



Apache County

Single Audit

Year Ended June 30, 2004

Apache County
Single Audit Reporting Package
Year Ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

The Auditor General of the State of Arizona

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, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Apache County as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through xi, the Budgetary Comparison Schedules on pages 23 through 26, and the Schedule of Agent Retirement Plans' Funding Progress on page 27, 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 July 14, 2006, 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 grant agreements and of other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Fester & Chapman P.C.

July 14, 2006

Apache County Management's Discussion and Analysis

This narrative 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, 2004.

Financial Highlights

- The assets of Apache County exceeded its liabilities at the close of the fiscal year by \$28,693,274 (net assets). Of this amount, \$8,097,379 (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 \$82,854. This is a change from the prior year when net assets had increased \$316,134.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$8,940,995, or 68% of total general fund expenditures.
- Apache County's total long-term liabilities decreased by \$68,298 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-Wide Financial Statements are designed to provide readers with a broad overview of the County 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).

Apache County Management's Discussion and Analysis

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues. The governmental activities of the County 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.

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

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

Apache County Management's Discussion and Analysis

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 Roads 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 9-22 of this report.

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

Required supplementary information can be found on pages 23-27 of this report.

Government-wide Financial Analysis

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, 2004, assets exceeded liabilities by \$28,693,274.

Apache County Management's Discussion and Analysis

Statement of Net Assets June 30,

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 18,589,920	\$ 18,275,554
Capital assets	<u>17,451,116</u>	<u>17,362,051</u>
Total assets	36,041,036	35,637,605
Current and other liabilities	2,484,935	1,865,444
Long-term liabilities	<u>4,862,827</u>	<u>5,161,741</u>
Total liabilities	7,347,762	7,027,185
Net Assets		
Invested in capital assets, net of related debt	14,312,037	13,794,338
Restricted net assets	6,283,858	6,284,143
Unrestricted net assets	<u>8,097,379</u>	<u>8,531,939</u>
Total net assets	<u>\$ 28,693,274</u>	<u>\$ 28,610,420</u>

The largest portion (\$14,312,037 or 50%) of the County's net assets reflects the investment in capital assets (e.g., land, buildings, machinery and equipment, and construction in progress) 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 cannot be used to liquidate these liabilities.

Restricted net assets (\$6,283,858 or 22%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of net assets (\$8,097,379 or 28%) are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

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

The close of fiscal year 2004 shows a slight (<1%) increase in net assets when compared to the prior year close. Total assets had increased, however there was a disproportionate increase in current liabilities. The largest portion of that increased liability was caused by a major payment owed to an outside contractor for work on a roads project.

Apache County Management's Discussion and Analysis

Statement of Activities

The following table illustrates the changes in net assets resulting from governmental activities compared to the prior year.

Statement of Activities Year Ended June 30

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 2,575,180	\$ 2,274,608
Operating grants and contributions	14,496,182	13,634,114
Capital grants	87,371	
General Revenues:		
Property taxes	5,660,308	4,768,766
Share of state sales taxes	5,116,970	4,842,777
Payments in lieu of taxes	3,308,437	3,181,792
Grants and contributions not restricted to specific programs	556,277	554,481
Investment income	125,300	(186,020)
Miscellaneous	718,780	387,456
Gain on sale of capital assets	25,962	
Total revenues	<u>32,670,767</u>	<u>29,457,974</u>
Expenses:		
General government	9,572,497	8,307,226
Public safety	8,861,236	7,627,941
Highways and streets	8,508,689	7,738,887
Sanitation	93,520	85,005
Health	2,097,794	2,044,817
Welfare	168,855	189,461
Culture and recreation	696,337	611,316
Education	2,378,100	2,324,371
Interest on long-term debt	210,885	212,816
Total expenses	<u>32,587,913</u>	<u>29,141,840</u>
Increase in net assets	82,854	316,134
Net assets - beginning	<u>28,610,420</u>	<u>28,294,286</u>
Net assets - ending	<u>\$ 28,693,274</u>	<u>\$ 28,610,420</u>

Revenues increased by 10.9 percent primarily due to increases in the County's major revenue sources such as taxes and a special grant to fund a road improvement. Increases in property tax collections were the direct result of increases in tax levies caused by the County's growth in funding needs. The County's share of Sales Tax and Highway User

Apache County Management's Discussion and Analysis

Revenues increases totaled \$667,918. The road grant was in the amount of \$575,000. Also, there was an increase in Miscellaneous revenues due to \$249,164 adjustment when reconciling records to the to the prior year audit.

Expenses increased by 11.8 percent primarily due to significant office repairs and maintenance, salary increases of 3.8 percent to compensate for the increase in the ASRS required contribution rate from 2.49 percent to 5.7 percent, and a 2 percent additional salary increase for all employees.

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, 2004, the County's General fund reported a decrease in fund balance of \$111,461, which was insignificant.

The Roads Fund balance increased by \$679,133 (24.3%), primarily due to realization of increased distributions of the Highway User revenues and the Road Improvement Grant awarded to the County. Increases in expenditures did not keep pace with the new revenue.

