Gila County

Annual Financial Report and
Single Audit Report

Year Ended June 30, 2014

A Report to the Arizona Legislature

Debra K. Davenport
Auditor General

ARIZONA Auditor General
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ARIZONA **Auditor**General

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ANNUAL FINANCIAL REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Board of Supervisors of
Gila County, Arizona

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Gila County as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2014, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinions are not modified with respect to this matter.

As described in Note 2 to the financial statements, the County restated beginning net position/fund balances of its financial statements for the year ended June 30, 2014, to correct misstatements in its previously issued financial statements. Our opinions are not modified with respect to this matter.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-9, the budgetary comparison schedules on pages 37 through 43, and the schedule of agent retirement plans' funding progress on pages 44 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information—schedule of expenditures of federal awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies

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 the County received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the County received solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, 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* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

June 29, 2017

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Gila County
Management's discussion and analysis
June 30, 2014

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, 2014. 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 $74,724,094 (net position). Of this amount, $21,455,078 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors, $23,868,741 is restricted for specific purposes (restricted net position), and $29,400,275 is the net investment in capital assets.

- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of $40,692,712, a decrease of $1,684,935 in comparison with the prior year's restated balance of $42,377,647.

- At the end of the current fiscal year, the general fund had an unassigned fund balance $6,488,785 or 17% of total general fund expenditures, and the assigned fund balance for construction projects, rainy day, and cash flow reserves was $16,092,228.

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

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

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

The government-wide financial statements can be found on pages 1 and 2 of this report.

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

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

Because the focus of governmental fund 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 Superintendent of Schools. Data from the other governmental funds is combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 3 through 6 of this report.

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for landfill operations. The proprietary fund financial statements can be found on pages 7 through 9 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 10 and 11 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 35 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 37 through 45 of this report.

Government-wide Financial Analysis

Statement of Net Position—As noted earlier, net position 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 $74,724,094 as presented in the following table. Fiscal year 2013 amounts presented below were restated for the corrections of accounting errors, and as a result, these amounts will not agree to the prior year audited report.

Condensed Statement of Net Position
(in thousands)
June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013
Current and other assets	$45,282	$46,843	$ 8,260	$ 6,933	$53,542	$53,776
Capital assets	32,652	32,508	3,497	3,623	36,149	36,131
Total assets	77,934	79,351	11,757	10,556	89,691	89,907
Current and other liabilities	3,857	4,242	83	76	3,940	4,318
Long-term liabilities	8,037	8,368	2,989	2,812	11,026	11,180
Total liabilities	11,894	12,610	3,072	2,888	14,966	15,498
Net Position						
Net invested in capital assets	25,904	25,357	3,496	3,619	29,400	28,976
Restricted	19,098	16,484	4,771	4,743	23,869	21,227
Unrestricted	21,038	24,900	417	(694)	21,455	24,206
Total net position	$66,040	$66,741	$ 8,684	$ 7,668	$74,724	$74,409

The largest portion of the County's net position is $29,400,275 or 39% 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 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. The County's unrestricted net position of $21,455,078 or 29% may be used to meet Gila County's ongoing obligations to citizens and creditors.

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

The following provides an explanation of governmental activities' current liabilities that changed significantly over the prior year:

- Current liabilities – the net decrease of $385 thousand was due largely to a reduction of purchases near fiscal year-end and fewer payroll days accrued at year-end.

The following provides an explanation of business-type activities' current assets that changed significantly over the prior year:

- Current assets – the net increase of $1.3 million was primarily due to an increase in cash and investments from collecting more landfill fees and investment earnings than prior year.

Statement of activities—Already noted was the statement of activities purpose in presenting how the government's net position changed during the current fiscal year. At the end of the current fiscal year, net position increased by $559 thousand. The following table presents the changes in net position, fiscal year 2013 amounts were restated for the corrections of accounting errors, and as a result, these amounts will not agree to the prior year audited report.

Changes in Net Position
(in thousands)
Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013
Revenues:						
Program revenues:						
Charges for services	$ 3,020	$ 3,454	$2,323	$1,615	$ 5,343	$ 5,069
Grants and contributions	18,985	17,237			18,985	17,237
General revenues:						
Property taxes	19,477	22,122			19,477	22,122
County excise tax	6,198	5,916			6,198	5,916
Share of state sales taxes	5,156	4,503			5,156	4,503
Shared revenue, state vehicle license tax	1,568	2,228			1,568	2,228
Shared revenue, state liquor license tax	12	17			12	17
State appropriations	550				550	
Payments in lieu of taxes	3,617	3,392			3,617	3,392
Investment income	282	101	42		324	101
Miscellaneous	970	1,207			970	1,207
Gain on sale/trade-in of capital assets	40				40	
Total revenues	59,875	60,177	2,365	1,615	62,240	61,792

	Governmental Activities		Business-Type Activities		Total	
	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013
Expenses:						
General government	$20,658	$19,666			$20,658	$19,666
Public safety	15,941	15,785			15,941	15,785
Highways and streets	6,273	7,609			6,273	7,609
Health	2,677	2,500			2,677	2,500
Welfare	8,859	8,256			8,859	8,256
Sanitation	16	43	$1,349	$1,304	1,365	1,347
Culture and recreation	1,476	1,555			1,476	1,555
Education	4,135	4,112			4,135	4,112
Interest on long-term debt	297	314			297	314
Total expenses	60,332	59,840	1,349	1,304	61,681	61,144
Changes in net position	(457)	337	1,016	311	559	648
Net position—beginning, restated	66,497	66,160	7,668	7,357	74,165	73,517
Net position—ending	$66,040	$66,497	$8,684	$7,668	$74,724	$74,165

Overall, the governmental activities revenues decreased by $302 thousand, or 1 percent, and program expenses increased by $492 thousand, or 1 percent in the current year. The following provides an explanation of governmental activities, revenues and expenses that changed significantly compared to the prior year:

Property taxes – The net decrease of $2.6 million resulted because the net assessed property value declined in the centrally located mining area.

State shared sales taxes – The net increase of $653 thousand was due largely to improvement in the state economy.

Highways and streets expenses – The net decrease of $1.3 million was largely due to more infrastructure projects completed and capitalized in the current fiscal year than the prior year. Most of the construction costs for the 2014 completed projects were incurred in fiscal year 2013. One of the major projects was Pine Creek Canyon road reconstruction.

Overall, the business-type activities operating revenues increased by $750 thousand, or 46 percent, and operating expenses increased by $45 thousand, or 3 percent. The following provides an explanation of business-type activities, revenues and expenses that changed significantly compared to the prior year.

Landfill charges for services – The increase of $708 thousand was primarily due to rate increases and more services provided in the current fiscal year than the prior year.

Financial Analysis of the Governmental Funds

The County reported three major funds for this fiscal year: the General Fund, Public Works Fund and Superintendent of Schools Fund. At the end of the current fiscal year, the County's governmental funds reported combined fund balances of $40.7 million, which was a decrease of $1.6 million from the prior year. Of the total, $22.2 million constitutes unrestricted fund balances.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, fund balance of the general fund was $23,226,207, a decrease of $1.2 million, or 4.9% over the prior year's restated balance of $24,432,957. The decrease was largely due to a reduction in current year revenues. The unrestricted fund balance of the general fund was $22,581,013, which represents 60 percent of total general fund expenditures. This ratio indicates a strong fund balance position in comparison to expenditures.

The following provides an explanation of the major funds' activities that changed significantly over the prior year:

General Fund

- Accounts payable – the net decrease of $374 thousand was due largely to a reduction of purchases near fiscal year-end.

- Accrued payroll and employee benefits – the net decrease of $620 thousand was solely due to fewer payroll days accrued at year-end.

- Taxes – The net decrease of $3.4 million was due largely to a reduction in property taxes revenues because the net assessed value declined in the centrally located mining area.

- Intergovernmental revenue – The increase of $1.4 million was primarily due to the increase in state shared sales tax, state appropriations and federal payments in lieu of tax.

Public Works Fund

- Accounts payable – the net decrease of $103 thousand was due largely to a reduction of purchases near fiscal year-end.

- Accrued payroll and employee benefits – the net decrease of $18 thousand was solely due to fewer payroll days accrued at year-end.

- Highway and streets expenditures – The net decrease of $1.5 million was largely due to two major projects, Russell Road Turn Lanes completed in fiscal year 2013 and Pine Creek Canyon road reconstruction completed in fiscal year 2014, incurred most of their construction costs in fiscal year 2013.

Superintendent of Schools Fund

- Cash and investments – the decrease of $504 thousand was due primarily to the decrease of donations and contributions and miscellaneous revenues.

- Due from other governments – The increase of $365 thousand was due largely to the increase of intergovernmental revenues which were not reimbursed at year-end.

- Accounts payable – The increase of $121 thousand was due primarily to additional purchases acquired near fiscal year-end.

- Due to other governments – The increase of $213 thousand was due solely to the state aid for average daily membership was overfunded in the current fiscal year more than the prior year.

- Miscellaneous revenue – The decrease of $267 thousand was due largely to reduction of indirect costs allocated to school districts.

- Education expenditures – The increase of $182 thousand was due primarily to receiving overfunded state aid for average daily membership.

General Fund Budgetary Highlights
General Fund actual expenditures were $16,872,404 under the adopted budget and actual revenues were more than estimated revenues by $2,469,589. The County had budgeted $14,600,000 for contingency reserve, only $14,269 was spent during the current fiscal year. The Education department (School Superintendent) had budgeted expenditures of $396,032 while actual expenditures of $1,727,443 were over budget due to not budgeting for the national forest fees of $1,366,620 passed through to subrecipients (school districts). Grants passed through to subrecipients were recognized as revenues and corresponding expenditures. This also accounted for much of the favorable variance in intergovernmental revenues.

The significant county departments and other budgeted line items over budget are General Administration $64,076, Indigent Legal Defense $145,181, School Superintendent $1,331,411, and debt service $71,541. The over budget expenditures for General Administration, Indigent Legal Defense and debt service were primarily due to unexpected administrative expenses, legal cases, and interest expenses. The over budget expenditures for the School Superintendent were due to unbudgeted pass-through grants as mentioned above. The County will strive to improve its budgeting procedures and control in the future.

Capital Asset and Debt Administration

Capital assets include land, construction in progress, buildings, machinery and equipment and infrastructure assets (roads, highways, bridges, etc.). The County’s total capital assets increased by only $37 thousand, or 0.1% during the current fiscal year in comparison with the prior year’s restated balance of $36,111,658.

The County’s investment in capital assets for its governmental activities as of June 30, 2014, amounts to $32,652,339 (net of accumulated depreciation), a net increase of $164 thousand, or 0.5% from the prior year.

The County's investment in capital assets for its business-type activities as of June 30, 2014, amounts to $3,496,511 (net of accumulated depreciation), a net decrease of $127 thousand, or 3.5% from the prior year.

Major capital asset activity during the fiscal year included:

Governmental Activities:
- Land – The increase of $138 thousand was for the purchases of Frontier property in Payson and Russel Road property in Globe.

- Construction in progress – The net decrease of $1.3 million was due primarily to additional construction costs of $1.4 million spent on new and existing projects and transfers of seven completed projects totaling $2.7 million to buildings and infrastructure. The two major completed projects were $1.4 million for the Pine Creek Canyon road reconstruction and $840 thousand for the Ice House new bridge.

- Buildings – The net decrease of $421 thousand consists of several building improvement projects of $241 thousand and the accumulated depreciation of $662 thousand added in fiscal year 2014.

- Machinery and equipment – The net decrease of $281 thousand as the results of new acquisitions of $1 million and the accumulated depreciation of $1.3 million added in fiscal year 2014.

- Infrastructure – The net increase of $2 million consists of three construction projects of $2.6 million transferred from construction in progress in fiscal year 2014 and the accumulated depreciation of $557 thousand added in fiscal year 2014.

The following table provides a breakdown of the County's capital assets as of June 30, 2014 and 2013. Fiscal year 2013 governmental activities capital asset amounts presented below were restated for the corrections of accounting errors, and as a result, these amounts will not agree to the prior year audited report.

Capital Assets at Year-End
(Net of Accumulated Depreciation)
(in thousands)
June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	Restated 2013	2014	Restated 2013	2014	Restated 2013
Land	$ 1,375	$ 1,237	$3,000	$3,000	$ 4,375	$ 4,237
Construction in progress	4,362	5,636			4,362	5,636
Buildings	12,023	12,444			12,023	12,444
Improvements other than buildings	646	686			646	686
Machinery and equipment	4,087	4,368	466	585	4,553	4,953
Infrastructure	10,159	8,117	31	39	10,190	8,156
Total capital assets, net	$32,652	$32,488	$3,497	$3,624	$36,149	$36,112

Additional information on the County's capital assets can be found in Note 6 on pages 22 and 23 of this report.

Long-term debt – The County's total long-term liabilities as of June 30, 2014, amounts to $11,026,055, a net decrease of $177 thousand during the current fiscal year in comparison with the prior year's balance of $11,203,423.

