



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Apache County

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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Apache County
Single Audit Reporting Package
Year Ended June 30, 2003

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Apache County
Single Audit Reporting Package
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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
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 financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Apache County as of and for the year ended June 30, 2003, as listed in the table of contents, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Apache County as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2003, to implement a new financial reporting model.

The Management's Discussion and Analysis on pages i through viii, the Budgetary Comparison Schedules on pages 26 through 28, and the Schedule of Agent Retirement Plans' Funding Progress on page 29, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2004, 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

November 9, 2004

Apache County Management's Discussion and Analysis

This narrative was prepared by the County's management and is intended to be an easily readable analysis of Apache County's financial activities as presented by the financial statements for the year ended June 30, 2003.

Financial Highlights

- The assets of Apache County exceeded its liabilities at the close of the fiscal year by \$28,610,420 (net assets). Of this amount, \$8,531,939 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets as reported in the statement of activities increased by \$316,134.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$9,090,503, or 79% of total General Fund expenditures.
- Apache County's total long term liabilities decreased by \$1,215,571 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are composed of 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 finances in a manner similar to private-sector businesses.

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

The *Statement of Activities* presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures 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).

Both of these government-wide financial statements distinguish County functions that are principally supported by taxes and intergovernmental revenues. The County's governmental activities include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and education. The County does not have any business-type activities.

Component units are included in the County's basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The blended component units included in the County's basic financial statements are the Apache County Library District, Apache County Flood Control District, Apache County Jail District, Apache County Juvenile Jail District, and Greer Acres—Little Colorado Special Improvement District.

Apache County Management's Discussion and Analysis

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 County's funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the governmental funds' focus is narrower than that of the government-wide financial 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County reports two major 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 the General and Road Funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Fiduciary Funds are used to account for resources held 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 programs.

The fiduciary funds financial statements can be found on pages 7-8 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 can be found on pages 9-25 of this report.

Other Required Supplementary Information presents budgetary comparison schedules for the County's General and Road Funds. Also presented are certain required supplementary information concerning the County's progress in funding its obligations to provide pension benefits for employees.

Required supplementary information can be found on pages 26-29 of this report.

Apache County Management's Discussion and Analysis

Government-wide Financial Analysis

This year is the first fiscal year the County implemented Governmental Accounting Standards Board (GASB) Statement No. 34. The County has not restated prior periods for providing the comparative data for the Management's Discussion and Analysis because certain prior-year information is unavailable. However, in the future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, at June 30, 2003, assets exceeded liabilities by \$28,610,420.

Statement of Net Assets June 30, 2003

	Governmental Activities
Current and other assets	\$18,275,554
Capital assets	<u>17,362,051</u>
Total assets	<u>35,637,605</u>
Current and other liabilities	1,865,444
Long-term liabilities	<u>5,161,741</u>
Total liabilities	<u>7,027,185</u>
Net assets	
Invested in capital assets, net of related debt	13,794,338
Restricted net assets	6,284,143
Unrestricted net assets	<u>8,531,939</u>
Total net assets	<u>\$28,610,420</u>

The largest portion (\$13,794,338 or 48%) of the County's net assets reflects the investment in capital assets (e.g., land, improvements other than buildings, buildings, and machinery and equipment) less accumulated depreciation and related debt outstanding used to acquire those assets. The County uses these assets to provide services to its 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 will not be used to liquidate these liabilities.

Restricted net assets (\$6,284,143 or 22%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of net assets (\$8,531,939 or 30%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Apache County Management's Discussion and Analysis

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets.

Changes in Net Assets

The following table illustrates the changes in net assets for governmental activities:

	Governmental Activities
Revenues:	
Program Revenues:	
Charges for services	\$ 2,274,608
Operating grants and contributions	13,634,114
General Revenues:	
Property taxes	4,768,766
Share of state sales taxes	4,842,777
Payments in lieu of taxes	3,181,792
Grants and contributions not restricted to specific programs	554,481
Investment income	(186,020)
Miscellaneous	<u>387,456</u>
Total revenues	<u>29,457,974</u>
Expenses:	
General government	8,307,226
Public safety	7,627,941
Highways and streets	7,738,887
Sanitation	85,005
Health	2,044,817
Welfare	189,461
Culture and recreation	611,316
Education	2,324,371
Interest on long-term debt	<u>212,816</u>
Total expenses	<u>29,141,840</u>
Increase in net assets	316,134
Net assets - beginning, as restated	<u>28,294,286</u>
Net assets - ending	<u>\$28,610,420</u>

Apache County Management's Discussion and Analysis

Governmental Activities

Financial analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with financial related legal requirements.

Governmental funds—governmental activities are contained in the general, special revenue, debt service, and capital projects funds. The focus of the County's governmental funds is to provide information of near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2003, the County's governmental funds reported combined fund balances of \$15,556,167, a decrease of \$1,009,714, in comparison with the prior year. Approximately 97% of the combined fund balances, \$15,027,918, constitutes unreserved fund balance which is available to meet the County's current and future needs. The remainder of fund balance is reserved indicating that it is not available for new spending because it has been committed for inventories, prepaid items, and debt service expenditures.

The General Fund is the County's primary operating fund. At the end of the current fiscal year, of the General Fund's unreserved fund balance was \$9,090,503, or 79% of total General Fund expenditures. This ratio indicates a very strong fund balance position in comparison to expenditures.

The following table presents the amounts of governmental revenues from various sources as well as the increases or decreases from the prior year;

Revenues Classified by Source Governmental Funds				
	<u>FY2003</u>	<u>FY2002</u>	<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent Change</u>
Property taxes	\$ 7,254,258	\$ 6,897,732	\$ 356,526	5%
Special assessments	86,777	79,393	7,384	9
Licenses and permits	288,845	86,812	202,033	233
Intergovernmental	19,520,082	20,678,890	(1,158,808)	(6)
Charges for services	1,333,202	1,493,899	(160,697)	(11)
Fines and forfeits	600,087	454,693	145,394	32
Investment income	(186,807)	452,691	(639,498)	(141)
Contributions	271,041	129,768	141,273	109
Miscellaneous	<u>380,198</u>	<u>55,322</u>	<u>324,876</u>	587
Totals	<u>\$29,547,683</u>	<u>\$30,329,200</u>	<u>\$ (781,517)</u>	(3)

Apache County Management's Discussion and Analysis

The following provides an explanation of the revenues by source that changed significantly over the prior year.

