,615 in state grants, and \$67,917 in reimbursements and charges for services due from various government agencies.

Note 6 – Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007 as restated	Increases	Decreases	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,974,077			\$ 3,974,077
Construction in progress (estimated cost to complete \$5,052,058)	1,270,436	\$ 1,149,139	\$ 1,317,311	1,102,264
<i>Total capital assets not being Depreciated</i>	5,244,513	1,149,139	1,317,311	5,076,341
Capital assets being depreciated:				
Buildings	18,618,042	459,306		19,077,348
Improvements other than buildings	417,338	468,535		885,873
Machinery and equipment	23,557,291	1,907,711	505,429	24,959,573
Infrastructure	12,207,879	105,347		12,313,226
<i>Total capital assets being depreciated</i>	54,800,550	2,940,899	505,429	57,236,020

Gila County
Notes to Financial Statements
June 30, 2008

Less accumulated depreciation for:				
Buildings	12,127,552	417,772		12,545,324
Improvements other than buildings	97,260	16,852		114,112
Machinery and equipment	16,872,183	1,571,604	505,429	17,938,358
Infrastructure	5,122,033	397,983		5,520,016
<i>Total accumulated depreciation</i>	<u>34,219,028</u>	<u>2,404,211</u>	<u>505,429</u>	<u>36,117,810</u>
<i>Total capital assets being depreciated, net</i>	<u>20,581,522</u>	<u>536,688</u>		<u>21,118,210</u>
Governmental activities capital assets, net	<u>\$ 25,826,035</u>	<u>\$ 1,685,827</u>	<u>\$ 1,317,311</u>	<u>\$ 26,194,551</u>

Restatement of Beginning Capital Assets Balance

Capital assets have been restated to correct errors made in accounting for increases (decreases) in cost and accumulated depreciation. The restatements are as follows:

	Balance June 30, 2007 as previously reported	Increases	Decreases	Balance July 1, 2007 As restated
Governmental activities:				
Land	\$ 3,974,077			\$ 3,974,077
Construction in progress	1,270,436			1,270,436
Buildings	18,709,869		\$ 91,827	18,618,042
Improvements other than buildings	375,486	\$ 41,852		417,338
Machinery and equipment	23,795,793		238,502	23,557,291
Infrastructure	12,197,871	10,008		12,207,879
Less accumulated depreciation for:				
Buildings	12,181,249		53,697	12,127,552
Improvements other than buildings	56,386	40,874		97,260
Machinery and equipment	16,926,479		54,296	16,872,183
Infrastructure	5,112,025	10,008		5,122,033
<i>Totals</i>	<u>\$ 26,047,393</u>	<u>\$ 978</u>	<u>\$ 222,336</u>	<u>\$ 25,826,035</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 811,195
Public safety	410,736
Highways and streets	902,653
Health	14,133
Welfare	18,844
Sanitation	233,426
Culture and recreation	4,543
Education	8,681
Total governmental activities depreciation expense	<u>\$ 2,404,211</u>

Gila County
Notes to Financial Statements
June 30, 2008

Construction Commitments

The County has active construction projects as of June 30, 2008, with estimated costs to complete and remaining contractual commitments of \$5,052,058 of which the more significant of these projects includes the extension of Russell Road and Hospital Road, realignment of Roberts Drive, repairing Old Highway 88 and Wheatfields Road, the Ice House bridge and Fossil Creek Road, Phase II. The projects are financed through the half cent County sales tax and loan proceeds.

Note 7 – 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 2008. During fiscal year 2008, the County had not borrowed against the line of credit. Therefore, the County had no outstanding balance on this credit line as of June 30, 2008.

Note 8 – Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within 1 year
Governmental activities:					
Certificates of participation payable	\$ 1,840,000	-	\$ 215,000	\$ 1,625,000	\$ 230,000
ADOT loan payable	998,720	-	691,250	307,470	307,470
Capital leases payable	1,332,337	-	724,205	608,132	383,773
Landfill closure and postclosure care costs payable	2,372,659	\$ 184,531		2,557,190	
Compensated absences payable	1,206,878	1,686,836	1,591,598	1,302,116	1,302,116
Governmental activities long-term liabilities	\$ 7,750,594	\$ 1,871,367	\$ 3,222,053	\$ 6,399,908	\$ 2,223,359

Certificates of participation - During the year ended June 30, 2000, the County issued \$3,245,000 in certificates of participation with an interest rate of 6.4 percent to finance renovation costs for a newly-acquired county administration building and several other County buildings, and to refund the outstanding 1991 Series A certificates of participation. The certificates are generally noncallable, with interest payable semiannually, however, become callable on June 1, 2009. The County's

Gila County
Notes to Financial Statements
June 30, 2008

obligation to make certificates of participation payments will be subject to and dependent upon annual appropriations being made by the County.

Certificates outstanding at June 30, 2008, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2007</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2008</u>
Series 1999	6.4%	11/24/08-5/24/14	\$ 1,840,000	\$ -	\$ 215,000	\$ 1,625,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2008:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 230,000	\$ 100,320
2010	245,000	85,440
2011	260,000	69,440
2012	280,000	52,480
2013	295,000	34,400
2014	315,000	15,200
Total	\$ 1,625,000	\$ 357,280

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

On November 1, 2006, the County received a \$487,500 loan from the Arizona Department of Transportation (ADOT). The purpose of this loan is to fund the construction improvement of Six Shooter Canyon Road and Bridge Project. The loan calls for quarterly payments of principal and interest at 3.123%, beginning on March 15, 2007, and ending on December 15, 2008.

The following schedule details debt service requirements to maturity for the County's loan with ADOT at June 30, 2008:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 307,470	\$ 2,752
Total	\$ 307,470	\$ 2,752

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.

Gila County
Notes to Financial Statements
June 30, 2008

The assets acquired through capital leases are as follows:

Machinery and equipment	\$ 1,566,449
Less: accumulated depreciation	<u>406,579</u>
Carrying value	<u>\$ 1,159,870</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable as June 30, 2008:

Year Ending June 30	
2009	\$ 405,444
2010	204,813
2011	<u>28,060</u>
Total minimum lease payments	638,317
Less amount representing interest	<u>30,185</u>
Present value of net minimum lease payments	<u>\$ 608,132</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 period that the County operates the landfill. These costs will be paid from the General Fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$2,557,190 reported as landfill closure and postclosure care liability at June 30, 2008, represents the cumulative amount reported to date based on the approximate use of 54 percent of the estimated capacity of the Buckhead Mesa Landfill and 47 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$2,562,123 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 2008.

