BOARD OF SUPERVISORS MINUTES
GILA COUNTY, ARIZONA

Date: July 30, 2013

MICHAEL A. PASTOR
Chairman

TOMMIE C. MARTIN
Vice-Chairman

JOHN D. MARCANTI
Member

MARIAN E. SHEPPARD
Clerk of the Board

By: Laurie J. Kline
Deputy Clerk

Gila County Courthouse
Globe, Arizona

PRESENT: Tommie C. Martin, Vice-Chairman (via ITV); John D. Marcanti, Supervisor; Don E. McDaniel, Jr., County Manager; Jacque Griffin, Assistant County Manager/Librarian; Bryan B. Chambers, Deputy Attorney Principal; and Laurie J. Kline, Deputy Clerk

ABSENT: Michael A. Pastor, Chairman; and Marian E. Sheppard, Clerk of the Board

Item 1 – CALL TO ORDER – PLEDGE OF ALLEGIANCE

The Gila County Board of Supervisors met in a work session at 10:00 a.m. this date in the Board of Supervisors hearing room. Cheryl Sluyter led the Pledge of Allegiance. Vice-Chairman Martin chaired this meeting as Chairman Pastor was unable to attend the meeting.

Item 2 – REGULAR AGENDA ITEMS:

A. Presentation of the Gila County FY 2012 Financial Audit summary by Dennis Osuch, partner of CliftonLarsonAllen.

Don McDaniel, County Manager, introduced Dennis Osuch, partner of CliftonLarsonAllen, to give the presentation of the single audit reporting package for the fiscal year ending on June 30, 2012. Mr. Osuch stated that the reporting package includes the Highway User Revenue Fund (HURF) report, which is required by the State of Arizona; a management letter addressed to County management; annual expenditure limitation report; single audit report; annual financial report; and a communication of governance, which basically describes the scope of the audit to include CliftonLarsonAllen's responsibilities as well as those of the County. Significant estimates are included as part of the financial statements such as determining the useful life of assets and the estimated life of the landfills. Uncorrected misstatements of the financial

statements are also included, which are generally immaterial adjustments that were found as part of the audit that should be corrected going forward. Then there were the material audit adjustments that were discovered as part of the audit that were reported to management and subsequently corrected and included in the financial reports. In the course of conducting the sample based testing method, there were two expenditures of the HURF that were not used in accordance with Arizona Revised Statutes. The amount was $1,900 which wasn't significant but should not have been recorded in the HURF.

Also issued was the annual expenditure limitation report, which is also required by the State of Arizona and goes to the Auditor General. An unqualified opinion on the annual expenditure limitation report was issued in accordance with the standards that are put out by the Auditor General. Gila County fell below the expenditure limit by approximately $2.7M-$2.8M during the year. The figure is calculated by what the State has determined does and does not go into the expenditure limit report, so that is how this number is reconciled. An unqualified opinion on the annual financial statements was issued, which means that the financial statements are presented in accordance with generally accepted accounting principles. The major governmental funds for the County are the General Fund and the Public Works Fund because these funds are determined to be 10% or 5% of the total assets, liabilities, revenues and expenses. All other governmental funds are included in another column entitled "Other Governmental Funds." The County also has a "Proprietary Fund," which is a major fund for the landfills and is presented separately.

Mr. Osuch stated that because the County expended over $500,000 in federal grant awards, an annual single audit is also required to be performed. Seven federal programs were tested as part of that single audit. A report was issued and an opinion was provided on the County's compliance with the requirements of those federal grants. Internal controls are also reported as they relate to the federal programs.

Also included in the single audit report is the government auditing standards report (yellow book report), which is a report on internal controls. These internal controls are specifically related to the financial statements. Some significant deficiencies and some material weaknesses were discovered, which are also included in the report. Mr. Osuch stated that 2012 is the last year this company will be conducting the audit, but wanted to share some new accounting requirements that will be forthcoming in 2013. He added that for 2013, there will be several new Governmental Accounting Standards that will be implemented and will affect the financial statements. He recommended that County management meet with the new auditors to review those. Mr. Osuch proceeded to review some of the new Standards. Supervisor Marcanti expressed concerns with some of the grant allocations and requested to meet with Don McDaniel, County Manager, to further discuss how to eliminate some of the recurring findings. Vice-Chairman Martin advised that she would be

scheduling a meeting with Mr. Osuch to address some of her concerns. It was suggested that a group meeting be scheduled with Mr. Osuch so that Chairman Pastor could also be present.

Mr. McDaniel added that the County has made great strides in bringing the audits current. The County was 3-4 years behind in 2010 and, at that time, a concerted effort was made to bring the audits up to date. Mr. McDaniel expressed a concern regarding the 8 recurring findings, and he mentioned that he is working with Mr. Osuch to resolve those findings as one of them dates back to 2003. He mentioned that the Finance Department has undergone many recent staffing changes, which may have had an effect on the audit. The Finance Department is almost fully staffed with a newly hired Finance Director, Jeff Hessenius. Mr. McDaniel then stated that the County may want to consider hiring someone from a financial consulting company such as CliftonLarsonAllen.

