



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Apache County

June 30, 2002



Debra K. Davenport
Auditor General

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Apache County, Arizona
Single Audit Reporting Package
June 30, 2002

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Apache County, Arizona

We have audited the accompanying general purpose financial statements of Apache County as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Apache County as of June 30, 2002, and the results of its operations, and the net assets and changes in net assets of its investment trust fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 17, the County reclassified medical insurance activities previously reported as an Internal Service Fund to the Agency Fund, which constitutes a change in the reporting entity.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2003, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

June 13, 2003

Apache County
 Combined Balance Sheet—All Fund Types and Account Groups
 June 30, 2002

Assets	Governmental Fund Types				Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt
Cash in bank and on hand	\$ 53,134	\$ 61,122			\$ 287,658		
Cash and investments held by County Treasurer	7,611,832	4,196,036	\$ 247,510	\$ 2,299,992	119,460,569		
Receivables:							
Property taxes	130,695	206,621	41,839				
Accounts	518,816	149,924					
Accrued interest	18,613	12,094	1,168	6,292	338,607		
Due from:							
Other funds	137,031	96,435					
Other governments	1,161,562	1,835,100					
Inventories	8,955	274,708					
Prepaid items	27,957	6,627					
Fixed assets:							
Land						\$ 1,519,005	
Buildings and improvements						10,732,002	
Improvements other than buildings						314,512	
Machinery and equipment						17,270,815	
Construction in progress						1,305,652	
Amount available in Debt Service Funds							\$ 258,391
Amount to be provided for retirement of general long-term debt							6,100,034
Total assets	\$ 9,668,595	\$ 6,838,667	\$ 290,517	\$ 2,306,284	\$ 120,086,834	\$ 31,141,986	\$ 6,358,425

(Continued)

See accompanying notes to financial statements.

Apache County
 Combined Balance Sheet—All Fund Types and Account Groups
 June 30, 2002
 (Continued)

Liabilities and Fund Equity	Governmental Fund Types				Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Debt
Liabilities:							
Accounts payable	\$ 400,362	\$ 772,497		\$ 86,282			
Accrued payroll and employee benefits	475,070	250,274					\$ 1,805,203
Due to:							
Other funds	82,270	151,196					
Deposits held for others					\$ 287,658		
Obligations under capital leases							277,222
General obligation bonds payable							3,790,000
Special assessment bonds with governmental commitment payable							486,000
Deferred revenues	<u>110,726</u>	<u>177,379</u>	<u>\$ 32,126</u>				
Total liabilities	<u>1,068,428</u>	<u>1,351,346</u>	<u>32,126</u>	<u>86,282</u>	<u>287,658</u>		<u>6,358,425</u>
Fund equity:							
Investment in general fixed assets						\$ 31,141,986	
Fund balances:							
Reserved for inventories	8,955	274,708					
Reserved for investment trust participants					119,799,176		
Unreserved	<u>8,591,212</u>	<u>5,212,613</u>	<u>258,391</u>	<u>2,220,002</u>			
Total fund equity	<u>8,600,167</u>	<u>5,487,321</u>	<u>258,391</u>	<u>2,220,002</u>	<u>119,799,176</u>	<u>31,141,986</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 9,668,595</u>	<u>\$ 6,838,667</u>	<u>\$ 290,517</u>	<u>\$ 2,306,284</u>	<u>\$ 120,086,834</u>	<u>\$ 31,141,986</u>	<u>\$ 6,358,425</u>

See accompanying notes to financial statements.

Apache County
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 All Governmental Fund Types
 Year Ended June 30, 2002

	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Taxes	\$ 2,306,210	\$ 4,306,203	\$ 285,319	
Special assessments			79,393	
Licenses and permits	86,812			
Intergovernmental	8,279,090	12,261,518	138,282	
Charges for services	155,842	1,338,057		
Fines and forfeits	385,587	69,106		
Investment income	202,639	148,957	13,931	\$ 87,164
Contributions	500	129,268		
Miscellaneous	45,216	10,106		
Total revenues	11,461,896	18,263,215	516,925	87,164
Expenditures:				
Current:				
General government	7,273,988	998,637		
Public safety	3,493,766	4,866,173		
Highways and streets		8,412,225		
Sanitation		79,799		
Health	785,000	1,136,891		
Welfare	1,130	213,156		
Culture and recreation	16,000	605,533		
Education	283,230	2,121,730		
Capital outlay				1,016,640
Debt service:				
Principal retirement			426,000	
Interest and fiscal charges			243,886	
Total expenditures	11,853,114	18,434,144	669,886	1,016,640
Excess of expenditures over revenues	(391,218)	(170,929)	(152,961)	(929,476)
Other financing sources (uses):				
Capital lease agreements		177,452		
Operating transfers in	1,389,832	840,073	92,951	
Operating transfers out	(840,073)	(1,389,832)		(92,951)
Total other financing sources (uses)	549,759	(372,307)	92,951	(92,951)
Excess of revenues and other sources over (under) expenditures and other uses	158,541	(543,236)	(60,010)	(1,022,427)
Fund balances, July 1, 2001	8,441,619	5,984,959	318,401	3,242,429
Increase in reserve for inventories	7	45,598		
Fund balances, June 30, 2002	\$ 8,600,167	\$ 5,487,321	\$ 258,391	\$ 2,220,002

See accompanying notes to financial statements.