Major long-term debt activity during the fiscal year included:

Governmental Activities:

- Pledged revenue obligations payable – The net decrease of $320 thousand was a result of regular scheduled principal payment.

Business-Type Activities:

- Landfill closure and postclosure care costs payable – The increase of $157 thousand was the result of changing its estimate at year-end.

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 $26,317,491. Since the County has no general obligation debt, this amount equals the debt capacity. Additional information on long-term debt can be found in Note 7 on pages 24 through 26 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Gila County was 8.3 percent at June 2014 which was lower than the previous year's rate of 9.8 percent. This compares to the state unemployment rate of 6.7 percent. There was also a decrease in property assessed valuations with no change in tax rate for the fiscal year 2014-15. These economic factors were considered in preparing the County's budget for this fiscal year 2014-15.

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 E. Ash Street
Globe, Arizona 85501-1483

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Gila County
Statement of net position
June 30, 2014

	Governmental activities	Business-type activities	Total
Assets			
Cash and investments	$ 38,966,610	$ 3,388,513	$ 42,355,123
Receivables (net of allowances for uncollectibles):			
Property taxes	999,808		999,808
Accounts	739,421	62,992	802,413
Interest	59,188	4,944	64,132
Due from other governments	4,316,398	13	4,316,411
Internal balances	(33,000)	33,000	
Inventories	233,465		233,465
Restricted cash and investments		4,770,627	4,770,627
Capital assets, not being depreciated	5,736,711	3,000,000	8,736,711
Capital assets, being depreciated, net	26,915,628	496,511	27,412,139
Total assets	77,934,229	11,756,600	89,690,829
Liabilities			
Accounts payable	1,879,654	63,011	1,942,665
Accrued payroll and employee benefits	1,308,274	20,399	1,328,673
Due to other governments	522,044		522,044
Unearned revenue	147,298		147,298
Noncurrent liabilities:			
Due within one year	1,561,256	23,996	1,585,252
Due in more than one year	6,475,862	2,964,941	9,440,803
Total liabilities	11,894,388	3,072,347	14,966,735
Net position			
Invested in capital assets, net of related debt	25,903,764	3,496,511	29,400,275
Restricted for:			
Public safety	355,581		355,581
Highways and streets	8,097,478		8,097,478
Health services	1,308,640		1,308,640
Judicial activities	4,996,508		4,996,508
Law enforcement	366,684		366,684
Education	1,303,416		1,303,416
Sanitation	108,280		108,280
Social services	820,486		820,486
Library	508,989		508,989
Street lighting improvement	18,014		18,014
Capital projects	483,946		483,946
Other purposes	730,092		730,092
Landfill closure and postclosure care costs		4,770,627	4,770,627
Unrestricted	21,037,963	417,115	21,455,078
Total net position	$ 66,039,841	$ 8,684,253	$ 74,724,094

See accompanying notes to financial statements.

Gila County
Statement of activities
Year ended June 30, 2014

		Program revenues			Net (expense) revenue and changes in net position		
					Primary government		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions							
Governmental activities							
General government	$ 20,657,610	$ 1,807,925	$ 1,541,741		$ (17,307,944)		$ (17,307,944)
Public safety	15,940,633	749,301	2,748,553		(12,442,779)		(12,442,779)
Highways and streets	6,273,260	3,609	592,889	$ 4,392,947	(1,283,815)		(1,283,815)
Health	2,676,799	270,590	1,521,850		(884,359)		(884,359)
Welfare	8,858,656	47,305	5,009,898		(3,801,453)		(3,801,453)
Sanitation	15,656				(15,656)		(15,656)
Culture and recreation	1,476,510	12,530	153,584		(1,310,396)		(1,310,396)
Education	4,135,227	128,845	3,023,266		(983,116)		(983,116)
Interest on long-term debt	297,369				(297,369)		(297,369)
Total governmental activities	60,331,720	3,020,105	14,591,781	4,392,947	(38,326,887)		(38,326,887)
Business-type activities							
Landfill	1,349,350	2,323,170				973,820	973,820
Total business-type activities	1,349,350	2,323,170				973,820	973,820
Total primary government	$ 61,681,070	$ 5,343,275	$ 14,591,781	$ 4,392,947	(38,326,887)	973,820	(37,353,067)
General revenues							
Taxes:							
Property taxes, levied for general purposes					18,514,659		18,514,659
Property taxes, levied for Street Lighting Districts					55,010		55,010
Property taxes, levied for Library District					907,158		907,158
County excise tax for general purpose					3,055,912		3,055,912
County excise tax for transportation purpose					3,142,006		3,142,006
Shared revenue - state sales tax					5,155,823		5,155,823
Shared revenue - state vehicle license tax					1,568,388		1,568,388
Shared revenue - state liquor license tax					11,649		11,649
State appropriations					550,039		550,039
Payments in lieu of taxes					3,616,885		3,616,885
Investment earnings					281,903	42,024	323,927
Miscellaneous					969,955		969,955
Gain on sale/trade-in of capital assets					40,245		40,245
Total general revenues					37,869,632	42,024	37,911,656
Change in net position					(457,255)	1,015,844	558,589
Net position, as restated, July 1, 2013					66,497,096	7,668,409	74,165,505
Net position, June 30, 2014					$ 66,039,841	$ 8,684,253	$ 74,724,094

See accompanying notes to financial statements.

Gila County
Balance sheet
Governmental funds
June 30, 2014

	General fund	Public works fund	Superintendent of schools fund	Other governmental funds	Total governmental funds
Assets					
Cash and investments	$22,320,603	$ 7,501,068	$ 1,546,800	$ 7,598,139	$ 38,966,610
Receivables (net of allowances for uncollectibles):					
Property taxes	950,195			49,613	999,808
Accounts	450,079	6,639	40,211	242,492	739,421
Interest	33,970	11,302	2,383	11,533	59,188
Due from other governments	1,342,335	1,127,891	373,422	1,472,750	4,316,398
Inventories	161,248	72,217			233,465
Total assets	$25,258,430	$ 8,719,117	$ 1,962,816	$ 9,374,527	$ 45,314,890
Liabilities, deferred inflows of resources and fund balances					
Liabilities					
Accounts payable	827,207	422,670	122,533	507,244	1,879,654
Accrued payroll and employee benefits	906,492	126,752	14,985	260,045	1,308,274
Due to:					
Other funds	33,000				33,000
Other governments			522,044		522,044
Unearned revenue	147,298				147,298
Total liabilities	$ 1,913,997	$ 549,422	$ 659,562	$ 767,289	$ 3,890,270
Deferred inflows of resources:					
Unavailable revenue–property taxes	108,393			7,661	116,054
Unavailable revenue–intergovernmental	9,833	215,503	245,744	144,774	615,854
Total deferred inflows of resources	118,226	215,503	245,744	152,435	731,908
Fund balances:					
Nonspendable	161,248	72,217			233,465
Restricted	483,946	7,881,975	1,057,672	8,817,541	18,241,134
Assigned	16,092,228				16,092,228
Unassigned	6,488,785		(162)	(362,738)	6,125,885
Total fund balances	23,226,207	7,954,192	1,057,510	8,454,803	40,692,712
Total liabilities, deferred inflows of resources and fund balances	$25,258,430	$ 8,719,117	$ 1,962,816	$ 9,374,527	$ 45,314,890

See accompanying notes to financial statements.

Gila County
Reconciliation of the balance sheet to the statement of net position
Governmental funds
June 30, 2014

Fund balances—total governmental funds	$ 40,692,712
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	32,652,339
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	731,908
Long-term liabilities, such as pledged revenue obligations payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(8,037,118)
Net position of governmental activities	$ 66,039,841

See accompanying notes to financial statements.

Gila County
Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2014

	General fund	Public works fund	Superintendent of schools fund	Other governmental funds	Total governmental funds
Revenues:					
Taxes	$21,462,178	$3,142,006		$ 954,507	$25,558,691
Licenses and permits	415,528	3,609		142,086	561,223
Intergovernmental	14,015,967	4,380,028	$1,378,023	9,318,442	29,092,460
Charges for services	936,281		128,845	939,116	2,004,242
Fines and forfeits	420,117			34,523	454,640
Donations and contributions	76		32,879	146,243	179,198
Investment earnings	172,196	59,561	13,556	36,590	281,903
Miscellaneous	282,282	68,231	116,281	503,161	969,955
Total revenues	37,704,625	7,653,435	1,669,584	12,074,668	59,102,312
Expenditures:					
Current:					
General government	17,483,199			1,684,439	19,167,638
Public safety	13,296,633			2,661,224	15,957,857
Highways and streets		7,445,341		46,901	7,492,242
Health	13,750			2,736,159	2,749,909
Welfare	3,961,690			4,980,069	8,941,759
Sanitation				130,890	130,890
Culture and recreation	212,208			1,331,962	1,544,170
Education	1,727,443		2,405,029		4,132,472
Debt service:					
Principal retirement	390,750				390,750
Interest and fiscal charges	308,941				308,941
Total expenditures	37,394,614	7,445,341	2,405,029	13,571,644	60,816,628
Excess (deficiency) of revenues over expenditures	310,011	208,094	(735,445)	(1,496,976)	(1,714,316)
Other financing sources (uses):					
Proceeds from sale of capital assets	4	241			245
Transfers in	26,199	157,132		1,374,554	1,557,885
Transfers out	(1,531,686)			(26,199)	(1,557,885)
Total other financing sources (uses)	(1,505,483)	157,373		1,348,355	245
Net change in fund balances	(1,195,472)	365,467	(735,445)	(148,621)	(1,714,071)
Fund balances, beginning of year, as restated	24,432,957	7,548,311	1,792,955	8,603,424	42,377,647
Changes in nonspendable resources:					
Increase (decrease) in reserve for inventories	(11,278)	40,414			29,136
Fund balances, end of year	$23,226,207	$7,954,192	$1,057,510	$ 8,454,803	$40,692,712

See accompanying notes to 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, 2014

Net change in fund balances—total governmental funds		$ (1,714,071)
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	2,710,402	
Depreciation expense	(2,586,122)	124,280
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Bond premium amortized	11,572	
Principal repaid	390,750	402,322
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 payable		(70,830)
Some revenues reported in the statement of activities that do not represent the collection of current financial resources and therefore are not reported as revenues in the governmental funds.		
Property taxes	116,054	
Intergovernmental	615,854	
Trade-in value of capital assets	40,000	771,908
Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the statement of activities, however, they are reported as expenses when consumed.		
Increase in inventories		29,136
Change in net position of governmental activities		$ (457,255)

See accompanying notes to financial statements.

Gila County
Statement of net position
Proprietary funds
June 30, 2014

	Business-type activities - enterprise fund landfill
Assets	
Current assets:	
Cash and investments	$ 3,388,513
Due from other governmental units	13
Accounts receivable	62,992
Interest receivable	4,944
Due from other funds	33,000
Total current assets	3,489,462
Noncurrent assets:	
Restricted cash and investments	4,770,627
Capital assets	
Nondepreciable	3,000,000
Depreciable (net)	496,511
Total noncurrent assets	8,267,138
Total assets	11,756,600
Liabilities	
Current liabilities:	
Accounts payable	63,011
Accrued payroll and employee benefits	20,399
Total current liabilities	83,410
Noncurrent liabilities:	
Compensated absences payable	23,996
Landfill closure and postclosure care costs payable	2,964,941
Total noncurrent liabilities	2,988,937
Total liabilities	3,072,347
Net position	
Invested in capital assets, net of related debt	3,496,511
Restricted for landfill closure and postclosure care costs	4,770,627
Unrestricted	417,115
Total net position	$ 8,684,253

See accompanying notes to financial statements.

Gila County
Statement of revenues, expenses, and changes in fund net position
Proprietary funds
Year ended June 30, 2014

	Business-type activities—enterprise fund landfill
Operating revenues:	
Landfill fees	$ 2,323,170
Total operating revenues	2,323,170
Operating expenses:	
Personal services	541,053
Professional services	57,684
Supplies	138,012
Utilities	6,858
Repairs and maintenance	130,453
Landfill closure and postclosure care costs	157,161
Depreciation	148,364
Other	169,005
Total operating expenses	1,348,590
Operating income	974,580
Nonoperating revenues (expenses):	
Investment earnings	42,024
Interest expense on capital leases	(760)
Total nonoperating revenues (expenses)	41,264
Increase in net position	1,015,844
Net position, as restated, July 1, 2013	7,668,409
Net position, June 30, 2014	$ 8,684,253

See accompanying notes to financial statements.