The County has closed four of its landfills as of June 30, 1996, and expects to close the two remaining landfills in 2017 and 2018. 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 September 22, 1999, to ensure the costs of landfill closure, postclosure, and possible corrective action can be met. As part of the agreement for the line of credit, the County established a mandatory sinking fund with an escrow agent. The sinking fund balance will equal the estimated landfill closure and postclosure care costs when the landfills are expected to close. The County entered this agreement as an alternative to complying with the local government financial test requirements.

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

Compensated Absences – Compensated absences are paid from various funds in the same proportion that these funds pay payroll costs. During the year ended June 30, 2008, the County paid for compensated absences as follows: 64% from the General Fund, 14% from the Public Works Fund, 1% from the Housing Services Fund, and 21% from Other Governmental Funds.

Note 9 – Risk Management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 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 \$100 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.

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

Gila County
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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 – 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 or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

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June 30, 2008

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 Fund Manager 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.

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

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, 2008, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 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 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

The County's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

<u>Year ended June 30</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2008	\$ 1,351,689	\$ 176,307	\$ 83,956
2007	1,279,239	177,907	84,718
2006	942,437	184,567	81,667

Agent plans - For the year ended June 30, 2008, 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 20.03 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.78 percent of covered payroll. Active

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Notes to Financial Statements
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CORP members (correction officers) were required by statute to contribute 7.96 percent of the members' annual covered payroll and the County was required to contribute 7.01 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.57 percent of covered payroll. Active CORP members (dispatchers) were required by statute to contribute 7.96 percent of the members' annual covered payroll and the County was required to contribute 5.61 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.45 percent of covered payroll. 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 12.84 percent of the members' annual covered payroll. The health insurance premium portion of the contribution rate for normal cost was actuarially set at 1.05 percent of covered payroll.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2008, were established by the June 30, 2006, 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 multiyear 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.

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 2008 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	30 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value

Gila County
Notes to Financial Statements
June 30, 2008

Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% – 8.50% for PSPRS and CORP; 5.00% for EORP
Inflation rate	5.00%

Annual Pension/OPEB Cost - The County's pension/OPEB cost for the agent plans for the year ended June 30, 2008, and related information follows:

	PSPRS		CORP (Correction Officers)		CORP (Dispatchers)		EORP	
	Pension	Health	Pension	Health	Pension	Health	Pension	Health
		Insurance		Insurance		Insurance		Insurance
Annual Pension/OPEB cost	\$316,638	\$35,079	\$121,638	\$22,109	\$42,127	\$9,972	\$128,718	\$11,463
Contributions made	316,638	13,843	121,638	-	42,127	-	\$128,718	\$11,463

Trend Information - Annual pension cost information for the current and 2 preceding years follows for each of the agent plans. Annual OPEB cost information for the current year (i.e., transition year) is as follows. Information about preceding years will be added over the next 2 years.

<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	2008	\$316,638	100%	-
Health Insurance	2008	35,079	39%	\$ 21,236
Pension and Health Insurance	2007	246,045	100%	-
Pension and Health Insurance	2006	231,563	100%	-
CORP				
Correction Officers				
Pension	2008	121,638	100%	-
Health Insurance	2008	22,109	0%	22,109
Pension and Health Insurance	2007	96,332	100%	-
Pension and Health Insurance	2006	62,979	100%	-
CORP				
Dispatchers				
Pension	2008	42,127	100%	-
Health Insurance	2008	9,972	0%	9,972
Pension and Health Insurance	2007	34,777	100%	-
Pension and Health Insurance	2006	32,427	100%	-
EORP				
Pension	2008	128,718	100%	-
Health Insurance	2008	11,463	100%	-
Pension and Health Insurance	2007	113,227	100%	-
Pension and Health Insurance	2006	123,955	100%	-

Gila County
Notes to Financial Statements
June 30, 2008

Funded Status - The funded status of the plans as of the most recent valuation date, June 30, 2008, 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 Fund Manager 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.

	<u>PSPRS</u>		<u>CORP</u> <u>(Correction Officers)</u>		<u>CORP</u> <u>(Dispatchers)</u>	
	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>
Actuarial accrued liability (a)	\$ 9,662,245	\$ 385,905	\$ 1,814,540	\$ 81,543	\$ 1,335,120	\$ 80,671
Actuarial value of assets (b)	6,133,620	-	1,846,700	-	1,214,315	-
Unfunded actuarial accrued liability (a) – (b)	3,528,625	385,905	(32,160)	81,543	120,805	80,671
Funded ratio (b)/(a)	63.5%	0%	101.8%	0%	91.0%	0%
Covered payroll (c)	\$ 2,138,950	\$ 2,138,950	\$ 2,189,021	\$ 2,189,021	\$ 755,451	\$ 755,451
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) – (b)) / (c)	165.00%	18.04%	-	3.73%	16.00%	10.68%

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, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	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
Inflation rate	5.50% for PSPRS and 5.00% for CORP and EORP

Gila County
Notes to Financial Statements
June 30, 2008

Note 11 – Interfund Balances and Activity

Interfund receivables and payables – Interfund balances at June 30, 2008, were as follows:

<u>Payable From</u>	<u>Payable To</u>		<u>Total</u>
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 1,368	\$ 1,368
Public Works Fund	37,365	260,868	298,233
Housing Services Fund	519,000	-	519,000
Nonmajor Governmental Funds	597,059	-	597,059
Total	<u>\$1,153,424</u>	<u>\$ 262,236</u>	<u>\$ 1,415,660</u>

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

Interfund transfers – Interfund transfers for the year ended June 30, 2008, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>			<u>Total</u>
	General Fund	Housing Services Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 80,000	\$ 1,835,033	\$ 1,915,033
Public Works Fund	543,620	-	-	543,620
Nonmajor Governmental Funds	216,701	-	-	216,701
Total	<u>\$ 760,321</u>	<u>\$ 80,000</u>	<u>\$ 1,835,033</u>	<u>\$ 2,675,354</u>

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

Note 12 – 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

Gila County
Notes to Financial Statements
June 30, 2008

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.

Substantially all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$203,988 of deposits and \$325,124 of cash and investments held by trustee. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 4 for disclosure of the County's deposit and investment risks.

At June 30, 2008, the carrying amount of the County Treasurer's operating accounts on deposit was \$(549,284).