Apache County
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual—General and Special Revenue Fund Types
 Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:						
Taxes	\$ 2,563,359	\$ 2,306,210	\$ (257,149)	\$ 4,564,183	\$ 4,306,203	\$ (257,980)
Licenses and permits	95,000	86,812	(8,188)			
Intergovernmental	7,180,826	8,279,090	1,098,264	13,502,143	12,261,518	(1,240,625)
Charges for services	152,500	155,842	3,342	1,111,564	1,338,057	226,493
Fines and forfeits	641,280	385,587	(255,693)	209,600	69,106	(140,494)
Investment income	530,000	202,639	(327,361)	138,500	148,957	10,457
Contributions		500	500	177,477	129,268	(48,209)
Miscellaneous	15,288	45,216	29,928		10,106	10,106
Total revenues	<u>11,178,253</u>	<u>11,461,896</u>	<u>283,643</u>	<u>19,703,467</u>	<u>18,263,215</u>	<u>(1,440,252)</u>
Expenditures:						
Current:						
General government:						
Assessor	612,681	542,136	70,545			
Attorney	790,109	774,641	15,468			
Board of Supervisors	830,231	765,091	65,140			
Board of Supervisors—District #1	323,636	235,387	88,249			
Board of Supervisors—District #2	323,636	128,119	195,517			
Board of Supervisors—District #3	146,484	86,869	59,615			
Building inspector	215,787	208,048	7,739			
Clerk of the court	461,000	426,906	34,094			
Communication specialist	100,941	98,235	2,706			
Contingencies	7,066,612	21,375	7,045,237			
Data processing	367,324	315,385	51,939			
Elections	266,064	224,958	41,106			
Finance	267,688	234,946	32,742			
Grounds and maintenance	613,531	548,806	64,725			
Insurance	166,465	162,100	4,365			
JP Court Renovation	110,000		110,000			
Justice Court—Chinle	162,027	152,767	9,260			
Justice Court—Puerco	246,798	243,481	3,317			
Justice Court—St. Johns	145,129	137,532	7,597			
Justice Court—Round Valley	261,953	236,391	25,562			
Legal services and judgments	275,000	195,123	79,877			
Planning and zoning	151,247	146,614	4,633			
Purchasing	54,259	38,710	15,549			
Recorder	317,357	295,833	21,524			
Superior Court	303,980	302,066	1,914			
Treasurer	291,661	252,123	39,538			
Public defenders	431,485	418,914	12,571			
Salary adjustments/Retirement incentive	279,570	81,432	198,138			
ACCENT/Attorney				94,051	93,326	725
ADOT Trails				300,000	67,701	232,299
Assessor's surcharge					9,689	(9,689)
Bad check prosecution				50,550	8,372	42,178
Case processing assistance				67,253	67,176	77
CDBG				274,054	127,631	146,423
Child issues education				10,170	1,915	8,255
Child support automation				2,130		2,130
Children's justice				10,000	9,167	833
Criminal justice records improvement—Attorney				20,000		20,000
Data processing services—Schools				305,314	264,704	40,610
Domestic relations education				4,410		4,410
ECO				30,040	28,083	1,957
EECO				168,340	124,115	44,225

(Continued)

See accompanying notes to financial statements.

Apache County
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual—General and Special Revenue Fund Types
 Year Ended June 30, 2002
 (Continued)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
Emergency water shed				\$ 7,019	\$ 7,058	\$ (39)
Expenditures support & visitation				17,500	81	17,419
E-Rate				182,623	5,712	176,911
Field trainer				38,941	2,690	36,251
Fill the gap—Attorney				18,452	6,747	11,705
Fill the gap—Courts				109,814		109,814
Fill the gap—Indigent defense				6,036	5,554	482
Law library				13,530	5,687	7,843
Norviel decree				14,795	7,405	7,390
Recorder's surcharge				72,700	26,406	46,294
Superior Court docket storage				24,000	3,962	20,038
Victim's assistance				77,300	80,367	(3,067)
Victim's compensation				59,233	37,515	21,718
VOCA				11,053	7,574	3,479
Total general government	\$ 15,582,655	\$ 7,273,988	\$ 8,308,667	1,989,308	998,637	990,671
Public safety:						
Adult probation	317,237	313,948	3,289			
Constables	63,372	62,298	1,074			
Contingencies	98,663	98,663				
Emergency services	82,052	78,798	3,254			
Juvenile probation	585,569	507,239	78,330			
Medical examiner	15,000	12,385	2,615			
Rodeo-Chedeski Fire		264,366	(264,366)			
Sheriff	2,301,442	2,060,968	240,474			
Salary adjustments/Retirement incentive	95,101	95,101				
ACCENT/Sheriff				310,580	267,318	43,262
Adult intensive supervision				322,726	265,563	57,163
Adult probation enhancement				153,926	138,511	15,415
Adult probation fees				155,810	78,275	77,535
Architectural planning					493	(493)
CASA				30,843	30,634	209
Community punishment				6,450	5,906	544
Criminal justice records improvement					19	(19)
Detention center				1,000,000	1,019,431	(19,431)
Diversion consequence				31,848	15,560	16,288
Diversion fees				7,586		7,586
Diversion intake				151,940	104,128	47,812
Drug testing				20,437	20,091	346
Drug treatment and education				78,320	6,532	71,788
Family counseling				20,969	7,698	13,271
Fire district assistance				230,223	219,260	10,963
Ganado school deputies				90,365	57,059	33,306
J.I.P.S.				240,373	130,393	109,980
Jail district				1,913,546	1,732,582	180,964
Jail enhancement				259,600	78,761	180,839
Jail services				204,270	14,066	190,204
JCRF detention				453,466	310,122	143,344
Juvenile crime reduction				34,240	4,544	29,696
Juvenile probation fees				21,830	1,053	20,777
Juvenile treatment service				57,859	40,093	17,766
Local law block grant				2,270	2,129	141
Parole				10,110	126	9,984
R.A.P.				40,886	17,816	23,070

(Continued)

See accompanying notes to financial statements.