Gila County
Statement of cash flows
Proprietary funds
Year ended June 30, 2014

	Business-type activities— enterprise fund landfill
Cash flows from operating activities	
Receipts from customers	$ 2,389,496
Payments to suppliers and providers of goods and services	(469,008)
Payments to employees	(543,137)
Net cash provided by operating activities	1,377,351
Cash flows from capital and related financing activities	
Purchases of capital assets	(54,276)
Principal paid on capital leases	(4,170)
Interest paid on capital leases	(760)
Net cash used for capital and related financing activities	(59,206)
Cash flows from investing activities	
Interest received on investments	37,080
Net cash provided by investing activities	37,080
Net increase in cash and cash equivalents	1,355,225
Cash and cash equivalents as restated, July 1, 2013	6,803,915
Cash and cash equivalents, June 30, 2014	$ 8,159,140
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 974,580
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	148,364
Changes in assets and liabilities	
Increase and decrease in:	
Due from other governmental units	(13)
Accounts receivable	66,339
Accounts payable	33,004
Compensated absences payable	1,133
Accrued payroll and employee benefits	(3,217)
Landfill closure and postclosure care costs payable	157,161
Net cash provided by operating activities	$ 1,377,351

See accompanying notes to financial statements.

Gila County
Statement of fiduciary net position
Fiduciary funds
June 30, 2014

	Investment trust funds	Agency funds
Assets		
Cash and investments	$ 30,869,109	$ 618,722
Interest receivable	43,707	264
Total assets	$ 30,912,816	$ 618,986
Liabilities		
Due to other governments		176,122
Deposits held for others		442,864
Total liabilities		$ 618,986
Net position		
Held in trust for investment trust participants	$ 30,912,816	

See accompanying notes to financial statements.

Gila County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2014

	Investment trust funds
Additions:	
Contributions from participants	$ 89,558,498
Investment earnings	247,784
Total additions	89,806,282
Deductions:	
Distributions to participants	93,956,267
Change in net position	(4,149,985)
Net position, as restated, July 1, 2013	35,062,801
Net position, June 30, 2014	$ 30,912,816

See accompanying notes to financial statements.

Note 1 - Summary of significant accounting policies

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

For the year ended June 30, 2014, the County implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; GASB Statement No. 66, *Technical Corrections—2012, an amendment of GASB Statements No. 10* and *No. 62*; and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognizes certain other items that were previously reported as assets and liabilities as revenues or expenses. GASB Statement No. 66 resolves conflicting guidance in previous GASB pronouncements related to risk financing activities, operating leases, purchases of loans, and servicing fees. GASB Statement No. 70 improves accounting and financial reporting for governments that extend or receive nonexchange financial guarantees.

A. Reporting entity

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

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

The following table describes the County's component units:

Component unit	Description; criteria for inclusion	Reporting method	For separate financial statements
Gila County Library District	A tax-levying district that provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors, and county management has operational responsibility for the component unit.	Blended	Not available
Gila County Street Lighting Districts	A tax-levying district that operates and maintains street lighting in areas outside local city jurisdictions; the County's Board of Supervisors serves as the board of directors, and county management has operational responsibility for the component unit.	Blended	Not available

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 information's usefulness.

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

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include:

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

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the County levies or imposes, are reported as general revenues.

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

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

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

The County reports the following major governmental funds:

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

The *public works fund* accounts for road construction and maintenance of major and nonmajor regional roads. It is funded by a ½-cent county sales tax, impact fees, highway user revenues, and vehicle license taxes.

The *superintendent of schools fund* accounts for educational services and programs operated by Gila County Regional School District #49 and Gila County Educational Service Agency. Funding sources include federal and state grants and contributions, private donations, and charges for services from local school districts.

The County reports the following proprietary fund:

The landfill fund accounts for the sanitation fee revenues and expenses related to the operation of the County's Buckhead Mesa and Russell Gulch landfills.

The County also reports the following fund types:

The *investment trust funds* account for pooled assets the County Treasurer holds and invests on behalf of other governmental entities.

The *agency funds* account for assets the County holds as an agent for the State, various local governments, and other parties.

C. Basis of accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities. 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.

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 resources available to finance the program. The County applies grant resources to such programs before using general revenues.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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, intergovernmental, charges for services, and 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.

D. Cash and investments

For the statement of cash flows, the County's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, and only those highly liquid investments with a maturity of 3 months or less when purchased.

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 the time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Inventories

Inventories in the government-wide financial statements are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

The County accounts for its inventories in the governmental funds using the purchase method. Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and as nonspendable fund balance to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method.

F. Property tax 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.

G. Capital assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). 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 are as follows:

	Capitalization threshold	Depreciation method	Estimated useful life
Land	$5,000	N/A	N/A
Buildings	5,000	Straight-line	7-30 years
Improvements other than buildings	5,000	Straight-line	20 years
Machinery and equipment	5,000	Straight-line	3-25 years
Infrastructure	5,000	Straight-line	7-50 years

H. Deferred inflows of resources

The balance sheet includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as a revenue in future periods.

I. Fund balance classifications

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

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

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the County's Board of Supervisors approved, which is the highest level of decision-making authority within the County. Only the Board can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Supervisors has authorized the County's manager to make assignments of resources for a specific purpose.

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

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

J. Investment earnings

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

K. Compensated absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds' financial statements only if they have matured; for example, as a result of employee resignations and retirements by fiscal year-end.

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

Note 2 - Change in accounting principle and prior period adjustments

Net position as of July 1, 2013, has been restated as follows for the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and for correction of accounting errors. Also, fund balances/net position as of July 1, 2013, on the governmental funds statement of revenues, expenditures, and changes in fund balances and investment trust funds statement of changes in fiduciary net position have been restated for reclassifications of funds and corrections of accounting errors.

Government-wide statements	Governmental activities	Business-type activities (landfill)
Net position as of June 30, 2013, as previously reported	$63,082,912	$7,218,289
Prior period adjustments—implementation of GASB 65		
Expensed deferred issuance costs on long-term debt	(267,743)	
Correction of capital assets accounting errors	2,854,095	
Correction of miscellaneous accounting errors	827,832	450,120
Net position as of July 1, 2013, as restated	$66,497,096	$7,668,409

	General fund	Public works fund	Superintendent of schools fund	Other governmental funds	Investment trust funds
Fund-based statements					
Fund balance as of June 30, 2013, as previously reported	$26,284,699	$7,018,036		$ 8,247,080	$35,373,260
Major fund in fiscal year			$2,129,606	(2,129,606)	
Reclassified nonmajor funds from general fund to other governmental funds	(2,937,128)			2,937,128	
Reclassified nonmajor funds from other governmental funds to general fund	326,366			(326,366)	
Reclassified nonmajor funds from other governmental funds to public works fund		211,652		(211,652)	
Reclassified investment trust funds to agency funds					(310,459)
Corrections of miscellaneous accounting errors	759,020	318,623	(336,651)	86,840	
Fund balance as of July 1, 2013, as restated	$24,432,957	$7,548,311	$1,792,955	$ 8,603,424	$35,062,801

Note 3 - Individual fund deficits

The following special revenue funds had fund deficits in excess of $1,000 as of June 30, 2014:

Fund	Deficit
Sheriff BLESF program	$147,602
State aid enhancement	47,242
HIV consortium	28,788
HSGP-critical incident	23,683
Healthy steps	19,074
Adult intensive prob supervision	18,755
Concilliation court fund	18,674
Cenpatico prevention services	14,450
Prop 201 Smoke Free AZ Act	12,851
Crime victim assistance program	11,064
Law library fund	5,793
DES access visitation	5,296
Juvenile standards probation	4,718
Gila County wellness program	2,200
Maternal & child home visiting	1,104

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, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk
Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated “A” or better at the time of purchase by at least two nationally recognized rating agencies.
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 deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

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

Interest rate risk
Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk
Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Deposits—At June 30, 2014, the carrying amount of the County’s deposits was $4,354,837, and the bank balance was $5,164,248. The County does not have a formal policy related to custodial credit risk for deposits.

At June 30, 2014, $4,208,888 of the County’s bank balance was exposed to custodial credit risk as follows:	
Uninsured and uncollateralized	$2,952,227
Uninsured with collateral held by the pledging financial institution	1,256,661
	$4,208,888

Investments—The County's investments at June 30, 2014, were as follows:

Investment type	Fair value
U.S. agency securities	$42,193,846
U.S. Treasury securities	7,299,935
Corporate bonds	7,265,041
Corporate notes	7,993,709
Repurchase agreement	7,834,746
Corporate money market funds	1,568,400
U.S. Treasury money market funds	97,067
	$74,252,744

Credit risk—The County does not have a formal investment policy with respect to credit risk.

At June 30, 2014, credit risk for the County's investments was as follows:

Investment type	Rating	Rating agency	Amount
U.S. agency securities	Aaa	Moody's	$42,193,846
U.S. Treasury securities	Aaa	Moody's	7,299,935
Corporate bonds	A1	Moody's	4,000,080
Corporate bonds	A2	Moody's	2,007,056
Corporate bonds	Aa3	Moody's	1,257,905
Corporate notes	A1	Moody's	6,035,400
Corporate notes	A2	Moody's	1,958,309
Repurchase agreement	P-1	Moody's	7,834,746
Corporate money market funds	Unrated	N/A	1,568,400
U.S. Treasury money market funds	Unrated	N/A	97,067
			$74,252,744

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 outside party's possession. The County does not have a formal investment policy with respect to custodial credit risk. At June 30, 2014, the County had $7,265,041 in corporate bonds and $7,993,709 in corporate notes held by the counterparty in the County's name. In addition, the County had collateral for an overnight repurchase agreement consisting of a Real Estate Mortgage Investment Conduit (REMIC) issued by the Federal Home Loan Mortgage Corporation totaling $7,834,746 that was uninsured and held by the counterparty.

Concentration of credit risk—The County does not have a formal investment policy with respect to concentration of credit risk. The County had investments at June 30, 2014, representing 5 percent or more of the County's total investments as follows:

U.S. agency	Percent of county investments
Federal Home Loan Bank	19.64
Federal National Mortgage Association	17.15
U.S. Treasury	10.04
Federal Home Loan Mortgage Corporation	25.17
Federal Farm Credit Banks	6.87
General Electric Corporate Bonds	5.50

Interest rate risk—The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2014, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity (years)
U.S. agency securities	$42,193,846	1.52
U.S. Treasury securities	7,299,935	1.45
Corporate bonds	7,265,041	0.69
Corporate notes	7,993,709	0.92
Repurchase agreement	7,834,746	0.00
Corporate money market funds	1,568,400	0.00
U.S. Treasury money market funds	97,067	0.00
Total	$74,252,744	

At June 30, 2014, $5,001,600 of the investments in U.S. agency securities and $4,000,080 of investments in corporate bonds were considered to be highly sensitive to interest rate changes:

U.S. agency step-up securities—On specified dates, the issuer can call the security. If the security is not called, the interest rate is increased by a specified amount. Prevailing interest rates may increase faster than the increase in the coupon interest rate.	$5,001,600
Corporate notes floating rate securities—The coupon rate is tied to the London Interbank Offered Rate plus a fixed basis point amount that resets quarterly. The issuer can call the security on a specified date, or if the security is not called, the interest rate is reset at a specified amount. Prevailing interest rates may increase faster than the increase in the coupon interest rate.	4,000,080
	$9,001,680

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

Cash, deposits, and investments:	
Cash on hand	$ 6,000
Amount of deposits	4,354,837
Amount of investments	74,252,744
Total	$78,613,581

	Governmental activities	Business-type activities	Investment trust funds	Agency funds	Total
Cash and investments	$38,966,610	$3,388,513	$30,869,109	$618,722	$73,842,954
Cash and investments held by trustee—restricted		4,770,627			4,770,627
Total	$38,966,610	$8,159,140	$30,869,109	$618,722	$78,613,581

Note 5 – Due from other governments

Amounts due from other governments at June 30, 2014, are shown as follows:

	Governmental activities					
	General fund	Public works fund	Superintendent of schools fund	Other governmental funds	Business-type activities	Total
State-shared sales tax	$ 540,175					$ 540,175
County excise tax	534,417	$ 550,237				1,084,654
State-shared vehicle license tax	68,403	36,337				104,740
Highway user revenue		325,814				325,814
Grants and contributions from state and federal governments	194,180	215,503	$373,422	$1,472,750		2,255,855
Reimbursements for goods or services provided for governmental units	5,160				$13	5,173
Total	$1,342,335	$1,127,891	$373,422	$1,472,750	$13	$4,316,411

Note 6 - Capital assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Restated balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,236,737	$ 137,889		$ 1,374,626
Construction in progress	5,636,148	1,404,088	$2,678,151	4,362,085
Total capital assets not being depreciated	6,872,885	1,541,977	2,678,151	5,736,711
Capital assets being depreciated:				
Buildings	26,999,644	241,528		27,241,172
Improvements other than buildings	1,018,372	6,384		1,024,756
Machinery and equipment	24,415,132	1,038,795	945,954	24,507,973
Infrastructure	15,946,740	2,599,869		18,546,609
Total capital assets being depreciated	68,379,888	3,886,576	945,954	71,320,510