Details of each investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. government securities	\$ 84,570,662	2.30-5.25%	7/16/08-2/01/11	\$ 84,625,796
Repurchase Agreement	4,355,218	Unknown	7/01/08	4,355,218

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

Statement of Net Assets

Assets	\$ 88,431,730
Liabilities	-
Net assets	<u>\$ 88,431,730</u>
Net assets held in trust for:	
Internal participants	\$ 27,687,122
External participants	60,744,608
Total net assets held in trust	<u>\$ 88,431,730</u>

Statement of Changes in Net Assets

Total additions	\$ 202,146,331
Total deductions	<u>188,395,180</u>
Net increase	13,751,151
Net assets held in trust	
July 1, 2007	<u>74,680,579</u>
June 30, 2008	<u>\$ 88,431,730</u>

Note 13 – Subsequent Event

In October 2009, the County issued \$1,140,000 in pledged revenue obligations, series 2009 with interest rates ranging from 3 to 5 percent to refund the outstanding certificates of participation, series 1999. In addition, the County issued \$6,860,000 in pledged revenue obligations, series 2009 with interest rates ranging from 3 to 5 percent to purchase the Payson administration building and heavy equipment and finance renovation costs for the women's jail facility, public works facility, county main administration building and maintenance shop. These pledged revenue obligations are secured by pledges of a half cent County sales tax.

Other Required Supplementary Information

Gila County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2008

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Public Safety Personnel Retirement System						
Pension						
6/30/2008	\$ 6,133,620	\$ 9,662,245	\$ (3,528,625)	63.50%	\$ 2,138,950	165.00%
Health Insurance						
6/30/2008	-	385,905	(385,905)	0.00%	2,138,950	18.04%
Pension and Health Insurance						
6/30/2007	5,670,728	8,896,666	(3,225,938)	63.70%	1,814,801	177.80%
6/30/2006	6,272,366	8,250,167	(1,977,801)	76.03%	1,636,540	120.90%
Correction Officers Retirement Plan						
Corrections Officers						
Pension						
6/30/2008	\$ 1,846,700	\$ 1,814,540	\$ 32,160	101.80%	\$ 2,189,021	N/A
Health Insurance						
6/30/2008	-	81,543	(81,543)	0.00%	2,189,021	3.73%
Pension and Health Insurance						
6/30/2007	1,510,068	1,617,012	(106,944)	93.40%	2,193,427	4.90%
6/30/2006	1,335,104	1,262,314	72,790	105.80%	1,843,708	N/A
Dispatchers						
Pension						
6/30/2008	\$ 1,214,315	\$ 1,335,120	\$ (120,805)	91.00%	\$ 755,451	16.00%
Health Insurance						
6/30/2008	-	80,671	(80,671)	0.00%	755,451	10.68%
Pension and Health Insurance						
6/30/2007	1,064,231	1,177,455	(113,224)	90.40%	804,833	14.10%
6/30/2006	954,549	910,955	43,594	104.80%	630,779	N/A

Gila County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2008

Note 1 – Actuarial Information Available

For valuation years prior to 2008, which was prior to the implementation of GASB Statement Nos. 43 and 45, the actuarial measurements were made in the aggregate as to pension and health insurance benefits. In future years when GASB Statement Nos. 43 and 45 measurements are made and reported, the pension and health insurance benefits information will be disaggregated and reported separately. 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 Fund Manager 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
Year Ended June 30, 2008

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes	\$ 21,715,113	\$ 21,908,587	\$ 193,474
Licenses and permits	826,800	671,029	(155,771)
Intergovernmental	11,649,570	10,805,105	(844,465)
Charges for services	3,035,000	4,390,520	1,355,520
Fines and forfeits	640,000	514,827	(125,173)
Investment income	225,000	348,806	123,806
Miscellaneous	27,175	43,747	16,572
	<u>38,118,658</u>	<u>38,682,621</u>	<u>563,963</u>
Total revenues			
Expenditures:			
Current:			
General government			
Administrative Services	137,906	112,275	25,631
Assessor	956,100	978,074	(21,974)
Board of Supervisors	874,293	1,056,328	(182,035)
Community Development	1,368,156	1,376,222	(8,066)
Computer Services	810,788	748,600	62,188
Computer Upgrade		78,442	(78,442)
Constituent Services	300,000	263,101	36,899
Economic Development	125,000	270,000	(145,000)
Elections	226,750	378,905	(152,155)
Facilities Management	1,001,369	981,562	19,807
Finance	603,852	532,933	70,919
General Administration	793,460	704,949	88,511
Natural Resources	100,000	44,352	55,648
Noncapitalized Projects		275,788	(275,788)
Payroll Costs	235,000	27,158	207,842
Personnel	237,344	254,275	(16,931)
Professional Services	326,243	290,428	35,815
Purchasing	76,677	76,801	(124)
Recorder	675,397	588,898	86,499
Rural Addressing	123,919	114,362	9,557
Treasurer	467,755	444,105	23,650
Water Supply Development	150,000	10,271	139,729

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Judicial Services			
County Attorney	1,859,741	1,910,109	(50,368)
County Attorney - Child Support	883,039	691,909	191,130
Constable - Globe	113,270	111,003	2,267
Constable - Payson	156,678	147,370	9,308
Justice Court - Globe	612,600	592,117	20,483
Justice Court - Payson	545,504	521,667	23,837
Indigent Legal Defense	1,196,278	1,122,221	74,057
Clerk of the Superior Court	1,251,717	1,156,329	95,388
Superior Court - Division I	242,187	231,398	10,789
Superior Court - Division II	219,169	220,961	(1,792)
Superior Court - General	918,519	863,054	55,465
Court System Multi-Information Systems	<u>369,369</u>	<u>360,044</u>	<u>9,325</u>
Total general government	<u>17,958,080</u>	<u>17,536,011</u>	<u>422,069</u>
Public safety			
County Sheriff	8,183,996	8,736,870	(552,874)
County Sheriff - Facilities Management	299,351	268,578	30,773
Emergency Services	435,125	277,512	157,613
Flood Plain Management	237,258	177,905	59,353
Juvenile Detention	1,329,718	1,087,018	242,700
Probation	954,155	916,301	37,854
9-1-1	<u>416,910</u>	<u>445,474</u>	<u>(28,564)</u>
Total public safety	<u>11,856,513</u>	<u>11,909,658</u>	<u>(53,145)</u>
Welfare			
AHCCCS Contributions	3,834,100	3,839,180	(5,080)
Indigent Health	25,000	18,102	6,898
Community Agencies	246,500	159,500	87,000
Public Fiduciary	<u>419,276</u>	<u>415,774</u>	<u>3,502</u>
Total welfare	<u>4,524,876</u>	<u>4,432,556</u>	<u>92,320</u>
Sanitation			
Solid Waste Management	<u>2,619,000</u>	<u>1,278,248</u>	<u>1,340,752</u>
Culture and recreation			
Fairgrounds	<u>266,177</u>	<u>243,638</u>	<u>22,539</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Education			
School Superintendent	377,924	379,076	(1,152)
Special School Reserve	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total education	<u>392,924</u>	<u>379,076</u>	<u>13,848</u>
Reserve	<u>564,000</u>	<u>-</u>	<u>564,000</u>
Contingency	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
Capital outlay	<u>791,000</u>	<u>1,150,779</u>	<u>(359,779)</u>
Debt service:			
Principal retirement	325,000	783,076	(458,076)
Interest and fiscal charges	<u>-</u>	<u>115,645</u>	<u>(115,645)</u>
Total debt service	<u>325,000</u>	<u>898,721</u>	<u>(573,721)</u>
Total expenditures	<u>40,797,570</u>	<u>37,828,687</u>	<u>2,968,883</u>
Excess (deficiency) of revenues over expenditures	<u>(2,678,912)</u>	<u>853,934</u>	<u>3,532,846</u>
Other financing sources (uses)			
Proceeds from sale of capital assets	-	24,321	24,321
Transfers in	754,706	760,321	5,615
Transfers out	<u>(1,340,794)</u>	<u>(1,915,033)</u>	<u>(574,239)</u>
Net other financing sources (uses)	<u>(586,088)</u>	<u>(1,130,391)</u>	<u>(544,303)</u>
Net change in fund balances	(3,265,000)	(276,457)	2,988,543
Fund balances, beginning of year	<u>3,265,000</u>	<u>12,134,364</u>	<u>8,869,364</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 11,857,907</u>	<u>\$ 11,857,907</u>