Apache County
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual—General and Special Revenue Fund Types
 Year Ended June 30, 2002
 (Continued)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
RICO, federal justice				\$ 54,241		\$ 54,241
RICO, federal treasury				50,012		50,012
RICO, state and other				81,801	\$ 8,720	73,081
Safe schools				88,029	84,059	3,970
State aid to probation				179,109	148,398	30,711
State gang task force				53,952	56,833	(2,881)
Total public safety	<u>\$ 3,558,436</u>	<u>\$ 3,493,766</u>	<u>\$ 64,670</u>	<u>6,357,617</u>	<u>4,866,173</u>	<u>1,491,444</u>
Highways and streets:						
Eager cinderpit				27,030	146	26,884
Engineer's inspections				13,343		13,343
Flood control				245,326	48,908	196,418
Flood/dam projects				1,242,835	1,115,211	127,624
GIS				103,200	97,795	5,405
Roads				8,763,650	6,872,746	1,890,904
Rural addressing				16,067		16,067
Special roads				94,700		94,700
TEA21, bus routes				250,000		250,000
Transit fund				485,530	99,967	385,563
Total highways and streets	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,241,681</u>	<u>8,234,773</u>	<u>3,006,908</u>
Sanitation:						
Waste tire disposal				78,000	79,799	(1,799)
Health:						
AHCCCS/ALTCS	1,548,540	779,795	768,745			
Salary adjustments/Retirement incentive	5,205	5,205				
Health				1,347,594	1,105,831	241,763
Luna Lake improvement				145,410	31,060	114,350
Total Health	<u>1,553,745</u>	<u>785,000</u>	<u>768,745</u>	<u>1,493,004</u>	<u>1,136,891</u>	<u>356,113</u>
Welfare:						
Salary adjustments/Retirement incentive	1,130	1,130				
JTPA/WIA				328,870	213,156	115,714
Total Welfare	<u>1,130</u>	<u>1,130</u>	<u>-</u>	<u>328,870</u>	<u>213,156</u>	<u>115,714</u>
Culture and recreation:						
Agriculture extension	16,000	16,000				
County free library				730,234	605,533	124,701
Total culture and recreation	<u>16,000</u>	<u>16,000</u>	<u>-</u>	<u>730,234</u>	<u>605,533</u>	<u>124,701</u>
Education:						
School superintendent	283,605	279,468	4,137			
Salary adjustments/Retirement incentive	3,762	3,762				
Detention education				60,140	53,386	6,754
Forest fees				376,600	369,421	7,179
Junior college tuition				1,194,303	1,137,430	56,873
Post secondary education				615,512	545,357	70,155
Schools indirect cost				28,000	16,136	11,864
Total education	<u>287,367</u>	<u>283,230</u>	<u>4,137</u>	<u>2,274,555</u>	<u>2,121,730</u>	<u>152,825</u>
Total expenditures	<u>20,999,333</u>	<u>11,853,114</u>	<u>9,146,219</u>	<u>24,493,269</u>	<u>18,256,692</u>	<u>6,236,577</u>
Excess of revenues over (under) expenditures	<u>(9,821,080)</u>	<u>(391,218)</u>	<u>9,429,862</u>	<u>(4,789,802)</u>	<u>6,523</u>	<u>4,796,325</u>

(Continued)

See accompanying notes to financial statements.

Apache County
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual—General and Special Revenue Fund Types
 Year Ended June 30, 2002
 (Continued)

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Other financing sources (uses):						
Operating transfers in	\$ 1,389,833	\$ 1,389,832	\$ (1)	\$ 1,051,633	\$ 840,073	\$ (211,560)
Operating transfers out	(849,362)	(840,073)	9,289	(1,592,104)	(1,389,832)	202,272
Total other financing sources (uses)	<u>540,471</u>	<u>549,759</u>	<u>9,288</u>	<u>(540,471)</u>	<u>(549,759)</u>	<u>(9,288)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(9,280,609)</u>	<u>158,541</u>	<u>9,439,150</u>	<u>(5,330,273)</u>	<u>(543,236)</u>	<u>4,787,037</u>
Fund balances, July 1, 2001	<u>9,280,609</u>	<u>8,441,619</u>	<u>(838,990)</u>	<u>5,330,273</u>	<u>5,984,959</u>	<u>654,686</u>
Increase in reserve for inventories	<u> </u>	<u>7</u>	<u>7</u>	<u> </u>	<u>45,598</u>	<u>45,598</u>
Fund balances, June 30, 2002	<u>\$ -</u>	<u>\$ 8,600,167</u>	<u>\$ 8,600,167</u>	<u>\$ -</u>	<u>\$ 5,487,321</u>	<u>\$ 5,487,321</u>

See accompanying notes to financial statements.

Apache County
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual—Debt Service and Capital Projects Fund Types
 Year Ended June 30, 2002

	Debt Service Funds			Capital Projects Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:						
Taxes	\$ 281,925	\$ 285,319	\$ 3,394			
Special assessments	77,049	79,393	2,344			
Intergovernmental	138,651	138,282	(369)			
Investment income		13,931	13,931		\$ 87,164	\$ 87,164
Total revenues	<u>497,625</u>	<u>516,925</u>	<u>19,300</u>	<u>-</u>	<u>87,164</u>	<u>87,164</u>
Expenditures:						
Capital outlay				\$ 3,290,592	1,016,640	2,273,952
Debt service:						
Principal retirement	426,000	426,000				
Interest and fiscal charges	244,048	243,886	162			
Total debt service	<u>670,048</u>	<u>669,886</u>	<u>162</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>670,048</u>	<u>669,886</u>	<u>162</u>	<u>3,290,592</u>	<u>1,016,640</u>	<u>2,273,952</u>
Excess of revenues over (under) expenditures	<u>(172,423)</u>	<u>(152,961)</u>	<u>19,462</u>	<u>(3,290,592)</u>	<u>(929,476)</u>	<u>2,361,116</u>
Other financing sources (uses):						
Operating transfers in		92,951	92,951			
Operating transfers out					(92,951)	(92,951)
Total other financing sources (uses)	<u>-</u>	<u>92,951</u>	<u>92,951</u>	<u>-</u>	<u>(92,951)</u>	<u>(92,951)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(172,423)</u>	<u>(60,010)</u>	<u>112,413</u>	<u>(3,290,592)</u>	<u>(1,022,427)</u>	<u>2,268,165</u>
Fund balances, July 1, 2001	<u>172,423</u>	<u>318,401</u>	<u>145,978</u>	<u>3,290,592</u>	<u>3,242,429</u>	<u>(48,163)</u>
Fund balances, June 30, 2002	<u>\$ -</u>	<u>\$ 258,391</u>	<u>\$ 258,391</u>	<u>\$ -</u>	<u>\$ 2,220,002</u>	<u>\$ 2,220,002</u>

See accompanying notes to financial statements.

