



# Apache County, Arizona

## Single Audit

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*Year Ended June 30, 2005*

**Apache County, Arizona**  
Single Audit Reporting Package  
Year Ended June 30, 2005

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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, 2005, 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, Arizona as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages i through ix, the Budgetary Comparison Schedules on pages 26 through 29, and the Schedule of Agent Retirement Plans' Funding Progress on page 30, 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 May 3, 2007, 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 considered in assessing the results of our audit.

*Fleeter & Chapman P.C.*

May 3, 2007

## **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, 2005.

### **Financial Highlights**

- The assets of Apache County exceeded its liabilities at the close of the fiscal year by \$29,360,197 (net assets). Of this amount, \$8,420,114 (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 \$666,923. This is a change from the prior year when net assets had increased \$82,854.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$9,206,814, or 57% of the total governmental funds' fund balances.
- Apache County's total long-term liabilities decreased by \$479,172 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**

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 four 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, Roads, Bond Interest and Redemption, and Greer Acres – Little Colorado Special Improvement District Funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

*Fiduciary Funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

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

**Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*The notes can be found on pages 9-25 of this report.*

**Other Required Supplementary Information** presents 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 26-30 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, 2005, assets exceeded liabilities by \$29,360,197.

## Apache County Management's Discussion and Analysis

### Statement of Net Assets June 30,

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 18,036,562	\$ 18,589,920
Capital assets	<u>16,965,858</u>	<u>17,451,116</u>
Total assets	35,002,420	36,041,036
Current and other liabilities	1,258,568	2,484,935
Long-term liabilities	<u>4,383,655</u>	<u>4,862,827</u>
Total liabilities	5,642,223	7,347,762
<b>Net Assets</b>		
Invested in capital assets, net of related debt	14,307,402	14,312,037
Restricted net assets	6,632,681	6,283,858
Unrestricted net assets	<u>8,420,114</u>	<u>8,097,379</u>
Total net assets	<u>\$ 29,360,197</u>	<u>\$ 28,693,274</u>

The largest portion (\$14,307,402 or 49%) 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 (\$6,632,681 or 23%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of net assets (\$8,420,114 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.

At the close of fiscal year 2005, current and other liabilities decreased by \$1,226,367 or 49%. At the end of fiscal year 2004, large purchases of road materials were made for use on a major road project funded by a grant. The materials had been received as of June 30, 2004, but had not yet been paid for. There was also a moderate decrease in spending County-wide at the close of fiscal year 2005 due to a written request from management to control expenditures in order to protect fund balances for the new budget year.

## 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>2005</u>	<u>2004</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 2,704,527	\$ 2,575,180
Operating grants and contributions	15,388,999	14,496,182
Capital grants	443,545	87,371
General Revenues:		
Property taxes	5,945,560	5,660,308
Share of state sales taxes	5,654,950	5,116,970
Payments in lieu of taxes	2,983,112	3,308,437
Grants and contributions not restricted to specific programs	556,485	556,277
Investment income	218,310	125,300
Miscellaneous	2,004,458	718,780
Gain on sale of capital assets		<u>25,962</u>
Total revenues	<u>35,899,946</u>	<u>32,670,767</u>
Expenses:		
General government	10,233,396	9,572,497
Public safety	9,489,460	8,861,236
Highways and streets	8,767,275	8,508,689
Sanitation	106,299	93,520
Health	2,507,426	2,097,794
Welfare	166,011	168,855
Culture and recreation	1,161,637	696,337
Education	2,621,584	2,378,100
Interest on long-term debt	<u>179,935</u>	<u>210,885</u>
Total expenses	<u>35,233,023</u>	<u>32,587,913</u>
Increase in net assets	666,923	82,854
Net assets - beginning	<u>28,693,274</u>	<u>28,610,420</u>
Net assets - ending	<u>\$ 29,360,197</u>	<u>\$ 28,693,274</u>

Property tax collections increased by \$285,252, or 5%, primarily due to an increase in tax levies caused by the County's growth in funding needs.

## **Apache County Management's Discussion and Analysis**

Operating grant revenues increased by \$892,817, or 6%. This increase was due to new funding received from the Arizona State Land Department and from the Arizona Department of Transportation for use in recreational areas.

The County's share of sales tax revenues increased \$537,980, or 11%. This increase reflects the influence of the construction activity on the new unit at the Tucson Electric Power plant being built in the County.

Miscellaneous revenues increased \$1,285,678, or 79%. This was as a result of the release for sale of a large block of parcels that had been taken off of the tax rolls. Those parcels became available for purchase in December 2004.

Expenses increased by \$2,645,110 or 8%. The most notable increase, \$465,300 (67%) is in Culture and Recreation, which is primarily due to new funding for recreational areas. The increases in the other areas are simply the result of rising costs and increases in grant awards.

### **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, 2005, the County's General fund reported an increase in fund balance of \$266,922 (3.0%), which was insignificant.

The Road Fund balance increased by \$406,327 (11.7%) because of an increase in the realization of the major regular revenues for this fund; however, there is a decrease in total intergovernmental revenues. Fiscal year 2004 intergovernmental revenues included a road fund grant that was not received in fiscal year 2005. The total distributions of highway user revenues, including vehicle licenses taxes, received in fiscal year 2005 was \$468,513 more than was received in fiscal year 2004. Regular expenditures in this fund did not increase proportionally and the transfer out of funding to the general fund for administrative support decreased in accordance with the County's indirect cost study.

## **Apache County Management's Discussion and Analysis**

The Bond Interest and Redemption Fund balance increased by \$30,000 (81.6%) primarily due to an increase in property tax revenues.

The Greer Acres – Little Colorado Special Improvement District Fund balance increased by \$1,316 (1.4%), which was insignificant.