	Restated balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Less accumulated depreciation for:				
Buildings	$14,555,785	$ 662,341		$15,218,126
Improvements other than buildings	332,010	46,916		378,926
Machinery and equipment	20,047,127	1,319,779	$ 945,954	20,420,952
Infrastructure	7,829,792	557,086		8,386,878
Total accumulated depreciation	42,764,714	2,586,122	945,954	44,404,882
Total capital assets being depreciated, net	25,615,174	1,300,454		26,915,628
Governmental activities, capital assets, net	$32,488,059	$2,842,431	$2,678,151	$32,652,339
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 3,000,000			$ 3,000,000
Total capital assets not being depreciated	3,000,000			3,000,000
Capital assets being depreciated:				
Machinery and equipment	4,550,105	$ 21,276	$ 324,769	4,246,612
Infrastructure	169,340			169,340
Total	4,719,445	21,276	324,769	4,415,952
Less accumulated depreciation for:				
Machinery and equipment	3,965,278	139,897	324,769	3,780,406
Infrastructure	130,568	8,467		139,035
Total accumulated depreciation	4,095,846	148,364	324,769	3,919,441
Total capital assets being depreciated, net	623,599	(127,088)		496,511
Business-type activities, capital assets, net	$ 3,623,599	$ (127,088)	$	$ 3,496,511

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 897,872
Public safety	448,592
Highways and streets	1,087,933
Health	26,102
Welfare	54,911
Sanitation	24,627
Culture and recreation	43,330
Education	2,755
Total governmental activities depreciation expense	$2,586,122
Business-type activities:	
Sanitation	$ 148,364

Note 7 - Long-term liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2014:

	Restated balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities					
Pledged revenue obligations payable	$6,895,000		$ 320,000	$6,575,000	$ 325,000
Revenue obligations premium payable	185,147		11,572	173,575	11,572
Capital leases payable	70,750		70,750		
Compensated absences payable	1,217,713	$1,429,206	1,358,376	1,288,543	1,224,684
Total governmental activities long-term liabilities	$8,368,610	$1,429,206	$1,760,698	$8,037,118	$1,561,256
Business-type activities					
Capital leases payable	$ 4,170		$ 4,170		
Compensated absences payable	22,863	$ 31,394	30,261	$ 23,996	$ 23,996
Landfill closure and postclosure care costs payable	2,807,780	157,161		2,964,941	
Total business-type activities long-term liabilities	$2,834,813	$ 188,555	$ 34,431	$2,988,937	$ 23,996

Pledged revenue and pledged revenue refunding obligations—During the year ended June 30, 2010, the County issued $8 million in pledged revenue obligations with an interest rate of 3-5 percent to finance renovation costs for a newly acquired county administration building and several other county buildings, and to advance refund the outstanding 1999 Series A certificates of participation. The obligations are generally noncallable, with interest payable semiannually. The County's obligation to make pledged revenue obligation payments will be payable solely from, and secured by, a pledge and lien upon the County's excise taxes through fiscal year 2029. Annual principal and interest payments on the obligations are expected to require less than 15 percent of pledged revenues. In the current year, total principal and interest paid, and total pledged resources were $620,700 and $6,176,500, respectively.

The following pledged revenue and pledged revenue refunding obligations were outstanding at June 30, 2014:

Description	Original amount issued	Interest rates	Maturities	Outstanding June 30, 2014
Gila County Pledged Revenue Obligations, Series 2009	$6,860,000	3-5%	2015-2019	$5,640,000
Gila County Pledged Revenue Refunding Obligations, Series 2009	1,140,000	3-5%	2015-2029	935,000
Total				$6,575,000

The following schedule details debt service requirements to maturity for the County's pledged revenue and pledged revenue refunding obligations payable at June 30, 2014:

	Governmental activities	
	Principal	Interest
Year ending June 30		
2015	$ 325,000	$ 291,100
2016	340,000	281,350
2017	350,000	267,750
2018	365,000	253,750
2019	380,000	239,150
2020-2024	2,140,000	954,950
2025-2029	2,675,000	414,500
	$6,575,000	$2,702,550

Landfill closure and postclosure care costs—State and federal laws and regulations require the County to place a final cover on its six landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs in each operating period. These costs will be paid from the landfill fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The $2,964,941 reported as landfill closure and postclosure care liability at June 30, 2014, represents the cumulative amount reported to date based on the approximate use of 67 percent of the estimated capacity of the Buckhead Mesa Landfill and 61 percent of the Russell Gulch Landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $1,215,389 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 2014.

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

In order to comply with state and federal laws and regulations, the County obtained a letter of credit on July 9, 2009, to ensure the costs of landfill closure, postclosure, and possible corrective action can be met. As part of the agreement for the line of credit, the County established a mandatory sinking fund with an escrow agent. The sinking fund balance will equal the estimated landfill closure and postclosure care costs when the landfills are expected to close. The current balance is reported as restricted cash and investments in the business-type activities statement of net position and the proprietary fund statement of net position. The County is in compliance with these requirements.

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

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During the year ended June 30, 2014, the County paid for compensated absences as follows: 70 percent from the general fund, 10 percent from the public works fund, 2 percent from the landfill fund, and 18 percent from other funds.

Note 8 - Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2014, were as follows:

	General fund	Public works fund	Superintendent of schools fund	Other governmental funds	Total
Fund balances:					
Nonspendable:					
Inventories	$ 161,248	$ 72,217			$ 233,465
Total nonspendable	161,248	72,217			233,465
Restricted for:					
Public safety				$ 355,581	355,581
Highways and streets		7,881,975			7,881,975
Health services				1,234,228	1,234,228
Judicial activities				4,996,508	4,996,508
Law enforcement				366,684	366,684
Education			$1,057,672		1,057,672
Sanitation				108,280	108,280
Social services				750,124	750,124
Library				503,414	503,414
Street lighting improvement				15,928	15,928
Capital projects	483,946				483,946
Other purposes				486,794	486,794
Total restricted	483,946	7,881,975	1,057,672	8,817,541	18,241,134
Assigned to:					
Contingency reserve	13,600,000				13,600,000
Education	3,599				3,599
Other capital projects	2,348,288				2,348,288
Other purposes	140,341				140,341
Total assigned	16,092,228				16,092,228
Unassigned	6,488,785		(162)	(362,738)	6,125,885
Total fund balances	$23,226,207	$7,954,192	$1,057,510	$8,454,803	$40,692,712

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. For these risks of loss, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters, and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of $25,000 per occurrence for property claims and $25,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of $300 million per occurrence for property claims and $15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period.

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 law requires, and risk management services. The County is responsible for paying a premium based on an experience-rating formula that allocates pool expenditures and liabilities among the members.

The 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.

The Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. All pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation. If a pool were to become insolvent, the County would be assessed an additional contribution.

The County has not experienced any significant decreases in insurance coverage from the prior year and has not had any settlements in excess of coverage in the past three years.

Note 10 - Pension and other postemployment benefits

Plan descriptions—The County contributes to the four plans described below. The plans are component units of the State of Arizona, state statutes establish benefits, 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. The health insurance premium benefit is paid as a fixed dollar amount per month toward 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 benefit 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 Arizona State Retirement System Board governs the ASRS 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 benefit plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona and participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a seven-member board known as the Board of Trustees, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Corrections Officer Retirement Plan* (CORP) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit plan that covers state, county, and local correction officers; dispatchers; and probation, surveillance, and juvenile detention officers. The Administrative Office of the Courts probation officers is a group separately covered under the CORP in which the related plan information that follows is separately referred to as the CORP-AOC. The CORP is governed by the PSPRS Board of Trustees and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The *Elected Officials Retirement Plan* (EORP) administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities who were plan members on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.

Beginning in fiscal year 2014, PSPRS, CORP, and EORP established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same pension fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.

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

ASRS	PSPRS, CORP, and EORP
3300 N. Central Ave.	3010 E. Camelback Rd., Ste. 200
P.O. Box 33910	Phoenix, AZ 85016-4416
Phoenix, AZ 85067-3910	(602) 255-5575
(602) 240-2000 or 1-800-621-3778	www.psprs.com
www.azasrs.gov	

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, 2014, statute required active ASRS members to contribute at the actuarially determined rate of 11.54 percent (11.3 percent for retirement and 0.24 percent long-term disability) of the members' annual covered payroll and statute required the County to contribute at the actuarially determined rate of 11.54 percent (10.7 percent for retirement, 0.6 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of the members' annual covered payroll. Statute required active EORP members to contribute 13 percent of the members' annual covered payroll, and statute required the County to remit a designated portion of certain court fees plus additional contributions at a percent of the members' annual covered payroll. Through December 31, 2013, the additional contributions were at the actuarially determined rate of 25.94 percent. Beginning January 1, 2014, the additional contributions were at the statutorily required rate of 23.5 percent. Both rates include the actuarially set rate of 1.56 percent for the plan's health insurance premium benefit.

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

	Retirement fund	Health benefit supplement fund	Long-term disability fund
Year ended June 30			
ASRS:			
2014	$1,852,259	$104,352	$41,741
2013	1,805,218	114,477	42,269
2012	1,653,605	105,549	40,209

	Pension fund	Health insurance fund
Year ended June 30		
EORP:		
2014	$274,968	$17,392
2013	243,672	21,016
2012	195,106	19,445

Agent plans—For the year ended June 30, 2014, statute required active PSPRS members to contribute 10.35 percent of the members' annual covered payroll, and the County was required to contribute 33.42 percent, the aggregate of which is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was actuarially set at 1.59 percent of covered payroll. Statute required active CORP, CORP dispatchers, and CORP-AOC members to contribute 8.41 percent of the nondispatcher members' and 7.96 percent of the dispatchers' annual covered payroll. In addition, statute required the County to contribute 9.57 percent for active CORP members, 11.20 percent for active CORP dispatchers members, and 15.58 percent for CORP-AOC members. The aggregate of the members' and the County's contributions is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.98 percent of covered payroll for active CORP members, 0.84 percent for CORP Dispatchers members, and 1.13 for CORP-AOC members.

All participating employers in the CORP-AOC are accounted for as one group within the Corrections Officer Retirement Plan, and as such, an actuarial valuation of CORP-AOC is prepared only for the group as a whole. Therefore, actuarial information and certain trend information for the County, as a participating government, are not available.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012, 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 plans' funded status 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 the County and plans' members understand them 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 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 both plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2014 contribution requirements:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	24 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	5%–9% for PSPRS and 5%–8.25% for CORP
includes inflation at	5% for PSPRS and CORP

Annual pension/OPEB cost—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2014, and related information follows:

	PSPRS		CORP	
	Pension	Health insurance premium benefit	Pension	Health insurance premium benefit
Annual pension/OPEB cost	$520,920	$28,474	$191,319	$21,715
Contributions made	$520,920	$28,474	$191,319	$21,715

	CORP-dispatchers		CORP-AOC	
	Pension	Health insurance premium benefit	Pension	Health insurance premium benefit
Annual pension/OPEB costs	$26,396	$2,130	$240,875	$18,907
Contributions made	$26,396	$2,130	$240,875	$18,907

Trend information—Annual pension and OPEB cost information for the current and 2 preceding years follows for each of the agent plans:

Plan	Year ended June 30	Annual pension/OPEB cost	Percentage of annual cost contributed	Net pension/OPEB obligation
PSPRS				
Pension	2014	$520,920	100.0%	$ 0
Health insurance premium benefit	2014	28,474	100.0	0
Pension	2013	516,421	104.0	20,840
Health insurance premium benefit	2013	33,597	38.0	(20,840)
Pension	2012	427,251	105.2	22,306
Health insurance premium benefit	2012	34,473	35.3	(22,306)
CORP				
Pension	2014	191,319	100.0	0
Health insurance premium benefit	2014	21,715	100.0	0
Pension	2013	155,315	123.1	35,894
Health insurance premium benefit	2013	36,744	2.3	(35,894)
Pension	2012	101,025	129.9	30,162
Health insurance premium benefit	2012	31,012	2.7	(30,162)

Plan	Year ended June 30	Annual pension/OPEB cost	Percentage of annual cost contributed	Net pension/OPEB obligation
CORP-dispatchers				
Pension	2014	$ 26,396	100.0	$ 0
Health insurance premium benefit	2014	2,130	100.0	0
Pension	2013	15,100	114.3	2,165
Health insurance premium benefit	2013	2,165	0.0	(2,165)
Pension	2012	29,106	114.1	4,114
Health insurance premium benefit	2012	4,114	0.0	(4,114)
CORP-AOC				
Pension	2014	240,875	100.0	0
Health insurance premium benefit	2014	18,907	100.0	0
Pension	2013	186,201	100.0	0
Health insurance premium benefit	2013	18,024	100.0	0
Pension	2012	183,005	100.0	0
Health insurance premium benefit	2012	19,931	100.0	0

Funded Status—The plans' funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow:

	PSPRS		CORP		CORP dispatchers	
	Pension	Health insurance premium benefit	Pension	Health insurance premium benefit	Pension	Health insurance premium benefit
Actuarial value of assets (a)	$ 6,461,379	$ 570,662	$3,936,983	$ 272,817	$1,264,264	$ 75,039
Actuarial accrued liability (b)	16,809,197	385,269	4,531,072	232,448	1,692,935	35,231
Unfunded actuarial accrued liability (funding excess) (b) – (a)	10,347,818	(185,393)	594,089	(40,369)	428,671	(39,808)
Funded ratio (a)/(b)	38.4%	148.1%	86.9%	117.4%	74.7%	21.30%
Annual covered payroll (c)	$ 1,535,690	$1,535,690	$2,132,979	$2,132,979	$223,276	$223,276
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(b)- (a)]/(c)	673.8%	(12.1%)	27.9%	(1.9%)	192.0%	(17.9%)

The actuarial methods and assumptions used are the same for both plans and related benefits (unless noted), and for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0% – 8.0% for PSPRS; 4.0% – 7.25% for CORP
includes inflation at	4.0% for PSPRS and CORP

Note 11 - Interfund balances and activity

Interfund receivables and payables—Interfund balances at June 30, 2014, were as follows:

Payable from	Payable to Landfill fund
General fund	$33,000

The interfund balance resulted from time lags between the dates that interfund goods and services are provided or reimbursable expenditures occur and the dates payments are made.