Apache County
Statement of Net Assets
Investment Trust Fund
June 30, 2002

	Treasurer's Investment Pool
Assets	
Cash and cash equivalents	\$ 119,460,569
Interest and dividends receivable	<u>338,607</u>
Total assets	<u>119,799,176</u>
Liabilities	
Total liabilities	<u> </u>
Net assets held in trust	<u>\$ 119,799,176</u>

See accompanying notes to financial statements.

Apache County
Statement of Changes in Net Assets
Investment Trust Fund
Year Ended June 30, 2002

	<u>Treasurer's Investment Pool</u>
Additions:	
Contributions from participants	\$ 229,764,550
Investment income:	
Interest and dividend income	<u>3,778,779</u>
Total investment income	<u>3,778,779</u>
Total additions	<u>233,543,329</u>
Deductions:	
Distributions to participants	<u>227,644,709</u>
Total deductions	<u>227,644,709</u>
Net increase in net assets	5,898,620
Net assets held in trust:	
July 1, 2001	<u>113,900,556</u>
June 30, 2002	<u>\$ 119,799,176</u>

See accompanying notes to financial statements.

Apache County
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Apache County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, highway and street maintenance and construction, sanitation, health, welfare, culture and recreation, and education.

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. These general purpose financial statements present all the fund types and account groups of the County (a primary government) and its component units.

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

Blended Component Unit—Greer Acres, a special improvement district, and the Apache County Jail District, which is a tax-levying public improvement district that acquires, constructs, operates, maintains, and finances county jails and jail systems, pursuant to Arizona Revised Statutes, are included in the accompanying financial statements since the districts' governing bodies are the same as the governing body of Apache County. They provide services to the County. The districts' financial statements are included in the County's financial statements in the Special Revenue Fund Types and the General Fixed Assets and General Long-Term Debt Account Groups.

Separate financial statements of the blended component units are not prepared.

Apache County
Notes to Financial Statements
June 30, 2002

B. Fund Accounting

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows:

1. Governmental Funds account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types:

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

The *Special Revenue Funds* account for specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Debt Service Funds* account for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

The *Capital Projects Funds* account for resources to be used for acquiring or constructing major capital facilities.

2. Fiduciary Funds account for assets the County holds on behalf of others and include the following fund types:

The *Investment Trust Fund* accounts for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

3. Account Groups are used to establish control and accountability for certain county assets and liabilities that are not recorded in the funds and include the following two groups:

Apache County
Notes to Financial Statements
June 30, 2002

The *General Fixed Assets Account Group* accounts for all of the County's fixed assets.

The *General Long-Term Debt Account Group* accounts for all of the County's long-term obligations.

C. Basis of Accounting

The financial statements of the Governmental and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due. However, since debt service resources are provided during the current year for payment of general long-term debt principal and interest due early in the following year, those expenditures and related liabilities have been recognized in the Debt Service Funds.

Revenues susceptible to accrual are property taxes; special assessments; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the County's behalf. Fines and forfeits and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Investment Trust Fund are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Budgeting and Budgetary Control

Arizona Revised Statutes (A.R.S.) requires the County to prepare and adopt a balanced budget annually for each separate 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.

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue, Debt Service, and Capital Projects Funds.

Apache County
Notes to Financial Statements
June 30, 2002

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon approval of the Board of Supervisors. With the exception of the General Fund, each fund includes only one department.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

E. Cash and Investments

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

F. Inventories

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 are offset by a fund balance reserve to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method.

G. Fixed Assets

Purchased fixed assets are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, and drainage and lighting systems, are not capitalized.

Apache County
Notes to Financial Statements
June 30, 2002

H. Compensated Absences

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

Employees may accumulate up to 280 hours of vacation, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,500 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. However, for employees who retire with an accumulation of sick leave of at least 500 hours, sick leave benefits do vest and, therefore, are accrued.

The liability for vested compensated absences of the Governmental Funds is recorded in the General Long-Term Debt Account Group since the amount expected to be paid from current financial resources is not significant.

I. Investment Income

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

J. Property Taxes

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.

K. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

Apache County
Notes to Financial Statements
June 30, 2002

Note 2 - Stewardship, Compliance, and Accountability

Individual Fund Deficits—The following significant deficits resulted from operations during the year but are expected to be corrected through normal operations in fiscal year 2002-03 or through General Fund operating transfers.

	Deficit
Special Revenue Funds:	
JCRF detention	\$ 7,867
Detention center	17,591
ACCENT/Attorney	5,109
Ganado school deputies	24,823
Victim's assistance	7,176
R.A.P.	5,098
Luna Lake Improvement	5,795

Excess of Expenditures Over Appropriations in Individual Funds—One General Fund department and certain Special Revenue Funds, as listed below, had a significant excess of actual expenditures over appropriations.

The excess in the Rodeo-Chediski Fire expenditures resulted from the County incurring costs to extinguish the 2002 Rodeo-Chediski Fire. The County did not budget for these costs. The assessor's surcharge and detention center expenditures resulted from the County incurring additional expenditures that the County did not budget for.

	Excess Expenditures
General Fund:	
Rodeo-Chediski Fire	\$264,366
Special Revenue Funds:	
Assessor's surcharge	9,689
Detention center	19,431

Apache County
Notes to Financial Statements
June 30, 2002

Note 3 - Deposits and Investments

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

County Treasurer's Investment Pool—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer (see Note 15). Those monies are pooled with County monies for investment purposes.

Deposits—At June 30, 2002, the investment pool had cash on hand of \$39,422. The carrying amount of the investment pool's total cash in bank was \$1,521,731 and the bank balance was \$1,959,770. Of the bank balance, \$200,000 was covered by federal depository insurance, \$1,034,456 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name, and \$725,314 was uninsured and uncollateralized.