Vice-Chairman Martin called on Mr. Osuch for his final comments. Mr. Osuch stated that when CliftonLarsonAllen was hired by the County 3 years ago, the audits were several years behind. He acknowledged that the audits are current; however, he suggested some areas which were listed as findings that need to be addressed. Of priority is for the County to address control issues to ensure federal compliance. He then advised that County financial staff should work toward preparing their own financial statements. Previously, CliftonLarsonAllen staff reviewed the County's financial records and then prepared the financial statements, which included making considerable adjustments. He feels the financial statements should be prepared with no adjustments being made by the auditor. On behalf of the Board, Vice-Chairman thanked Mr. Osuch for the presentation.

B. Information/Discussion regarding the 4th and final phase of Arizona Public Service Energy Services Company, Inc.'s (APSES) Energy Audit Report, which is the design and installation of energy conservation measures as described and recommended by APSES in the Energy Audit Report.

Steve Stratton, Public Works Division Director, stated that some time ago the County decided to take advantage of an energy audit provided by APSES. He advised that the energy audit was conducted and at such time that a presentation of the audit results was going to be made to the Board of Supervisors, the County was in the process of installing solar energy panels, which affected the findings of the audit. The Energy Audit Report has since been revised to include the recent installation of the solar energy panels. Mr. Stratton introduced Leonard Byrd, Senior Business Development Manager of AMERESCO, to present the Energy Audit Report.

Mr. Byrd advised that since the time an agreement was executed between Gila County and APSES, APSES was purchased by AMERESCO. Mr. Byrd provided a PowerPoint presentation. Gila County currently spends approximately $520,738 for the cost of electricity, natural gas and water, of which approximately $441,000 is for the cost of electricity. Based on the findings and the implementation of the proposed Energy Conservation Project, AMERESCO proposes to annually save the County $89,011 or 17%. Mr. Byrd stated that the purpose of the energy conservation project is for counties to be able to fund infrastructure improvements with the money that is derived from energy savings.

Should the Board of Supervisors decide to move with the Energy Conservation Project, some of the features and benefits are:

- A controls system upgrade at the Courthouse and Central Heights facility.
- Lighting upgrades across all County facilities which includes 3,809 fixtures.
- Retrofit of 361 water fixtures to conserve water across all County facilities, which will primarily apply to the jail facilities.
- Local jobs will be created.
- Environmental benefits.
- AMERESCO guaranteed savings.
- The objective for the County is to stay budget neutral by using utility dollars to fund infrastructure improvement.

Mr. Byrd stated, "The project we're looking at will save $85,000 a year, so that is utility dollars that would stay in the budget and be used for debt service to fund these projects over the next 15 years. So at the bottom line, you actually get the infrastructure improved in the facilities for no more than you would be putting out to utilities. The project cost is $1,338,000 versus a savings of $1,668,000." He further stated that at the end of the 15-year finance term, the life of the equipment will last much longer due to improvements that have been made to the equipment. For example, the main components inside the lighting fixtures will last 20-25 years; the water fixtures will last 20-25 years; and the control systems typically will last 20 years. Mr. Byrd stated that most of the equipment to be used come with a 3- to 5-year warranty. He advised that AMERESCO is in the 4th phase of energy savings projects with Pinal County that began in 1999. He further stated that project savings are based on the County's 2010-2011 utility costs, with a 3% escalation that is based on Consumer Price Index data 20-year average. Since the start of the audit APS has requested a 15% price increase that is not included in this cost reduction estimate. Notwithstanding the price increase, the savings to the County will still be in excess of 3% annually.

Supervisor Marcanti, who is an electrical contractor, stated that many County light fixtures are 30 years old. He believes there will be a significant savings to the County by moving forward with this project.

Jerry Ellison, a local news reporter for KQSS radio station, inquired as to whether or not the disposal of the compact florescent light bulbs is included in the cost of this project, to which Mr. Byrd answered that the recycling, reclaiming and completing the required Environmental Protection Agency (EPA) paperwork is all part of the project and included in the price. Mr. Stratton added that he felt it was a very thorough and accurate audit and he agreed with the information contained therein. Vice-Chairman Martin stated that she agreed with Supervisor Marcanti that the County should move forward with this proposed project.

Item 3 – CALL TO THE PUBLIC: Call to the Public is held for public benefit to allow individuals to address issue(s) within the Board's jurisdiction. Board members may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to Arizona Revised Statute §38-431.01(H), action taken as a result of public comment will be limited to responding to criticism made by those who have addressed the Board of Supervisors, may ask staff to review the matter or may ask that a matter be put on a future agenda for further discussion and decision at a future date.

There were no requests to speak from public.

There being no further business to come before the Board of Supervisors, Vice-Chairman Martin adjourned the meeting at 10:45 a.m.

APPROVED:

Michael A. Carter for

Tommie C. Martin, Vice-Chairman

ATTEST:

Marian Sheppard

Marian Sheppard, Clerk of the Board