Interfund transfers—Interfund transfers for the year ended June 30, 2014, were as follows:

	Transfers to			
Transfers from	General fund	Public works fund	Nonmajor governmental funds	Total
General fund		$157,132	$1,374,554	$1,531,686
Nonmajor governmental funds	$26,199			26,199
Total	$26,199	$157,132	$1,374,554	$1,557,885

The principal purpose of interfund transfers was to provide grant matches or to 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 his stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

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

The Treasurer allocates interest earnings to each of the pool's participants.

The deposits and investments the County holds are included in the County Treasurer's investment pool, except for $5,453,028 in deposits and investments. 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.

Details of each major investment classification follow:

Investment type	Principal	Interest rates	Maturities	Fair value
U.S. agency securities	$42,130,000	0.170% - 2.750%	09/14 – 12/17	$42,193,846
U.S. Treasury securities	7,295,000	0.250% - 0.625%	08/15 – 12/16	7,299,935
U.S. Treasury money market funds	97,067	0.000% - 0.010%	N/A	97,067
Corporate bonds	7,255,000	Variable	09/14 – 05/16	7,265,041
Corporate notes	7,909,000	1.700% - 3.625%	11/14 – 01/16	7,993,709
Repurchase agreement	7,834,746	0.010 - 0.030%	Overnight	7,834,746
	$72,520,813			$72,684,344

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

Statement of net position	
Assets	$ 73,221,383
Liabilities	176,122
Net position	$ 73,045,261
Net position held in trust for:	
Internal participants	$ 42,132,445
External participants	30,912,816
Total net position held in trust	$ 73,045,261
Statement of changes in net position	
Total additions	$159,820,068
Total deductions	164,990,958
Net decrease	(5,170,890)
Net position held in trust:	
July 1, 2013, as restated	78,216,151
June 30, 2014	$ 73,045,261

Note 13 - Subsequent events

In March 2015, Gila County issued $2 million of series 2015 pledged revenue obligations with interest rates between 0.53 percent and 2.75 percent and a final maturity date of July 1, 2025. The County has pledged a portion of its general county excise tax revenues toward the future payment of debt related to these obligations. The net proceeds were used to purchase and remodel the Copper Administrative Building, a used modular office building, located south of the Globe Courthouse.

Note 14 – Significant construction commitments

At June 30, 2014, the County had major construction commitments related to various capital projects for the construction of Tonto Creek Bridge and Oak Creek Bridge and installation of security systems to the Globe and Payson courthouse buildings. As of June 30, 2014, the County had spent $4,362,085 on these major projects and other less significant capital projects and reported the total amount in construction in progress. An estimated cost to complete these capital projects is approximately $26.7 million, which is predominantly financed by transportation excise tax, and state and federal grants.

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Other Required Supplementary Information

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2014

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 20,978,381	$ 21,462,178	$ 483,797
Licenses and permits	336,000	415,528	79,528
Intergovernmental	11,934,081	14,015,967	2,081,886
Charges for services	975,865	936,281	(39,584)
Fines and forfeits	460,598	420,117	(40,481)
Donations and contributions		76	76
Investment earnings	54,665	172,196	117,531
Miscellaneous	495,446	282,282	(213,164)
Total revenues	35,235,036	37,704,625	2,469,589
Expenditures:			
Current:			
General government			
Administrative Services	120,021	117,564	2,457
Assessor	1,059,302	934,164	125,138
Board of Supervisors	1,053,677	931,257	122,420
Community Development	1,134,094	1,037,697	96,397
Computer Services	763,272	695,052	68,220
Constituent Services	270,000	246,529	23,471
Elections	424,944	209,440	215,504
Facilities Management	1,480,318	1,363,616	116,702
Finance/Purchasing	828,284	802,026	26,258
General Administration	326,773	390,849	(64,076)
Personnel	704,527	470,144	234,383
Professional Services	390,500	314,441	76,059
Recorder	651,592	479,355	172,237
Treasurer	479,764	461,714	18,050
Contingency	14,600,000	14,269	14,585,731

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2014
(Continued)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Judicial Services			
County Attorney	$ 2,019,516	$ 1,803,674	$ 215,842
County Attorney—Child Support	836,014	687,748	148,266
Constable—Globe	136,004	130,235	5,769
Constable—Payson	176,914	146,523	30,391
Justice Court—Globe	663,415	557,968	105,447
Justice Court—Payson	565,708	531,060	34,648
Indigent Legal Defense	1,132,060	1,277,241	(145,181)
Clerk of the Superior Court	1,257,474	1,135,060	122,414
Superior Court—Division I	255,173	259,086	(3,913)
Superior Court—Division II	246,771	243,928	2,843
Superior Court—General	963,018	803,411	159,607
Court System Multi-Information Systems	358,002	334,078	23,924
Total general government	32,897,137	16,378,129	16,519,008
Public safety			
County Sheriff	10,708,918	10,029,063	679,855
County Sheriff—Facilities Management	311,019	280,160	30,859
Emergency Services/GIS Addressing	357,629	272,784	84,845
Flood Plain Management	220,705	134,163	86,542
Juvenile Detention	1,312,349	1,204,358	107,991
Probation	858,067	847,782	10,285
Total public safety	13,768,687	12,768,310	1,000,377
Welfare			
AHCCCS Contributions	3,559,600	3,421,055	138,545
Community Agencies	138,250	137,600	650
Public Fiduciary	408,930	403,035	5,895
Total welfare	4,106,780	3,961,690	145,090

(Continued)

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
General fund
Year ended June 30, 2014
(Concluded)

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Culture and recreation			
Fairgrounds	$ 254,556	$ 196,208	$ 58,348
Education			
School Superintendent	396,032	1,727,443	(1,331,411)
Special School Reserve	2,500		2,500
Total education	398,532	1,727,443	(1,328,911)
Capital outlay	3,420,100	2,870,067	550,033
Debt service	628,150	699,691	(71,541)
Total expenditures	55,473,942	38,601,538	16,872,404
Excess (deficiency) of revenues over expenditures	(20,238,906)	(896,913)	19,341,993
Other financing sources (uses)			
Proceeds from sale of capital assets		4	4
Indirect costs		1,206,924	1,206,924
Transfers in	489,219	26,199	(463,020)
Transfers out	(1,653,086)	(1,531,686)	121,400
Net other financing sources (uses)	(1,163,867)	(298,559)	865,308
Net change in fund balances	(21,402,773)	(1,195,472)	20,207,301
Fund balances, beginning of year	21,402,773	24,432,957	3,030,184
Decrease in inventories	-	(11,278)	(11,278)
Fund balances, end of year	$ -	$ 23,226,207	$ 23,226,207

See accompanying notes to budgetary comparison schedule.

Gila County
Required supplementary information
Budgetary comparison schedule
Public works fund
Year ended June 30, 2014

	Original and final budgeted amounts	Actual amounts	Variance with final budget
Revenues:			
Taxes	$ 3,090,000	$ 3,142,006	$ 52,006
Licenses and permits	2,500	3,609	1,109
Intergovernmental	4,912,630	4,380,028	(532,602)
Charges for services	453,208		(453,208)
Investment earnings	29,500	59,561	30,061
Miscellaneous	68,539	68,231	(308)
Total revenues	8,556,377	7,653,435	(902,942)
Expenditures:			
Highways and streets	13,517,568	7,445,341	6,072,227
Total expenditures	13,517,568	7,445,341	6,072,227
Excess (deficiency) of revenues over expenditures	(4,961,191)	208,094	5,169,285
Other financing sources (uses):			
Proceeds from sale of capital assets		241	241
Transfers in		157,132	157,132
Transfers out	(459,219)		459,219
Net other financing uses	(459,219)	157,373	616,592
Net change in fund balances	(5,420,410)	365,467	5,785,877
Fund balances, beginning of year	5,420,410	7,548,311	2,127,901
Increase in inventories	-	40,414	40,414
Fund balances, end of year	$ -	$ 7,954,192	$ 7,954,192

See accompanying notes to budgetary comparison schedule.

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 the Board of Supervisors' approval.

The County has adopted budgets in accordance with A.R.S. requirements for the general fund, special revenue funds, capital project funds, and debt service funds, with the exception of the superintendent of schools special revenue fund. In accordance with A.R.S. §15-301(C), the Office of County School Superintendent is designated as a local education agency (LEA). Revenues and expenditures for the LEA for Gila County Regional School District #49 and Gila County special education services are not included in the adopted budget of the County's Board of Supervisors.

Note 2 – Budgetary basis of accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles, except for the following unbudgeted items:

	General fund
Excess of revenues over expenditures from the statement of revenues, expenditures, and changes in fund balances	$ 310,011
Indirect cost expenditures allocated to other county funds	(1,206,924)
Deficiency of revenues over expenditures from the budgetary comparison schedule	$ (896,913)

Note 3 - Expenditures in excess of appropriations

For the year ended June 30, 2014, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/department	Excess
General fund:	
General Administration	$ 64,076
Indigent Legal Defense	145,181
Superior Court—Division I	3,913
School Superintendent	1,331,411
Debt Service	71,541

The excesses were primarily the result of unexpected expenditures or expenditures made as a result of unanticipated revenues, or both. When departments exceed their annual budget, the County Finance Department closely monitors departmental spending and discusses the overage with the 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.

During fiscal year 2014, the County School Superintendent's Office received national forest monies of $1,366,620 and passed them through to the school districts, which was not budgeted and accounted for the entire excess amount.

Gila County
Required supplementary information
Schedule of agent retirement plans' funding progress
June 30, 2014

Plan	Actual valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL as percentage of covered payroll ([b-a]/c)
Public Safety Personnel Retirement System							
Pension	6/30/14	$6,461,379	$16,809,197	$10,347,818	38.4%	$1,535,690	673.8%
Health insurance	6/30/14	570,662	385,269	(185,393)	148.1%	1,535,690	(12.1%)
Pension	6/30/13	6,922,099	13,572,217	6,650,118	51.0%	1,884,079	353.0%
Health insurance	6/30/13		372,339	372,339	0.0%	1,884,079	19.8%
Pension	6/30/12	7,000,746	13,080,822	6,080,076	53.5%	1,687,594	360.3%
Health insurance	6/30/12		334,353	334,353	0.0%	1,687,594	19.8%
Corrections Officer Retirement Plan—corrections officers							
Pension	6/30/14	$3,936,983	$4,531,072	$594,089	86.9%	$2,132,979	27.9%
Health insurance	6/30/14	272,817	232,448	(40,369)	117.4%	2,132,979	0.0%
Pension	6/30/13	3,798,718	4,007,973	209,255	94.8%	2,306,057	9.1%
Health insurance	6/30/13		206,729	206,729	0.0%	2,306,057	9.0%
Pension	6/30/12	3,396,424	3,528,734	132,310	96.3%	2,286,873	5.8%
Health insurance	6/30/12		181,627	181,627	0.0%	2,286,873	7.9%
Corrections Officer Retirement Plan—dispatchers							
Pension	6/30/14	$1,264,264	$1,692,935	$428,671	74.7%	$223,276	192.0%
Health insurance	6/30/14	75,039	35,231	(39,808)	213.0%	223,276	(17.9%)
Pension	6/30/13	1,404,612	1,672,988	268,376	84.0%	279,116	96.2%
Health insurance	6/30/13		38,152	38,152	0.0%	279,116	13.7%
Pension	6/30/12	1,426,850	1,680,481	253,631	84.9%	372,217	68.1%
Health insurance	6/30/12		44,995	44,995	0.0%	372,217	12.1%

Gila County
Required supplementary information
Notes to schedule of agent retirement plans' funding progress
June 30, 2014

Note 1 – Actuarial information available

All participating employers in the CORP Administrative Office of the Courts (AOC) are accounted for as one group within the Corrections Officer Retirement Plan and, as such, an actuarial valuation of CORP-AOC is prepared only for the group as a whole. Therefore, actuarial information for the County, as a participating government, is not available.

Note 2 – Factors that affect the identification of trends

Beginning in fiscal year 2014, PSPRS, CORP, and CORP-dispatchers established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same pension fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.