### **General Fund Budgetary Highlights**

Total general fund revenues were over budget by \$648,464. Historically Salt River Project (SRP) contributions in lieu of taxes have been budgeted as contributions, but reported as intergovernmental revenues in the financial statements. The amount received from SRP for the general fund was \$769,623. When this amount is compared to contributions instead of intergovernmental revenues, the variance in contribution revenue is \$17,225, which is immaterial; and the variance in intergovernmental revenues is (\$1,269,843), which is primarily due to Homeland Security grant funds that did not materialize.

Miscellaneous revenues exceeded the budget by \$1,679,352 due to sales from a large block of parcels that became available in December 2004. This activity had not been anticipated at the time the budget was adopted.

Actual general fund expenditures were under budget by \$8,729,207, an increase of \$634,944 from the prior year. The increase is due to large amounts budgeted for homeland security grants that never materialized.

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 \$258,685 lower than final budgeted amounts due to planned conservative spending for the benefit of the population and a grant that had been budgeted but not yet realized.
  
- General government contingency expenditures were \$5,948,498 lower than final budgeted amounts due to the budgeting of prior year's 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 budgeted 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

- Legal Services departmental expenditures were \$117,851 lower than final budgeted amounts due to the account normally being budgeted high due to the possibility of court cases developing throughout the year.
- Grounds and Maintenance department expenditures were \$90,708 lower due to budgeting high in anticipation for increases of utilities.
- Emergency Services departmental expenditures were \$1,514,125 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, 2005, amounted to \$16,965,858, 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
	<u>FY2005</u>	<u>FY2004</u>	
Land	\$ 1,576,889	\$ 1,572,648	0.3%
Improvements other than buildings	256,550	256,550	0.0%
Construction in progress	0	89,063	(100.0%)
Buildings	8,631,283	8,269,552	4.4%
Infrastructure	538,943	567,310	(5.0%)
Machinery and equipment	<u>5,962,193</u>	<u>6,695,993</u>	(11.0%)
Totals	<u>\$16,965,858</u>	<u>\$17,451,116</u>	(2.8%)

The decrease in machinery and equipment is a reflection of depreciation throughout the year.

## **Apache County Management's Discussion and Analysis**

### *Long-Term Debt*

On June 30, 2005, the County had a total of \$4,383,655 in long-term liabilities. Of this amount, \$2,880,000 was principal outstanding on general obligation and special assessment bonds, and \$108,456 was capital lease obligations. The remainder represents compensated absences payable. No new bonding was issued or capital lease obligations entered into during fiscal year 2005.

Additional information on the County's long-term liabilities can be found in Note 6 of the Notes to the Financial Statements on pages 18 and 19 of this report.

### **Economic Factors and the Next Year's Budget**

In FY2005, Tucson Electric Power was in full ramp up on their 3<sup>rd</sup> unit construction. 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 throughout FY2005. Due to this, some increases in these revenues were programmed into the FY2006 budget.

Aside from the increased revenues 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 FY2006.

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, Arizona**  
**STATEMENT OF NET ASSETS**  
June 30, 2005

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 12,895,772
Receivables (net of allowance for uncollectibles):	
Property taxes	393,938
Accounts	27,493
Special assessments	365,789
Due from other governments	3,703,282
Inventories	267,992
Prepaid items	382,296
Capital assets, not being depreciated	1,833,439
Capital assets, being depreciated, net	<u>15,132,419</u>
Total assets	<u>35,002,420</u>
<b>LIABILITIES</b>	
Accounts payable	852,132
Accrued payroll and employee benefits	296,812
Due to other governments	109,624
Noncurrent liabilities	
Due within 1 year	1,115,607
Due in more than 1 year	<u>3,268,048</u>
Total liabilities	<u>5,642,223</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	14,307,402
Restricted for:	
Public safety	776,672
Highways and streets	3,889,025
Debt service	257,226
Capital projects	85,635
Other purposes	1,624,123
Unrestricted	<u>8,420,114</u>
Total net assets	<u>\$ 29,360,197</u>

See accompanying notes to financial statements.

**Apache County, Arizona**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2005

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	\$ 10,233,396	\$ 1,111,968	\$ 501,574		\$ (8,619,854)
Public safety	9,489,460	1,266,409	2,186,005		(6,037,046)
Highways and streets	8,767,275	3,938	10,285,106		1,521,769
Welfare	166,011		197,501		31,490
Sanitation	106,299		104,593	\$ 443,545	441,839
Health	2,507,426	129,305	1,268,163		(1,109,958)
Culture and recreation	1,161,637	6,837	466,480		(688,320)
Education	2,621,584	186,070	379,577		(2,055,937)
Interest on long-term debt	179,935				(179,935)
Total governmental activities	<u>\$ 35,233,023</u>	<u>\$ 2,704,527</u>	<u>\$15,388,999</u>	<u>\$ 443,545</u>	<u>(16,695,952)</u>
General revenues:					
Taxes:					
Property taxes					5,945,560
Share of state sales taxes					5,654,950
Payments in lieu of taxes					2,983,112
Grants and contributions not restricted to specific programs					556,485
Investment earnings					218,310
Miscellaneous					<u>2,004,458</u>
Total general revenues					<u>17,362,875</u>
Change in net assets					666,923
Net assets, July 1, 2004					<u>28,693,274</u>
Net assets, June 30, 2005					<u>\$ 29,360,197</u>

See accompanying notes to financial statements.