Apache County Management's Discussion and Analysis

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

	FY2004	FY2003	Increase/(Decrease)	
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Taxes	\$ 8,549,501	\$ 7,254,258	\$1,295,243	18 %
Special assessments	83,764	86,777	(3,013)	(4)
Licenses and permits	281,243	288,845	(7,602)	(3)
Intergovernmental	20,634,379	19,520,082	1,114,297	6
Charges for services	1,819,262	1,333,202	486,060	37
Fines and forfeits	474,675	600,087	(125,412)	(21)
Investment income	125,300	(186,807)	312,107	n/a
Contributions	115,956	271,041	(155,085)	(57)
Miscellaneous	<u>698,819</u>	<u>380,198</u>	<u>318,621</u>	<u>84</u>
Totals	<u>\$32,782,899</u>	<u>\$29,547,683</u>	<u>\$3,235,216</u>	<u>11</u>

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

- Taxes – The increase in fiscal year 2004 reflects a growth in funding needs for the County. The increase is a direct result of increases in tax levies as well as a continuation of an upward trend in the collections of interest on delinquent taxes.
- Intergovernmental – The increased total is a combination of increases in the County's major revenue sources and a special grant funding for a road improvement. The increases in Sales Taxes and Highway User Revenues \$667,918, and the road grant was \$575,000.
- Charges for Services – During FY2004, the County jail realized a large increase in population of inmates taken in under the Federal system, and the County received increased housing revenues from the Bureau of Prisons.
- Investment Income – The increase reflects a return to normal investment proceeds in comparison to the negative income reported for FY2003, due to the large loss resulting from the Local Government Investment Pool's investment in National Century Financial Enterprises.
- Contributions - This decrease is the result of reclassification of revenues received from schools to support the data processing services provided for the schools. These funds are now classified as Charges for Services.

Apache County Management's Discussion and Analysis

- o Miscellaneous – Most of the increase, \$249,164, is due to an adjustment reconciling records to FY2003 audit. In addition, FY2004 saw new funding generated by sales of parcels that had been dormant on the tax rolls.

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

Expenditures by Function
Governmental Funds

	FY2004 <u>Amount</u>	FY 2003 <u>Amount</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
General Government	\$8,827,055	\$ 8,245,024	\$ 582,031	7 %
Public Safety	8,102,463	7,385,662	716,801	10
Highways and Streets	7,184,464	7,940,378	(755,914)	(10)
Health	2,056,921	2,095,863	(38,942)	(2)
Welfare	164,373	188,534	(24,161)	(13)
Sanitation	93,520	85,005	8,515	10
Culture and Recreation	692,788	633,341	59,447	9
Education	2,341,104	2,335,902	5,202	0
Capital Outlay	2,911,525	1,048,366	1,863,159	178
Debt Service	<u>691,519</u>	<u>651,816</u>	<u>39,703</u>	<u>6</u>
Totals	<u>\$ 33,065,732</u>	<u>\$ 30,609,891</u>	<u>\$ 2,455,841</u>	<u>8</u>

The overall increase in spending reflects the release from the conservative budgeting of the prior year when controls had been kept tight due to the expectancy of a downswing in the economy. When predictions changed to a more positive outlook, the County went ahead with the capital expenditures that had been on hold the prior year. \$567,310 of the increase was road construction. The remainder of the increase was mostly for vehicles and heavy equipment. The decrease in welfare expenditures was the result of a temporary vacancy in the position of Director over the WIA program during FY2004.

Apache County Management's Discussion and Analysis

General Fund Budgetary Highlights

The total general fund expenditure budget of \$21,349,063 ended during the year. However, certain departments received supplemental appropriations as follows:

Assessor	\$ 15,448	Round Valley Magistrates	\$ 2,047
General Board	38,907	Communications	4,174
Human Resources	2,048	Building Inspection	5,484
Internal Audit	10	Recorder	3,084
Clerk of the Court	4,037	Superior Court	23,882
Finance	9,599	Public Defenders	88,308
Chinle Justice Court	6,801	Juvenile Probation	4,430
Puerco Justice Court	6,343	Retirement Incentive	738
Round Valley Justice Court	1,550		

The increases in appropriations were taken from the contingency budget. Actual general fund expenditures were under budget by \$8,094, 263, which approximates the prior year when expenditures were under budget by \$7,656,388.

Actual revenues receipted to the general fund for the fiscal year were \$371,084 (3%) in excess of budget.

The following significant budget variances between the final budgeted expenditures and actual expenditures in the General Fund are discussed below:

- Board of Supervisors departmental expenditures were \$173,963 lower than final budgeted amounts due to planned conservative spending for the benefit of the population, based on the expected downturn of the economy from prior years predictions.
- Contingency departmental expenditures were \$6,346,710 lower than final budgeted amounts due to the budgeting of prior years sales tax revenues that had been held in litigation, which are approximately \$5,336,925. These funds were awarded to the county when the case was settled in 1999. The county has been budgeting these funds as contingency spending to protect them from actual expenditures due to the expenditure limitations imposed by the state of Arizona.

Apache County Management's Discussion and Analysis

- Elections departmental expenditures were \$227,094 lower than final budgeted amounts due to the budgeting of an election that did not materialize.
- Legal Services departmental expenditures were \$224,341 lower than final budgeted amounts due to the account normally being budgeted high due to the possibility of court cases developing throughout the year.
- Emergency Services departmental expenditures were \$593,740 lower than final budgeted amounts due to budgeting for grants that have not yet been realized.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2004, amounted to \$17,451,116, net of accumulated depreciation. This investment in capital assets includes land, improvements other than buildings, construction in progress, buildings, infrastructure, and machinery and equipment.

Capital Assets / Net of Depreciation

	Governmental Activities		Increase (Decrease) Percent of Change
	FY2004	FY2003	
Land	\$ 1,572,648	\$ 1,561,023	0.74%
Improvements other than buildings	256,550	239,080	7.31%
Construction in progress	89,063		
Buildings	8,269,552	8,452,010	-2.16%
Infrastructure	567,310		
Machinery and equipment	6,695,993	7,109,938	-5.82%
Totals	<u>\$17,451,116</u>	<u>\$17,362,051</u>	<u>0.51%</u>

In FY2004, the County recorded new infrastructure. This represents resurfacing and upgrade of a County road. The expenditure was grant funded. The decrease in buildings is due to the sale to the state of one of the County's justice court properties. Construction in progress was a new sub office at Ft. Defiance. Estimated cost at completion is \$130,000.