Investments—At June 30, 2002, the investments in the County Treasurer's investment pool consisted of the following:

	Fair Value
Investment in State Treasurer's investment pool	\$ 91,768,786
U.S. government securities	40,486,000
Total	\$132,254,786

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the County's name, or were held by the County or its agent in the County's name.

Other Deposits—At June 30, 2002, the County had cash on hand of \$1,680. The carrying amount of the County's total nonpooled cash in bank was \$400,234, and the bank balance was \$442,900. Of the bank balance, \$317,084 was covered by federal depository insurance and \$125,816 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Apache County
Notes to Financial Statements
June 30, 2002

A reconciliation of cash and investments to amounts shown on the Combined Balance Sheet follows:

Cash and Investments:

	<u>County Treasurer's Investment Pool</u>	<u>Other</u>	<u>Total</u>
Cash on hand	\$ 39,422	\$ 1,680	\$ 41,102
Carrying amount of deposits	1,521,731	400,234	1,921,965
Reported amount of investments	<u>132,254,786</u>		<u>132,254,786</u>
Total	<u>\$133,815,939</u>	<u>\$401,914</u>	<u>\$134,217,853</u>

Combined Balance Sheet:

Cash in bank and on hand	\$ 401,914
Cash and investments held by County Treasurer	<u>133,815,939</u>
Total	<u>\$134,217,853</u>

Note 4 - Property Taxes Receivable

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

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

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

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2002, were as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>
2001-02	\$ 85,134	\$127,641	\$20,957
Prior	<u>45,561</u>	<u>78,980</u>	<u>20,882</u>
Total	<u>\$130,695</u>	<u>\$206,621</u>	<u>\$41,839</u>

Apache County
Notes to Financial Statements
June 30, 2002

That portion of property taxes receivable not collected within 60 days after June 30, 2002, has been deferred and, consequently, is not included in current-year revenues.

Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2002, in the General Fund include \$445,548 in sales taxes and \$519,311 in auto lieu taxes from the State of Arizona. The remaining balance consists of various grants and contracts with other governmental entities and interest due on investments held with the State Treasurer. Amounts due from other governments in the Special Revenue Funds include \$1,070,398 in highway user taxes from the State of Arizona. The remaining balance consists of grants and contracts with other governmental entities and interest due on investments held with the State Treasurer.

Note 6 - Changes in General Fixed Assets

A summary of the changes in general fixed assets follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Land	\$ 1,462,625	\$ 56,380		\$ 1,519,005
Buildings and improvements	9,789,761	942,241		10,732,002
Improvements other than buildings	310,987	3,525		314,512
Machinery and equipment	15,629,847	2,486,796	\$ 845,828	17,270,815
Construction in progress	<u>737,214</u>	<u>1,305,652</u>	<u>737,214</u>	<u>1,305,652</u>
Total	<u>\$27,930,434</u>	<u>\$4,794,594</u>	<u>\$1,583,042</u>	<u>\$31,141,986</u>

The estimated cost to complete construction in progress at June 30, 2002, was \$58,600.

Note 7 - Obligations Under Capital Leases

The County has acquired five road graders under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term. Accordingly, such assets totaling \$823,178 at June 30, 2002, are capitalized in the General Fixed Assets Account Group.

Apache County
Notes to Financial Statements
June 30, 2002

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments at June 30, 2002, were as follows:

	General Long-Term Debt Account Group
Year ending June 30,	
2003	\$131,170
2004	30,446
2005	30,445
2006	30,445
2007	30,445
Thereafter	<u>60,891</u>
Total minimum lease payments	313,842
Less amount representing interest	<u>36,620</u>
Present value of net minimum lease payments	<u>\$277,222</u>

Note 8 - Bonds Payable

The County's bonded debt consists of general obligation bonds, and special assessment bonds with governmental commitment.

General Obligation Bonds—General obligation bonds payable at June 30, 2002, consisted of the outstanding general obligation bonds presented below. The bonds are noncallable with interest payable semiannually.

Principal and interest requirements at June 30, 2002, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2001</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2002</u>
General Obligation Series 1998	4 to 6%	7/1/03-04	\$1,170,000	\$380,000	\$ 790,000
General Obligation Series 2001	4.3 to 6.4%	7/1/05-10	<u>3,000,000</u>	<u> </u>	<u>3,000,000</u>
		Total	<u>\$4,170,000</u>	<u>\$380,000</u>	<u>\$3,790,000</u>

General obligation bond debt service requirements to maturity, including \$863,938 of interest, are as follows:

Apache County
Notes to Financial Statements
June 30, 2002

Year ending June 30,	
2003	\$ 573,369
2004	567,769
2005	601,769
2006	598,081
2007	592,800
Thereafter	<u>1,720,150</u>
Total	<u>\$4,653,938</u>

Special Assessment Bonds with Governmental Commitment—Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The proceeds of the bond issues were used to finance construction in this district. The bonds are noncallable with interest payable semiannually.

The following special assessment district had bonds outstanding at June 30, 2002:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2001</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2002</u>
Greer Acres – Little Colorado Improvement District	6.1%	1/1/03-10	<u>\$532,000</u>	<u>\$46,000</u>	<u>\$486,000</u>

Special assessment bond debt service requirements to maturity, including \$127,795 of interest, are as follows:

Year ending June 30,	
2003	\$ 77,152
2004	77,071
2005	76,807
2006	76,361
2007	76,701
Thereafter	<u>229,703</u>
Total	<u>\$613,795</u>

Apache County
Notes to Financial Statements
June 30, 2002

Note 9 - Landfill Closure and Postclosure Care Costs

The County has contracted with an outside agency to operate its solid waste facilities. The outside agency is also responsible for closure and postclosure costs. The County believes that it is unlikely that the outside agency will be unable to meet its closure and postclosure obligations when they are due.

Note 10 - Risk Management

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

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 \$5,000 for each occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. 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. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium based on an experience rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance triennially. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

Apache County
Notes to Financial Statements
June 30, 2002

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.