See accompanying notes to budgetary comparison schedule.

**Gila County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works Fund
Year Ended June 30, 2008**

	<u>Original/ Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes	\$ 3,534,096	\$ 3,391,644	\$ (142,452)
Licenses and permits	7,000	8,471	1,471
Intergovernmental	6,026,000	5,377,650	(648,350)
Charges for services	-	99,915	99,915
Investment income	320,000	328,196	8,196
Total revenues	<u>9,887,096</u>	<u>9,205,876</u>	<u>(681,220)</u>
Expenditures:			
<i>Current:</i>			
Highways and streets			
Administrative services	797,599	696,690	100,909
Engineering services	1,246,575	831,350	415,225
Survey department	449,488	224,713	224,775
Road maintenance and repair	5,112,455	3,049,697	2,062,758
Maintenance shops	2,036,263	1,080,985	955,278
Emergency reserve	1,223,987	-	1,223,987
Total highways and streets	<u>10,866,367</u>	<u>5,883,435</u>	<u>4,982,932</u>
<i>Capital outlay</i>	<u>7,220,729</u>	<u>1,209,490</u>	<u>6,011,239</u>
<i>Debt service</i>			
Principal retirement	-	810,985	(810,985)
Interest and fiscal charges	-	30,612	(30,612)
Total debt service	<u>-</u>	<u>841,597</u>	<u>(841,597)</u>
Total expenditures	<u>18,087,096</u>	<u>7,934,522</u>	<u>10,152,574</u>
Excess (deficiency) of revenues over expenditures	(8,200,000)	1,271,354	9,471,354
Other financing sources (uses):			
Proceeds from sale of capital assets	-	10,604	10,604
Transfers out	-	(543,620)	(543,620)
Total other financing sources (uses)	<u>-</u>	<u>(533,016)</u>	<u>(533,016)</u>
Net change in fund balances	(8,200,000)	738,338	8,938,338
Fund balances, beginning of year	<u>8,200,000</u>	<u>8,008,486</u>	<u>(191,514)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 8,746,824</u>	<u>\$ 8,746,824</u>

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Budgetary Comparison Schedule
Housing Services Fund
Year Ended June 30, 2008

	Original/ Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Intergovernmental	\$ 389,882	\$ 722,595	\$ 332,713
Donations and contributions	-	16,959	16,959
Investment income	-	25	25
Total revenues	389,882	739,579	349,697
Expenditures:			
Welfare	389,882	935,669	(545,787)
Total expenditures	389,882	935,669	(545,787)
Deficiency of revenues over expenditures	-	(196,090)	196,090
Other financing sources:			
Transfers in	-	80,000	80,000
Total other financing sources	-	80,000	80,000
Net change in fund balances	-	(116,090)	(116,090)
Fund balances, beginning of year	-	(106,178)	(106,178)
Fund balances, end of year	\$ -	\$ (222,268)	\$ (222,268)

See accompanying notes to budgetary comparison schedule.

Gila County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2008

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, 2008, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Assessor	\$ 21,974
Board of Supervisors	182,035
Community Development	8,066
Computer Upgrade	78,442
Economic Development	145,000
Elections	152,155
Noncapitalized Projects	275,788
Personnel	16,931
Purchasing	124
County Attorney	50,368
Superior Court – Division II	1,792
County Sheriff	552,874
9-1-1	28,564
AHCCCS Contributions	5,080
School Superintendent	1,152
Capital outlay	359,779
Principal retirement	458,076
Interest and fiscal charges	115,645
Transfers out	574,239
Public Works Fund:	
Principal retirement	810,985
Interest and fiscal charges	30,612
Transfers out	543,620
Housing Services Fund:	
Welfare	545,787

Gila County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2008

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

Supplementary Information

**Gila County
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through the Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG361075, HG861141-0	\$ 182,364
Commodity Supplemental Food Program	10.565	HG361101, HG861159	4,832
Passed through the Arizona State Treasurer			
Schools and Roads—Grants to States	10.665	None	78,523
Collaborative Forest Restoration	10.679	05-DG-11030121-006	3,294
			<hr/>
Total U.S. Department of Agriculture			269,013
<u>U.S. Department of Housing and Urban Development</u>			
Section 8 Housing Choice Vouchers	14.871		276,134
Passed through the Arizona Department of Commerce			
Community Development Block Grants/State's Program	14.228	125-07, 179-06	213,180
Passed through the Arizona Department of Economic Security			
Emergency Shelter Grants Program	14.231	E6306015	6,758
Passed through the Arizona Department of Housing			
Home Investment Partnerships Program	14.239	313-04, 309-06	76,984
			<hr/>
Total U.S. Department of Housing and Urban Development			573,056
<u>U.S. Department of Justice</u>			
Passed through the Arizona Criminal Justice Commission			
Crime Victim Compensation	16.576	VC-08-052	11,194
Edward Byrne Memorial Justice Assistance Grant Program	16.738	PC-08-080	25,699
			<hr/>
Total U.S. Department of Justice			36,893
			<hr/>
			(Continued)

See accompanying notes to schedule.