- Property taxes—The increase in fiscal year 2003 reflects a growth in funding requiring increased tax rates to meet the County's needs and the first time tax levy for the new Apache County Juvenile Jail District.
- Licenses and permits—For fiscal year 2002, \$99,235 of health permit fees were classified as charges for services and for fiscal year 2003, this same revenue type was classified as licenses and permits. In addition, building permit revenues more than doubled from fiscal year 2002 to fiscal year 2003 because of the adoption of increased fees for plan review and an increase in vacation home construction in the county.
- Intergovernmental—In fiscal year 2002, the County received two distributions of Payments in Lieu of Taxes (PILT), which accounts for at least \$795,000 of the decrease. Also, in fiscal year 2002, the County had a one-time grant for the juvenile detention center in the amount of \$1,011,351. These decreases are modified by various increases in other intergovernmental revenues in fiscal year 2003.
- Investment income—Some of the County's monies in the Local Government Investment Pool in fiscal year 2003 was invested with the National Century Financial Enterprises by the State Treasurer. That investment suffered major losses, and the County was allocated its portion of the loss.
- Miscellaneous—In fiscal year 2003, a fund was closed and the proceeds given to the County after it was determined that there would be no more claims against it. The fund held proceeds from the dissolution of the original county-wide school district.

The following table presents governmental expenditures by function compared to prior-year amounts;

Expenditures by Function Governmental Funds				
	<u>FY2003</u>	<u>FY2002</u>	<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent Change</u>
General government	\$ 8,245,024	\$ 8,272,625	\$ (27,601)	(0)%
Public safety	7,385,662	8,359,939	(974,277)	(12)
Highways and streets	7,940,378	8,412,225	(471,847)	(6)
Sanitation	85,005	79,799	5,206	7
Health	2,095,863	1,921,891	173,972	9
Welfare	188,534	214,286	(25,752)	(12)
Culture and recreation	633,341	621,533	11,808	2
Education	2,335,902	2,404,960	(69,058)	(3)
Capital outlay	1,048,366	1,016,640	31,726	3
Debt service	651,816	669,886	(18,070)	(3)
Totals	<u>\$30,609,891</u>	<u>\$31,973,784</u>	<u>\$(1,363,893)</u>	(4)

The overall decrease in spending is largely due to conservative budgeting reflecting anticipated decreases in available funding because of the downswing in the economy. The significant decrease in spending for public safety reflects the completion of construction of the new juvenile detention facility in fiscal year 2002. The significant decrease in spending for highways and streets reflects the completion of a dam restoration project in fiscal year 2002.

Apache County Management's Discussion and Analysis

General Fund Budgetary Highlights

The total General Fund expenditure budget of \$19,171,268 was not amended during the year. However, certain departments received supplemental appropriations as follows:

Elections	\$115,856	Round Valley Magistrates	\$4,797
Public Defenders	26,896	Juvenile Probation	2,661
Superior Court	16,723	Housing Study Program	2,592
Boat Patrol	13,911	Communications	2,163
School Superintendent	9,585	Search and Rescue	2,110
Recorder	7,202	Round Valley Justice of the Peace	1,784
Medical Examiner	6,883	AHCCCS Administration	1,586
Puerco Justice of the Peace	6,277	AHCCCS	5

The increases in appropriations were taken from the contingency budget. Actual General Fund expenditures were under budget by \$7,656,388.

Actual revenues recorded in the General Fund for the fiscal year were \$1,087,851 in excess of budget. Most of this variance was due to the receipt of \$926,386 of PILT. To set a conservative budget, the County had not budgeted for that funding since two PILT payments were received in the prior fiscal year.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2003, amounted to \$17,362,051, net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings, and machinery and equipment.

During the fiscal year, construction in progress decreased by \$1,305,652 due to the completion of the fiscal year 2002 construction of a juvenile detention center, which resulted in a corresponding increase in buildings.

Apache County Management's Discussion and Analysis

Capital Assets/Net of Depreciation

	Governmental Activities		Increase (Decrease) Percent of Change
	FY2003	FY2002 Restated	
Land	\$ 1,561,023	\$ 1,562,316	0%
Improvements other than buildings	239,080	237,175	1
Construction in progress		1,305,652	(100)
Buildings	8,452,010	7,294,387	16
Machinery and equipment	7,109,938	6,762,535	5
Totals	\$17,362,051	\$17,162,065	1

Additional information on the County's capital assets can be found in Note 6 on page 16 of this report.

Long-Term Debt

On June 30, 2003, the County had a total of \$5,161,741 long-term debt obligations. Of this amount, \$3,837,000 was principal outstanding on general obligation and special assessment bonds and \$167,713 in capital lease obligations. The remainder of the debt outstanding represents estimated compensated absences payable. No new bonded debt was issued or capital lease agreements were entered into during fiscal year 2003.

Additional information on the County's long-term liabilities can be found in Note 7 of the Notes to the Financial Statements on pages 17-19 of this report.

Economic Factors and the Next Year's Budget

As fiscal year 2003 came to a close, the County was facing an uncertain economic future. Due to budget deficit problems at the state level, the County was expecting decreases or, at best, smaller than normal increases in state-shared revenues and allocations. At the same time, mandated county contributions to state programs were again scheduled to rise.

The negative outlook caused by the above external factors was somewhat alleviated by the anticipation of the start of construction, scheduled for the fall of 2003, of a third unit at Tucson Electric Power's generating station located in the County. For the immediate future (the new budget year), this construction was expected to bring to the County increased revenues due to the influx of construction workers. Once construction is completed and operations begin, the County will have the benefits generated by increased assessed valuation as well as new employment.

Requests for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Apache County Finance Department, Post Office Box 428, St. Johns, AZ 85936.