**Apache County, Arizona**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2005

	General Fund	Road Fund	Bond Interest and Redemption Fund	Greer Acres - Little Colorado Special Improvement District Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 7,725,927	\$ 2,148,668	\$ 569,008	\$ 160,121	\$ 2,292,048	\$ 12,895,772
Receivables (net of allowance for uncollectibles):						
Property taxes	144,884		29,143		219,911	393,938
Accounts		25,165			2,328	27,493
Special assessments				365,789		365,789
Due from:						
Other funds	789,095	21,902	13,925		133,793	958,715
Other governments	1,193,730	1,587,739			921,813	3,703,282
Inventories	10,991	257,001				267,992
Prepaid items	68,505	299,460			14,331	382,296
Total assets	<u>\$ 9,933,132</u>	<u>\$ 4,339,935</u>	<u>\$ 612,076</u>	<u>\$ 525,910</u>	<u>\$ 3,584,224</u>	<u>\$ 18,995,277</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 327,602	\$ 256,132			\$ 268,398	\$ 852,132
Accrued payroll and employee benefits	138,742	71,837			86,233	296,812
Due to:						
Other governments	17,096	92,528				109,624
Other funds	65,691	36,830	\$ 525,884	\$ 67,337	262,973	958,715
Deferred revenue	97,691		19,433	365,275	145,982	628,381
Total liabilities	<u>646,822</u>	<u>457,327</u>	<u>545,317</u>	<u>432,612</u>	<u>763,586</u>	<u>2,845,664</u>
Fund balances:						
Reserved for:						
Inventories	10,991	257,002				267,993
Prepaid items	68,505	299,460			14,331	382,296
Debt service			66,759	93,298	120,508	280,565
Unreserved, reported in:						
General fund	9,206,814					9,206,814
Special revenue funds		3,326,146			2,214,674	5,540,820
Capital projects funds					471,125	471,125
Total fund balances	<u>9,286,310</u>	<u>3,882,608</u>	<u>66,759</u>	<u>93,298</u>	<u>2,820,638</u>	<u>16,149,613</u>
Total liabilities and fund balances	<u>\$ 9,933,132</u>	<u>\$ 4,339,935</u>	<u>\$ 612,076</u>	<u>\$ 525,910</u>	<u>\$ 3,584,224</u>	<u>\$ 18,995,277</u>

See accompanying notes to financial statements.

**Apache County, Arizona**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**GOVERNMENTAL FUNDS**  
June 30, 2005

Fund balances - total governmental funds		\$ 16,149,613
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 \$35,043,625 and the accumulated depreciation is \$18,077,767.		16,965,858
Some receivables are not available to pay for current-period expenditures, and therefore, are deferred in the funds.		628,381
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Compensated balances	\$ (1,395,199)	
General obligation bonds payable	(2,550,000)	
Special assessment bonds payable	(330,000)	
Capital leases payable	<u>(108,456)</u>	<u>(4,383,655)</u>
Net assets of governmental activities		<u>\$ 29,360,197</u>

See accompanying notes to financial statements.

**Apache County, Arizona**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year Ended June 30, 2005

	General Fund	Road Fund	Bond Interest and Redemption Fund	Greer Acres - Little Colorado Special Improvement District Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 2,785,012	\$ 2,374,894	\$ 458,172		\$ 3,309,314	\$ 8,927,392
Special assessments				\$ 76,988	5,918	82,906
Licenses and permits	185,211					185,211
Intergovernmental	8,278,861	7,253,545	156,383		6,085,328	21,774,117
Charges for services	258,095	934			1,710,841	1,969,870
Fines and forfeits	700,421				124,728	825,149
Investment earnings	143,625	27,912	3,648	1,730	41,395	218,310
Contributions	20,000				103,082	123,082
Miscellaneous	1,799,640	57,453			24,282	1,881,375
	<u>14,170,865</u>	<u>9,714,738</u>	<u>618,203</u>	<u>78,718</u>	<u>11,404,888</u>	<u>35,987,412</u>
Total revenues						
<b>EXPENDITURES</b>						
Current:						
General government	8,856,153		351	594	861,353	9,718,451
Public safety	3,622,956				5,185,263	8,808,219
Highways and streets		7,515,926			194,243	7,710,169
Welfare					161,649	161,649
Sanitation					106,299	106,299
Health	913,941				1,563,660	2,477,601
Culture and recreation	18,000				1,143,637	1,161,637
Education	324,987				2,277,377	2,602,364
Capital outlay	406,162	1,115,372			521,672	2,043,206
Debt service:						
Principal retirement		24,086	450,000	55,000	6,537	535,623
Interest and other charges		6,359	151,769	21,808		179,936
Total expenditures	<u>14,142,199</u>	<u>8,661,743</u>	<u>602,120</u>	<u>77,402</u>	<u>12,021,690</u>	<u>35,505,154</u>
Excess (deficiency) of revenues over expenditures	<u>28,666</u>	<u>1,052,995</u>	<u>16,083</u>	<u>1,316</u>	<u>(616,802)</u>	<u>482,258</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	1,117,103		13,925		1,036,672	2,167,700
Transfers out	(904,309)	(894,399)			(368,992)	(2,167,700)
Sale of assets	24,359	26,151				50,510
Total other financing sources and uses	<u>237,153</u>	<u>(868,248)</u>	<u>13,925</u>		<u>667,680</u>	<u>50,510</u>
Net change in fund balances	265,819	184,747	30,008	1,316	50,878	532,768
Fund balances, July 1, 2004	9,019,388	3,476,281	36,751	91,982	2,764,734	15,389,136
Increase (decrease) in reserve for inventories	1,807	(69,975)				(68,168)
(Decrease) increase in reserve for prepaid items	(704)	291,555			5,026	295,877
Fund balances, June 30, 2005	<u>\$ 9,286,310</u>	<u>\$ 3,882,608</u>	<u>\$ 66,759</u>	<u>\$ 93,298</u>	<u>\$ 2,820,638</u>	<u>\$ 16,149,613</u>

See accompanying notes to financial statements.

**Apache County, Arizona**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**GOVERNMENTAL FUNDS**  
Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 532,768

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 2,016,832	
Depreciation expense	<u>(2,355,460)</u>	(338,628)

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 differs from the change in fund balance by the book value of the capital assets sold. (146,630)

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. (56,451)

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	450,000	
Special assessment bonds payable	55,000	
Capital leases payable	<u>30,623</u>	535,623

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities. (87,468)

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. 227,709

Change in net assets of governmental activities \$ 666,923

See accompanying notes to financial statements.