**Gila County
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Labor</u>			
Passed through the Arizona Department of Economic Security			
Workforce Investment Act Cluster:			
WIA Adult Program	17.258	E5706004, DE070295001	\$ 589,649
WIA Youth Activities	17.259	E5706004, DE070295001	687,569
WIA Dislocated Workers	17.260	E5706004, DE070295001	<u>851,169</u>
Total Workforce Investment Act Cluster			<u>2,128,387</u>
Incentive Grants - WIA Section 503	17.267	DE071137, DE081027001	<u>9,904</u>
Total U.S. Department of Labor			<u>2,138,291</u>
<u>U.S. Department of Transportation</u>			
Passed through the Arizona Department of Transportation			
Gila County Gateway Enhancement	20.Unknown	TEA-GGI-0(200)B	102,051
Passed through the Arizona Department of Emergency Services and Military Affairs			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	None	<u>879</u>
Total U.S. Department of Transportation			<u>102,930</u>
<u>U.S. Environmental Protection Agency</u>			
Passed through the Arizona Department of Environmental Quality			
Nonpoint Source Implementation Grants	66.460	EV05-0028 (8-005)	<u>215,345</u>
Total U.S. Environmental Protection Agency			<u>215,345</u>

(Continued)

See accompanying notes to schedule.

**Gila County
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Institute of Museum and Library Services</u>			
Passed through the Arizona State Library, Archives and Public Records			
Grants to States	45.310	None	\$ 5,562
Total U.S. Institute of Museum and Library Services			5,562
<u>U.S. Department of Energy</u>			
Passed through the Arizona Department of Commerce			
Weatherization Assistance for Low-Income Persons	81.042	C062-07, C076-06	99,287
Total U.S. Department of Energy			99,287
<u>U.S. Department of Education</u>			
Passed through the Arizona Department of Education			
Adult Education—Basic Grants to States	84.002	V002A070003	46,620
Title I Grants to Local Educational Agencies	84.010	S010A07003	88,566
Fund for the Improvement of Education	84.215	U215605660	14,506
Education Technology State Grants	84.318	S318X070003	80,580
English Language Acquisition Grants	84.365	T365A070003	1,583
Rural Education	84.358	S358A066764, S358B070003	22,541
Mathematics and Science Partnerships	84.366	S366B070003	357,456
Passed through the Arizona Supreme Court			
Title I Program for Neglected and Delinquent Children	84.013	28206, 29823	24,197
Safe and Drug-Free Schools and Communities - State Grants	84.186	28206, 29823	92

(Continued)

See accompanying notes to schedule.

**Gila County
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education (Concluded)</u>			
Passed through the Arizona Supreme Court			
State Grants for Innovative Programs	84.298	28206, 29823	\$ 235
Passed through the Arizona Department of Education			
State Grants for Innovative Programs	84.298	28206, 29823	<u>112</u>
Total State Grants for Innovative Programs			347
Special Education—Grants to States	84.027	H027A050007, H027A060007, H027A070007	14,252
Passed through the Arizona Supreme Court			
Special Education—Grants to States	84.027	28206, 29823	<u>13,535</u>
Total Special Education—Grants to States			27,787
Improving Teacher Quality State Grants	84.367	28206	9,122
Passed through the Arizona Department of Education			
Improving Teacher Quality State Grants	84.367	S367A40049	<u>41,849</u>
Total Improving Teacher Quality State Grants			50,971
Passed through the Arizona Department of Economic Security			
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	DE070366-001	<u>35,234</u>
Total U.S. Department of Education			<u>750,480</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the Arizona Department of Health Services			
Immunization Grants	93.268	HG352192	50,971
Public Health Emergency Preparedness	93.069	252042, HG754195	394,748
HIV Prevention Activities—Health Department Based	93.940	HG35224-0, HG852277-0	11,427

(Continued)

See accompanying notes to schedule.

**Gila County
Supplementary Information
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services (Concluded)</u>			
Preventive Health and Health Services Block Grant	93.991	HG354179	28,238
Maternal and Child Health Services Block Grant to the States	93.994	HG461413-014	200
Passed through the Arizona Department of Economic Security			
Temporary Assistance for Needy Families	93.558	E6306015	150,000
Child Support Enforcement	93.563	DES06725-1	1,022,097
Low-Income Home Energy Assistance	93.568	E6306015	74,025
Community Services Block Grant	93.569	E6306015	176,930
Social Services Block Grant	93.667	E6306015	9,964
HIV Care Formula Grants	93.917	HP652141-001-2, HP652141-001-0	68,850
Passed through the Arizona Secretary of State			
Voting Access for Individuals with Disabilities--Grants to States	93.617	None	5,121
Total U.S. Department of Health and Human Services			1,992,571
<u>U.S. Department of Homeland Security</u>			
Passed through the Arizona Department of Emergency Services and Military Affairs			
Homeland Security Grant Program Cluster:			
Law Enforcement Terrorism Prevention Program	97.074	2006-GE-T6-0007	184,083
Homeland Security Grant Program	97.067	2005-GE-T5-0030, 2006-GE-T6-0007	85,226
Passed through the Arizona Department of Homeland Security			
Homeland Security Grant Program	97.067	07-AZDDHS-HSGP-333300-02 07-AZDDHS-HSGP-333300-03	30,000
Total Homeland Security Grant Program			115,226
Total Homeland Security Grant Program Cluster			299,309
Emergency Food and Shelter National Board Program	97.024	26-024800-7, 25-024800-7	5,600
Emergency Management Performance Grants	97.042	None	102,090
Total U.S. Department of Homeland Security			406,999
Total Expenditures of Federal Awards			\$6,590,427

See accompanying notes to schedule.

Gila County
 Supplementary Information
 Notes to Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2008

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the 2008 *Catalog of Federal Domestic Assistance*. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount Paid to Subrecipient
Workforce Investment Act - Adult and Youth Programs	17.258 & 17.259	\$1,126,478

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Gila County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 26, 2010. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45 and 50. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting 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 the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items **08-01** through **08-14** and **08-17** described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items **08-12** through **08-14** and **08-17** to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items **08-15** and **08-16**.

Gila County's responses to the findings identified in our audit are presented on pages 75 through 79. We did not audit the 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, the Board of Supervisors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.



February 26, 2010

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Gila County, Arizona

Compliance

We have audited the compliance of Gila County with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Gila County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items **08-18** through **08-22**.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in the County's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items **08-18** through **08-22** described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Gila County's responses to the findings identified in our audit are presented on pages 80 and 81. We did not audit the 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, the Board of Supervisors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.



February 26, 2010

Gila County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2008

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

YES NO

Material weaknesses identified in internal control over financial reporting?

X

Significant deficiencies identified not considered to be material weaknesses?

X

Noncompliance material to the financial statements noted?