Apache County
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 13,856,536
Receivables (net of allowances for uncollectibles):	
Property taxes	358,907
Accounts	55,593
Special assessments	536,644
Accrued interest	28,954
Due from other governments	3,066,344
Inventories	336,157
Prepaid items	36,419
Capital assets, not being depreciated	1,800,103
Capital assets, being depreciated, net	<u>15,561,948</u>
Total assets	<u>35,637,605</u>
 Liabilities	
Accounts payable	1,262,259
Accrued payroll and employee benefits	603,185
Noncurrent liabilities	
Due within 1 year	1,289,926
Due in more than 1 year	<u>3,871,815</u>
Total liabilities	<u>7,027,185</u>
 Net Assets	
Invested in capital assets, net of related debt	13,794,338
Restricted for:	
Public safety	1,001,903
Highways and streets	2,848,391
Debt service	288,367
Capital projects	1,134,476
Other purposes	1,011,006
Unrestricted	<u>8,531,939</u>
Total net assets	<u><u>\$ 28,610,420</u></u>

See accompanying notes to financial statements.

Apache County
Statement of Activities
Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 8,307,226	\$ 1,318,930	\$ 1,243,673	\$ (5,744,623)
Public safety	7,627,941	852,869	1,879,273	(4,895,799)
Highways and streets	7,738,887	4,980	8,742,157	1,008,250
Sanitation	85,005		88,265	3,260
Health	2,044,817	90,115	951,255	(1,003,447)
Welfare	189,461		177,685	(11,776)
Culture and recreation	611,316	7,714	53,128	(550,474)
Education	2,324,371		498,678	(1,825,693)
Interest on long-term debt	212,816			(212,816)
Total governmental activities	\$ 29,141,840	\$ 2,274,608	\$ 13,634,114	(13,233,118)
General revenues:				
Taxes:				
Property taxes				
				4,768,766
Share of state sales taxes				
				4,842,777
Payments in lieu of taxes				
				3,181,792
Grants and contributions not restricted to specific programs				
				554,481
Investment earnings				
				(186,020)
Miscellaneous				
				387,456
Total general revenues				
				13,549,252
Change in net assets				
				316,134
Net assets, July 1, 2002, as restated				
				28,294,286
Net assets, June 30, 2003				
				\$ 28,610,420

See accompanying notes to financial statements.

Apache County
Balance Sheet
Governmental Funds
June 30, 2003

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$8,642,423	\$1,678,765	\$3,535,348	\$13,856,536
Receivables (net of allowances for uncollectibles:				
Property taxes	127,497		231,410	358,907
Accounts	280	6,895	48,418	55,593
Special assessments			536,644	536,644
Accrued interest	16,641	3,221	9,092	28,954
Due from:				
Other funds	129,871	12,300	50,907	193,078
Other governments	1,025,221	1,309,828	731,295	3,066,344
Inventories	9,700	326,457		336,157
Prepaid items	<u>30,646</u>	<u>125</u>	<u>5,648</u>	<u>36,419</u>
Total assets	<u>\$9,982,279</u>	<u>\$3,337,591</u>	<u>\$5,148,762</u>	<u>\$18,468,632</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 408,866	\$ 406,471	\$ 446,922	\$ 1,262,259
Accrued payroll and employee benefits	269,080	133,707	200,398	603,185
Due to other funds	60,837	265	131,976	193,078
Deferred revenue	<u>112,647</u>		<u>741,296</u>	<u>853,943</u>
Total liabilities	<u>851,430</u>	<u>540,443</u>	<u>1,520,592</u>	<u>2,912,465</u>
Fund balances:				
Reserved for:				
Inventories	9,700	326,457		336,157
Prepaid items	30,646	125	5,648	36,419
Debt service			155,673	155,673
Unreserved, reported in:				
General fund	9,090,503			9,090,503
Special revenue funds		2,470,566	2,332,373	4,802,939
Capital projects funds			<u>1,134,476</u>	<u>1,134,476</u>
Total fund balances	<u>9,130,849</u>	<u>2,797,148</u>	<u>3,628,170</u>	<u>15,556,167</u>
Total liabilities and fund balances	<u>\$9,982,279</u>	<u>\$3,337,591</u>	<u>\$5,148,762</u>	<u>\$18,468,632</u>

See accompanying notes to financial statements.

Apache County
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 June 30, 2003

Fund balances—total governmental funds		\$ 15,556,167
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. The cost of the assets is \$31,507,162 and the accumulated depreciation is \$14,145,111.</p>		17,362,051
<p>Some receivables are not available to pay for current-period expenditures, and therefore, are deferred in the funds.</p>		853,943
<p>Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.</p>		
<p style="padding-left: 20px;">Compensated absences</p>	\$ (1,157,028)	
<p style="padding-left: 20px;">General obligation bonds payable</p>	(3,400,000)	
<p style="padding-left: 20px;">Special assessment bonds payable</p>	(437,000)	
<p style="padding-left: 20px;">Capital leases payable</p>	(167,713)	(5,161,741)
Net assets of governmental activities		\$ 28,610,420

See accompanying notes to financial statements.

Apache County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2003

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues:				
Property taxes	\$2,492,424	\$2,041,506	\$2,720,328	\$ 7,254,258
Special assessments			86,777	86,777
Licenses and permits	190,601		98,244	288,845
Intergovernmental	7,837,004	6,446,989	5,236,089	19,520,082
Charges for services	216,847	1,600	1,114,755	1,333,202
Fines and forfeits	425,309		174,778	600,087
Investment income	(76,115)	(9,126)	(101,566)	(186,807)
Contributions	80		270,961	271,041
Miscellaneous	<u>292,780</u>	<u>71,549</u>	<u>15,869</u>	<u>380,198</u>
Total revenues	<u>11,378,930</u>	<u>8,552,518</u>	<u>9,616,235</u>	<u>29,547,683</u>
Expenditures:				
Current:				
General government	7,211,388		1,033,636	8,245,024
Public safety	3,148,157		4,237,505	7,385,662
Highways and streets		7,400,269	540,109	7,940,378
Sanitation			85,005	85,005
Health	855,628		1,240,235	2,095,863
Welfare			188,534	188,534
Culture and recreation	16,000		617,341	633,341
Education	283,707		2,052,195	2,335,902
Capital outlay			1,048,366	1,048,366
Debt service:				
Principal retirement			439,000	439,000
Interest and other charges			212,816	212,816
Total expenditures	<u>11,514,880</u>	<u>7,400,269</u>	<u>11,694,742</u>	<u>30,609,891</u>
Excess (deficiency) of revenues over expenditures	<u>(135,950)</u>	<u>1,152,249</u>	<u>(2,078,507)</u>	<u>(1,062,208)</u>
Other financing sources (uses):				
Transfers in	1,633,034	27,540	964,860	2,625,434
Transfers out	<u>(967,147)</u>	<u>(1,312,229)</u>	<u>(346,058)</u>	<u>(2,625,434)</u>
Total other financing sources and uses	<u>665,887</u>	<u>(1,284,689)</u>	<u>618,802</u>	<u> </u>
Net change in fund balances	<u>529,937</u>	<u>(132,440)</u>	<u>(1,459,705)</u>	<u>(1,062,208)</u>
Fund balances, July 1, 2002	8,600,167	2,877,839	5,087,875	16,565,881
Increase in reserve for inventories	<u>745</u>	<u>51,749</u>	<u> </u>	<u>52,494</u>
Fund balances, June 30, 2003	<u>\$9,130,849</u>	<u>\$2,797,148</u>	<u>\$3,628,170</u>	<u>\$15,556,167</u>