Apache County Management's Discussion and Analysis

Long-Term Debt

On June 30, 2004, the County had a total of \$4,862,827 in long-term liabilities. Of this amount, \$3,385,000 was principal outstanding on general obligation and special assessment bonds, and \$139,079 was capital lease obligations. The remainder represents compensated absences payable. No new bonding was issued or capital lease obligations entered into during fiscal year 2004.

Additional information on the County's long-term liabilities can be found in Note 6 of the Notes to the Financial Statements on pages 16 and 17 of this report.

Economic Factors and the Next Year's Budget

The much anticipated construction of Tucson Electric Power's new third unit began in the fall of calendar year 2003. In April 2004, the company announced that progress was ahead of schedule and by calendar year end, up to 900 workers were expected to be on board. The County had expected some increase in revenues due to the construction activity and it was illustrated in the records of collections of sales tax revenues for the second half of FY2004. Because of this evidence, some increases in these revenues were programmed into the FY2005 budget.

Aside from the increased revenues expected from the construction activity, no unusual changes to the economic picture for Apache County were expected for the immediate future, and a conservative but mildly optimistic budget was adopted for FY2005.

Further on in time, once construction is completed and operations have begun, the County will have the benefits generated by increased assessed valuation as well as new permanent 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, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 13,002,768
Receivables (net of allowance for uncollectibles):	
Property taxes	399,257
Accounts	31,460
Special assessments	451,787
Due from other governments	4,282,069
Inventories	336,160
Prepaid items	86,419
Capital assets, not being depreciated	1,918,261
Capital assets, being depreciated, net	<u>15,532,855</u>
Total assets	<u>36,041,036</u>
LIABILITIES	
Accounts payable	2,285,423
Accrued payroll and employee benefits	199,512
Noncurrent liabilities	
Due within 1 year	1,059,310
Due in more than 1 year	<u>3,803,517</u>
Total liabilities	<u>7,347,762</u>
NET ASSETS	
Invested in capital assets, net of related debt	14,312,037
Restricted for:	
Public safety	698,391
Highways and streets	3,427,861
Debt service	214,944
Capital projects	391,216
Other purposes	1,551,446
Unrestricted	<u>8,097,379</u>
Total net assets	<u>\$ 28,693,274</u>

See accompanying notes to financial statements.

Apache County
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 9,572,497	\$ 1,156,611	\$ 733,427		\$ (7,682,459)
Public safety	8,861,236	1,205,588	2,056,711		(5,598,937)
Highways and streets	8,508,689	9,413	10,000,376		1,501,100
Sanitation	93,520		99,604	\$ 87,371	93,455
Health	2,097,794	33,949	1,010,810		(1,053,035)
Welfare	168,855		195,548		26,693
Culture and recreation	696,337	8,320	25,000		(663,017)
Education	2,378,100	161,299	374,706		(1,842,095)
Interest on long-term debt	<u>210,885</u>				<u>(210,885)</u>
Total governmental activities	<u>\$ 32,587,913</u>	<u>\$ 2,575,180</u>	<u>\$14,496,182</u>	<u>\$ 87,371</u>	<u>(15,429,180)</u>
General revenues:					
Taxes:					
Property taxes					5,660,308
Share of state sales taxes					5,116,970
Payments in lieu of taxes					3,308,437
Grants and contributions not restricted to specific programs					556,277
Investment earnings					125,300
Miscellaneous					718,780
Gain on sale of capital assets					<u>25,962</u>
Total general revenues					<u>15,512,034</u>
Change in net assets					82,854
Net assets, July 1, 2003					<u>28,610,420</u>
Net assets, June 30, 2004					<u>\$ 28,693,274</u>

See accompanying notes to financial statements.

Apache County
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 7,927,671	\$ 2,487,349	\$ 2,587,748	\$ 13,002,768
Receivables (net of allowance for uncollectibles):				
Property taxes	149,929		249,323	399,252
Accounts	14,304	13,712	3,449	31,465
Special assessments			451,787	451,787
Due from:				
Other funds	277,475	43,107	139,305	459,887
Other governments	1,380,985	1,962,047	939,037	4,282,069
Inventories	9,184	326,976		336,160
Prepaid items	<u>69,209</u>	<u>7,905</u>	<u>9,305</u>	<u>86,419</u>
Total assets	<u>9,828,757</u>	<u>4,841,096</u>	<u>4,379,954</u>	<u>19,049,807</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 479,654	\$ 1,290,556	\$ 515,213	\$ 2,285,423
Accrued payroll and employee benefits	94,518	46,934	58,060	199,512
Due to other funds	134,590	27,325	297,972	459,887
Deferred revenue	<u>100,607</u>	<u> </u>	<u>615,242</u>	<u>715,849</u>
Total liabilities	<u>809,369</u>	<u>1,364,815</u>	<u>1,486,487</u>	<u>3,660,671</u>
Fund balances:				
Reserved for:				
Inventories	9,184	326,976		336,160
Prepaid items	69,209	7,905	9,305	86,419
Debt service			128,733	128,733
Unreserved, reported in:				
General fund	8,940,995			8,940,995
Special revenue funds		3,141,400	2,364,213	5,505,613
Capital projects funds			<u>391,216</u>	<u>391,216</u>
Total fund balances	<u>9,019,388</u>	<u>3,476,281</u>	<u>2,893,467</u>	<u>15,389,136</u>
Total liabilities and fund balances	<u>\$ 9,828,757</u>	<u>\$ 4,841,096</u>	<u>\$ 4,379,954</u>	<u>\$ 19,049,807</u>

See accompanying notes to financial statements.