**Apache County, Arizona**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2005 .

	<u>Investment Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,828,314	\$ 329,626
Investments, at fair value	86,457,192	
Interest and dividends receivable	53,714	
Total assets	<u>99,339,220</u>	<u>\$ 329,626</u>
<b>LIABILITIES</b>		
Due to other governments	<u>                    </u>	<u>\$ 329,626</u>
Total liabilities	<u>                    </u>	<u>\$ 329,626</u>
<b>NET ASSETS</b>		
Held in trust for investment trust participants	<u>\$ 99,339,220</u>	

See accompanying notes to financial statements.

**Apache County, Arizona**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
Year Ended June 30, 2005

	Investment Trust Fund
<b>ADDITIONS:</b>	
Contributions from participants	\$ 165,507,856
Investment earnings:	
Interest and dividends	1,574,067
Net increase in the fair value of investments	76,901
Total investment earnings	1,650,968
Total additions	167,158,824
<b>DEDUCTIONS:</b>	
Distributions to participants	175,205,480
Change in net assets	(8,046,656)
Net assets, July 1, 2004	107,385,876
Net assets, June 30, 2005	\$ 99,339,220

See accompanying notes to financial statements.

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

During the year ended June 30, 2005, the County implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the County's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

**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, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

**B. Basis of Presentation**

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

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

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

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

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

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

**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.

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The County reports the following major governmental funds:

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

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

The *Bond Interest and Redemption Fund* accounts for resources accumulated and payments made for principal and interest on long-term general obligation bond debt of the governmental funds.

The *Greer Acres - Little Colorado Special Improvement District Fund* accounts for resources accumulated and payments made for sewer construction projects and principal and interest payments on long-term special assessment debt of the district.

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, with the exception of the agency fund, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. 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 they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end. 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.

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**D. Cash and Investments**

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

**E. Inventories**

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

**F. Property Tax Calendar**

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

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

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

**G. Capital Assets**

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

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>		
Land	All		
Construction in progress	\$ 5,000		
Improvements, other than buildings	\$ 5,000		
		<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**H. Investment earnings**

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

**I. Compensated absences**

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 280 hours of vacation, but any vacation hours in excess of the maximum amount that are unused at year end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,500 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, for employees who have accumulated at least 500 hours of sick leave, sick leave benefits do vest, and therefore, are accrued.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

At June 30, 2005, the following governmental funds reported significant deficits in fund balances:

Fund	Deficit
Adult Intensive Supervision	\$ 10,412
Ganado School Deputies	37,108
State Adult Enhancement	6,520
Victim's Assistance	13,835
Diversion Intake	6,852

These deficits resulted from operations during the year, but are expected to be corrected through normal operations in fiscal year 2006.

**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; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposits, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED**

Credit Risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of the service.

Custodial credit risk

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk

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

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk

Statutes do not allow foreign investments.

**Deposits** - At June 30, 2005, the carrying amount of the County's deposits was \$2,520,320, and the bank balance was \$3,184,960. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2005, \$2,857,276 of the County's bank balance was exposed to custodial credit risk as follows:

	<b>Fair Value</b>
Uninsured and uncollateralized	\$ 1,106,382
Uninsured with collateral held by the pledging financial institution	1,750,894
	<b>\$ 2,857,276</b>

**Investments** - The County's investments at June 30, 2005, were as follows:

<b>Investment Type</b>	<b>Amount</b>
State Treasurer's investment pools	\$ 16,493,894
U.S. Treasury securities	9,328,863
U.S. agency securities	82,117,579
Money market fund	2,035,888
	<b>\$109,976,224</b>

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED**

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 and the participant's shares are not identified with specific investments.

**Credit risk** - The County does not have a formal investment policy with respect to credit risk. At June 30, 2005, credit risk for the County's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
U.S. agency securities	AAA	Moody's	\$ 82,117,579
State Treasurer's investment pools	Unrated	Not Applicable	16,493,894
Money market fund	AAA	Moody's	<u>2,035,888</u>
			<u>\$ 100,647,361</u>

**Custodial credit risk** - For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal investment policy with respect to custodial credit risk. At June 30, 2005, the County had \$9,328,863 of investments in U.S. Treasury securities, \$82,117,579 of U.S. agency securities and \$2,035,888 in a money market fund that were uninsured and held by the counterparty's trust department not in the County's name.

**Concentration of Credit Risk** - The County does not have a formal investment policy with respect to concentration of credit risk. More than 5% of the County's investments at June 30, 2005 were in Freddie Mac (Federal Home Loan Mortgage Corporation), Fannie Mae (Federal National Mortgage Association), and the Federal Home Loan Bank. These investments were 19.5%, 23.2%, and 22.4%, respectively, of the County's total investments.

**Interest Rate Risk** - The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2005, the County had the following investments in debt securities.

<u>Investment Type</u>	<u>Investment Maturities</u>		
	<u>Amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>
State Treasurer's investment pools	\$ 16,493,894	\$ 16,493,894	
U.S. Treasury securities	9,328,863		\$ 9,328,863
U.S. agency securities	82,117,579	23,262,500	58,855,079
Money market fund	<u>2,035,888</u>	<u>2,035,888</u>	
	<u>\$ 109,976,224</u>	<u>\$ 41,792,282</u>	<u>\$ 68,183,942</u>

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2005

**NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED**

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

Cash and investments:

Cash, deposits, and investments:	
Cash on hand	\$ 14,360
Amount of deposits	2,520,320
Amount of investments	<u>109,976,224</u>
<b>Total</b>	<b><u>\$112,510,904</u></b>

	<b>Governmental Activities</b>	<b>Investment Trust Funds</b>	<b>Agency Fund</b>	<b>Total</b>
Statement of Net Assets:				
Cash and cash equivalents	\$ 12,895,772	\$ 12,828,314	\$ 329,626	\$ 26,053,712
Investments		<u>86,457,192</u>		<u>86,457,192</u>
<b>Total</b>	<u>\$ 12,895,772</u>	<u>\$ 99,285,506</u>	<u>\$ 329,626</u>	<u>\$ 112,510,904</u>

**NOTE 4 - DUE FROM OTHER GOVERNMENTS**

Amounts due from other governments at June 30, 2005, in the General Fund includes \$1,030,426 in sales taxes and \$45,452 in auto lieu taxes from the State of Arizona. Amounts due from other governments in the Road Fund include \$1,327,384 in highway user taxes and \$260,355 in auto lieu taxes from the State of Arizona. Amounts due from other governments in the Other Governmental Funds include \$764,547 in federal reimbursement grants. The remaining balances result from various grants and contracts with other government units.