See accompanying notes to financial statements.

Apache County
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2003

Net change in fund balances—total governmental funds \$ (1,062,208)

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	\$ 2,599,229	
Depreciation expense	<u>(2,272,383)</u>	326,846

In the Statement of Activities, only the gain/loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differ from the change in fund balance by the book value of the capital assets sold. (126,860)

Reduction of long-term liabilities increases net assets of governmental but does not have any effect on fund balances of governmental funds 648,175

The repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal repayments:		
General obligation bonds payable	390,000	
Special assessment bonds payable	49,000	
Capital leases payable	<u>128,396</u>	567,396

Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities. (89,709)

Inventories purchased during the year are reported as expenditures in the governmental funds. Inventories are not expensed until used in the Statement of Activities. 52,494

Change in net assets of governmental activities \$ 316,134

See accompanying notes to financial statements.

Apache County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Investment Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 97,009,928	\$ 671,826
Interest and dividends receivable	<u>227,207</u>	<u> </u>
Total assets	<u>97,237,135</u>	<u>\$ 671,826</u>
Liabilities		
Deposits held for others	<u> </u>	<u>\$ 671,826</u>
Total liabilities	<u> </u>	<u>\$ 671,826</u>
Net Assets		
Held in trust for investment trust participants	<u>\$ 97,237,135</u>	

See accompanying notes to financial statements.

Apache County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2003

	Investment Trust Fund
Additions:	
Contributions from participants	\$ 213,028,585
Interest and dividends	<u>890,976</u>
Total additions	<u>213,919,561</u>
 Deductions:	
Distributions to participants	<u>236,481,602</u>
Total deductions	<u>236,481,602</u>
 Change in net assets	 (22,562,041)
 Net assets, July 1, 2002	 <u>119,799,176</u>
 Net assets, June 30, 2003	 <u>\$ 97,237,135</u>

See accompanying notes to financial statements.

Apache County
Notes to Financial Statements
June 30, 2003

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). During the year ended June 30, 2003, the County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the 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.

The following table describes the County's component units:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Apache County Flood Control District	A tax-levying district that provides flood control systems; the County's board of supervisors serves as board of directors	Blended	Not available
Apache County Jail District	A tax-levying district that acquires, constructs, operates, maintains, and finances county jails and jail systems; the County's board of supervisors serves as governing board	Blended	Not available
Apache County Juvenile Jail District	A tax-levying district that acquires, constructs, operates, maintains, and finances county juvenile jails and jail systems; the County's board of supervisors serves as board of directors	Blended	Not available

Apache County
Notes to Financial Statements
June 30, 2003

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Apache County Library District	Provides and maintains library services for County residents; the County's board of supervisors serves as board of directors	Blended	Not available
Greer Acres—Little Colorado, Special Improvement District	A tax-levying district that develops and constructs sewer systems; the County's board of supervisors serves as board of directors	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 usefulness of the information.

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

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

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

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

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

Apache County
Notes to Financial Statements
June 30, 2003

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

The County reports the following major governmental funds:

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

The Road Fund accounts for monies from specific revenue sources that are restricted for road maintenance and operations and for pavement preservation.

The County reports the following fund types:

The investment trust fund accounts for pooled assets held and invested by the County Treasurer on behalf of the County’s departments and other governmental entities.

The agency funds account for assets held by the County as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, community college districts, and special districts.

C. Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Apache County
Notes to Financial Statements
June 30, 2003

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

D. Cash and Investments

The County considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

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

E. 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.

F. Property Tax Calendar

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.

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Apache County
Notes to Financial Statements
June 30, 2003

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All		
Construction in progress	\$5,000		
Improvements other than buildings	\$5,000		
Buildings	\$5,000	Straight line	25-40 years
Machinery and equipment	\$5,000	Straight line	5-8 years

H. Investment Income

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

I. Compensated Absences

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

Employees may accumulate up to 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. 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, for employees who have accumulated at least 500 hours of sick leave, sick leave benefits do vest, and therefore, are accrued.

Note 2 - Beginning Balances Restated

As a result of implementing GASB Statement No. 34, the County's governmental fund-type fund balances as of June 30, 2002, have been restated as net assets as of July 1, 2002, on the government-wide Statement of Activities. The reconciliation below summarizes the differences between governmental fund-type fund balances as of June 30, 2002, as previously reported, to net assets as of July 1, 2002, reported on the government-wide Statement of Activities.

Apache County
Notes to Financial Statements
June 30, 2003

Aggregate fund balances of governmental fund types as of June 30, 2002	\$16,565,881
Add: Capital assets, net of accumulated depreciation, as restated	17,162,065
Revenues earned but not yet available	943,652
Less: Long-term liabilities, as restated	<u>6,377,312</u>
Net assets of governmental activities as of July 1, 2002	<u>\$28,294,286</u>

Additionally, the County made the following prior period corrections: the long-term liabilities balance was restated at July 1, 2002, from \$6,358,425 to \$6,377,312 to correct for an \$18,887 understatement of capital leases payable and the capital assets balance was restated at July 1, 2002 from \$31,141,986 to \$30,794,020 to correct an overstatement of capital assets totaling \$347,966.