Apache County
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2004

Fund balances - total governmental funds		\$ 15,389,136
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the funds balance sheet. The cost of the assets is \$33,617,733 and the accumulated depreciation is \$16,166,617.		17,451,116
Some receivables are not available to pay for current-period expenditures, and therefore, are deferred in the funds.		715,849
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Compensated balances	\$ (1,338,748)	
General obligation bonds payable	(3,000,000)	
Special assessment bonds payable	(385,000)	
Capital leases payable	<u>(139,079)</u>	<u>(4,862,827)</u>
Net assets of governmental activities		<u>\$ 28,693,274</u>

See accompanying notes to financial statements.

Apache County
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General Fund	Road Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 2,938,251	\$ 2,267,313	\$ 3,343,937	\$ 8,549,501
Special assessments			83,764	83,764
Licenses and permits	175,342		105,901	281,243
Intergovernmental	8,061,248	7,403,153	5,169,978	20,634,379
Charges for services	310,080	3,308	1,505,874	1,819,262
Fines and forfeits	355,404		119,271	474,675
Investment income	96,861	22,652	5,787	125,300
Contributions			115,956	115,956
Miscellaneous	<u>678,336</u>	<u>12,343</u>	<u>8,140</u>	<u>698,819</u>
Total revenues	<u>12,615,522</u>	<u>9,708,769</u>	<u>10,458,608</u>	<u>32,782,899</u>
EXPENDITURES				
Current:				
General government	8,023,977		803,078	8,827,055
Public safety	3,583,766		4,518,697	8,102,463
Highways and streets		7,085,758	98,706	7,184,464
Sanitation			93,520	93,520
Health	837,922		1,218,999	2,056,921
Welfare			164,373	164,373
Culture and recreation	18,000		674,788	692,788
Education	295,946		2,045,158	2,341,104
Capital outlay	495,189	1,172,928	1,243,408	2,911,525
Debt service:				
Principal retirement		22,983	457,651	480,634
Interest and other charges		<u>7,462</u>	<u>203,423</u>	<u>210,885</u>
Total expenditures	<u>13,254,800</u>	<u>8,289,131</u>	<u>11,521,801</u>	<u>33,065,732</u>
Excess (deficiency) of revenues over expenditures	<u>(639,278)</u>	<u>1,419,638</u>	<u>(1,063,193)</u>	<u>(282,833)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,381,908	250,361	1,007,006	2,639,275
Transfers out	(957,937)	(999,165)	(682,173)	(2,639,275)
Sale of assets	<u>65,799</u>			<u>65,799</u>
Total other financing sources and uses	<u>489,770</u>	<u>(748,804)</u>	<u>324,833</u>	<u>65,799</u>
Net change in fund balances	(149,508)	670,834	(738,360)	(217,034)
Fund balances, July 1, 2003	9,130,849	2,797,148	3,628,170	15,556,167
(Decrease) increase in reserve for inventories	(516)	519		3
Increase in reserve for prepaid items	<u>38,563</u>	<u>7,780</u>	<u>3,657</u>	<u>50,000</u>
Fund balances, June 30, 2004	<u>\$ 9,019,388</u>	<u>\$ 3,476,281</u>	<u>\$ 2,893,467</u>	<u>\$15,389,136</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, 2004

Net change in fund balances - total governmental funds \$ (217,034)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense and allocate those costs over the lives of the assets and losses on the disposal of capital assets as expenditures.

Capital outlay	\$ 2,526,291	
Depreciation expense	<u>(2,397,388)</u>	128,903

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. (39,838)

Increase of certain long-term liabilities decreases net assets of governmental activities but does not have any effect on fund balances of the governmental funds. (181,720)

The repayment of the principal of long-term debt 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	400,000	
Special assessment bonds payable	52,000	
Capital leases payable	<u>28,634</u>	480,634

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities. (138,094)

Inventories and prepayments purchased during the year are reported as expenditures in the governmental funds and are not expensed until used in the Statement of Activities. 50,003

Change in net assets of governmental activities \$ 82,854

See accompanying notes to financial statements.

Apache County
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 48,081,120	\$ 265,730
Investments	59,272,076	
Interest and dividends receivable	<u>32,680</u>	
Total assets	<u>107,385,876</u>	<u>\$ 265,730</u>
LIABILITIES		
Deposits held for others	<u> </u>	<u>\$ 265,730</u>
Total liabilities	<u> </u>	<u>\$ 265,730</u>
NET ASSETS		
Held in trust for investment trust participants	<u>\$107,385,876</u>	

See accompanying notes to financial statements.

Apache County
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2004

	Investment Trust Fund
ADDITIONS:	
Contributions from participants	\$ 194,237,119
Investment earnings:	
Interest and dividends	930,906
Net decrease in the fair value of investments	<u>(661,767)</u>
Total investment earnings	<u>269,139</u>
Total additions	<u>194,506,258</u>
DEDUCTIONS:	
Distributions to participants	<u>184,357,517</u>
Change in net assets	10,148,741
Net assets, July 1, 2003	<u>97,237,135</u>
Net assets, June 30, 2004	<u>\$ 107,385,876</u>

See accompanying notes to financial statements.

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Apache County (the County) conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

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:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
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 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

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

B. Basis of Presentation

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

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

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

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

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

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

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

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

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.

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 grants 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.

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

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.

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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
Infrastructure	\$ 5,000	Straight line	40-45 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.

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

At June 30, 2004, the following governmental funds reported significant deficits in fund balances:

Fund	Deficit
School's Indirect Costs	\$ 14,783
GIS	2,438
ACCENT/Attorney	6,621
CASA	2,424
Adult Intensive Supervision	10,319
Ganado School Deputies	17,640
State Adult Enhancement	6,418
Victim's Assistance	7,729
Diversion Intake	6,810
CDBG Family Alliance	1,829
Juvenile Jail District	54,553

These deficits resulted from operations during the year, but are expected to be corrected through normal operations in fiscal year 2005.

NOTE 3 - 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.