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,572,648	\$ 4,241		\$ 1,576,889
Improvements other than buildings	256,550			256,550
Construction in progress	<u>89,063</u>		<u>\$ (89,063)</u>	
Total capital assets not being depreciated	<u>1,918,261</u>	<u>4,241</u>	<u>(89,063)</u>	<u>1,833,439</u>
Capital assets being depreciated:				
Buildings	12,395,519	361,731		12,757,250
Machinery and equipment	18,736,643	1,650,860	(501,877)	19,885,626
Infrastructure	<u>567,310</u>			<u>567,310</u>
Total	<u>31,699,472</u>	<u>2,012,591</u>	<u>(501,877)</u>	<u>33,210,186</u>
Less accumulated depreciation for:				
Buildings	4,125,967			4,125,967
Machinery and equipment	12,040,650	2,327,093	(444,310)	13,923,433
Infrastructure		<u>28,367</u>		<u>28,367</u>
Total	<u>16,166,617</u>	<u>2,355,460</u>	<u>(444,310)</u>	<u>18,077,767</u>
Total capital assets being depreciated, net	<u>15,532,855</u>	<u>(342,869)</u>	<u>(57,567)</u>	<u>15,132,419</u>
Governmental activities capital assets, net	<u>\$ 17,451,116</u>	<u>\$ (338,628)</u>	<u>\$ (146,630)</u>	<u>\$ 16,965,858</u>

Depreciation expense was charged to functions as follows:

<b>Governmental activities:</b>	
General government	\$ 342,128
Public safety	681,239
Highways and streets	1,278,686
Health	29,825
Welfare	4,362
Education	<u>19,220</u>
Total depreciation expense - governmental activities	<u>\$ 2,355,460</u>

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 6 - LONG-TERM LIABILITIES**

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within 1 Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 3,000,000		\$ (450,000)	\$ 2,550,000	\$ 475,000
Special assessment bonds with government commitment	<u>385,000</u>		<u>(55,000)</u>	<u>330,000</u>	<u>58,000</u>
Total bonds payable	3,385,000		(505,000)	2,880,000	533,000
Capital leases payable	139,079		(30,623)	108,456	25,236
Compensated absences payable	<u>1,338,748</u>	<u>\$ 869,693</u>	<u>(813,242)</u>	<u>1,395,199</u>	<u>557,371</u>
Governmental activity long-term liabilities	<u>\$ 4,862,827</u>	<u>\$ 869,693</u>	<u>\$ (1,348,865)</u>	<u>\$ 4,383,655</u>	<u>\$ 1,115,607</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, 2005, 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%	\$ 2,550,000
Special assessment bonds with governmental commitment:				
Greer Acres - Little Colorado Improvement District	575,000	1/1/05-10	6.10%	<u>330,000</u>
				<u>\$ 2,880,000</u>

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2005:

Year ending June 30,	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
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>\$ 2,550,000</u>	<u>\$ 361,031</u>	<u>\$ 330,000</u>	<u>\$ 52,765</u>

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 6 - LONG-TERM LIABILITIES - CONTINUED**

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 211,952
Less accumulated depreciation	<u>94,937</u>
Carrying value	<u>\$ 117,015</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2005:

	Governmental Activities
Year ended June 30,	
2006	\$ 30,445
2007	30,445
2008	30,445
2009	<u>30,445</u>
Total minimum lease payments	121,780
Less amount representing interest	<u>(13,324)</u>
Present value of net minimum lease payments	<u>\$ 108,456</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 2005, the County paid for compensated absences as follows: 48 percent from the General Fund, 23 percent from the Road Fund, and 29 percent from other funds. The County paid for claims and judgments entirely from the General Fund during the year ended June 30, 2005.

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**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 four plans, three of which are described below. The Elected Officials Retirement Plan is not described due to its relative insignificance to the County's financial statements. 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 employees of the State of Arizona and employees of participating political subdivisions and school districts. 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, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 8 - RETIREMENT PLANS - CONTINUED**

The *Corrections Officer Retirement Plan (CORP)* is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona's Department of Corrections and Department of 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.

<u>ASRS</u>	<u>PSPRS and CORP</u>
3300 N. Central Ave.	3010 East Camelback Road, Ste 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 members' and the County's contribution rates.

*Cost-sharing plans* - For the year ended June 30, 2005, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2005, 2004, and 2003 were \$568,439, \$552,469 and \$238,517, respectively, which were equal to the required contributions for the year.

*Agent plans* - For the year ended June 30, 2005, 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 14.23 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 3.31 percent.

**Annual Pension Cost**-The County's pension cost for the two agent plans for the year ended June 30, 2005, and related information follows.

	PSPRS	CORP
Contribution rates:		
County	14.23%	3.31%
Plan Members	7.65%	8.5%
Annual pension cost	\$194,814	\$18,276
Contributions made	\$194,814	\$18,276

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 8 - RETIREMENT PLANS - CONTINUED**

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2003, 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, 2003, was 20 years.