Note 3 - Stewardship, Compliance, and Accountability

At June 30, 2003, the following governmental funds reported significant deficits in fund balances:

Fund	Deficit
School's Indirect Costs	\$14,826
Transit Fund	1,915
JCRF Detention	7,735
Forest Fees	2,795
DP Services, Schools	39,693
ACCENT/Attorney	5,167
Adult Probation Enhancement	1,824
R.A.P.	4,130
Luna Lake Improvement	2,641
ECO	3,288
EECO	5,675
Diversion Intake	6,516
CDBG/Family Alliance	1,810

These deficits resulted from operations during the year, but are expected to be corrected through normal operations in fiscal year 2004.

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; 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.

Apache County
Notes to Financial Statements
June 30, 2003

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. Those monies are pooled with the County's monies for investment purposes.

Deposits—At June 30, 2003, the investment pool had cash on hand of \$12,000. The carrying amount of the investment pool's total cash in bank was \$8,476,552, and the bank balance was \$6,137,654. Of the bank balance, \$145,172 was covered by federal depository insurance and \$5,992,482 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Investments—At June 30, 2003, the investments in the County Treasurer's investment pool consisted of the following:

	Fair Value
Investment in State Treasurer's investment pool	\$ 90,286,110
U.S. government securities	<u>11,996,900</u>
Total	<u>\$102,283,010</u>

The State Board of Investment 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, 2003, the County had cash on hand of \$1,630. The carrying amount of the County's total nonpooled cash in bank was \$765,098, and the bank balance was \$768,956. Of the bank balance, \$295,346 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name and \$473,610 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

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

Cash and investments:

	County Treasurer's Investment Pool	Other	Total
Cash on hand	\$ 12,000	\$ 1,630	\$ 13,630
Carrying amount of deposits	8,476,552	765,098	9,241,650
Reported amount of investments	<u>102,283,010</u>	<u> </u>	<u>102,283,010</u>
Total	<u>\$110,771,562</u>	<u>\$766,728</u>	<u>\$111,538,290</u>

Apache County
Notes to Financial Statements
June 30, 2003

Statement of Net Assets:

	Total Primary Government	Total Fiduciary Funds	Total
Cash and cash equivalents	<u>\$13,856,536</u>	<u>\$97,681,754</u>	<u>\$111,538,290</u>

Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2003, in the General Fund include \$833,661 in sales taxes and \$20,261 in auto lieu taxes from the State of Arizona. Amounts due from other governments in the Road Fund include \$1,123,904 in highway user taxes from the State of Arizona. Amounts due from other governments in the Other Governmental Funds include \$515,075 in federal reimbursement grants. The remaining balances result from various grants and contracts with other governmental units.

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002, as restated	Increases	Decreases	Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,562,316		\$ 1,293	\$ 1,561,023
Improvements other than buildings	237,175	\$ 9,576	7,671	239,080
Construction in progress	<u>1,305,652</u>	<u>54,389</u>	<u>1,360,041</u>	
Total capital assets not being depreciated	<u>3,105,143</u>	<u>63,965</u>	<u>1,369,005</u>	<u>1,800,103</u>
Capital assets being depreciated:				
Buildings	10,865,656	1,464,538	5,425	12,324,769
Machinery and equipment	<u>16,823,221</u>	<u>2,430,767</u>	<u>1,871,698</u>	<u>17,382,290</u>
Total	<u>27,688,877</u>	<u>3,895,305</u>	<u>1,877,123</u>	<u>29,707,059</u>
Less accumulated depreciation for:				
Buildings	3,571,269	302,123	633	3,872,759
Machinery and equipment	<u>10,060,686</u>	<u>1,970,260</u>	<u>1,758,594</u>	<u>10,272,352</u>
Total	<u>13,631,955</u>	<u>2,272,383</u>	<u>1,759,227</u>	<u>14,145,111</u>
Total capital assets being depreciated, net	<u>14,056,922</u>	<u>1,622,922</u>	<u>117,896</u>	<u>15,561,948</u>
Governmental activities capital assets, net	<u>\$17,162,065</u>	<u>\$1,686,887</u>	<u>\$1,486,901</u>	<u>\$17,362,051</u>

Apache County
Notes to Financial Statements
June 30, 2003

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 358,208
Public safety	622,511
Highways and streets	1,221,384
Health	31,237
Welfare	4,362
Education	<u>34,681</u>
Total governmental activities depreciation expense	<u>\$2,272,383</u>

Note 7 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2003:

	Balance July 1, 2002, as restated	Additions	Reductions	Balance June 30, 2003	Due within 1 year
Governmental activities					
Bonds payable:					
General obligation bonds	\$3,790,000		\$ 390,000	\$3,400,000	\$ 400,000
Special assessment bonds with governmental commitment	<u>486,000</u>		<u>49,000</u>	<u>437,000</u>	<u>52,000</u>
Total bonds payable	4,276,000		439,000	3,837,000	452,000
Capital leases payable	296,109		128,396	167,713	38,185
Compensated absences payable	<u>1,805,203</u>	<u>\$623,212</u>	<u>1,271,387</u>	<u>1,157,028</u>	<u>799,741</u>
Governmental activities long- term liabilities	<u>\$6,377,312</u>	<u>\$623,212</u>	<u>\$1,838,783</u>	<u>\$5,161,741</u>	<u>\$1,289,926</u>

Bonds—The County's bonded debt consists of various issues of general obligation and special assessment bonds that are noncallable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. The County repays general obligation bonds from voter-approved property taxes. Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners.