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, 2004, the investment pool had cash on hand of \$12,000. The carrying amount of the investment pool's total cash in bank was \$5,388,311, and the bank balance was \$3,558,282. Of the bank balance, \$200,000 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name; \$3,358,282 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Investments - At June 30, 2004, the investments in the County Treasurer's investment pool consisted of the following:

	Fair Value
Investment in State Treasurer's investment pool	\$ 21,023,034
U.S. government securities	93,812,904
Total	<u>\$114,835,938</u>

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

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, 2004, the County had cash on hand of \$2,580. The carrying amount of the County's total nonpooled cash in bank was \$382,865, and the bank balance was \$497,581. Of the bank balance, \$200,000 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name and \$297,581 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	\$ 2,580	\$ 14,580
Carrying amount of deposits	5,388,311	382,865	5,771,176
Reported amount of investments	<u>114,835,938</u>		<u>114,835,938</u>
Total	<u>\$120,236,249</u>	<u>\$ 385,445</u>	<u>\$120,621,694</u>

Statement of Net Assets:

	Total Primary Governmental	Total Fiduciary Funds	Total
Cash and cash equivalents	\$ 13,002,768	\$ 48,346,850	\$ 61,349,618
Investments		<u>59,272,076</u>	<u>59,272,076</u>
Total	<u>13,002,768</u>	<u>107,618,926</u>	<u>120,621,694</u>

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2004, in the General Fund include \$729,230 in sales taxes, \$133,027 for reimbursement for Three Forks Fire from the State of Arizona and \$169,206 in federal reimbursement grants. Amounts due from other governments in the Road Fund include \$1,162,528 in highway user taxes, \$575,000 for a Concho-Snowflake Road Grant, and \$224,519 in auto lieu taxes from the State of Arizona. Amounts due from other governments in the Other Governmental Funds include \$563,698 in federal reimbursement grants. The remaining balances result from various grants and contracts with other government units.

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,561,023	\$ 21,500	\$ (9,875)	\$ 1,572,648
Improvements other than buildings	239,080	17,470		256,550
Construction in progress		<u>89,063</u>		<u>89,063</u>
Total capital assets not being depreciated	<u>1,800,103</u>	<u>128,033</u>	<u>(9,875)</u>	<u>1,918,261</u>
Capital assets being depreciated:				
Buildings	12,324,769	119,975	(49,225)	12,395,519
Machinery and equipment	17,382,290	1,710,973	(356,620)	18,736,643
Infrastructure		<u>567,310</u>		<u>567,310</u>
Total	<u>29,707,059</u>	<u>2,398,258</u>	<u>(405,845)</u>	<u>31,699,472</u>
Less accumulated depreciation for:				
Buildings	3,872,759	289,161	(35,953)	4,125,967
Machinery and equipment	<u>10,272,352</u>	<u>2,108,227</u>	<u>(339,929)</u>	<u>12,040,650</u>
Total	<u>14,145,111</u>	<u>2,397,388</u>	<u>(375,882)</u>	<u>16,166,617</u>
Total capital assets being depreciated, net	<u>15,561,948</u>	<u>870</u>	<u>(29,963)</u>	<u>15,532,855</u>
Governmental activities capital assets, net	<u>\$ 17,362,051</u>	<u>\$ 128,903</u>	<u>\$ (39,838)</u>	<u>\$ 17,451,116</u>

Depreciation expenses was charged to functions as follows:

Governmental activities:	
General government	\$ 348,511
Public safety	688,816
Highways and streets	1,290,261
Health	31,678
Welfare	4,362
Education	<u>33,760</u>
Total depreciation expense - governmental activities	<u>\$ 2,397,388</u>

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

NOTE 6 - LONG-TERM LIABILITIES

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within 1 Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 3,400,000		\$ (400,000)	\$ 3,000,000	\$ 450,000
Special assessment bonds with government commitment	<u>437,000</u>		<u>(52,000)</u>	<u>385,000</u>	<u>55,000</u>
Total bonds payable	3,837,000		(452,000)	3,385,000	505,000
Capital leases payable	167,713		(28,634)	139,079	31,056
Compensated absences payable	<u>1,157,028</u>	<u>\$ 880,756</u>	<u>(699,036)</u>	<u>1,338,748</u>	<u>523,254</u>
Governmental activity long-term liabilities	<u>\$ 5,161,741</u>	<u>\$ 880,756</u>	<u>\$ (1,179,670)</u>	<u>\$ 4,862,827</u>	<u>\$ 1,059,310</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, 2004, were as follows:

Description	Original amount	Maturity Ranges	Interest rates	Outstanding principal
General obligation bonds:				
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	1/1/05-10	6.10%	<u>385,000</u>
				<u>\$ 3,385,000</u>

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2004:

Year ending June 30,	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
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	525,000	48,925	70,000	6,649
2010	<u>550,000</u>	<u>25,300</u>	<u>74,000</u>	<u>2,257</u>
Total	<u>\$ 3,000,000</u>	<u>\$ 512,800</u>	<u>\$ 385,000</u>	<u>\$ 74,572</u>

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

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:

	<u>Governmental Activities</u>
Machinery and equipment	\$ 211,952
Less accumulated depreciation	<u>41,949</u>
Total	<u>\$ 170,003</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2004:

	<u>Governmental Activities</u>
Year ended June 30,	
2005	\$ 37,418
2006	30,445
2007	30,445
2008	30,445
2009	<u>30,445</u>
Total minimum lease payments	159,198
Less amount representing interest	<u>(20,119)</u>
Present value of net minimum lease payments	<u>\$ 139,079</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 2004, 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, 2004.

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

NOTE 7 - RISK MANAGEMENT

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$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 Worker' 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 8 - RETIREMENT PLANS

Plan Descriptions- The County contributes to the three 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 THE FINANCIAL STATEMENTS
June 30, 2004

The Correction 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.