**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	2005	\$ 194,814	100%	\$0
	2004	204,730	100	0
	2003	155,825	100	0
CORP	2005	\$ 18,276	100%	\$0
	2004	22,005	100	0
	2003	11,451	100	0

**NOTE 9 - INTERFUND BALANCES AND ACTIVITY**

**Interfund receivables and payables**-Interfund balances at June 30, 2005, were as follows:

Payable from	Payable to				Total
	General Fund	Road Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	
General Fund		\$ 21,902		\$ 43,789	\$ 65,691
Road Fund	\$ 36,830				36,830
Bond Interest and Redemption Fund	525,884				525,884
Greer Acres-Little Colorado Special Improvement District Fund	67,337				67,337
Other Governmental Funds	159,044		\$ 13,925	90,004	262,973
Total	<u>\$ 789,095</u>	<u>\$ 21,902</u>	<u>\$ 13,925</u>	<u>\$ 133,793</u>	<u>\$ 958,715</u>

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

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 9 - INTERFUND BALANCES AND ACTIVITY - CONTINUED**

**Interfund transfers**-Interfund transfers for the year ended June 30, 2005, were as follows:

<u>Transfer from</u>	<u>Transfer to</u>			<u>Total</u>
	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund			\$ 904,309	\$ 904,309
Road Fund	\$ 865,984		28,415	894,399
Other Governmental Funds	251,119	\$ 13,925	103,948	368,992
Total	<u>\$ 1,117,103</u>	<u>\$ 13,925</u>	<u>\$ 1,036,672</u>	<u>\$ 2,167,700</u>

The principal purposes of interfund transfers were to provide grant matches or to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 10 - 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.

Substantially, all deposits and investments of County's primary government are included in the County Treasurer's investment pool, except for \$2,360 of cash on hand and \$456,433 of cash on deposit. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks, see Note 3 for disclosure of the County's deposit and investment risk.

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	\$ 16,493,894	None stated	None stated	\$ 16,493,894
U.S. Treasury securities	9,328,863	Zero coupon	11/06 - 5/09	9,328,863
U.S. agencies securities	82,117,579	1.7 % - 9.6 %	1/06 -11/09	82,117,579
Money market fund	2,035,888	None stated	N/A	2,035,888

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE 10 - COUNTY TREASURER'S INVESTMENT POOL - CONTINUED**

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

<b>Statement of Net Assets</b>	
Assets	\$112,105,827
Liabilities	
Net Assets	<u>\$112,105,827</u>
Net assets held in trust for:	
Internal participants	\$ 12,766,607
External participants	<u>99,339,220</u>
Total net assets held in trust	<u>\$112,105,827</u>
<b>Statement of Changes in Net Assets</b>	
Total additions	\$203,652,171
Total deductions	<u>211,815,273</u>
Net decrease	<u>(8,163,102)</u>
Net assets held in trust:	
July 1, 2004	<u>120,268,929</u>
June 30, 2005	<u>\$112,105,827</u>

**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 January 31, 2006, the County estimated the closure and postclosure care costs to be \$186,250 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 2005. According to its audited financial statements for the year ended June 30, 2005, the landfill had used approximately 5 percent of its estimated capacity, and the Association had accumulated \$81,006 of financial reserves to pay for these costs.

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

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

**Apache County, Arizona**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

**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.

**NOTE 13 - SUBSEQUENT EVENTS**

Bond authorization and issuance - On November 7, 2006, the voters of the County authorized the issuance of general obligation bonds in the amount of \$7,190,000 for the Apache County Library District to be used for the purpose of providing improvements within the District. These bonds were issued on April 3, 2007.

**Apache County, Arizona**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 3,093,634	\$ 3,093,634	\$ 2,785,012	\$ (308,622)
Licenses and permits	140,000	140,000	185,211	45,211
Intergovernmental	8,779,081	8,779,081	8,278,861	(500,220)
Charges for services	184,000	184,000	258,095	74,095
Fines and forfeits	370,000	370,000	700,421	330,421
Investment income	63,000	63,000	143,625	80,625
Contributions	772,398	772,398	20,000	(752,398)
Miscellaneous	120,288	120,288	1,799,640	1,679,352
Total revenues	<u>13,522,401</u>	<u>13,522,401</u>	<u>14,170,865</u>	<u>648,464</u>
<b>EXPENDITURES:</b>				
General government:				
Assessor	648,461	651,223	651,223	
Attorney	850,492	850,492	807,208	43,284
Board of Supervisors	1,903,556	1,903,556	1,644,871	258,685
Clerk of the Court	520,451	520,451	517,946	2,505
Contingency	6,354,497	6,219,904	271,406	5,948,498
Data processing	427,050	429,826	429,826	
Elections	479,504	479,504	422,250	57,254
Finance	284,479	284,479	262,030	22,449
Grounds/maintenance	757,461	757,461	666,753	90,708
JP-Chinle	168,126	169,381	169,381	
JP-Puerco	261,387	274,509	274,509	
JP-St. Johns	152,836	152,836	150,297	2,539
JP-R.V.	277,863	278,911	268,967	9,944
Communication specialist	107,388	107,388	115,354	(7,966)
Planning and zoning	147,062	147,062	122,777	24,285
Building Inspector	235,513	248,390	248,390	
Purchasing	54,643	54,643	45,763	8,880
Recorder	327,404	330,880	330,880	
Superior Court	299,525	299,525	296,543	2,982
Public Defenders	593,000	625,878	580,408	45,470
Treasurer	297,192	306,355	306,355	
Legal services/judgments	200,000	200,000	82,149	117,851
Insurance	220,867	220,867	190,867	30,000
Total general government	<u>15,568,757</u>	<u>15,513,521</u>	<u>8,856,153</u>	<u>6,657,368</u>
Public Safety:				
Constables	28,332	28,332	25,362	2,970
Contingency			60,889	(60,889)
Emergency services	1,655,715	1,690,373	176,248	1,514,125
Adult probation	365,100	366,236	366,236	
Juvenile probation	299,391	299,391	292,063	7,328
Medical Examiner	20,000	27,861	27,861	
Sheriff	2,761,981	2,763,581	2,674,297	89,284
Total public safety	<u>5,130,519</u>	<u>5,175,774</u>	<u>3,622,956</u>	<u>1,552,818</u>

See accompanying notes to budgetary comparison schedule.