Bonds outstanding at June 30, 2003, were as follows:

Apache County
Notes to Financial Statements
June 30, 2003

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation bonds:				
Series 1998	\$3,000,000	7/1/04	4%	\$ 400,000
Series 2001	3,000,000	7/1/05-10	4.4-6.375%	3,000,000
Special assessment bonds with governmental commitment:				
Greer Acres—Little Colorado Improvement District	575,000	1/1/04-10	6.10%	<u>437,000</u>
				<u>\$3,837,000</u>

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2003:

Year Ending June 30	Governmental Activities			
	General		Special	
	Obligation Bonds		Assessment Bonds	
	Principal	Interest	Principal	Interest
2004	\$ 400,000	\$167,769	\$ 52,000	\$25,071
2005	450,000	151,769	55,000	21,807
2006	475,000	123,081	58,000	18,361
2007	500,000	92,800	62,000	14,701
2008	500,000	70,925	66,000	10,797
2009-10	<u>1,075,000</u>	<u>74,225</u>	<u>144,000</u>	<u>8,906</u>
Total	<u>\$3,400,000</u>	<u>\$680,569</u>	<u>\$437,000</u>	<u>\$99,643</u>

Capital leases—The County has acquired machinery and equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$499,564
Less: accumulated depreciation	<u>308,751</u>
Carrying value	<u>\$190,813</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2003:

Apache County
Notes to Financial Statements
June 30, 2003

Year Ending June 30	Governmental Activities
2004	\$ 38,185
2005	35,605
2006	30,445
2007	30,445
2008	30,445
2009	<u>30,445</u>
Total minimum lease payments	195,570
Less amount representing interest	<u>27,857</u>
Present value of net minimum lease payments	<u>\$167,713</u>

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

Compensated absences and claims and judgments—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2003, the County paid for compensated absences as follows: 46 percent from the General Fund, 24 percent from the Road Fund, and 30 percent from other funds. The County paid for claims and judgments entirely from the General Fund during the year ended June 30, 2003.

Note 8 - Risk Management

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

Apache County
Notes to Financial Statements
June 30, 2003

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 per occurrence for property claims and \$5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$10 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.

Note 9 - 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 the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Apache County
Notes to Financial Statements
June 30, 2003

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 the participating 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.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or (800) 621-3778

PSPRS, CORP, and EORP

1020 E. Missouri Ave.
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, 2003, 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, 2003, 2002, and 2001, were \$238,517, \$240,060 and \$245,883, 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, 2003, 2002, and 2001, were \$0, \$0, and \$5,942, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2003, 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 11.88 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 percent.

Apache County
Notes to Financial Statements
June 30, 2003

Annual Pension Cost—The County's pension cost for the two agent plans for the year ended June 30, 2003, and related information follows.

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	11.88%	2.0%
Plan members	7.65%	8.5%
Annual pension cost	\$155,825	\$11,451
Contributions made	\$155,825	\$11,451

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2001, actuarial valuations 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	2003	\$155,825	100%	\$0
	2002	165,813	100	0
	2001	135,953	100	0
CORP	2003	\$ 11,451	100	\$0
	2002	11,671	100	0
	2001	12,925	100	0

Note 10 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2003, were as follows:

Apache County
Notes to Financial Statements
June 30, 2003

Payable from	Payable to			Total
	General Fund	Road Fund	Nonmajor Governmental Funds	
General Fund		\$ 9,930	\$50,907	\$ 60,837
Road Fund	\$ 265			265
Other Governmental Funds	<u>129,606</u>	<u>2,370</u>	<u> </u>	<u>131,976</u>
Total	<u>\$129,871</u>	<u>\$12,300</u>	<u>\$50,907</u>	<u>\$193,078</u>

The interfund balances resulted from time lags between the dates that interfund goods and services are provided and reimbursement occurred.

Interfund transfers—Interfund transfers for the year ended June 30, 2003, were as follows:

Transfer from	Transfer to			Total
	General Fund	Road Fund	Nonmajor Governmental Funds	
General Fund		\$27,540	\$939,607	\$ 967,147
Road Fund	\$1,286,976		25,253	1,312,229
Other Governmental Funds	<u>346,058</u>	<u> </u>	<u> </u>	<u>346,058</u>
Total	<u>\$1,633,034</u>	<u>\$27,540</u>	<u>\$964,860</u>	<u>\$2,625,434</u>

The principal purposes 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 11 - Condensed Financial Statements of County Treasurer's Investment Pool

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the county 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.

Apache County
Notes to Financial Statements
June 30, 2003

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 major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
Investment in State Treasurer's investment pool	\$90,286,110	None stated	None stated	\$90,286,110
U.S. government securities	12,000,000	0.6-0.8%	7/03	11,996,900

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

Statement of Net Assets

Assets	\$111,027,723
Liabilities	
Net assets	<u>\$111,027,723</u>

Net assets held in trust for:

Internal participants	\$ 13,790,588
External participants	<u>97,237,135</u>
Total net assets held in trust	<u>\$111,027,723</u>

Statement of Changes in Net Assets

Total additions	\$248,740,021
Total deductions	<u>271,905,011</u>
Net decrease	<u>(23,164,990)</u>
Net assets held in trust:	
July 1, 2002	<u>134,192,713</u>
June 30, 2003	<u>\$111,027,723</u>

Note 12 - Joint Ventures

The County is a member of the Blue Hills Environmental Association (Association), a nonprofit corporation created in 1991 by the County, City of St. Johns, Town of Springerville, and Town of Eagar. The members then entered into a solid waste operation agreement with the Association to operate the Blue Hills Regional Municipal Landfill and to provide solid waste services to the members and public. The Association is accumulating financial reserves to pay for closure and postclosure care costs when it anticipates closing the landfill in 2040.

Apache County
Notes to Financial Statements
June 30, 2003

However, the County has assumed the financial responsibility for these costs if the Association is unable to pay for these costs when they are due. Annually, the County files the required financial assurance report with the Arizona Department of Environmental Quality to demonstrate financial responsibility for closure and postclosure care costs as required by state and federal laws and regulations. In the most recent financial assurance report, dated February 25, 2004, the County estimated the closure and postclosure care costs to be \$333,744 assuming the landfill was completely filled to capacity. This amount is based on what it would cost to perform all closure and postclosure care as of December 2003. According to its audited financial statements for the year ended June 30, 2003, the landfill had used approximately 5 percent of its estimated capacity, and the Association had accumulated \$79,411 of financial reserves to pay for these costs.