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	PSPRS and CORP
3300 N. Central Ave.	3010 East Camelback Road, Suite 200
P.O. Box 33910	Phoenix, AZ 85016-4416
Phoenix, AZ 85067-3910	
(602) 240-2000 or (800) 621-3778	(602) 255-5575

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

Cost-sharing plans-For the year ended June 30, 2004, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.20 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2004, 2003, and 2002, were \$820,952, \$238,517, and \$240,060, 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 15.46 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 3.67 percent.

Annual Pension Cost-The County's pension cost for the two agent plans for the year ended June 30, 2004, and related information follows.

	PSPRS	CORP
Contribution rates:		
County	15.46%	3.67%
Plan Members	7.65%	8.5%
Annual pension cost	\$204,730	\$22,005
Contributions made	\$204,730	\$22,005

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2002, 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 excess actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002, was 20 years.

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2004	\$ 204,730	100%	\$0
	2003	155,825	100	0
	2002	165,813	100	0
CORP	2004	\$ 22,005	100%	\$0
	2003	11,451	100	0
	2002	11,671	100	0

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables-Interfund balances at June 30, 2004, were as follows:

Payable from	Payable to			Total
	General Fund	Road Fund	Nonmajor Governmental Funds	
General Fund		\$ 34,828	\$ 99,762	\$ 134,590
Road Fund	\$ 27,325			27,325
Other Governmental Funds	250,150	8,279	39,543	297,972
Total	<u>\$ 277,475</u>	<u>\$ 43,107</u>	<u>\$ 139,305</u>	<u>\$ 459,887</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, 2004, were as follows:

Transfer from	Transfer to			Total
	General Fund	Road Fund	Nonmajor Governmental Funds	
General Fund			\$ 957,937	\$ 957,937
Road Fund	\$ 950,096		49,069	999,165
Other Governmental Funds	431,812	\$ 250,361		682,173
Total	<u>\$ 1,381,908</u>	<u>\$ 250,361</u>	<u>\$ 1,007,006</u>	<u>\$ 2,639,275</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.

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

NOTE 10 - 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.

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:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment in State Treasurer's investment pool	\$ 21,023,034	None stated	None stated	\$ 21,023,034
U.S. government securities	95,500,000	0.0 % - 3.0 %	7/04 - 2/07	93,812,904

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

Statement of Net Assets	
Assets	\$120,268,929
Liabilities	
Net Assets	<u>\$120,268,929</u>
Net assets held in trust for:	
Internal participants	\$ 12,883,053
External participants	<u>107,385,876</u>
Total net assets held in trust	<u>\$120,268,929</u>
Statement of Changes in Net Assets	
Total additions	\$225,325,714
Total deductions	<u>216,084,508</u>
Net increase	<u>9,241,206</u>
Net assets held in trust:	
July 1, 2003	<u>111,027,723</u>
June 30, 2004	<u>\$120,268,929</u>

Apache County
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2004

NOTE 11 - 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.

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 April 19, 2005, 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 2004. According to its audited financial statements for the year ended June 30, 2004, the landfill had used approximately 5 percent of its estimated capacity, and the Association had accumulated \$80,403 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

NOTE 12 - LITIGATION

The County is a defendant in various lawsuits, which arise in the ordinary course of its operations. The County is unable to predict the outcomes of these proceedings, therefore no liability has been accrued in the accompanying financial statements.

Apache County
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 2,814,045	\$ 2,814,045	\$ 2,938,251	\$ 124,206
Licenses and permits	180,000	180,000	175,342	(4,658)
Intergovernmental	7,564,839	7,564,839	8,061,248	496,409
Charges for services	135,000	135,000	310,080	175,080
Fines and forfeits	422,000	422,000	355,404	(66,596)
Investment income	121,000	121,000	96,861	(24,139)
Contributions	740,266	740,266		(740,266)
Miscellaneous	267,288	267,288	678,336	411,048
Total revenues	<u>12,244,438</u>	<u>12,244,438</u>	<u>12,615,522</u>	<u>371,084</u>
EXPENDITURES:				
General government:				
Assessor	621,343	636,791	702,091	(65,300)
Attorney	821,739	821,739	779,443	42,296
Board of Supervisors	1,680,751	1,721,717	1,547,754	173,963
Clerk of the Court	486,403	490,440	484,180	6,260
Contingency	6,591,127	6,374,236	27,526	6,346,710
Data processing	366,379	366,379	291,678	74,701
Elections	460,912	460,912	233,818	227,094
Finance	274,114	283,713	279,507	4,206
Grounds/maintenance	705,743	705,743	623,221	82,522
JP-Chinle	161,520	168,321	168,321	
JP-Puerco	250,695	257,038	258,994	(1,956)
JP-St. Johns	149,361	149,361	148,656	705
JP-R.V.	266,877	270,474	270,135	339
JP court renovation	100,000	100,000	27,431	72,569
Communication specialist	99,227	103,401	103,401	
Planning & zoning	149,257	149,257	124,220	25,037
Building Inspector	224,172	229,656	229,384	272
Purchasing	53,845	53,845	43,753	10,092
Recorder	301,950	305,034	304,606	428
Superior Court	299,525	323,407	361,189	(37,782)
Public Defenders	407,000	495,308	499,833	(4,525)
Treasurer	288,261	288,261	271,091	17,170
Legal services/judgments	275,000	275,000	50,659	224,341
Insurance	213,926	213,926	193,086	20,840
Total general government	<u>15,249,127</u>	<u>15,243,959</u>	<u>8,023,977</u>	<u>7,219,982</u>
Public Safety:				
Constables	27,984	27,984	16,642	11,342
Contingency	2,577	2,577	2,577	
Emergency services	1,033,031	1,033,031	439,291	593,740
Adult probation	320,993	320,993	316,268	4,725
Juvenile probation	279,805	284,235	282,884	1,351
Medical Examiner	20,000	20,000	16,533	3,467
Sheriff	2,586,887	2,586,887	2,491,633	95,254
Retirement reserve	17,200	17,938	17,938	
Total public safety	<u>4,288,477</u>	<u>4,293,645</u>	<u>3,583,766</u>	<u>709,879</u>

See accompanying notes to budgetary comparison schedule.