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SINGLE AUDIT REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
Gila County, Arizona

We have audited, 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, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 29, 2017.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-01 through 2014-03 and 2014-07 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-04 through 2014-06 and 2014-08 to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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 that is described in the accompanying schedule of findings and questioned costs as item 2014-01.

Gila County response to findings

Gila County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Debbie Davenport
Auditor General

June 29, 2017

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards required by OMB Circular A-133

Members of the Arizona State Legislature

The Board of Supervisors of
Gila County, Arizona

Report on compliance for each major federal program

We have audited Gila County's compliance with the types of compliance requirements described in *the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Basis for adverse opinion on the Child Support Enforcement program

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Child Support Enforcement (93.563) program's activities allowed or unallowed, allowable costs/cost principles, matching, and reporting requirements as described in items 2014-102 through 2014-105. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Adverse opinion on the Child Support Enforcement program

In our opinion, because of the significance of the matters discussed in the basis for adverse opinion paragraph, Gila County did not comply, in all material respects, with the compliance requirement referred to above that could have a direct and material effect on the Child Support Enforcement (93.563) program for the year ended June 30, 2014.

Unmodified opinion on each of the other major federal programs

In our opinion, Gila County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other matters

The results of our auditing procedures disclosed other instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying schedule of findings and questioned costs as items 2014-101 and 2014-106. Our opinion on each major federal program is not modified with respect to these matters.

Report on internal control over compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-101 through 2014-105 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-106 to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gila County response to findings

Gila County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Report on schedule of expenditures of federal awards required by OMB Circular A-133

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Gila County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 29, 2017, that contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards by us. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Debbie Davenport
Auditor General

June 29, 2017

Summary of auditors' results

Financial statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting

Material weaknesses identified? **Yes**

Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **Yes**

Federal awards

Internal control over major programs

Material weaknesses identified? **Yes**

Significant deficiencies identified? **Yes**

Type of auditors' report issued on compliance for major programs: Unmodified for all major programs except for Child Support Enforcement (93.563), which was adverse.

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

Identification of major programs

CFDA number	Name of federal program or cluster
10.665	Schools and Roads—Grants to States
15.226	Payment in Lieu of Taxes
17.258, 17.259, 17.260, 17.278	WIA Cluster
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs	$370,604
Auditee qualified as low-risk auditee?	No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	Yes

Financial statement findings

2014-01

The County should improve its policies and procedures to accurately compile, record, and report financial information in its annual financial report and issue its report in a timely manner

Criteria—The County should prepare its annual financial report that includes its financial statements and related note disclosures in accordance with U.S. generally accepted accounting principles (GAAP). Accurate financial statements provide valuable information to those charged with governance, management, and other financial statement users to make important decisions about the County's financial operations. In addition, the County annual financial report must be issued in a timely manner to satisfy the audit requirements imposed by federal and state laws and regulations, grants, contracts, and long-term debt covenants.

Condition and context—The County did not have adequate policies and procedures over its financial statement preparation process to ensure that its financial statements and note disclosures were accurate and complete. Consequently, the County had to correct numerous misstatements in its financial statements and notes. The more significant errors are described below:

- The prior year's estimated landfill closure and post closure care costs were overstated resulting in an understatement of beginning net position of $547,570.
- $816,776 due from other governments was not reported.
- Did not record due from other governments of $816,776, beginning fund balance of $758,053, intergovernmental revenue of $37,304, and tax revenue of $21,419, as revenue was not recognized in the proper fiscal year.
- $522,044 due to other governments owed to the Arizona Department of Education was not reported. This resulted from an Average Daily Membership Audit Report for the Gila County Regional School District that indicated the District did not follow Arizona Revised Statutes §15-901 when it calculated and reported student counts to ADE.
- Incorrectly eliminated negative expenditures in the general fund that resulted from the allocation of central service costs to other funds by increasing charges for services revenue by $1,206,924.
- Misclassified $1,251,563 in expenses for a county-wide payroll adjustment as capital outlay expenses in the government-wide statements.
- Overstated accounts payable by $270,315 in the general fund and $260,417 in the public works fund.
- A construction project totaling $2,970,479 was not reported in its balance of construction in progress.
- Infrastructure costs for two completed capital projects totaling $642,162 were not capitalized.
- The same infrastructure asset was reported twice resulting in an overstatement capital assets of $766,158.

In addition, the County's annual financial report was not issued in time to meet the federal Single Audit Act's reporting deadline.

Effect—The County's financial statements and note disclosures were not initially accurate and complete or prepared in accordance with GAAP. The County made the necessary audit adjustments to correct the financial statements and note disclosures for all significant errors and omissions. In addition, the County's annual financial report was not issued in time to meet the federal Single Audit Act's reporting deadline that is 9 months after the County's fiscal year-end. The County did not issue its single audit reporting package until June 2017.

Cause—The County did not have comprehensive internal control policies and procedures or sufficient resources needed to prepare accurate, complete, and timely financial statements in accordance with GAAP. In addition, detailed reviews and appropriate approvals were not performed to ensure the accuracy of the financial statements and note disclosures.

Recommendations—To help ensure that the County's annual financial report is accurate, complete, and prepared in accordance with GAAP and is issued in time to meet the federal Single Audit Act's reporting deadline, the County should:

- Develop and implement comprehensive written policies and procedures over financial statement preparation, including instructions for closing the general ledger at fiscal year-end, instructions for preparing common year-end financial statement adjustments, and performing a detailed supervisory review over the draft financial statements, supporting schedules, and note disclosures. These procedures should also include detailed instructions for obtaining information from the accounting system and information not readily available from the accounting system, but necessary for financial statement preparation, preparing supporting schedules, and documenting and reviewing adjustments necessary for preparing its financial statements.
- Dedicate appropriate resources, assign employees specific responsibilities, and establish completion dates.
- Require an employee who is independent of the person preparing the financial statements and knowledgeable of the County's operations and GAAP reporting requirements to review the statements and related note disclosures. This review should ensure that the amounts are accurate, properly supported, and presented in accordance with GAAP.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This is similar to prior year finding 2013-001.

2014-02

The County needs to improve controls over its capital assets

Criteria—The County should have effective internal controls over capital assets that are sufficient to control, safeguard, and report capital assets.

Condition and context—Capital assets comprise approximately $36.2 million, or 40 percent of the County's total assets. During test work, auditors noted the following deficiencies:

- The County did not properly capitalize infrastructure costs for completed projects.
- The County reported the same infrastructure asset twice.
- The County did not prepare capital asset disposal forms during fiscal year 2014 for $324,769 in capital asset disposals of the landfill fund.
- The County's fixed asset policy did not include a requirement to perform a physical inventory of its capital assets, and the County had not performed a physical inventory since 2009. Further, the County did not maintain documentation of the physical inventory.

Effect—The County's capital assets reported in its draft financial statements and notes were not accurate. The County made recommended audit adjustment to the financial statements and related note disclosure for all significant errors. In addition, capital assets were exposed to potential theft or misuse.

Cause—The County does not properly communicate all construction project costs between departments. In addition, the County's policies and procedures did not require a physical inventory of its capital assets.

Recommendations—To help ensure the County's capital assets are safeguarded against theft and misuse and accurately reported, the County should develop and implement capital assets procedures for capitalizing and reporting construction project costs and for performing a physical inventory at least every 2 years.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2013-001.

2014-03

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts

Criteria—Because cash is highly susceptible to potential theft or misuse, county management should have detailed written policies and procedures to provide guidance to its departments for collecting, recording, reconciling, and depositing cash receipts.

Condition and context—The landfill department and superintendent of schools did not always record their revenues in accordance with U.S. generally accepted accounting principles (GAAP) or record their revenues in the proper fiscal year. In addition, the landfill department did not properly separate cash-handling duties. Specifically, the landfill manager was responsible for reconciling daily cash receipt logs to daily cash receipts, performing month-end close procedures, and making deposits to the Treasurer from the landfill bank account, and he had access to monies in the landfill's bank account.

Effect—Departmental revenues were not always recorded in accordance GAAP or in the proper fiscal year. In addition, there was an elevated risk of theft or misuse over the landfill's cash receipts. The County adjusted its financial statements for all significant errors.

Cause—The County had poorly designed policies and procedures for recording departmental revenues and safeguarding cash receipts

Recommendations—To help strengthen controls over departmental revenues and cash receipts, the County should develop and implement written policies and procedures to provide guidance to its departments for collecting, recording, reconciling, and depositing cash receipts. In addition, the County should monitor that these procedures over recording revenues and controlling cash receipts are being followed at the individual departments.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2013-001.

2014-04

The County needs to improve controls over payroll expenses

Criteria—The County needs to have effective internal controls over payroll expenditures to help ensure employees are accurately paid and to accurately record and report payroll expenditures.

Condition and context—The County processed payroll based on transmittal sheets that summarize employee time and leave exception reports each department submitted that document the daily hours worked for each hourly employee and leave taken for hourly or salaried employees. Employee time sheets were prepared at the individual departments but were not forwarded to the payroll department. For 29 of 60 employee paychecks tested, including 27 employees paid on an hourly basis and 2 salaried employees, auditors found that the payroll department processed their payroll without obtaining evidence of supervisory approval for hours worked or leave taken as there was no evidence of approval documented on the transmittal sheet, time sheet, or leave exception report. Further, for 9 of the 27 hourly employees, the employee's hours could not be verified as the departments did not maintain properly approved time sheets.

Effect—The Department's employees could be paid incorrectly, and leave balances may not have been properly adjusted. In addition, there is an increased risk of fraudulent payroll transactions occurring and not being detected.

Cause—The County's policies and procedures did not require transmittal sheets, time sheets, and leave exception reports to be properly reviewed and approved before payment is made.

Recommendation—To help ensure that employees are properly paid based on approved hours worked, the County should develop and implement payroll-processing policies and procedures that require all hours worked be properly approved at the time the hours are submitted to the payroll department.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2014-05

The County should comply with laws governing conflict of interest

Criteria—Arizona Revised Statutes (A.R.S.) §18-444 require that all public officers file financial disclosure statements by January 31 of each year with the Secretary of State. In addition, conflict of interest statements should be retained in accordance with the *General Records Retention Schedule* as prescribed by the Arizona State Library, Archives, and Public Records for a minimum of 3 years after the fiscal year.

Condition and context—The County did not have adequate policies and procedures in place to ensure compliance with state laws. As a result, auditors identified the following instances of noncompliance:

- The County did not require two elected officials to submit financial disclosure statements for the 2014 calendar year since the two public officers vacated office on December 31, 2014.
- The County did not retain the conflict-of-interest forms that county employees prepared for the period July 1, 2013 through June 30, 2014.

Effect—The County risks engaging in transactions with a conflict of interest that have not been disclosed.

Cause—The County did not realize that public officers were required to submit financial disclosures for each year they are in office. In addition, the County destroyed the conflict-of-interest forms when new forms were requested for the following fiscal year.

Recommendation—To help ensure compliance with state laws, the County should develop policies and procedures that require all public officers to prepare and file financial disclosure statements with the Secretary of State annually and retain a copy of employee conflict-of-interest forms for a period of 3 years.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2014-06

The County should comply with laws governing the preparation of budgets and the transfers of monies between budgeted line items

Criteria—Arizona Revised Statutes (A.R.S.) §42-17106 requires that transfers of monies between budget line items must be approved by a majority of the County's Board of Supervisors (Board) at a public meeting. Additionally, A.R.S. §§11-201(A)(6) and 11-401 require the County's Board determine the budgets of all elected and appointed county officers. Further, Governmental Accounting Standards Board (GASB) Statement No. 34 requires the County to report in its financial statements a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget.

Condition and context—The County did not have adequate policies and procedures in place to ensure compliance with state laws. As a result, auditors identified the following instances of noncompliance:

- The County transferred $157,132 between county funds without board approval.
- The Board did not determine and approve a budget for the County's Superintendent of Schools education service agency or regional school district that are special revenue funds. Also, as a result, the County did present a budgetary comparison schedule in its financial statements for these funds.

Effect—The County did not comply with state laws and U.S. generally accepted accounting principles (GAAP).

Cause—The County improperly reversed a journal entry in a subsequent accounting period that created the transfer of monies. In addition, the schools had a budget for its general fund department; however, the school's office was not aware that a budget was required for its special revenue fund departments.

Recommendation—To help ensure compliance with state laws, the County should develop policies and procedures that require board approval of all transfers of monies between budget line items and the preparation of budgets of all elected and appointed county officers.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2014-07

The County should improve access controls over its information technology resources

Criteria—Logical access controls help to protect a County's information technology (IT) resources, which include its systems, network, infrastructure, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Logical access controls also help to ensure that authenticated users access only what they are authorized to. Therefore, the County should have effective internal control policies and procedures to control access to its IT resources.

Condition and context—The County did not have adequate policies and procedures or consistently implement its policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT resources.

Effect—There is an increased risk that the County may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its IT resources, including sensitive and confidential information.