**Apache County, Arizona**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Health:				
AHCCCS	906,545	912,569	913,941	(1,372)
Culture and recreation:				
Agricultural extension	18,000	18,000	18,000	
Education:				
School Superintendent	<u>319,185</u>	<u>323,142</u>	<u>324,987</u>	<u>(1,845)</u>
Capital outlay	<u>928,400</u>	<u>928,400</u>	<u>406,162</u>	<u>522,238</u>
Total expenditures	<u>22,871,406</u>	<u>22,871,406</u>	<u>14,142,199</u>	<u>8,729,207</u>
Excess (deficiency) of revenues over expenses	<u>(9,349,005)</u>	<u>(9,349,005)</u>	<u>28,666</u>	<u>9,377,671</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,197,479	1,197,479	1,117,103	(80,376)
Transfers out	(924,474)	(924,474)	(904,309)	20,165
Sale of assets			<u>24,359</u>	<u>24,359</u>
Total other financing sources and uses	<u>273,005</u>	<u>273,005</u>	<u>237,153</u>	<u>(35,852)</u>
Net change in fund balances	<u>(9,076,000)</u>	<u>(9,076,000)</u>	<u>265,819</u>	<u>9,341,819</u>
Fund balances, July 1, 2004	9,076,000	9,076,000	9,019,388	(56,612)
Increase in reserve for inventories			1,807	1,807
Decrease in reserve for prepaids			<u>(704)</u>	<u>(704)</u>
Fund balances, June 30, 2005	<u>\$</u>	<u>\$</u>	<u>\$ 9,286,310</u>	<u>\$ 9,286,310</u>

See accompanying notes to budgetary comparison schedule.

**Apache County, Arizona**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**ROAD FUND**  
**Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 2,200,000	\$ 2,200,000	\$ 2,374,894	\$ 174,894
Intergovernmental	6,757,500	6,757,500	7,253,545	496,045
Charges for services	55,000	55,000	934	(54,066)
Investment income	25,000	25,000	27,912	2,912
Miscellaneous	2,500	2,500	57,453	54,953
Total revenues	<u>9,040,000</u>	<u>9,040,000</u>	<u>9,714,738</u>	<u>674,738</u>
<b>EXPENDITURES:</b>				
Highway and Streets:				
Engineer	450,000	450,000	434,883	15,117
Safety	20,000	20,000	6,064	13,936
District #1	2,618,895	2,618,895	2,209,300	409,595
District #2	2,518,895	2,518,895	2,312,070	206,825
District #3	3,561,750	3,561,750	3,340,524	221,226
Liability Insurance	233,283	233,283	233,283	
Contingency	537,850	537,850	125,619	412,231
Deferred	790,000	790,000	790,000	
Total expenditures	<u>10,730,673</u>	<u>10,730,673</u>	<u>8,661,743</u>	<u>2,068,930</u>
Excess (deficiency) of revenues over expenses	<u>(1,690,673)</u>	<u>(1,690,673)</u>	<u>1,052,995</u>	<u>2,743,668</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(829,464)	(829,464)	(894,399)	(64,935)
Sale of assets	-	-	26,151	26,151
Total other financing sources and uses	<u>(829,464)</u>	<u>(829,464)</u>	<u>(868,248)</u>	<u>(38,784)</u>
Net change in fund balances	<u>(2,520,137)</u>	<u>(2,520,137)</u>	<u>184,747</u>	<u>2,704,884</u>
Fund balances July 1, 2004	2,520,137	2,520,137	3,476,281	956,144
Decrease in reserve for inventories			(69,975)	(69,975)
Increase in reserve for prepaids			291,555	291,555
Fund balances, June 30, 2005	<u>\$</u>	<u>\$</u>	<u>\$ 3,882,608</u>	<u>\$ 3,882,608</u>

See accompanying notes to budgetary comparison schedule.

**Apache County, Arizona**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**NOTES TO BUDGETARY COMPARISON SCHEDULES**  
June 30, 2005

**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, 2005, 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:	
Communication specialist	\$ 7,966
Contingency	60,889
AHCCCS	1,372

**Apache County, Arizona**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS**  
**June 30, 2005**

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)
6/30/05	\$3,666,566	\$6,726,835	\$(3,060,269)	54.5%	\$1,390,428	-220.1%
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%

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)
6/30/05	\$982,406	\$970,897	\$11,509	101.2%	\$625,868	N/A
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

## SUPPLEMENTARY INFORMATION

**Apache County, Arizona**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	26H18590	\$ 108,243
Schools and Roads-Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>379,577</u>
<b>Total U.S. Department of Agriculture</b>			<u><u>487,820</u></u>
<b>U.S. Department of the Interior</b>			
Payments in Lieu of Taxes	15.226	N/A	930,466
<b>U.S. Department of Justice</b>			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-04-049	18,354
Edward Byrne Memorial Formula Grant Program, passed through the Administrative Office of the Courts	16.579	None	68,760
Edward Byrne Memorial Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	PC-110-05, AC-170-05	<u>200,710</u>
<i>Total Edward Byrne Memorial Formula Grant Program</i>			<u>269,470</u>
Local Law Enforcement Block Grant Program, passed through Arizona Criminal Justice Commission	16.592	LLBG-04-107, LLBG-05-107	12,670
Bulletproof Vest Partnership Program	16.607	N/A	<u>1,490</u>
<b>Total U.S. Department of Justice</b>			<u><u>301,984</u></u>
<b>U.S. Department of Labor</b>			
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5705001,E5704001, E5703001	63,034
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5705001,E5704001, E5703001	<u>97,037</u>
<b>Total WIA Cluster and U.S. Department of Labor</b>			<u><u>160,071</u></u>
<b>U.S. Department of Health and Human Services</b>			
Family Planning Services, passed through the Arizona Department of Health Services	93.217	361314	7,249
Immunization Grants, passed through the Arizona Department of Health Services	93.268	352195	64,003
Centers for Disease Control and Prevention - Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	26H24747	368,022
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.919	361205	64,100
HIV Prevention Activities - Health Department Based, passed through the Arizona Department of Health Services	93.940	352239	8,442
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	354176	44,182
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	461046	37,344
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	None	<u>83,016</u>
<i>Total Maternal and Child Health Services Block Grants to the States</i>			<u>120,360</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><u>676,358</u></u>