Apache County
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - CONTINUED
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Health:				
AHCCCS	835,147	835,147	837,922	(2,775)
Culture and recreation:				
Agricultural extension	18,000	18,000	18,000	
Education:				
School Superintendent	298,304	298,304	295,946	2,358
Capital outlay	<u>660,008</u>	<u>660,008</u>	<u>495,189</u>	<u>164,819</u>
Total expenditures	<u>21,349,063</u>	<u>21,349,063</u>	<u>13,254,800</u>	<u>8,094,263</u>
Excess (deficiency) of revenues over expenses	<u>(9,104,625)</u>	<u>(9,104,625)</u>	<u>(639,278)</u>	<u>8,465,347</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	7,733,415	7,733,415	1,381,908	(6,351,507)
Transfers out	(972,798)	(972,798)	(957,937)	14,861
Sale of assets	<u>87,000</u>	<u>87,000</u>	<u>65,799</u>	<u>(21,201)</u>
Total other financing sources and uses	<u>6,847,617</u>	<u>6,847,617</u>	<u>489,770</u>	<u>(6,357,847)</u>
Net change in fund balances	<u>(2,257,008)</u>	<u>(2,257,008)</u>	<u>(149,508)</u>	<u>2,107,500</u>
Fund balances, July 1, 2003	2,257,008	2,257,008	9,130,849	6,873,841
Decrease in reserve for inventories			(516)	(516)
Increase in reserve for prepaids			<u>38,563</u>	<u>38,563</u>
Fund balances, June 30, 2004	<u>\$</u>	<u>\$</u>	<u>\$ 9,019,388</u>	<u>\$ 9,019,388</u>

See accompanying notes to budgetary comparison schedule.

Apache County
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ROAD FUND
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 2,025,000	\$ 2,025,000	\$ 2,267,313	\$ 242,313
Intergovernmental	6,475,000	6,475,000	7,403,153	928,153
Charges for services	52,500	52,500	3,308	(49,192)
Investment income	25,000	25,000	22,652	(2,348)
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>12,343</u>	<u>10,343</u>
Total revenues	<u>8,579,500</u>	<u>8,579,500</u>	<u>9,708,769</u>	<u>1,129,269</u>
EXPENDITURES:				
Highways and Streets				
Engineer	412,500	412,500	454,716	(42,216)
Safety	20,000	20,000	5,593	14,407
District #1	2,244,912	2,244,912	1,773,140	471,772
District #2	2,341,912	2,341,912	1,961,156	380,756
District #3	3,480,176	3,480,176	3,748,378	(268,202)
Liability Insurance	233,569	233,569	233,569	
Contingency	<u>760,153</u>	<u>760,153</u>	<u>112,579</u>	<u>647,574</u>
Total expenditures	<u>9,493,222</u>	<u>9,493,222</u>	<u>8,289,131</u>	<u>1,204,091</u>
Excess (deficiency) of revenues over expenses	<u>(913,722)</u>	<u>(913,722)</u>	<u>1,419,638</u>	<u>2,333,360</u>
OTHER FINANCING SOURCES (USES):				
Transfers in			250,361	250,361
Transfers out	<u>(1,029,278)</u>	<u>(1,029,278)</u>	<u>(999,165)</u>	<u>30,113</u>
Total other financing sources and uses	<u>(1,029,278)</u>	<u>(1,029,278)</u>	<u>(748,804)</u>	<u>280,474</u>
Net change in fund balances	<u>(1,943,000)</u>	<u>(1,943,000)</u>	<u>670,834</u>	<u>2,613,834</u>
Fund balances, July 1, 2003	1,943,000	1,943,000	2,797,148	854,148
Increase in reserve for inventories			519	519
Increase in reserve for prepaids			<u>7,780</u>	<u>7,780</u>
Fund balances, June 30, 2004	<u>\$</u>	<u>\$</u>	<u>\$ 3,476,281</u>	<u>\$ 3,476,281</u>

See accompanying notes to budgetary comparison schedule.

Apache County
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO BUDGETARY COMPARISON SCHEDULES
June 30, 2004

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 and 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, 2004, expenditures exceeded final budget amounts at the department level (the level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Assessor	\$ 65,300
JP - Puerco	1,956
Superior Court	37,782
Pubic Defenders	4,525
AHCCCS/ALTCS	2,775
Road Fund:	
Engineer	42,216
District 3	268,202

The excesses were primarily due to the results 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, 2004

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/04	\$3,557,501	\$5,051,921	\$(1,494,420)	70.4%	\$1,440,265	-103.8%
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%

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/04	\$937,580	\$870,326	\$67,254	107.7%	\$554,066	N/A
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

SUPPLEMENTARY INFORMATION

Apache County
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	361071	\$ 77,702
Schools and Roads-Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>374,706</u>
Total U.S. Department of Agriculture			<u>452,408</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226	N/A	1,091,693
U.S. Department of Justice			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-03-049	14,681
Byrne Formula Grant Program, passed through the Administrative Office of the Courts	16.579	None	67,378
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	PC-110-04, AC-170-04	<u>168,808</u>
<i>Total Byrne Formula Grant Program</i>			<u>236,186</u>
Local Law Enforcement Block Grants Program, passed through Arizona Criminal Justice Commission	16.592	LLBG-03-107 LLBG-04-107	<u>12,663</u>
Total U.S. Department of Justice			<u>263,530</u>
U.S. Department of Labor			
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5704001,E5703001, E5702001	60,493
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5704001,E5703001, E5702001	99,326
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	B-550730	<u>5,890</u>
Total WIA Cluster and U.S. Department of Labor			<u>165,709</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	DTA2162622	250,362
U.S. Department of Health and Human Services			
Family Planning Services, passed through the Arizona Department of Health Services	93.217	361314	9,220
Immunization Grants, passed through the Arizona Department of Health Services	93.268	352195	34,740
Immunization Grants, non-cash vaccines, passed through the Arizona Department of Health Services	93.268	352195	<u>23,315</u>
<i>Total Immunization Grants</i>			<u>58,055</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252030	226,087
Voting Access for Individuals with Disabilities - Grants to States passed through the Arizona Department of Administration for Children and Families with Developmental Disabilities	93.617	2STA115A	4,752
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	69,272

(continued)

See accompanying notes to schedule.