The Association issues audited financial statements annually which are available upon request by writing or calling the Association:

Blue Hills Environmental Association
P.O. Box 175
St. Johns, AZ 85936
(928) 337-2357

Apache County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 2,456,305	\$ 2,456,305	\$ 2,492,424	\$ 36,119
Licenses and permits	90,000	90,000	190,601	100,601
Intergovernmental	6,859,030	6,859,030	7,837,004	977,974
Charges for services	145,000	145,000	216,847	71,847
Fines and forfeits	480,350	480,350	425,309	(55,041)
Investment income	233,569	233,569	(76,115)	(309,684)
Contributions			80	80
Miscellaneous	<u>26,825</u>	<u>26,825</u>	<u>292,780</u>	<u>265,955</u>
Total revenues	<u>10,291,079</u>	<u>10,291,079</u>	<u>11,378,930</u>	<u>1,087,851</u>
Expenditures:				
General government	14,534,643	14,497,903	7,211,388	7,286,515
Public safety	3,492,466	3,518,030	3,148,157	369,873
Health	854,037	855,628	855,628	
Culture and recreation	16,000	16,000	16,000	
Education	<u>274,122</u>	<u>283,707</u>	<u>283,707</u>	
Total expenditures	<u>19,171,268</u>	<u>19,171,268</u>	<u>11,514,880</u>	<u>7,656,388</u>
Excess (deficiency) of revenues over expenditures	<u>(8,880,189)</u>	<u>(8,880,189)</u>	<u>(135,950)</u>	<u>8,744,239</u>
Other financing sources (uses):				
Transfers in	1,683,450	1,683,450	1,633,034	(50,416)
Transfers out	<u>(940,861)</u>	<u>(940,861)</u>	<u>(967,147)</u>	<u>(26,286)</u>
Total other financing sources and uses	<u>742,589</u>	<u>742,589</u>	<u>665,887</u>	<u>(76,702)</u>
Net change in fund balances	(8,137,600)	(8,137,600)	529,937	8,667,537
Fund balances, July 1, 2002	8,137,600	8,137,600	8,600,167	462,567
Increase in reserve for inventories			<u>745</u>	<u>745</u>
Fund balances, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,130,849</u>	<u>\$ 9,130,849</u>

See accompanying notes to budgetary comparison schedule.

Apache County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Road Fund
 Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 2,050,000	\$ 2,050,000	\$ 2,041,506	\$ (8,494)
Intergovernmental	6,314,830	6,314,830	6,446,989	132,159
Charges for services			1,600	1,600
Investment income	45,000	45,000	(9,126)	(54,126)
Miscellaneous	<u>11,300</u>	<u>11,300</u>	<u>71,549</u>	<u>60,249</u>
Total revenues	<u>8,421,130</u>	<u>8,421,130</u>	<u>8,552,518</u>	<u>131,388</u>
Expenditures:				
Highways and streets	<u>9,051,981</u>	<u>9,051,981</u>	<u>7,400,269</u>	<u>1,651,712</u>
Total expenditures	<u>9,051,981</u>	<u>9,051,981</u>	<u>7,400,269</u>	<u>1,651,712</u>
Excess (deficiency) of revenues over expenditures	<u>(630,851)</u>	<u>(630,851)</u>	<u>1,152,249</u>	<u>1,783,100</u>
Other financing sources (uses):				
Transfers in			27,540	27,540
Transfers out	<u>(1,362,229)</u>	<u>(1,362,229)</u>	<u>(1,312,229)</u>	<u>50,000</u>
Total other financing sources and uses	<u>(1,362,229)</u>	<u>(1,362,229)</u>	<u>(1,284,689)</u>	<u>77,540</u>
Net change in fund balances	(1,993,080)	(1,993,080)	(132,440)	1,860,640
Fund balances, July 1, 2002	1,993,080	1,993,080	2,877,839	884,759
Increase in reserve for inventories	<u> </u>	<u> </u>	<u>51,749</u>	<u>51,749</u>
Fund balances, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,797,148</u>	<u>\$ 2,797,148</u>

See accompanying notes to budgetary comparison schedule.

Apache County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2003

Note 1 - Budgeting and Budgetary Control

A.R.S. require 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. prohibit 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.

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.

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2003, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Public Defender	\$4,986
Road Fund:	
Roads Engineer	1,508

The excesses were primarily the result of unexpected expenditures and expenditures made as a result of unanticipated revenues or both.

Apache County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2003

Public Safety Personnel Retirement System

<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>
6/30/03	\$3,435,738	\$4,222,075	\$(786,337)	81.4%	\$1,324,254	-59.4%
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%

Corrections Officer Retirement Plan

<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>
6/30/03	\$936,400	\$690,178	\$246,222	135.7%	\$599,622	N/A
6/30/02	853,780	567,155	286,625	150.5%	577,210	N/A
6/30/01	800,495	452,179	348,316	177.0%	534,228	N/A

Supplementary Information

Apache County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	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	261062, 261162	\$ 93,450
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	370,263
Cooperative Law Enforcement Agreement	10.unknown		<u>4,162</u>
Total U.S. Department of Agriculture			<u>467,875</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	<u>70,449</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>745,092</u>
U.S. Department of Justice			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Division of Emergency Management	16.007	None	11,169
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-03-049	7,458
Byrne Formula Grant Program, passed through the Administrative Office of the Courts	16.579	None	19,380
Byrne Formula Grant Program, passed through the the Arizona Criminal Justice Commission	16.579	PC-110-03, AC-170-03	<u>267,640</u>
Total Byrne Formula Grant Program			<u>287,020</u>
Local Law Enforcement Block Grants Program, passed through the Arizona Criminal Justice Commission	16.592	LLBG-02-107, LLBG-03-107	4,022
Bulletproof Vest Partnership Program	16.607		<u>3,418</u>
Total U.S. Department of Justice			<u>313,087</u>
U.S. Department of Labor			
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5702001, E5701025, E5703001	46,806

(Continued)

See accompanying notes to schedule.