 X

Federal Awards

Material weaknesses identified in internal control over major programs?

 X

Significant deficiencies identified not considered to be material weaknesses?

X

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?

X

Identification of major programs:

- Workforce Investment Act Cluster
 - 17.258 WIA Adult Program
 - 17.259 WIA Youth Activities
 - 17.260 WIA Dislocated Workers
- 93.069 Public Health Emergency Preparedness
- 93.563 Child Support Enforcement
- 84.366 Mathematics and Science Partnerships

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

\$300,000

Auditee qualified as low-risk auditee?

 X

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?

X

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Financial Statement Findings

Item: 08-1 (Repeat Finding)

Subject: Cash

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

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

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

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

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

Item: 08-2 (Repeat Finding)

Subject: Cash

Criteria: Bank accounts should be reconciled monthly.

Condition: At fiscal year end the County finance department prepares a schedule of all bank accounts held by County departments. The schedule is used to prepare a journal entry to record cash in bank at fiscal year end. The schedule is compiled using bank reconciliations prepared by the Departments. Several bank accounts included on the schedule did not have reconciliations performed or the reconciliations were performed incorrectly.

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

Effect: Incorrect balances were included in the general ledger.

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

Item: 08-3 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

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

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

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

Effect: Invoices could be resubmitted for duplicate payment.

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

Item: 08-4 (Repeat Finding)

Subject: Capital Assets

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

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

Cause: The County does not have procedures in place to ensure that a physical inventory is performed as required.

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

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

Item: 08-5 (Repeat Finding)

Subject: Capital Assets

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

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

Condition: The County's capital assets list does not include method of acquisition.

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

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

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

Item: 08-6

Subject: Cash Receipts – School Superintendent’s Office and Accommodation School

Criteria: The duties related to cash receipts should be separate.

Condition: A single employee, at both locations, receives and records cash receipts in the general ledger, this includes preparing the treasurer’s receipt and depositing the receipts at the Treasurer’s office.

Cause: Policies and procedures have not been established.

Effect: The lack of a proper segregation of duties increases the risk that mistakes or errors will not be detected in a timely manner.

Recommendation: The School Superintendent’s office and Accommodation School should adopt policies and procedures that require cash receipts to be received by an employee with no general ledger duties and that the employee maintain a log to record all cash receipts received. Another employee with no cash handling or general ledger duties could reconcile the deposits to the log.

Item: 08-7

Subject: Journal Entries – School Superintendent’s Office

Criteria: Journal entries should be reviewed and approved prior to being posted to the general ledger.

Condition: Journal entries are prepared and posted to the general ledger by the same employee.

Cause: Policies and procedures have not been established.

Effect: Improper entries could be made to the general ledger and the error would not be detected in a timely manner.

Recommendation: To ensure that journal entries are being properly prepared and posted, policies should be implemented that require that all journal entries are reviewed and approved prior to posting.

Item: 08-8

Subject: Payroll

Criteria: Employee personnel files should include voluntary deduction authorization forms.

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Condition: The personnel files for 5 of 24 employees tested did not have the employee's request for direct deposit forms.

Cause: The forms were not replaced when the personnel files were damaged by water.

Effect: The requirement of the Uniform Accounting Manual for Arizona Counties (UAMAC) was not followed.

Recommendation: To ensure that the requirements of the UAMAC are followed all voluntary employee deductions should be supported by a form signed by the employee.

Item: 08-9

Subject: Payroll - School Superintendent's Office and Accommodation Schools

Criteria: The payroll and personnel functions should be separate.

Condition: The payroll clerk performs the personnel department functions.

Cause: There are not enough employees to perform the separate functions, therefore, the payroll clerk's supervisor reviews payroll for propriety.

Effect: If the review is not regularly performed a fictitious employee could be created and the fraud would not be found and corrected in a timely manner.

Recommendation: An employee with no payroll duties should input all personnel related data into the system and the payroll clerk should have "read only" access to the personnel data.

Item: 08-10

Subject: Payroll - School Superintendent's Office and Accommodation Schools

Criteria: Employee personnel files should include employment contracts or payroll authorization forms.

Condition: The personnel files for 5 of 8 employees tested did not have the current employment contracts or payroll authorization forms.

Cause: Policies and procedures were not in place to ensure that the required documentation was in the employee's personnel files.

Effect: The requirement of the Uniform Accounting Manual for Arizona Counties (UAMAC) was not followed and employees could be paid incorrectly.

Recommendation: To ensure that the requirements of the UAMAC are followed the departments should establish proper procedures to require approved contracts and payroll authorization forms to be included in personnel files.

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Item: 08-11

Subject: Information Technology

Criteria: Policies and procedures should be followed in the event that the County's computer system fails and when software updates are installed on the County's computer system.

Condition: The County has not prepared policies and procedures to follow to recover lost data or to update software.

Cause: Policies and procedures have not been established for the County's information technology.

Effect: The requirement of the Uniform Accounting Manual for Arizona Counties (UAMAC) has not been followed as the County has not prepared a disaster recovery plan. In addition, the risk of incorrectly performing a system update increases when there are no guidelines to follow.

Recommendation: To ensure that the requirements of the UAMAC are followed a disaster recovery plan should be prepared and policies and procedures should be established for the update of computer software.

Item: 08-12 (Repeat Finding)

Subject: General Ledger

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

Condition: Interfund payables and receivables are not reconciled.

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

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

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

Item: 08-13 (Repeat Finding)

Subject: General Ledger

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

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

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

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

Effect: Numerous close-out adjustments were necessary to properly record cash held by other departments, accrued liabilities, capital assets, long-term debt and the related principal and interest payments, and fund balances.

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

Item: 08-14 (Repeat Finding)

Subject: Accounting and Financial Reporting

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

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

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

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

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

Item: 08-15 (Repeat Finding)

Subject: Budgeting

Criteria: The County's assessed primary and secondary property taxation, plus all estimated sources of revenue and unencumbered balances from the preceding fiscal year, must equal budgeted expenditures for the current fiscal year, as required by Arizona Revised Statutes (A.R.S.) §42-17051(A).

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Condition: The County's budgeted beginning fund balance for the General Fund, for the fiscal year ended June 30, 2008 was \$3,265,000, which was \$8,869,364 less than the actual ending fund balance for the General Fund at June 30, 2007.

Cause: The County does not have internal controls in place to ensure that budgets are prepared properly.

Effect: Property tax levies could be calculated incorrectly due to the County not being in compliance with Arizona Revised Statutes.

Recommendation: To comply with A.R.S. §42-17051(A), the County should establish policies and procedures to ensure that budgets are prepared as required.