Apache County
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004
(continued)

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
HIV Prevention Activities - Health Department- Based, passed through the Arizona Department of Health Services	93.940	352239	4,084
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	354176	33,580
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	261189	37,344
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	None	<u>91,326</u>
<i>Total Maternal and Child Health Services Block Grants to the States</i>			<u>128,670</u>
Total U.S. Department of Health and Human Services			<u><u>533,720</u></u>
U.S. Department of Homeland Security			
State Homeland Security Grant Program, passed through the Arizona Division of Emergency Management	97.004	MAB2ES00850	17,890
Citizens Corp, passed through the Arizona Division of Emergency Management	97.053	MAB2ES01010	2,546
Competitive Training Grants, passed through the Arizona Division of Emergency Management	97.068	MAB2ES00809	<u>10,594</u>
Total U.S. Department of Homeland Security			<u><u>31,030</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 2,788,452</u></u>

See accompanying notes to schedule.

Apache County
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2004 Catalog of Federal Domestic Assistance Update.

NOTE 3 - SUBRECIPIENTS

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Schools and Roads - Grants to States	10.665	\$374,706

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

The Auditor General of the State of Arizona

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, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 14, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion 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 04-01.

A material weakness is a reportable 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 caused by error or fraud 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, the reportable condition described above we consider to be a material weakness. Additionally, we noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters 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 Auditor General of the State of Arizona, 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.

Fester & Chapman P.C.

July 14, 2006

**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**

The Auditor General of the State of Arizona

The Board of Supervisors of
Apache County, Arizona

Compliance

We have audited the compliance of Apache County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The County's major federal program is identified in the Summary of the 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 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 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, 2004.

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 would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 Auditor General of the State of Arizona, 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.

Fester & Chapman P.C.

July 14, 2006

Apache County
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report issued:

Unqualified

	Yes	No
Material weaknesses identified in internal control over financial reporting?	<input checked="" type="checkbox"/>	
Reportable conditions identified not considered to be material weaknesses?		<input checked="" type="checkbox"/> (None Reported)
Noncompliance material to the financial statements noted?		<input checked="" type="checkbox"/>

Federal Awards

Material weakness identified in internal control over major programs?		<input checked="" type="checkbox"/>
Reportable conditions identified not considered to be material weaknesses?		<input checked="" type="checkbox"/> (None reported)
Type of auditors report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?		<input checked="" type="checkbox"/>

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
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?

Other Matters:

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

Apache County
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

FINANCIAL STATEMENT FINDINGS

04-01

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 is to manage public and trust monies of the County and related public subdivisions. At June 30, 2004, the County Treasurer's Office was entrusted with over \$121 million in public monies. To fulfil the responsibilities of managing those 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.

Examples of internal control deficiencies noted include, but are not limited to, the following:

- No financial schedules were maintained to identify the financial institutions that were holding the funds, detailed the balances at year end, or listed the authorized signers on those accounts;
- No Treasurer monthly reconciliations between the County Treasurer's Cash Ledger/Journal and cash and investments held at financial institutions were performed;
- Investment losses, related to pooled investments, were not allocated to participants' accounts at year end;
- Finally, the County Treasurer's system did not contain detailed records for disbursements, sufficient to facilitate testing of those disbursements without additional procedures.

To help insure 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 controls to ensure effectiveness;
- Implement existing policies and procedures, and additional procedures, to prepare accurate reporting records, such as detailed schedules and ledgers that are reconciled to supporting documentation.
- Asses operational areas for the risk of fraud, theft and abuse on an ongoing basis.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

LONNELLA (LONNIE) VAUGHAN
Senior Accountant
337-7620

JOHN R. SMITH
Internal Auditor
337-7595

ROSALEE GILL
Accounts Payable Specialist
337-7612

GENIE ZAPPANTI
Accounts Payable Specialist
337-7614

APACHE COUNTY FINANCE DEPARTMENT

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KARLA F. JAMES
Finance Director
337-7621

November 21, 2006

Debra K. Davenport, CPA
Auditor General
2910 N. 44th St., Ste 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 name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date of the 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, 2004

Financial Statement Finding

04-01 Internal Control in the County Treasurer's Office

Name of Contact Person: Myra L. Taylor, Chief Deputy Treasurer

Anticipated Completion Date: First Quarter Calendar Year 2007

The Treasurer's Office currently retains on file statements from investment institutions to account for monies being invested. The Office has also begun dialog with Wells Fargo Bank concerning the opening of a trust account for all of the County's monies. Wells Fargo Bank would monitor transactions in the account and give the Treasurer's Office monthly and annual reports regarding the County's investments.

The Treasurer's Office will perform reconciliations between the Treasurer's Cash Ledger/Journal and the cash and investments held in financial institutions. The Office has asked the financial institutions to identify both unrealized and realized gains/losses so this information can be correctly input into the records.

Any investment losses relating to pooled investments will be reviewed and properly allocated to participants' accounts.

The Treasurer's Office has begun keeping accurate records of disbursements on file as well as in the ledger system.