Apache County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5702001, E5701025, E5703001	\$ 87,010
Total WIA Cluster and U.S. Department of Labor			<u>133,816</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	JPA97-11, ARJPA98198A	281,313
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Division of Emergency Management	20.703	None	<u>4,150</u>
Total U.S. Department of Transportation			<u>285,463</u>
Federal Emergency Management Agency			
Emergency Management Performance Grants, passed through the Arizona Division of Emergency Management	83.552	None	4,719
Fire Management Assistance Grant, passed through the Arizona Division of Emergency Management	83.556	FEMA-1422-DR	<u>53,021</u>
Total Federal Emergency Management Agency			<u>57,740</u>
U.S. Department of Health and Human Services			
Immunization Grants, passed through the Arizona Department of Health Services	93.268	152037, 352195	36,395
Centers for Disease Control and Prevention— Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252030, 252030-1	259,634
Children's Justice Grants to States, passed through the Arizona Governor's Community Policy Office Division for Children	93.643	CJAG2002-69	5,833
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.919	253015, 361205	9,842
HIV Prevention Activities—Health Department-Based, passed through the Arizona Department of Health Services	93.940	152009	4,118

(Continued)

See accompanying notes to schedule.

Apache County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	261108, 354176	\$ 40,205
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	961084, 761102-4	44,214
Maternal and Child Health Services Block Grant to the States, passed through the Northern Arizona Council of Governments	93.994	866000385BA	<u>81,729</u>
Total Maternal and Child Health Services Block Grant to the States			<u>125,943</u>
Total U.S. Department of Health and Human Services			<u>481,970</u>
 U.S. Department of Homeland Security			
Office of Domestic Preparedness State Homeland Security Grant Program, passed through the Arizona Division of Emergency Management	97.004	None	39,984
Emergency Management Performance Grants, passed through the Arizona Division of Emergency Management	97.042	None	<u>19,740</u>
Total U.S. Department of Homeland Security			<u>59,724</u>
Total Expenditures of Federal Awards			<u>\$ 2,615,216</u>

See accompanying notes to schedule.

Apache County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

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) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the *2003 Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount
Schools and Roads—Grants to States	10.665	\$370,263



**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 Basic 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 financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Apache County as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 9, 2004, which was modified as to consistency due to the County implementing a new financial model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. 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 basic 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 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.

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 opinions on the 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 basic financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 03-01.

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 basic 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 matters in internal control 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.

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

November 9, 2004



**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 its major federal program for the year ended June 30, 2003. The County's major federal program is 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 its major federal program for the year ended June 30, 2003.

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.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. 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 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. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

November 9, 2004

Apache County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2003

Summary of Auditors' Results

Financial Statements

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

Federal Awards

Material weakness identified in internal control over major programs?		Unqualified	
	___	_X_	
Reportable conditions identified not considered to be material weaknesses?	___	_X_	(None reported)
Type of auditors' report issued on compliance for major programs:			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	___	_X_	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000	
Auditee qualified as low-risk auditee?	_X_	___	

Other Matters

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

Apache County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Financial Statement Findings

03-01

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 County Treasurer's Office is to manage public and trust monies of the County and related public subdivisions. At June 30, 2003, the County Treasurer's Office was entrusted with over \$111 million in public monies. To fulfill the responsibilities of managing these monies, the County 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 County Treasurer's Office had not established or implemented an adequate control environment and control activities, or assessed possible areas of fraud, theft, or abuse. Some examples of the 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 in the County Treasurer's investment ledger by over \$198,000. Further, the County Treasurer's Office computer system did not maintain data and information in sufficient detail to identify and support individual disbursement, transfer, and cash receipt transactions reported in the County Treasurer's System Fiscal Year-End Report without time consuming use of alternate procedures by auditors.

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

- Implement all prior audit recommendations.
- Develop comprehensive written internal control policies and procedures to provide operational guidance to employees and monitor these policies and procedures on an ongoing basis to ensure that they are performed properly and accurately.
- Clearly define and separate key responsibilities among several employees so that no one employee has control over an entire transaction cycle. This should include reassigning incompatible accounting functions performed by County Treasurer's Office management to nonmanagement personnel.
- Implement existing 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.
- Maintain computer system data and information in sufficient detail to identify and support individual transactions processed and reported in the Treasurer's System Fiscal Year-End Report.
- Assess operational areas for the risk of fraud, theft, and abuse on an ongoing basis.

LONNELLA (LONNIE) VAUGHAN
Senior Accountant
Ext. 7105

ROSALEE GILL
Accounts Payable Specialist
337-7612

GENIE ZAPPANTI
Accounts Payable Specialist
337-7614

**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

November 1, 2004

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

Dear Ms. Davenport:

The accompanying 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, 2003**

Financial Statement Findings

03-01 Internal Control in the County Treasurer's Office

Name of Contact Person: Betty Montoya

Anticipated Completion Date: December 31, 2004

The County Treasurer's Office has compiled a set of written policies and generalized procedures for the functions of the office, however, the detail of the procedures has not yet been incorporated into this document. The need for the addition of the detail will be reviewed in early 2005.

Detail support for the Treasurer's ledger that was formerly purged monthly because of the volume of data that accumulates is now being saved electronically for the needs of future audits. Always available was and will be hard copy of this detail for the normal needs of the Treasurer's department.

There has been some reassignment of duties within the department. The processing of the bank deposits is now the duty of someone who is not responsible for the recording of this information into the ledger system. Because of the limited amount of staffing, the department is unable to segregate duties to the degree that would be considered ideal.

The office will strive to implement the various changes in procedures outlined in this finding if they have been overlooked in the past and are deemed valid for improving controls.

The remainder of the weaknesses cited in this finding revolve around inconsistencies in the electronic downloads used for audit work when compared to the in house records. It is believed that all such inconsistencies are either reconcilable or are the result of flaws in the download procedure and are not expected to reoccur.

LONNELLA (LONNIE) VAUGHAN
Senior Accountant
Ext. 7105

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KARLA F. JAMES
Finance Director
Ext. 7104

September 21, 2004

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

Dear Ms. Davenport:

The accompanying summary schedule of prior audit findings has been prepared as required by the 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.

Sincerely,

Karla James
Finance Director

Apache County Arizona
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003

Status of Federal Award Findings and Questioned Costs

CFDA No. 83.556 Fire Management Assistance Grant

Finding No. 02-101

Status: Fully Corrected

During fiscal year 2003 the County's billings for the fire emergency were reconciled to ledger records and questioned costs were refunded to the Federal and State agencies. That grant has been closed out to the satisfaction of all parties.