Note 11 - Changes in Long-Term Liabilities

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>
Accrued payroll and employee benefits	\$1,488,612	\$316,591		\$1,805,203
Obligations under capital leases	236,368	177,452	\$136,598	277,222
General obligation bonds payable	4,170,000		380,000	3,790,000
Special assessment bonds with governmental commitment payable	<u>532,000</u>		<u>46,000</u>	<u>486,000</u>
Total	<u>\$6,426,980</u>	<u>\$494,043</u>	<u>\$562,598</u>	<u>\$6,358,425</u>

Apache County
Notes to Financial Statements
June 30, 2002

Note 12 - Interfund Receivables, Payables, and Operating Transfers

The interfund receivables, payables, and operating transfers by fund are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Operating Transfers from Other Funds</u>	<u>Operating Transfers to Other Funds</u>
General Fund	\$137,031	\$ 82,270	\$1,389,832	\$ 840,073
Special Revenue Funds:				
Accent/Attorney		25,000	22,411	
Accent/Sheriff		60,676	84,072	
ADOT Trails		36,941		
Children's justice		5,000		25
County library		22		81,400
Detention center	51,352			
GIS			54,350	
Health services		1,781	247,975	
Jail district	10,136	608	369,411	169,182
JCRF detention		10,055		
Roads	33,046			1,137,000
State gang task force		8,000	29,950	
Victim's assistance			30,000	
Other	1,901	3,113	1,904	2,225
Debt Service Funds:				
County bonds I & R			89,383	
Greer Acres bond I & R			3,568	
Capital Projects Funds:				
1998 bond issue—General Fund				1,084
1998 bond issue—Roads				584
2001 bond issue—General Fund				46,083
2001 bond issue—Roads				41,632
Greer Acres bond issue				3,568
Total	<u>\$233,466</u>	<u>\$233,466</u>	<u>\$2,322,856</u>	<u>\$2,322,856</u>

Note 13 - Budgetary Basis of Accounting

The County's adopted budget is prepared on a basis consistent with generally accepted accounting principles, with one exception. The present value of net minimum lease payments is not budgeted as capital outlay expenditures and other financing sources at the inception of the agreements. Consequently, the following adjustment is necessary to present actual expenditures and other financing sources on a budgetary basis for the year ended June 30, 2002, in order to provide a meaningful comparison.

Apache County
Notes to Financial Statements
June 30, 2002

	Special Revenue Funds	
	Total Expenditures	Total Other Financing Sources (Uses)
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances	\$18,434,144	\$(372,307)
Present value of net minimum capital lease payments	<u>(177,452)</u>	<u>(177,452)</u>
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual	<u>\$18,256,692</u>	<u>\$(549,759)</u>

Note 14 - Retirement Plans

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

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Corrections Officer Retirement Plan* (CORP) is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and County employees whose primary duties require direct inmate contact. The CORP is governed by The Fund Manager of PSPRS and 12 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.

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

Apache County
Notes to Financial Statements
June 30, 2002

ASRS

3300 North Central Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910

(602) 240-2000 or (800) 621-3778

PSPRS, CORP, and EORP

1020 East Missouri Avenue
Phoenix, AZ 85014

(602) 255-5575

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

Cost-sharing plans—For the year ended June 30, 2002, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2002, 2001, and 2000, were \$240,060, \$245,883, and \$233,836, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of court docket fees plus additional contributions of 0 percent of the member's annual covered payroll, as determined by actuarial valuation. The County's contributions to EORP for the years ended June 30, 2002, 2001, and 2000, were \$0, \$5,942, and \$5,910, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2002, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 12.76 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.0 percent.

Annual Pension Cost—The County's pension cost for the two agent plans for the year ended June 30, 2002, and related information follows:

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	12.76%	2.0%
Plan members	7.65%	8.5%
Annual pension cost	\$165,813	\$11,671
Contributions made	\$165,813	\$11,671

Apache County
Notes to Financial Statements
June 30, 2002

The current-year annual required contribution for both the PSPRS and CORP were determined as a part of their June 30, 2000, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001, was 20 years.

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

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2002	\$165,813	100%	\$0
	2001	135,953	100	0
	2000	73,981	100	0
CORP	2002	\$ 11,671	100%	\$0
	2001	12,925	100	0
	2000	24,632	100	0

Analysis of Funding Progress—The following information was obtained from the three most recent actuarial valuations of the agent plans:

PSPRS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</u>
6/30/02	\$3,317,524	\$3,998,022	\$(680,498)	83.0%	\$1,320,357	(51.5%)
6/30/01	3,153,292	3,324,313	(171,021)	94.9	1,228,926	(13.9)
6/30/00	2,952,523	3,427,926	(475,403)	86.1	1,045,000	(45.5)

Apache County
Notes to Financial Statements
June 30, 2002

CORP

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll [(a-b)/c]</u>
6/30/02	\$853,780	\$567,155	\$286,625	150.5%	\$577,210	-
6/30/01	800,495	452,179	348,316	177.0	534,228	-
6/30/00	742,627	438,200	304,427	169.5	495,541	-

Note 15 – County Treasurer’s Investment Pool

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

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

Details of each investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment in Arizona State Treasurer’s Investment Pool	\$91,768,786	None stated	None stated	\$91,768,786
U.S. government securities	40,500,000	1.48 – 1.599%	7/02	40,486,000

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

Apache County
Notes to Financial Statements
June 30, 2002

Statement of Net Assets

Assets	\$134,192,713
Liabilities	<u>0</u>
Net assets	<u>\$134,192,713</u>

Net assets held in trust for:

Internal participants	\$ 14,393,537
External participants	<u>119,799,176</u>
Total net assets held in trust	<u>\$134,192,713</u>

Statement of Changes in Net Assets

Total additions	\$272,555,819
Total deductions	<u>268,394,493</u>
Net increase	4,161,326

Net assets held in trust:

July 1, 2001	<u>130,031,387</u>
June 30, 2002	<u>\$134,192,713</u>

Note 16 – Implementation of GASB Statement No. 34

Beginning with fiscal year 2003, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments. Implementing this standard will significantly change the accounting principles and reporting format the County uses in future financial reports.