Cause—The County had incomplete logical access controls that were inconsistently applied.

Recommendations—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County needs to develop and implement effective logical access policies and procedures over its IT resources. The information below provides guidance and best practices to help the County achieve this objective.

- **Implement IT standards and best practices—**IT policies and procedures should be reviewed against current IT standards and best practices, updated where needed, and implemented entity-wide, as appropriate. Further, staff should be trained on IT policies and procedures
- **Review user access—**A periodic, comprehensive review should be performed of all existing accounts to help ensure that network and system access granted is needed and compatible with responsibilities. Access should be reviewed for employees and contractors, as well as all shared accounts.
- **Remove terminated employees' access to its IT resources—**Employees' network and system access should immediately be removed upon their terminations.
- **Perform proactive logging and log monitoring—**Key user and system activity should be logged, particularly for users with administrative access privileges and remote access, along with other activities that could result in potential security incidents such as unauthorized or inappropriate access. An entity should determine what events to log, configure the system to generate the logs, and decide how often to monitor these logs for indicators of potential attacks or misuse of IT resources. Finally, activity logs should be maintained where users with administrative access privileges cannot alter them.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2014-08

The County should improve its contingency planning procedures for its information technology resources

Criteria—It is critical that the County have contingency planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption. Contingency planning procedures include having a comprehensive, up-to-date contingency plan; taking steps to facilitate activation of the plan; and having system and data backup policies and procedures.

Condition and context—The County did not have a written contingency plan. Also, although the County was performing system and data backups, it did not have documented policies and procedures for performing the backups or testing them to ensure they were operational and could be used to restore its IT resources.

Effect—The County risks not being able to provide for the continuity of operations, recover vital IT systems and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery.

Cause—The County has not dedicated the necessary resources to develop and implement a contingency plan.

Recommendations—To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County needs to develop contingency planning procedures. The information below provides guidance and best practices to help the County achieve this objective.

- **Develop and implement a contingency plan—**A contingency plan should be developed and implemented and include essential business functions and associated contingency requirements; recovery objectives and restoration priorities and metrics as determined in the entity's business-impact analysis; contingency roles and responsibilities and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for eventual system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The contingency plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- **Test the contingency plan—**A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing with other plans of the entity such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.
- **Train staff responsible for implementing the contingency plan—**An ongoing training schedule should be developed for staff responsible for implementing the plan that is specific to each user's assigned role and responsibilities.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

Federal award findings and questioned costs

2014-101

CFDA number and name: Not Applicable
Questioned costs: N/A

Criteria—OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the County to

- Identify, in its accounts, all federal awards it received and expended and the federal programs under which it received them.
- Prepare an accurate and complete schedule of expenditures of federal awards (SEFA) that reports federal award expenditures in accordance with OMB Circular A-133, §.205.
- Include the Catalog of Federal Domestic Assistance title and number, amount expended, federal awarding agency's name, and, if applicable, pass-through grantor's identifying information on the SEFA for each of the County's federal awards.
- Submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end.

Condition and context—The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, the County understated its federal award expenditures by $517,644. In addition, the County did not always correctly report the appropriate cluster names or pass-through entity identifying information. The County's SEFA was adjusted to correct these errors. Further, the federal reporting deadline for the County's 2014 single audit reporting package was March 31, 2015. However, the County did not issue its single audit reporting package until June 2017.

Effect—The County's initial SEFA was not accurate and complete and the late submission resulted in noncompliance for all federal programs the County administered. This finding was not a result of internal control deficiencies of individual federal programs and, accordingly, did not have a direct and material effect on the reporting requirements over the County's major federal programs.

Cause—The County did not have effective policies and procedures in place to ensure that all federal awards were identifiable in its accounting system and properly reported on the SEFA.

Recommendation—To help ensure that the County prepares its SEFA in compliance with OMB Circular A-133, the County should develop and implement policies and procedures to identify in its accounting system all federal awards the County receives and disburses, and establish a review process to help ensure that the SEFA is accurate and complete. Further, the County should improve its financial reporting process so that it can submit its single audit reporting package to the federal clearinghouse no later than 9 months after fiscal year-end.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2013-002 through 2013-004.

2014-102

Cluster name:	**WIA Cluster**
CFDA number and name:	17.258 **WIA Adult Program** 17.259 **WIA Youth Activities** 17.260 **WIA Dislocated Workers** 17.278 **WIA Dislocated Worker Formula Grants**
Award numbers and years:	DE111006001, July 1, 2012 through June 30, 2014 DE14-055408, October 1, 2012 through June 30, 2015
Federal agency:	**Department of Labor**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirements:	Allowable costs/cost principles
Questioned costs:	Unknown
CFDA number and name:	93.563 **Child Support Enforcement**
Award numbers and years:	DE111165001, October 1, 2010 through September 30, 2015 DE111170001, October 1, 2010 through September 30, 2015
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirements:	Allowable costs/cost principles
Questioned costs:	$199,482

Criteria—In accordance with 2 Code of Federal Regulations (CFR) §225, Appendix C, Section A, governmental units must prepare a central service cost allocation plan (plan) to assign central service costs to federal awards. Further, in accordance with 2 CFR §225, Appendix E, Sections D.1 - D.3, all governmental units desiring to claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. In addition, the proposal must include a county organizational chart and a signed certification from an official at the governmental unit. The signed certification must state that the information is true and correct, the plan included a calculation to equitably distribute indirect costs to all of the governmental units using an estimate of benefits received, and indirect costs have not also been claimed as direct costs to the federal grant. Also, in accordance with 2 CFR §225, Appendix E, Section B.9, the indirect cost rate used should coincide with the governmental units' fiscal year.

Condition and context—During fiscal year 2014, the County received $515,118 of federal monies to recover indirect costs associated with the Child Support Enforcement program and $128,014 for the WIA cluster. However, the County did not have adequate review procedures in place to ensure the plan and proposal were compliant with 2 CFR §225 requirements. Specifically,

- The proposal did not include the required county organizational charts and signed certifications.
- The plan and proposal did not include a separate indirect cost rate for the Family Law Commissioner Office's (Commissioner) administration of the Child Support Enforcement program.
- The plan and proposal included $11,610 in equipment depreciation for the WIA grant; however, there was no county-owned capital equipment used in the WIA grant.
- The plan and proposal contained $155,787 of indirect costs that the County also requested for reimbursement as Child Support Enforcement program direct costs and a compilation error resulting in an overstatement of indirect costs by $21,040.

The County's plan established an indirect cost rate to be used for the county fiscal-year of July 1 through June 30. However, the County used a rate based on the federal fiscal year of October 1 through September 30. Further, the indirect cost rate the Commissioner used did not include $1,082,384 in fees paid to contract attorney's in the indirect cost base, which resulted in an inequitable distribution of indirect costs.

Effect—The County received $199,482 in reimbursement for indirect costs that were unallowed for its Child Support Enforcement program. It was not practical to extend our auditing procedures sufficiently to determine any additional questioned costs that resulted from this finding. This finding has the potential to affect other federal programs the County administered and multiple grant award periods.

Cause—Although the County used the services of a qualified outside consultant to prepare its fiscal year 2014 proposal in accordance with 2 CFR §225, the County did not clearly designate employees responsible for communicating with, overseeing, and monitoring the consultant.

Recommendation—To help ensure that the County complies with 2 CFR §225, the County should establish clear policies and procedures for communicating with, overseeing, and monitoring the consultant contracted to prepare the annual plan and proposal.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2014-103

CFDA number and name:	93.563 **Child Support Enforcement**
Award numbers and years:	DE111165001, October 1, 2010 through September 30, 2015 DE111170001, October 1, 2010 through September 30, 2015
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirement:	Activities allowed or unallowed, allowable costs/cost principles, and matching
Questioned costs:	$124,327

Criteria—In accordance with the County Attorney's Child Support Division's (Division) grant agreement with the Arizona Department of Economic Security (ADES), the Division may receive incentive pay for the program based on a methodology set forth in the ADES current incentive policy, and these monies are to be used solely to enhance the program. ADES is to determine the amount of incentive payments 45 days after the end of the quarter in which they were earned. Further, upon receiving these incentive payments, the County should separately account for these monies from other program monies and use them solely to enhance the program. In addition, in accordance with 2 CFR §225, Appendix B, Section 37.a, rental costs of buildings and equipment are allowable charges to the program to the extent the rates are reasonable. Finally, in accordance with 45 CFR §301.1, the County may be reimbursed for 66 percent of allowable expenditures incurred for administering the program.

Condition and context—During the fiscal year, the Division submitted program expenditure reimbursement requests to ADES that included $156,815 in salary and wages and employee-related expenses as incentive payments based on the County's incentive policy. However, these incentive payments should not have been included in the reimbursement requests because ADES is responsible for determining the amount of the incentives the Division earned. Consequently, the Division received both reimbursements for the employee payroll incentives the Division included in its reimbursement requests and the incentives ADES calculated and paid to the Division. Further, the Division did not separately account for incentive payments received from other program monies. In addition, the Division included $63,118 in building rental costs in the reimbursement requests; however, the Division did not maintain documentation such as comparable properties' rental costs to demonstrate that the rental costs it charged to the program were reasonable. Further, although the federal program occupied only 50 percent of the building space, the Division charged 100 percent of the rental costs to this program.

Effect—The Division was reimbursed for unallowable costs totaling $124,327. In addition, the Division did not meet the matching requirement because it included these unallowable costs when reporting its program costs; therefore, the Division was reimbursed more than 66 percent of allowable expenditures. It was not practical to extend our auditing procedures sufficiently to determine any additional questioned costs that may have resulted from this finding.

Cause—The Division did not understand that ADES was responsible for determining the amount of any incentives the Division earned. Further, the Division did not have adequate procedures in place to ensure all costs charged to the program and claimed for reimbursement were allowable and that rates charged were reasonable and adequately documented in compliance with federal cost principles.

Recommendation—To help ensure that the Division complies with the grant agreement and 2 CFR §225, the Division should not calculate and claim incentive pay for reimbursement from ADES. It should make it clear to its employees that ADES is responsible for calculating the amount of any incentives due to the Division for the program. Further, when incentive payments are received, the Division should separately account for those payments and ensure those monies are used solely to enhance the program. In addition, the Division should improve its procedures to ensure all program costs charged to the program and claimed for reimbursement are for allowable costs and adequately supported and that rates charged are reasonable and in accordance with federal cost principles.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2014-104

CFDA number and name:	93.563 **Child Support Enforcement**
Award numbers and years:	DE111165001, October 1, 2010 through September 30, 2015 DE111170001, October 1, 2010 through September 30, 2015
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirement:	Allowable costs/cost principles, matching and reporting
Questioned costs:	$9,247

Criteria—In accordance with 2 CFR §225, Appendix B, Section 8.h, the County's Family Law Commissioner Office (Commissioner) should ensure that employee payroll costs charged to the Child Support Enforcement program are supported by personnel activity reports or equivalent documentation that support the distribution of each employee's activity during the period. In addition, in accordance with 45 CFR §92.20(b)(1), the Commissioner's fiscal control and accounting procedures should be sufficient to report accurate, current, and complete financial results of its Child Support Enforcement program.

Condition and context—During the fiscal year, the Commissioner spent $144,059 in salaries and wages and employee-related expenses for its Child Support Enforcement program. The Commissioner charged salaries and wages and employee-related expenses to the program using estimates rather than actual time spent working on the program and did not prepare personnel activity reports that reflected an after-the-fact distribution of the actual activity. In addition, the Commissioner's internal controls did not ensure that the worker's compensation rate included in the certified public expenditure statement (CPES) reports was accurate as it applied a rate of 14 percent of salaries and wages rather than 0.14 percent resulting in an overreporting of $14,010. The pass-through grantor used the CPES reports to reimburse the County for 66 percent of eligible program costs, resulting in questioned costs of $9,247.

Effect—The Commissioner was reimbursed for unallowable costs of $9,247. The Commissioner did not meet the matching requirement since it included these unallowable costs when reporting its program costs; therefore, the Commissioner was reimbursed more than 66 percent of allowable expenditures. It was not practical to extend our auditing procedures sufficiently to determine any additional questioned costs that may have resulted from this finding.

Cause—The Commissioner did not have adequate policies and procedures to support its allocation of payroll costs to the federal program.

Recommendation—The Commissioner should develop and implement policies and procedures to ensure its distribution of employees' payroll costs charged to the program are supported by items such as the employees' time sheets or a time-study analysis. In addition, the Commissioner should improve procedures to help ensure that financial results are accurate, current, and complete.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2013-006.

2014-105

CFDA number and name:	93.563 **Child Support Enforcement**
Award numbers and years:	DE111165001, October 1, 2010 through September 30, 2015 DE111170001, October 1, 2010 through September 30, 2015
Federal agency:	**Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Economic Security
Compliance requirement:	Allowable costs/cost principles
Questioned costs:	Unknown

Criteria—In accordance with 45 CFR §92.20(b)(2), subgrantees must maintain records that adequately identify the source and application of monies provided for financially assisted activities.