Item: 08-16 (Repeat Finding)

Subject: Budgeting

Criteria: The County's budget must include estimates of expenditures for all County departments and the County must not spend monies that are not included in the Budget as required by Arizona Revised Statutes (A.R.S.) §42-17102(B)(1) and §42-17106(A)(1), respectively.

Condition: The County's budget does not include all of the funds maintained by the School Superintendent.

Cause: The County does not have internal controls in place to ensure that budgets are prepared properly.

Effect: There is a lack of fiscal oversight by the County.

Recommendation: To comply with A.R.S. §42-17102(B)(1) and §42-17106(A)(1), the County should establish policies and procedures to ensure that budgets are prepared as required.

Item: 08-17

Subject: Prior Period Adjustment

Criteria: The County should establish adequate internal control policies and procedures to ensure that all capital assets and the related accumulated depreciation are properly recorded.

Condition: The County made errors in prior years' when recording certain capital assets and the related accumulated depreciation for those assets, resulting in a prior period adjustment totaling \$221,358.

Cause: The County did not have adequate internal control policies in place.

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Effect: Capital assets were not properly safeguarded as the County's capital assets list was not properly maintained.

Recommendation: To ensure that capital assets are properly safeguarded policies and procedures should be established that require all capital assets and the related accumulated depreciation to be properly recorded in the County's capital assets list.

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

Item: 08-18

CFDA Number: 93.563

Program: Child Support Enforcement

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

Pass-through Entity: Arizona Department of Economic Security

Award Year: 10/1/07-9/30/08

Award Numbers: DES06725-1

Questioned Costs: None

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

Condition: Subsidiary grant accounting ledgers maintained by grant administrators are not reconciled to the County's general ledger which has resulted in the amounts reported to the grantor being \$35,665 less than what is recorded in the County's general ledger.

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

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

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

Item: 08-19

CFDA Number: 93.563

Program: Child Support Enforcement

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

Pass-through Entity: Arizona Department of Economic Security

Award Year: 10/1/07-9/30/08

Award Numbers: DES06725-1

Questioned Costs: None

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

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.

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

Cause: Inadequate account code structure.

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

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

Item: 08-20

CFDA Numbers: 93.069

Program: Public Health Emergency Preparedness

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

Pass-through Entities: Arizona Department of Health Services

Award Years: 8/31/07-8/30/08

Award Numbers: 252042, HG754195

Questioned Costs: None

Criteria: Per the Intergovernmental Agreement Section 5.c, the contractor shall prepare and submit a contractor's expenditure report by the thirtieth day of each month.

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

Cause: The client does not have the procedures in place to ensure timely completion of reports.

Effect: As the timely submission of the reports is a condition of the contract, the late reports could be seen as non-compliance and grant funds could be withheld.

Recommendation: The County should implement policies and procedures to ensure that all reports are submitted in a timely manner.

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Item: 08-21

CFDA Numbers: 17.258, 17.259, 17.260, 84.366, 93.069, 93.563

Program: Workforce Investment Act Cluster, Mathematics and Science Partnerships, Public Health Emergency Preparedness, Child Support Enforcement

Agencies: U.S. Department of Labor, U.S. Department of Education, U.S. Department of Health and Human Services

Pass-through Entities: Arizona Department of Economic Security, Arizona Department of Education, Arizona Department of Health Services

Award Year: Various

Award Numbers: E5706004, DE070295001, S366B070003, 252042, HG754195, DES06725-1

Questioned Costs: N/A

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

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

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

Effect: The County could lose federal funding.

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

Item: 08-22

CFDA Numbers: 17.258, 17.259, 17.260, 93.069, 93.563

Program: Workforce Investment Act Cluster, Public Health Emergency Preparedness, Child Support Enforcement

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

Pass-through Entities: Arizona Department of Economic Security, Arizona Department of Health Services

Award Year: Various

Gila County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Award Numbers: E5706004, DE070295001, 252042, HG754195, DES06725-1

Questioned Costs: N/A

Criteria: The Code of Federal Regulations 45 CFR 74.34(f)(3) and 24 CFR 84.83(c)(4) prescribe that a physical inventory of equipment be taken at least once every two years and that the results of the inventory be reconciled to equipment records.

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

Cause: The County does not have procedures in place to ensure that a physical inventory is performed as required.

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

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

County Responses

Gila County
Corrective Action Plan
Year Ended June 30, 2008

Financial Statement Findings

Item: 08-1 (Repeat Finding)

Subject: Cash

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 31, 2010

Corrective Action: The department was contacted regarding the outstanding checks older than one year, and they are in the process of attempting to locate the payee and will reissue check or escheat to the State. In the future, the finance department will review the reconciliations on a more detail level to ensure that all checks older than one year are cleared on a timely basis.

Item: 08-2 (Repeat Finding)

Subject: Cash

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 31, 2010

Corrective Action: Finance receives bank reconciliations on a monthly basis from various departments. More care will be taken to ensure that the bank reconciliation is reviewed to determine that the reconciliation is timely and performed correctly.

Item: 08-3 (Repeat Finding)

Subject: Cash Disbursements – School Superintendent's Office

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: November 30, 2008

Corrective Action: We agree with the finding and procedures have been changed to include stamping all invoices paid and notating the warrant number on the invoice.

Item: 08-4 (Repeat Finding)

Subject: Capital Assets

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2009

Gila County
Corrective Action Plan
Year Ended June 30, 2008

Corrective Action: The physical inventory was not performed due to employee turnover and implementation of a new asset control system. An employee has been assigned this responsibility and a physical inventory has been performed as required.

Item: 08-5 (Repeat Finding)

Subject: Capital Assets

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: Procedures will be updated to ensure that the method of acquisition is properly recorded on the asset control system.

Item: 08-6

Subject: Cash Receipts – School Superintendent's Office and Accommodation School

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: June 30, 2010

Corrective Action: An employee with no general ledger duties has been assigned to maintain a log to record all cash receipts. Another individual will reconcile the log to the deposits.

Item: 08-7

Subject: Journal Entries – School Superintendent's Office

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: March 31, 2010

Corrective Action: Journal entries will be reviewed by an individual not preparing the journal entries.

Item: 08-8

Subject: Payroll

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 31, 2010

Corrective Action: A review will be conducted of all personnel files and replacement forms will be requested from employees for any voluntary deduction authorization forms not found in the

Gila County
Corrective Action Plan
Year Ended June 30, 2008

files. Also, more care will be taken in future to ensure that all personnel files contain all required forms.

Item: 08-9

Subject: Payroll – School Superintendent’s Office and Accommodation Schools

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: June 30, 2010

Corrective Action: The software company will be contacted to determine if “read only” access can be designated for the payroll clerk. Also, additional controls will be implemented to ensure that payroll registers are reviewed on a timely basis for propriety.