Note 17 – Reporting Changes

Beginning July 1, 2001, the County reclassified its medical insurance activities from an Internal Service Fund to the Agency Fund, which resulted in the elimination of the Internal Service Fund. At June 30, 2001, the Internal Service Fund consisted of assets, liabilities, and retained earnings totaling \$331,065, \$305,172, and \$25,893, respectively.

Note 18 – Subsequent Events

Pursuant to statutory authority, the County invests a portion of its monies in the State Treasurer’s Local Government Investment Pool (LGIP), which was established in 1980 for the collective investment of state and local government monies. Monies in the LGIP may be invested in various types of investments prescribed by law, including bonds, debentures, or other evidences of indebtedness that are issued by entities organized and doing business in the United States that have a minimum rating of “Baa” from Moody’s Investors Service or “BBB” from Standard & Poor’s Rating Service. In December 2002, the State Treasurer announced that the LGIP currently holds approximately \$131 million of asset-backed securities issued by an NPF-12 trust that is serviced by National Century Financial Enterprises (NCFE). Recently, NCFE has come under investigation by the Federal Bureau of Investigation, the Securities and Exchange Commission, and various state authorities for possible fraud and violations of federal and state laws. NCFE has since declared bankruptcy, and the trustee for the bonds has informed the State Treasurer that the interest payments due have not been received.

Apache County
Notes to Financial Statements
June 30, 2002

All LGIP participants have been allocated a proportional share of the value of the NPF-12 securities, and such securities have been placed by the State Treasurer into a separate pool (the "Separate LGIP Pool"). It is likely that the LGIP will incur a loss on the total securities held of approximately \$131 million. Of this loss to the LGIP, the County currently estimates it would be allocated approximately \$3.1 million as its proportional share as an LGIP participant of which approximately \$2.7 million is currently estimated to be the loss to the County's Investment Trust Fund. The State is pursuing legal action to the fullest extent possible to protect the interests of the LGIP participants, which may eventually include the recovery of a portion of the investment loss.

Supplementary Information

Apache County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Federal Grantor / Program Title / Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	761088 261062	\$ 94,095
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	367,324
Cooperative Law Enforcement Agreement	10.unknown		3,956
Emergency Watershed Protection	10.unknown		7,019
Total U.S. Department of Agriculture			<u>472,394</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/ Entitlement Grants, passed through the Arizona Department of Commerce	14.218	074-01 075-01 073-01	<u>127,628</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>1,540,823</u>
U.S. Department of Justice			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-02-049	7,574
Byrne Formula Grant Program, passed through the Administrative Office of the Courts	16.579	None	20,437
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	AC-170-02 PC-110-02	260,706
Rural Domestic Violence and Child Victimization Enforcement Grant Program, passed through the Governor's Office for Domestic Violence Prevention	16.589	None	4,245
Local Law Enforcement Block Grants Program, passed through Arizona Criminal Justice Commission	16.592	LLBG-01-107 LLBG-02-107	2,125
Bulletproof Vest Partnership Program	16.607		6,046
Total U.S. Department of Justice			<u>301,133</u>
U.S. Department of Labor			
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5701025 E5702001	55,730
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5701025 E5702001	98,465
Total WIA Cluster and U.S. Department of Labor			<u>154,195</u>

(Continued)

See accompanying notes to schedule.

Apache County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002
(Continued)

Federal Grantor / Program Title / Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	JPA97-11	\$ 67,701
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Department of Emergency and Military Affairs	20.703	None	<u>950</u>
Total U.S. Department of Transportation			<u>68,651</u>
Federal Emergency Management Agency			
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	83.552	None	25,987
Fire Management Assistance Grant, passed through the Arizona Division of Emergency Management	83.556	FEMA-1422-DR	<u>198,274</u>
Total Federal Emergency Management Agency			<u>224,261</u>
U.S. Department of Health and Human Services			
Immunization Grants, passed through the Arizona Department of Health Services	93.268	152037	31,741
Centers for Disease Control and Prevention— Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252030	24,712
Children's Justice Grants to States, passed through the Arizona Governor's Community Policy Office Division for Children	93.643	CJAG2001-64 CJAG2002-69	9,166
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.919	253015	2,456
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	152009	7,064
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	952025 261108	43,418
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	961084 761140 161064 761102	58,195
Maternal and Child Health Services Block Grant to the States, passed through the Northern Arizona Council of Governments	93.994	866000385BA	<u>76,371</u>
Total U.S. Department of Health and Human Services			<u>253,123</u>
Total Federal Financial Assistance			<u>\$ 3,142,208</u>

See accompanying notes to schedule.

Apache County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2002 *Catalog of Federal Domestic Assistance*. When no CFDA number or other federal identification number had been assigned to a program, the two-digit federal agency prefix, a period, and "unknown" were used.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount
Schools and Roads—Grants to States	10.665	\$367,324



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of General Purpose Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Board of Supervisors of
Apache County, Arizona

We have audited the general purpose financial statements of Apache County as of and for the year ended June 30, 2002, and have issued our report thereon dated June 13, 2003, which was modified as to consistency due to a change in the reporting entity. 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.

Compliance

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we will report to the County's management in a separate letter that will be issued at a later date.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 02-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness. We also noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter that will be issued at a later date.