Condition and context—The Family Law Commissioner Office's expenditures were commingled with other Clerk of the Court and Superior Court department expenditures and were not identifiable in the accounting system.

Effect—The County may request reimbursement for costs that are not allowed per the regulations and provisions of the intergovernmental agreement with its pass-through grantor. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding has the potential to affect other federal programs the County administered.

Cause—The County did not have a properly designed account code structure.

Recommendation—In order to comply with 45 CFR §92.20(b)(2), the County should restructure its chart of accounts to better separate and track expenditures that are reimbursed by a third party.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2013-005.

2014-106

CFDA number and name: 10.665 **Schools and Roads—Grants to States**
Award number and years: N/A, October 1, 2012 through September 30, 2013
Federal agency: **Department of Agriculture**
Compliance requirement: Cash management
Questioned costs: Unknown

Criteria—In accordance with 2 CFR §215.22(a), payment methods shall minimize the time elapsed between the transfer of funds from the United States Treasury and the recipient's issuance or redemption of checks or warrants or payment by other means.

Condition and context—The County did not distribute $1,419,777 of program monies allocated to public schools within a reasonable period of time after the State Treasurer received the money.

Effect—The County had excess cash on hand and could have incurred an interest liability on cash balances. It was not practical to extend our auditing procedures sufficiently to determine the questioned costs, if any, that may have resulted from this finding.

Cause—The county Board of Supervisors did not meet to approve the disbursement of amounts allocated to the schools until 42 days after the receipt of the monies.

Recommendation—The County should ensure the Board of Supervisors approves the program allocations prior to the receipt of program monies. Additionally, the County should minimize the time elapsing between the transfer of funds and disbursement by the recipient.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2013-007.

COUNTY SECTION

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS11-004485 ADHS14-053062	$ 213,077	
10 565	Commodity Supplemental Food Program	Food Distribution Cluster	Arizona Department of Health Services	ADHS12-010890	4,428	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			1,871,980	
	Total Department of Agriculture				2,089,485	
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CDBG-State-Administered CDBG Cluster	Arizona Department of Housing	152-12	9,351	
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CDBG-State-Administered CDBG Cluster	Town of Hayden	131-13	11,783	
	Total 14.228				21,134	
14 239	Home Investment Partnerships Program		Arizona Department of Housing	308-11 309-13	231,092	
14 871	Section 8 Housing Choice Vouchers	Housing Voucher Cluster			363,141	
	Total Department of Housing and Urban Development				615,367	
Department of the Interior						
15 226	Payments in Lieu of Taxes				3,426,420	
Department of Justice						
16 606	State Criminal Alien Assistance Program				9,649	
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-14-016	161,912	
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-14-020	12,622	
	Total JAG Program Cluster				174,534	
16 Unknown	Domestic Cannabis Eradication and Suppression Program				28,141	
	Total Department of Justice				212,324	
Department of Labor						
17 258	WIA Adult Program	WIA Cluster	Arizona Department of Economic Security	DE111006001 DE14-055408	707,546	674,460
17 259	WIA Youth Activities	WIA Cluster	Arizona Department of Economic Security	DE111006001 DE14-055408	815,872	742,860
17 260	WIA Dislocated Workers	WIA Cluster	Arizona Department of Economic Security	DE111006001 DE14-055408	272,804	
17 278	WIA Dislocated Worker Formula Grants	WIA Cluster	Arizona Department of Economic Security	DE111006001 DE14-055408	1,095,746	
	Total WIA Cluster				2,891,968	1,417,320
17 267	Incentive Grants-WIA Section 503		Arizona Department of Economic Security	DE111006001	31,034	
	Total Department of Labor				2,923,002	1,417,320

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Transportation						
20 205	Highway Planning and Construction	Highway Planning and Construction Cluster	Arizona Department of Transportation	JPA 08-132I	13,811	
20 513	Enhanced Mobility of Seniors and Individuals with Disabilities	Transit Services Programs Cluster	Arizona Department of Economic Security	DE126000-001	30,000	
	Total Department of Transportation				43,811	
Department of Energy						
81 042	Weatherization Assistance for Low-Income Persons		Arizona Department of Commerce	EW-ESA-14-4181-02Y3, LW-ESA-12-2182-02Y3, SW-ESA-12-2182-02Y3	142,597	
Department of Education						
84 002	Adult Education-Basic Grants to States		Arizona Department of Education	V002A090003	119,066	
84 010	Title I Grants to Local Educational Agencies		Arizona Department of Education	S010A080003	53,073	
84 010	Title I Grants to Local Educational Agencies		Arizona Supreme Court	KR12-0087 KR13-0132	18,121	
	Total 84.010				71,194	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	H027A0050007	19,031	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court	KR12-0087 KR13-0132	42,967	
	Total Special Education Cluster (IDEA)				61,998	
84 041	Impact Aid				189,989	
84 358	Rural Education		Arizona Department of Education	S358B020003	1,578	
84 365	English Language Acquisition State Grants		Arizona Department of Education	T365A00003A	29,555	
84 366	Mathematics and Science Partnerships		Arizona Department of Education	S366B070003 S366B080003	40,385	
84 367	Improving Teacher Quality State Grants		Arizona Department of Education	S281A03003	981	
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court	KR12-0087 KR13-0132	3,680	
	Total 84.367				4,661	
84 413	Race to the Top		Arizona Department of Education	B413A1200005	570	
	Total Department of Education				518,996	
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007886	228,228	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041539	120,934	
93 505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		Arizona Department of Health Services	ADHS13-028437	77,856	
93 558	Temporary Assistance to Needy Families	TANF Cluster	Arizona Department of Economic Security	DE111073001	151,087	
93 563	Child Support Enforcement		Arizona Department of Economic Security	DE111165001 DE111170001	1,048,100	
93 568	Low-Income Home Energy Assistance		Arizona Department of Economic Security	DE111073001	182,493	

See accompanying notes to schedule.

Gila County
Schedule of expenditures of federal awards
Year ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
93 569	Community Services Block Grant		Arizona Department of Economic Security	DE111073001	136,601	
93 667	Social Services Block Grant		Arizona Department of Economic Security	DE111073001	8,208	
93 758	Preventative Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)		Arizona Department of Health Services	ADHS14-063025	7,500	
93 917	HIV Care Formula Grants		Arizona Department of Health Services	ADHS13-040496	185,026	
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS13-031248	3,195	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS12-010923, ADHS13-034536	99,640	
	Total Department of Health and Human Services				2,248,868	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2013-EP-000024	102,689	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	13-AZDOHS-HSGP-130301-01 12-AZDOHS-HSGP-999303-01, 11-AZDOHS-HSGP-888303-02	29,892	
	Total Department of Homeland Security				132,581	
	Total expenditures of federal awards				$ 12,353,451	$ 1,417,320

See accompanying notes to schedule.

Gila County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2014

Note 1 - Basis of accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

COUNTY RESPONSE

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June 29, 2017

Debbie Davenport,
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

We have prepared the accompanying Corrective Action Plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by U.S. Office of Management and Budget Circular A-133. Specifically, for each financial reporting finding we are providing you with the corrective action planned and for each federal award finding we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date that is included in the Schedule of Findings and Questioned Costs.

Sincerely,

James Menlove
County Manager

Gila County
Corrective Action Plan
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The County should improve its policies and procedures to accurately compile, record and report financial information in its annual financial report and issue its report in a timely manner

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that the County's financial statements and note disclosures are accurate, complete, follow GAAP, and are issued in time to meet the Single Audit reporting requirements the County will develop and implement comprehensive written policies and procedures.

2014-02

The County needs to improve controls over its capital assets

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure the County's capital assets are properly reported in the financial statements and related note disclosures and to help safeguard the County's capital assets against theft or misuse, the County will develop and implement capital assets policies and procedures.

2014-03

The County should improve its policies and procedures to ensure its departments accurately record revenues and safeguard cash receipts

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that the County's annual financial report is accurate and prepared in accordance with GAAP, the County will develop and implement policies and procedures to collect, record, reconcile and safeguard landfill cash receipts and record and report landfill and superintendent of schools revenues in the correct fiscal year.

2014-04

The County needs to improve controls over payroll expenses

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that employees are properly paid based on approved hours worked and compliance with the UAMAC, the County will develop and implement payroll processing policies and procedures.

2014-05

The County should comply with laws governing conflict of interest

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure compliance with state laws, the County will develop policies and procedures that require all public officers to submit financial disclosure statements and the retention of completed conflict of interest forms.

2014-06

The County should comply with laws governing the preparation of budgets and the transfers of monies between budgeted line items

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure compliance with state laws, the county will develop policies and procedures that require Board approval of all transfers of monies and to approve the budgets of all elected and appointed county officers.

2014-07

The County should improve access controls over its information technology resources

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County will develop and implement effective logical access policies and procedures over its IT resources.

2014-08

The County should improve its contingency planning procedures for its information technology resources

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure county operations continue in the event of a disaster, system or equipment failure, or other interruption, the County will further develop contingency planning procedures.

Federal Award Findings and Questioned Costs

2014-101

Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that the County prepares the SEFA in compliance with OMB Circular A-133, the County will develop and implement policies and procedures to properly compile, review and report the SEFA. Further, the County will improve the financial reporting process so that the Single Audit Reporting Package is submitted to the federal clearinghouse no later than 9 months after fiscal year-end.

2014-102

CFDA Nos.: 17.258 – WIA Adult Program; 17.259 – WIA Youth Activities; 17.260 – WIA Dislocated Workers; 17.278 – WIA/WIOA Dislocated Worker Formula Grants; 93.563 – Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2017

Corrective Action Plan-WIA/WIOA: Concur. Gila County merged the WIA/WIOA program with the Navajo/Apache County program as of July 1, 2014. Consequently, this audit finding will no longer be applicable to Gila County beginning in fiscal year 2014-15.

Corrective Action Plan-Child Support Enforcement: Concur. The County will establish policies and procedures for communication, oversight, and monitoring the preparation of the annual plan and proposal.

2014-103

CFDA No.: 93.563 – Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. To help ensure that the Division complies with the grant agreement and 2 CFR §225 the County will implement applicable policies and procedures with regards to incentive payments.

2014-104

CFDA No.: 93.563 – Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. The County will develop and implement policies and procedures to ensure the distribution of employees' payroll costs are accurate, current, and complete.

2014-105

CFDA No.: 93.563 – Child Support Enforcement
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. In order to comply with 45 CFR 92.20(b)(2), the County will segregate and separately track expenditures that are reimbursed by a third-party.

2014-106

CFDA No.: 10.665 – Schools and Roads—Grants to States
Contact: James Menlove, County Manager
Anticipated Completion Date: June 30, 2018

Corrective Action Plan: Concur. The County will implement policies and procedures to ensure program allocations are properly approved and that there is a minimal amount of time between the transfer of funds and the distribution.

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June 14, 2017

Debbie Davenport
Auditor General
2910 N 44th St., Suite 410
Phoenix, AZ 85018

We have prepared the accompanying Schedule of Prior Audit Findings as required by U. S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings that were not corrected.

Sincerely,

James Menlove
County Manager

GILA COUNTY
Summary Schedule of Prior Audit Findings
Year Ended June30, 2014

Status of Federal Award Findings and Questioned Costs

CFDA No: ALL FEDERAL AWARDS
Finding No: 2013-002 2012-14
Status: Not Corrected

The County is in the process of completing the audits for fiscal years 2014, 2015 and 2016. The March 31 deadline has already passed for these years. Once these audits are complete the County has developed internal procedures to ensure that future single audits are filed by the March 31 deadline.

CFDA No: ALL FEDERAL AWARDS
Finding No: 2013-003 2012-15, 2012-19, 2011-19, 2010-21
Status: Not Corrected

Grant revenues and expenditures are now being reconciled to CFDA numbers. The County was not aware of this finding prior to August of 2016.

CFDA No: ALL FEDERAL AWARDS
Finding No: 2013-004
Status: Partially Corrected

The County has implemented procedures to reconcile grant revenues and expenditures.

CFDA No: 93.563
Finding No: 2013-005 2012-20, 2011-21, 2010-24, 2009-16, 08-19,07-21,06-20,05-21,04-21,03-101
Status: Not Corrected

The Clerk of the Court has proposed to remove herself from grant administration beginning with fiscal year 2017. The County Attorney's office will administer the grant funds and they have processes and procedures in place to identify grant funding separate from general funds.

CFDA No: 93.563
Finding No: 2013-006
Status: Not Corrected

The County will work with Child Support to ensure that all grant employees who are paid from a single federal program submit a semi-annual certificate that indicates the employee worked solely for that federal program.

CFDA No: 10.665
Finding No: 2013-007
Status: Fully Corrected

CFDA No: 14.871
Finding No: 2013-008
Status: Not Corrected

In 2016 the County sent the bank the form required by HUD. The bank's legal department refused to sign the form on behalf of the bank. County staff is in the process of looking for alternative banks in order to move these funds to become compliant

ARIZONA
Auditor General
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