Item: 08-10

Subject: Payroll – School Superintendent’s Office and Accommodation Schools

Contact Person: Debra Moya, Deputy Superintendent

Anticipated Completion Date: June 30, 2010

Corrective Action: The personnel files will be reviewed to determine that all applicable documents are maintained. Missing documents will be replaced and more care will be taken in future to ensure that all required documents are maintained in the personnel files.

Item: 08-11

Subject: Information Technology

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: A disaster recovery plan will be prepared and policies and procedures will be established for the update of computer software.

Item: 08-12 (Repeat Finding)

Subject: General Ledger

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: A review will be performed on at least a quarterly basis to ensure that the interfund receivables and payables are reconciled. Also, we have contacted the software vendor

Gila County
Corrective Action Plan
Year Ended June 30, 2008

to determine if a control can be set up in the software to ensure that all interfund receivables and payables are in balance prior to posting.

Item: 08-13 (Repeat Finding)

Subject: General Ledger

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: Procedures will be implemented to require all departments to prepare a reconciliation of their grant reports to the general ledger.

Item: 08-14 (Repeat Finding)

Subject: Accounting and Financial Reporting

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: A review will be performed of the funds and accounts in the general ledger and any adjustments will be made to comply with GASB 14. In addition, funds will be reviewed prior to set-up to ensure that the funds are properly classified.

Item: 08-15 (Repeat Finding)

Subject: Budgeting

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: Finding will be reviewed to ensure budgets are prepared as required.

Item: 08-16 (Repeat Finding)

Subject: Budgeting

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: The County is reviewing this issue. The County School Superintendent only provides information for the general fund. The special revenue funds are maintained on an accounting system that is separate from Gila County.

Item: 08-17

Subject: Prior Period Adjustment

Contact Person: Richard Gaona, Finance Director

Gila County
Corrective Action Plan
Year Ended June 30, 2008

Anticipated Completion Date: June 30, 2010

Corrective Action: More care will be taken in the future to ensure that capital assets are recorded in the proper category and the related accumulated depreciation is properly calculated.

Gila County
Corrective Action Plan
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

Item: 08-18

CFDA Number: 93.563

Program: Child Support Enforcement

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

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: The grant reports are prepared using the general ledger; however, no corrections are reflected on the grant report when corrections are processed subsequent to preparation of the grant report. More care will be taken to ensure that the reports are agreed to the general ledger.

Item: 08-19

CFDA Number: 93.563

Program: Child Support Enforcement

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

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2010

Corrective Action: We are reviewing this process and will develop a procedure to possibly record only transactions of the program in its own fund.

Item: 08-20

CFDA Number: 93.069

Program: Public Health Emergency Preparedness

Subject: Expenditure reports for 8 out of 19 months were not submitted timely.

Contact Person: Breena York, Community Service Manager

Gila County
Corrective Action Plan
Year Ended June 30, 2008

Anticipated Completion Date: September 1, 2009

Corrective Action: Grant administrators have been notified and have implemented procedures to ensure that monthly billings are completed and submitted in a timely manner. This procedure includes running general ledger and project reports by the 15th of the month following a month end to ensure that the contract monthly report can be completed and submitted on a timely basis. Also, a monthly report checklist had been created to log completed/submitted dates for each report and will be signed off by approving manager on a monthly basis.

Item: 08-21

CFDA Number: 17.258, 17.259, 17.260, 84.366, 93.069, 93.563

Program: Workforce Investment Act Cluster, Mathematics and Science Partnership, Centers for Disease Control and Prevention – Investigations and Technical Assistance and Child Support Enforcement

Subject: The County's audit was not completed within nine months of June 30, 2008.

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: March 11, 2011

Corrective Action: The County is directing efforts to complete all audits by the required time period. We have completed five fiscal years' audits in two years. We are currently working on the 2009 audit which will be completed by June 30, 2010. Our goal is to have the FY2010 audit completed within the required nine-month time frame.

Item: 08-22

CFDA Number: 17.258, 17.259, 17.260, 93.069, 93.563

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

Subject: The Code of Federal Regulations 45 CFR 74.34(f)(3) and CFR 84.83(c)(4) prescribe that a physical inventory of equipment be taken at least once every two years and that the results of the inventory be reconciled to equipment records.

Contact Person: Richard Gaona, Finance Director

Anticipated Completion Date: June 30, 2009

Corrective Action: The physical inventory was not completed due to turnover and implementation of a new asset control system. The asset control system has been updated and procedures are in place to complete the physical inventory every two years per federal regulations.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Status of Prior Year Federal Award Findings and Questioned Costs

Item: 03-104, 04-19, 05-19, 06-18, 07-19

CFDA Number: 16.579, 93.563

Program: Byrne Formula Grant Program, Child Support Enforcement

Status: Corrected for Byrne Formula Grant Program, not corrected for Child Support Enforcement.

Corrective Action: Procedures will be implemented to require all departments to prepare a reconciliation of their grant reports to the general ledger. Anticipated completion date is June 30, 2010.

Item: 07-20

CFDA Number: 16.007, 97.067

Program: Homeland Security Grant Program Cluster

Status: Corrected

Item: 03-101, 04-21, 05-21, 06-20, 07-21

CFDA Number: 93.563

Program: Child Support Enforcement

Status: Not corrected

Corrective Action: We are reviewing this issue to determine the best way to handle. We hope to have completed by 6/30/2010.

Item: 03-102, 04-18, 05-18, 07-22

CFDA Number: 16.579, 93.283

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

Status: Corrected for Byrne Formula Grant Program, not corrected for Centers for Disease Control and Prevention – Investigations and Technical Assistance

Corrective Action: New procedures have put in place to ensure that the reports are submitted in a timely manner. Anticipated completion date is June 30, 2010.

Gila County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Item: 04-24, 05-24, 06-22, 07-23

CFDA Number: 10.665, 15.226, 16.579, 17.255, 17.258, 17.259, 17.260, 39.011, 93.283, 93.563, 16,007, 16,008, 97.004, 97.042, 97.067

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

Status: Not corrected

Corrective Action: Efforts are being directed at completing the audits in the required time frame. We believe that we can meet this criteria for the FY2010 financial statements.

Item: 07-24

CFDA Number: 16,007, 97.067, 17.258, 17.259, 17.260, 93.283

Program: Homeland Security Grant Program Cluster, Workforce Investment Act Cluster, Centers for Disease Control and Prevention – Investigations and Technical Assistance

Status: Not corrected

Corrective Action: A physical inventory was performed in FY2009 and will be performed every two years as required.