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

Debbie Davenport
Auditor General

June 13, 2003



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Apache County, Arizona

Compliance

We have audited the compliance of Apache County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Apache County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 02-101.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

Debbie Davenport
Auditor General

June 13, 2003

Apache County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2002

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
	Yes		No
Material weakness identified in internal control over financial reporting?	—		<u>X</u>
Reportable condition identified not considered to be a material weakness?	<u>X</u>		—
Noncompliance material to the financial statements noted?	—		<u>X</u>

Federal Awards

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.665	Schools and Roads—Grants to States
15.226	Payments in Lieu of Taxes
83.556	Fire Management Assistance Grant

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000	
Auditee qualified as low-risk auditee?	<u>X</u>		—

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	—		<u>X</u>
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Apache County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Financial Statement Findings

02-01

The County Treasurer's Office needs to improve its internal controls to accurately account for and safeguard cash and investments

The primary responsibility of the Treasurer's Office is to manage public and trust monies of the County and related public subdivisions. At June 30, 2002, the Treasurer's Office had been entrusted with over \$134 million in public monies. To fulfill the responsibilities of managing these monies, the Treasurer's Office should ensure that internal controls are in place and functioning properly to promote overall operational efficiency and effectiveness, compliance with laws and regulations, and reliable financial reporting. However, the Treasurer's Office had not established or implemented an adequate control environment and control activities, or assessed possible areas for fraud, theft, or abuse. Some examples of internal control deficiencies include one employee having access to assets and the related accounting records with no independent review of the employee's work, and investments being understated on the Treasurer's cash journal by over \$288,000.

To help ensure that the Treasurer's Office establishes a control environment that sets the tone and structure for conducting efficient, effective operations and safeguarding cash and investments, the Treasurer's Office should:

- Implement prior audit management letter recommendations.
- Develop written policies and procedures to provide operational guidance to employees.
- Clearly define and separate key responsibilities among several employees. This would include reassigning some accounting functions performed by the management of the Treasurer's Office to nonmanagement personnel.
- Review key responsibilities to ensure that duties are performed properly and accurately.
- Implement policies and procedures to prepare accurate accounting records, such as maintaining detailed ledgers and supporting documentation, and reconciling the detailed ledgers to the cash journal.
- Periodically assess and monitor operational areas for the possible risk of fraud, theft, or abuse.

Apache County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Federal Award Findings and Questioned Costs

02-101

CFDA No.: 83.556 **Fire Management Assistance Grant**

Federal Emergency Management Agency, passed through the Arizona Department of Emergency and Military Affairs

Award Year: Fiscal Years Ended June 30, 2002 and 2003

Award Number: FEMA-1422-DR

Allowable Costs/Cost Principles

Questioned Cost: \$13,859

The County did not establish specific controls to ensure that all Rodeo-Chedeski Fire costs charged to the program were adequately supported by its accounting records. The lack of these controls resulted in \$18,479 of charges to the program in excess of actual costs incurred. Because the Rodeo-Chedeski Fire's incident period was from June 19, 2002, through July 7, 2002, it was not practical to extend our auditing procedures sufficiently to determine the amount of excess charges applicable to the year ended June 30, 2002. As such, this finding reports the excess charges and related questioned costs for the entire incident period. The questioned cost was determined by taking into consideration the 25 percent nonfederal cost-sharing requirement.

The Federal Emergency Management Agency, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, 44 Code of Federal Regulations (CFR) §13.20(b) requires that the County's financial management system be sufficient to maintain accounting records that adequately identify the source and application of monies provided for financially assisted activities and provide accurate, current, and complete disclosure of the financial results of such activities. In addition, OMB Circular A-87, *Cost Principles for State, Local Governments and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Section C.1 and 44 CFR §13.22 requires that costs charged to a federal program must be adequately documented. To help ensure compliance with 44 CFR §§13.20(b) and 13.22 and OMB Circular A-87, the County should establish adequate internal control policies and procedures to ensure that all costs charged to federal programs and requests for reimbursement submitted to grantors are properly supported by appropriate accounting records.

LONNELLA (LONNIE) VAUGHAN
Senior Accountant
Ext. 7105

Deborah Padilla
Payroll Specialist III
Ext. 7107

SUSAN RICHARDSON
Financial Secretary
Ext. 7108

ROSALEE GILL
Accounts Payable Specialist
337-7612

APACHE COUNTY FINANCE DEPARTMENT

P.O. BOX 428
ST. JOHNS, ARIZONA 85936-0428

SWITCHBOARD: (928) 337-4364
DIRECT LINE: (928) 337-7612
FACSIMILE: (928) 337-7600



KARLA F. JAMES
Finance Director
Ext. 7104

August 5, 2003

Debra K. Davenport, CPA
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Re: Corrective Action Plan - Fiscal Year Ended June 30, 2002

Dear Ms. Davenport:

The following corrective action plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding included in the current year's schedule of findings and questioned costs.

Sincerely,

Karla James
Finance Director

APACHE COUNTY, ARIZONA
Corrective Action Plan
Year Ended June 30, 2002

Financial Statement Findings

02-01 Internal Control in the County Treasurer's Office

Name of Contact Person: Betty Montoya

Anticipated Completion Date: June 30, 2004

Request for direction on the distribution of the unidentified cash has been made to Brad Carlyon, Chief Deputy County Attorney.

The establishment of written policies and procedures will be an ongoing project for this office and will be worked on as time allows. Completion will probably occur sometime after June 30, 2004.

At the time of this writing, this office has already implemented a redistribution of duties in compliance with this finding.

Along with the establishment of written policies, this office is defining procedures that ensure supporting documentation and records are accurate and facilitate reconciliations to the cash journal.

This office has established procedures for verification of hand calculated summaries against computer generated information to assure accuracy and protect against risk of fraud. This procedure is performed by persons not involved in the initial compilations of information by hand.

Federal Award Findings and Questioned Costs

02-101 - Allowable Costs / Cost Principles

CFDA No. 83.556 Fire Management Assistance Grant

Name of Contact Person: Karla James

Anticipated Completion Date: June 30, 2003

The questioned costs were the result of the necessity of submitting a billing to the Federal and State agencies prior to the generation of ledger reports. The billing was based on the assorted documentation available at that time. If the County receives another Emergency grant of this type, any billings submitted will be reconciled to the county's ledger records and any necessary corrections and adjustments, to the records or to the billing will be made.

At the time of this writing, notification has been made to the grantor agency and we are expecting to receive a billing, the payment of which will close out this grant for Fiscal Year ended June 30, 2003.