(Continued)

See accompanying notes to schedule.

**Apache County, Arizona**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2005  
(continued)

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Homeland Security</b>			
Homeland Security Grant Program Cluster			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Division of Emergency Management	97.004	MAB3ES00850	11,133
Emergency Management Performance Grants, passed through the Arizona Division of Emergency Management	97.042	MAB3ES01010	<u>623</u>
<b>Total Homeland Security Grant Cluster</b>			11,756
Competitive Training Grants, passed through the Arizona Division of Emergency Management	97.068	MAB3ES00809	<u>5,215</u>
<b>Total U.S. Department of Homeland Security</b>			<u>16,971</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 2,573,670</u>

See accompanying notes to schedule.

**Apache County, Arizona**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2005

**NOTE 1 - BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Apache County, Arizona, 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 2005 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	\$379,577

**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, Arizona as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 3, 2007. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. 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 a certain matter 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 05-01.

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. We also noted other matters involving internal control over financial reporting that we have reported to the County's management in a separate letter dated May 3, 2007.

## 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 05-02. We also noted certain immaterial instances of noncompliance or other matters that we have reported to the County's management in a separate letter dated May 3, 2007.

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.

*Foster & Chapman P.C.*

May 3, 2007

**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, Arizona 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, 2005. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Apache County, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**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 of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants 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.

*Festa & Chapman P.C.*

May 3, 2007

**Apache County, Arizona**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2005

**SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of Auditors' Report issued:	Unqualified	
	Yes	No
Material weaknesses identified in internal control over financial reporting?	<u>X</u>	
Reportable conditions identified not considered to be material weaknesses?		<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	<u>X</u>	

**Federal Awards**

Material weakness identified in internal control over major programs?		<u>X</u>
Reportable conditions identified not considered to be material weaknesses?		<u>X</u> (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? X

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.665	Schools and Roads - Grants to States
15.226	Payments in Lieu of Taxes
16.579	Edward Byrne Memorial Formula Grant Program
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X

**Other Matters:**

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

**Apache County, Arizona**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2005

**FINANCIAL STATEMENT FINDINGS**

**05-01**

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, 2005, the County Treasurer's Office was entrusted with over \$113 million in public monies. To fulfill 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, detail the balances at year end, or list 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;
- 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.
- Assess operational areas for the risk of fraud, theft, and abuse on an ongoing basis.

**05-02**

During the course of our review of cash and investments we noted that \$1,106,382 was uninsured and uncollateralized as of year end.

Arizona Revised Statute 35-323(A)(11)(G) requires collateralization of 101 percent of all deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

The County should obtain collateralization for all cash balances over FDIC limits, or transfer cash balances into financial institutions that offer collateralization to help ensure compliance with Arizona Revised Statutes.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None



**APACHE COUNTY  
FINANCE DEPARTMENT**

**LONNELLA (LONNIE) VAUGHAN**  
Senior Accountant  
337-7620

**JOHN R. SMITH**  
Internal Auditor  
337-7595

**ROSALEE GILL**  
Accounting Specialist III  
337-7612

**Traci Gilliam**  
Accounting Specialist III  
337-7614

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**RYAN N. PATTERSON**  
Finance Director  
337- 7634

**KARLA JAMES**  
Assistant Finance Director  
337- 7621

September 28, 2007

Debra K. Davenport, CPA  
Auditor General  
2910 N. 44<sup>th</sup> St., Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the name of the contact persons responsible for corrective action, the corrective actions planned, and the anticipated completion dates of the audit findings included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Ryan N. Patterson, CPA  
Finance Director

**Apache County  
Corrective Action Plan  
Year Ended June 30, 2005**

**Financial Statement Findings**

**05-01 Internal Control in the County Treasurer's Office**

**Contact Person: Myra L. Taylor, Chief Deputy Treasurer**

**Anticipation Completion Date: Second Quarter Calendar Year 2008**

The Treasurer's Office currently has statements from investment institutions on file to account for monies being invested. The office has also opened a trust account with Wells Fargo to keep all our monies in that account and have Wells Fargo monitor the transactions and give us both monthly reports and annual reports regarding our investments.

The Treasurer's Office will reconcile between the County Treasurer's Cash Ledger/Journal and cash and investments held at financial institutions. We have begun putting in realized gains into the system in a timely manner. Investment losses, related to pooled investments, will be reviewed and properly allocated to participants' accounts. The Office has begun keeping accurate record of disbursements both on file and in our system.

Additionally, a policies and procedures manual is in the process of being designed. We are also in the process of negotiating a contract to hire a consultant to review policies and procedures.

**05-02 Uninsured and uncollateralized cash and investment**

**Contact Person: Myra L. Taylor, Chief Deputy Treasurer**

**Anticipated Completion Date: Completed**

The Treasurer's Office was unaware that the investments which were not covered by the Federal Deposit Insurance Corporation (FDIC) had not been collateralized 101 percent as of FY 2005. The office has currently consulted with all their investment institutions and is currently 101 percent collateralized for those amounts not insured by the FDIC.